
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 31, 2023

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-38594

TILRAY BRANDS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
265 Talbot Street West,
Leamington, ON
(Address of principal executive offices)

82-4310622
(I.R.S. Employer
Identification No.)

N8H 5L4
(Zip Code)

Registrant's telephone number, including area code: (844) 845-7291

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.0001 par value per share	TLRY	The Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

As of October 2, 2023, the registrant had 730,289,573 shares of Common Stock, \$0.0001 par value per share issued and outstanding.

Table of Contents

	Page
<u>PART I.</u> <u>FINANCIAL INFORMATION</u>	<u>1</u>
<u>Item 1.</u> <u>Financial Statements (Unaudited)</u>	<u>1</u>
<u>Consolidated Statements of Financial Position (Unaudited)</u>	<u>1</u>
<u>Consolidated Statements of Loss and Comprehensive Loss (Unaudited)</u>	<u>2</u>
<u>Consolidated Statements of Stockholders' Equity (Unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	<u>4</u>
<u>Notes to Condensed Interim Consolidated Financial Statements (Unaudited)</u>	<u>5</u>
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>52</u>
<u>Item 4.</u> <u>Controls and Procedures</u>	<u>52</u>
<u>PART II.</u> <u>OTHER INFORMATION</u>	<u>53</u>
<u>Item 1.</u> <u>Legal Proceedings</u>	<u>53</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>54</u>
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>55</u>
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	<u>55</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>55</u>
<u>Item 5.</u> <u>Other Information</u>	<u>55</u>
<u>Item 6.</u> <u>Exhibits</u>	<u>56</u>
<u>Signatures</u>	<u>58</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	<u>(15,842)</u>	<u>(46,269)</u>
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	<u>(26,290)</u>	<u>(1,537)</u>
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	<u>14,018</u>	<u>123,620</u>
Effect of foreign exchange on cash and cash equivalents	614	(1,080)
Net decrease in cash and cash equivalents	<u>(27,500)</u>	<u>74,734</u>
Cash and cash equivalents, beginning of period	206,632	415,909
Cash and cash equivalents, end of period	<u>\$ 179,132</u>	<u>\$ 490,643</u>

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.

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	<u>296</u>

Total assets	13,684
Current liabilities	
Accounts payable and accrued liabilities	5,408
Other liabilities	876
Total liabilities	6,284
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	<u>74,681</u>	<u>103,401</u>
Deduct - current portion	-	-
Total convertible notes receivable, non current portion	<u>\$ 74,681</u>	<u>\$ 103,401</u>

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	<u>\$ 238,081</u>	<u>\$ 190,682</u>

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 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 Kassin as Lead Plaintiff and The Rosen Law Firm, P.A. as Lead Counsel. Lead Plaintiff filed an amended complaint on October 5, 2020, which asserts the same Sections 10(b) and 20(a) claims against the same defendants on largely the same theory, and includes new allegations that Tilray’s reported inventory, cost of sales, and gross margins in its financial reports during the class period were false and misleading because Tilray improperly recorded unsellable “trim” as inventory and understated the cost of sales for its products.

On September 27, 2021, the U.S. District Court entered an Opinion & Order granting the Defendants’ motion to dismiss the 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	<u>19,816</u>	<u>29,709</u>
Distribution		
Distribution revenue	69,157	60,585
Distribution costs	61,468	54,984
Gross profit	<u>7,689</u>	<u>5,601</u>
Beverage alcohol		
Net beverage alcohol revenue	24,162	20,654
Beverage alcohol costs	11,266	10,849
Gross profit	<u>12,896</u>	<u>9,805</u>
Wellness		
Wellness revenue	13,297	13,402
Wellness costs	9,502	9,903
Gross profit	<u>\$ 3,795</u>	<u>\$ 3,499</u>

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	<u>\$ 70,333</u>	<u>\$ 58,570</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 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	<u>\$ 176,949</u>	<u>\$ 153,211</u>

Geographic capital assets:

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

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 TLRY 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 TLRY 23 Notes was \$107,331.

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

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

This Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Condensed Interim Consolidated Financial Statements and the related Notes thereto for the period ended August 31, 2023 contained in this Quarterly Report on Form 10-Q and the Audited Consolidated Financial Statements and the related Notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended May 31, 2023, as well as in conjunction with the sections entitled “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended May 31, 2023. Forward looking statements in this Form 10-Q are qualified by the cautionary statement included in this Form 10-Q under the sub-heading “Cautionary Note Regarding Forward-Looking Statements” in the introduction of this Form 10-Q.

Company Overview

We are a leading global cannabis-lifestyle and consumer packaged goods company headquartered in Leamington and New York, with operations in Canada, the United States, Europe, Australia, and Latin America that is changing people’s lives for the better – one person at a time – by inspiring and empowering a worldwide community to live their very best life, enhanced by moments of connection and wellbeing. Tilray’s mission is to be the most responsible, trusted and market leading cannabis consumer products company in the world with a portfolio of innovative, high-quality and beloved brands that address the needs of the consumers, customers and patients we serve.

Our overall strategy is to leverage our brands, infrastructure, expertise and capabilities to drive market share in the industries in which we compete, achieve industry-leading, profitable growth and build sustainable, long-term shareholder value. In order to ensure the long-term sustainable growth of our Company, we continue to focus on developing strong capabilities in consumer insights, drive category management leadership and assess growth opportunities with the introduction of new products and entries into new geographies. In addition, we are relentlessly focused on managing our cost of goods and expenses in order to maintain our strong financial position.

Trends and Other Factors Affecting Our Business

Canadian cannabis market trends:

The cannabis industry in Canada continues to evolve at a rapid pace during the early periods following the federal legalization of adult-use cannabis. Through analysis of the current market conditions, the following key trends have emerged and are anticipated to influence the near-term future in the industry:

- *Market share.* Tilray continues to maintain its market leadership position in Canada. During the quarter, we experienced a significant increase in market share in Canada, with our share increasing from 8.1% to a 13.4% from the immediately preceding quarter, as reported by Hifyre data for all provinces excluding Quebec where Weedcrawler was deemed more accurate. This increase was driven by the strategic acquisitions of HEXO and Truss during the quarter which contributed favorably to our increase in adult use revenue. We expect that during the next fiscal year, the contribution to our market share from these acquired lines of business will fluctuate until they are fully absorbed into our distribution channels.
- *Price compression.* We have historically seen price compression in the market, when compared to the prior fiscal year, which was driven by intense competition from the approximately 1,000 Licensed Producers in Canada. The price compression year over year has reduced the Company's revenue by approximately \$3.1 million for the three months ended August 31, 2023, which affects our cannabis gross margin as well as our bottom line.
- *Excise taxes.* Given the impacts of the above-referenced price compression, excise tax continues to become a larger component of net revenue as it is predominantly computed as a fixed price on grams sold rather than as a percentage of the selling price. The Cannabis Council of Canada has formed an Excise Task Force to present these challenges to the Ministry of Finance in Canada and continues to pursue reform. Additionally, as many as two-thirds of Canadian licensed producers had excise tax deficits owed, which they were unable to pay on time. The Company believes this may result in insolvencies and may be a key element of potential consolidation in the industry and we believe long term there is a possibility of some level of reform but it will likely not occur in the near term.
- *Timing difference in recognizing synergized operating results.* As we continue to acquire businesses such as HEXO and Truss, a large part of our strategy involves removing legacy costs from these businesses as part of our acquisition strategy. Once we have completed our full \$27 million synergy plan for HEXO and integrated Truss's operations, we expect our operating results to be more profitable.
- *Change facility utilization as a result of acquisitions.* We continue to assess our facilities for further optimization or cost reduction to ensure utilization is prioritized and our value chain is operating at its peak efficiency. During this period of facility optimization, we expect there to be a temporary short-term negative impact on our operating results until our capacity is optimized.

These identified trends have had impacts on the current period results of operations and are discussed in greater detail in the respective sections.

International cannabis market trends:

The cannabis industry in Europe is in its early stages of development whereby countries within Europe are at different stages of legalization of medical and adult-use cannabis as some countries have expressed a clear political ambition to legalize adult-use cannabis (Germany, Portugal, Luxembourg and Czech Republic), some are engaging in an experiment for adult-use (Netherlands, Switzerland) and some are debating regulations for cannabinoid-based medicine (France, Spain, Italy, and the United Kingdom). In Europe, we believe that, despite continuing recessionary economic conditions and the Russian conflict with Ukraine, cannabis legalization (both medicinal and adult-use) will continue to gain traction albeit more slowly than originally expected. We also continue to believe that Tilray remains uniquely positioned to maintain and gain significant market share in these markets with its infrastructure and its investments, which is comprised of two EU-GMP cultivation facilities within Europe located in Portugal and Germany, our distribution network and our demonstrated commitment to the availability, quality and safety of our cannabinoid-based medical products. Today, Germany remains the largest medical cannabis market in Europe.

The following is a summary of the state of cannabis legalization within Europe:

Germany. In late October 2022, the German government published key details of its plan to legalize and regulate adult-use cannabis, including what Health Minister Karl Lauterbach described as “complete” cultivation within the country.

Recently, Mr. Lauterbach advised that the proposal had been revised and that the new plan is a two-part model, which appears to be designed in order to legalize cannabis as broadly as possible without running afoul of European Union rules. On July 6, 2023, it was announced that the draft regulations pertaining to decriminalization, home cultivation and non-commercial “cultivation associations” (i.e., social clubs) had been finalized by the health ministry and was ready to be delivered to the German parliament, which is expected to take place in the Fall of 2023.

We continue to believe that Tilray is well-positioned in Germany to provide consistent and sustainable cannabis products for the adult-use market whether only in-country cultivation is permitted or whether imports are also allowed given our Aphria RX facility located in Germany and our EU-GMP-certified production facility in Portugal, as well as our distribution platform, which provides us with access to 13,000 pharmacies in Germany.

Switzerland. In October 2021, Switzerland announced its intention to legalize cannabis by allowing production, cultivation, trade, and consumption. In the meantime, a three-year pilot project commenced on January 30, 2023, which permits selected participants to purchase cannabis for adult-use in various pharmacies in Basel, and more recently in Zurich, to conduct studies on the cannabis market and its impact on Swiss society. It is the first trial for the legal distribution of adult-use cannabis containing THC in Europe.

Spain. The Spanish Congress' Health Committee has recently approved a Medical Cannabis Report that paves the way for a government-sponsored bill on medical cannabis. The Report explicitly opens the door to standardized preparations other than the drugs already approved, highlighting their advantages in relation to safety, security and stability; as well as the possibility to prescribe medical cannabis in community pharmacies and not only in hospitals, favoring the access to the patients that may need it.

France. France launched a two-year pilot experiment to supply approximately 3,000 patients with medical cannabis. To date, 2,300 patients are enrolled in the experiment, which has been extended for another year and is now ending March 2024 in order to collect more data and to adopt a legal framework. The first results of the experimentation are positive. Several independent agencies have produced reports that show the effectiveness of medical cannabis, especially in situations of chronic pain.

Czech Republic. The Czech Republic has discussed plans to launch a fully regulated adult-use cannabis market and is reviewing in the context of the European regulations.

Malta. In 2021, became the first country in the European Union to legalize personal possession of the drug and permit private “cannabis clubs,” where members can grow and share the drug.

Beverage alcohol market trends:

The beverage alcohol category, while more established, continues to shift with changes in consumer trends for the craft industry. Specifically, based on IRI data, for the last 13 weeks ended August 27, 2023, the US beer industry grew 3.14%, with craft beer growing 0.71%, a slight improvement from the immediately preceding quarter. Nationally SweetWater trends softened during the three months ended August 31, 2023, due to the timing of key marketing programming being pushed into our second quarter, while SweetWater’s home market remained in a growth trend, finishing an increased 5.9% in the quarter. SweetWater is expected to return to growth nationally at the start of the second quarter through programming and innovation. Early results from the launch of SweetWater’s latest innovation, Gummies, are encouraging, with the brand quickly becoming a top 3 offering in activated markets. Additionally, Montauk finished the period with an increased 9.2% growth based on IRI data for the aforementioned period, through sustained success in home markets and new market expansion. The Company anticipates continued growth through focused innovation, targeted marketing efforts, and gains in distribution across the portfolio of brands.

Breckenridge Distillery is a leader in the bourbon industry and continues to gain market share in both the vodka and gin markets. A primary growth objective is to continue expansion of market share across the United States, including expanding the national chain's footprint, to maintain a double-digit annual top-line growth. To ensure continued growth in the future, the company is focused on expanding the marketing strategy, highlighting its quality products. Recent media coverage includes coverage of newly released products, the expanded Denver Broncos Sponsorship, and recognition of the world class restaurant located at the distillery. The overall whiskey market continues to grow through premiumization and expanding into new target demographics. The Company expects its spirits business to continue to grow with the integration of the national distributor agreement with RNDC as well as new product offerings.

Wellness market trends:

Manitoba Harvest's branded hemp business continued to expand its U.S. and Canadian leading market share position this year. During the quarter, the Company successfully continued expansion of its Hemp Food portfolio into more accessible consumer formats with the continued launch of a breakthrough CBD wellness beverage, Happy Flower™. The Company will look to expand the Happy Flower™ brand with retail distribution into key markets, focusing on U.S. states with established CBD permissibility and sales momentum in future periods.

Acquisitions, Strategic Transactions and Synergies

We strive to continue to expand our business on a consolidated basis, through a combination of organic growth and acquisition. While we continue to execute against our strategic initiatives that we believe will result in the long-term, sustainable growth and value to our stockholders, we continue to evaluate potential acquisitions and other strategic transactions of businesses that we believe complement our existing portfolio, infrastructure and capabilities or provide us with the opportunity to enter attractive new geographic markets and product categories as well as expand our existing capabilities. In addition, we have exited certain businesses and continue to evaluate certain businesses within our portfolio that are dilutive to profitability and cash flow. As a result, we incur transaction costs in connection with identifying and completing acquisitions and strategic transactions, as well as ongoing integration costs as we combine acquired companies and continue to achieve synergies, which is offset by income generated in connection with the execution of these transactions. For the three months ended August 31, 2023, we incurred \$8.5 million of transaction expenses, discussed further below.

Our acquisition strategy has had a material impact on the Company's results in the current quarter and we expect will continue into future periods generating accretive impacts for our stockholders. There are currently three primary cost saving initiatives as follows:

- ***HEXO acquisition:***

On June 22, 2023, Tilray acquired HEXO Corp. ("HEXO") as discussed in Note 6 (Business acquisitions). With the HEXO Acquisition, Tilray expects to achieve additional cost savings in excess of \$27M on an annualized pre-tax basis, driven by synergies across production, sales, marketing, distribution, and corporate savings, with potential incremental upside resulting from consolidating packaging, procurement, freight, and logistics. This builds on Tilray's substantial progress optimizing its Canadian cannabis operations discussed below. During the three months ended August 31, 2023, we have achieved \$17.1 million of our synergy plan on an annualized run-rate basis of which \$2.9 million represented actual cost savings during the period. As discussed in our trends section, these saving initiatives take time to implement, resulting in related benefits being realized over time.

- ***Cannabis business cost reduction plan:***

During the fourth quarter of our fiscal year ended May 31, 2022, the Company launched a \$30 million cost optimization plan of our existing cannabis business to solidify our position as an industry leading low-cost producer. The Company took decisive action to manage cash flow amid an evolving retail environment by identifying opportunities to leverage technology, supply chain, procurement, and packaging efficiencies while driving labor savings. In the current period ended August 31, 2023, we have achieved \$22 million of our cost optimization plan on an annualized run-rate basis of which \$21 million represented actual cost savings during the period. The amount achieved is comprised of the following items:

- *Optimizing cultivation.* We made impactful strides to right-size our cultivation footprint by maximizing our yield per plant and by honing the ability to flex production during optimal growing seasons to manage our cost to grow.
- *Refining selling fees.* We assessed our current product-to-market strategy to optimize our direct and controllable selling fees as a percentage of revenue without compromising our sales strategy on a go-forward basis.
- *Reducing general and administrative costs.* We remain focused on reducing operating expenses by leveraging innovative solutions to maintain a lean organization. We plan to further automate processes, reducing outside spend where efficient, and ensuring we are obtaining competitive pricing on our administrative services.

- ***International Cannabis business cost reduction plan:***

During our fiscal year ended May 31 2023, the Company launched an \$8.0 million cost optimization plan for our international cannabis business to adapt to changing market dynamics and slower than anticipated legalization in Europe. In the current period ended August 31, 2023, the Company achieved an annualized run-rate basis of \$6.8 million of cost savings. This was driven by the integration of our Distribution and European cannabis business for redundant costs including headcount consolidation in addition to optimization of our facility utilization.

In addition to our cost saving strategies, the Company has also executed the following strategic transactions during the quarter:

- ***Beverage Alcohol Acquisitions:***

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 a portfolio of craft beer brands, assets and businesses from AB that includes Breckenridge Brewery, Blue Point, 10 Barrel, Redhook, Widmer Brothers, Square Mile, Shock Top and HiBall. The purchase price to be paid to AB at closing is expected to be equal to \$85.0 million in cash, subject to working capital and other applicable closing adjustments. The acquisition closed on September 29, 2023 as described in Note 25 (Subsequent events), and is expected to be transformational to our growing beverage alcohol strategy.

Political and Economic Environment

Our results of operations can also be affected by economic, political, legislative, regulatory, legal actions, the global volatility and general market disruption resulting from geopolitical tensions, such as Russia's incursion into Ukraine. Economic conditions, such as recessionary trends, inflation, supply chain disruptions, interest and monetary exchange rates, and government fiscal policies, and the recent banking credit crises, can have a significant effect on operations. Accordingly, we could be affected by civil, criminal, environmental, regulatory or administrative actions, claims or proceedings.

Results of Operations

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

(in thousands of U.S. dollars)	For the three months ended August 31,		Change 2023 vs. 2022	% Change
	2023	2022		
Net revenue	\$ 176,949	\$ 153,211	\$ 23,738	15%
Cost of goods sold	132,753	104,597	28,156	27%
Gross profit	44,196	48,614	(4,418)	(9)%
Operating expenses:				
General and administrative	40,516	40,508	8	0%
Selling	6,859	9,671	(2,812)	(29)%
Amortization	22,225	24,359	(2,134)	(9)%
Marketing and promotion	8,535	7,248	1,287	18%
Research and development	79	166	(87)	(52)%
Change in fair value of contingent consideration	(11,107)	211	(11,318)	(5,364)%
Litigation costs	2,034	445	1,589	357%
Restructuring costs	915	—	915	0%
Transaction (income) costs	8,502	(12,816)	21,318	(166)%
Total operating expenses	78,558	69,792	8,766	13%
Operating loss	(34,362)	(21,178)	(13,184)	62%
Interest expense, net	(9,835)	(4,413)	(5,422)	123%
Non-operating (expense) income, net	(4,402)	(32,992)	28,590	(87)%
Loss before income taxes	(48,599)	(58,583)	9,984	(17)%
Income tax expense	7,264	7,211	53	1%
Net loss	\$ (55,863)	\$ (65,794)	\$ 9,931	(15)%

Use of Non-GAAP Measures

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

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

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

Constant Currency Presentation

We believe that this measure provides useful information to investors because it provides transparency to underlying performance in our consolidated net sales by excluding the effect that foreign currency exchange rate fluctuations have on period-to-period comparability given the volatility in foreign currency exchange markets. To present this information for historical periods, current period net sales for entities reporting in currencies other than the U.S. Dollar are translated into U.S. Dollars at the average monthly exchange rates in effect during the corresponding period of the prior fiscal year rather than at the actual average monthly exchange rate in effect during the current period of the current fiscal year. As a result, the foreign currency impact is equal to the current year results in local currencies multiplied by the change in average foreign currency exchange rate between the current fiscal period and the corresponding period of the prior fiscal year.

Cash and Marketable Securities

The Company combines the Cash and cash equivalent financial statement line item and the Marketable securities financial statement line item as an aggregate total as reconciled in the liquidity and capital resource section below. The Company's management believes that this presentation provides useful information to management, analysts and investors regarding certain additional financial and business trends relating to its short-term liquidity position by combining these three GAAP metrics.

Operating Metrics and Non-GAAP Measures

We use the following operating metrics and non-GAAP measures to evaluate our business and operations, measure our performance, identify trends affecting our business, project our future performance, and make strategic decisions. Other companies, including companies in our industry, may calculate operating metrics and non-GAAP measures with similar names differently which may reduce their usefulness as comparative measures. Certain variances are labeled as not meaningful ("NM") throughout management's discussion and analysis.

(in thousands of U.S. dollars)	For the three months ended August 31,	
	2023	2022
Net cannabis revenue	\$ 70,333	\$ 58,570
Distribution revenue	69,157	60,585
Net beverage alcohol revenue	24,162	20,654
Wellness revenue	13,297	13,402
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
Adjusted gross profit (excluding PPA step-up) ⁽¹⁾	49,302	49,721
Cannabis adjusted gross margin (excluding PPA step-up) ⁽¹⁾	35%	51%
Beverage alcohol adjusted gross margin (excluding PPA step-up) ⁽¹⁾	56%	53%
Distribution gross margin	11%	9%
Wellness gross margin	29%	26%
Adjusted EBITDA ⁽¹⁾	\$ 11,434	\$ 13,531
Cash and marketable securities ⁽¹⁾ as at the period ended:	464,852	490,643
Working capital as at the period ended:	\$ 291,981	\$ 637,623

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

Segment Reporting

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

(in thousands of U.S. dollars)	For the three months ended August 31,		Change 2023 vs. 2022	% Change
	2023	2022		
Cannabis business	\$ 70,333	\$ 58,570	\$ 11,763	20%
Distribution business	69,157	60,585	8,572	14%
Beverage alcohol business	24,162	20,654	3,508	17%
Wellness business	13,297	13,402	(105)	(1)%
Total net revenue	\$ 176,949	\$ 153,211	\$ 23,738	15%

Our reporting segments revenue using a constant currency⁽¹⁾ are as follows:

(in thousands of U.S. dollars)	For the three months ended August 31, as reported in constant currency		Change	% Change
	2023	2022	2023 vs. 2022	
Cannabis business	\$ 71,389	\$ 58,570	\$ 12,819	22%
Distribution business	66,952	60,585	6,367	11%
Beverage alcohol business	24,162	20,654	3,508	17%
Wellness business	13,459	13,402	57	0%
Total net revenue	\$ 175,962	\$ 153,211	\$ 22,751	15%

Our geographic revenue is as follows:

(in thousands of U.S. dollars)	For the three months ended August 31,		Change	% Change
	2023	2022	2023 vs. 2022	
North America	\$ 93,521	\$ 82,192	\$ 11,329	14%
EMEA	79,704	66,041	13,663	21%
Rest of World	3,724	4,978	(1,254)	(25)%
Total net revenue	\$ 176,949	\$ 153,211	\$ 23,738	15%

Our geographic revenue using a constant currency⁽¹⁾ is as follows:

(in thousands of U.S. dollars)	For the three months ended August 31, as reported in constant currency		Change	% Change
	2023	2022	2023 vs. 2022	
North America	\$ 95,214	\$ 82,192	\$ 13,022	16%
EMEA	75,116	66,041	9,075	14%
Rest of World	5,632	4,978	654	13%
Total net revenue	\$ 175,962	\$ 153,211	\$ 22,751	15%

Our geographic capital assets are as follows:

(in thousands of U.S. dollars)	August 31,	May 31,	Change	% Change
	2023	2023	2023 vs. 2022	
North America	\$ 384,091	\$ 319,173	\$ 64,918	20%
EMEA	106,761	107,131	(370)	(0)%
Rest of World	3,767	3,363	404	12%
Total capital assets	\$ 494,619	\$ 429,667	\$ 64,952	15%

Cannabis revenue

Cannabis revenue based on market channel is as follows:

(in thousands of US dollars)	For the three months ended August 31,		Change	% Change
	2023	2022		
			2023 vs. 2022	
Revenue from Canadian medical cannabis	\$ 6,142	\$ 6,520	\$ (378)	(6)%
Revenue from Canadian adult-use cannabis	71,195	58,355	12,840	22%
Revenue from wholesale cannabis	5,295	392	4,903	1,251%
Revenue from international cannabis	14,252	10,422	3,830	37%
Total cannabis revenue	96,884	75,689	21,195	28%
Excise taxes	(26,551)	(17,119)	(9,432)	55%
Total cannabis net revenue	\$ 70,333	\$ 58,570	\$ 11,763	20%

Cannabis revenue based on market channel using a constant currency⁽¹⁾ is as follows:

(in thousands of US dollars)	For the three months ended August 31, as reported in constant currency		Change	% Change
	2023	2022		
			2023 vs. 2022	
Revenue from Canadian medical cannabis	\$ 6,310	\$ 6,520	\$ (210)	(3)%
Revenue from Canadian adult-use cannabis	73,111	58,355	14,756	25%
Revenue from wholesale cannabis	5,458	392	5,066	1,292%
Revenue from international cannabis	13,777	10,422	3,355	32%
Total cannabis revenue	98,656	75,689	22,967	30%
Excise taxes	(27,267)	(17,119)	(10,148)	59%
Total cannabis net revenue	\$ 71,389	\$ 58,570	\$ 12,819	22%

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

Revenue from Canadian medical cannabis: Revenue from Canadian medical cannabis decreased to \$6.1 million for the three months ended August 31, 2023, compared to revenue of \$6.5 million for the prior year same period. On a constant currency basis revenue from Canadian medical cannabis decreased to \$6.3 million for the three months ended August 31, 2023, compared to revenue of \$6.5 million for the prior year same periods. While revenue was relatively consistent period over period and on a constant currency basis, the decrease in revenue from medical cannabis continues to be driven by increased competition from the adult-use recreational market and its related price compression impacting the medical cannabis market.

Revenue from Canadian adult-use cannabis: During the three months ended August 31, 2023, our revenue from Canadian adult-use cannabis increased to \$71.2 million compared to revenue of \$58.4 million and for the prior year same period. The increase in adult-use revenue was driven by organic growth from launching new product innovations from our existing brand portfolios as well as the increased revenue from the acquisition of HEXO on June 22, 2023, and Truss on August 3, 2023. Additionally, due to the decline in the Canadian dollar, on a constant currency basis, our revenue from Canadian adult-use cannabis increased to \$73.1 million for the three months ended August 31, 2023. Offsetting the increase in the current period, was the reduction of advisory services revenue to \$1.5 million from \$7.8 million in the prior year comparative period as a result of the HEXO acquisition being completed during the quarter which terminated the previous strategic arrangement that was in place.

Wholesale cannabis revenue: Revenue from wholesale cannabis increased to \$5.3 million for the three months ended August 31, 2023, compared to revenue of \$0.4 million for the prior year same period. On a constant currency basis, revenue from wholesale cannabis increased to \$5.5 million. The Company continues to believe that wholesale cannabis revenue will remain subject to quarter-to-quarter variability and is based on opportunistic sales. The wholesale transactions that occurred in the period aided with our liquidity initiatives to increase our cash flow from operations despite having unfavorable impacts on our gross margin and EBITDA of \$(2.7) million.

International cannabis revenue: Revenue from international cannabis increased to \$14.3 million for the three months ended August 31, 2023, compared to revenue of \$10.4 million for the prior year same period. Given the increase of the Euro against the U.S. Dollar when compared to the prior year quarter, on a constant currency basis, revenue from international cannabis was \$13.8 million compared to \$10.4 million in the prior year same period for the three months ended August 31, 2023. The increase in the period is largely driven by expansion into emerging international medical markets.

Distribution revenue

Revenue from Distribution operations increased to \$69.2 million for the three months ended August 31, 2023 compared to revenue of \$60.6 million for the prior year same period. Revenue was positively impacted during the three month period from the increase of the Euro against the U.S. Dollar in the quarter, which when the impacts are eliminated on a constant currency basis, revenue was \$67.0 million for the three months ended August 31, 2023. The increase in the period was driven by increased production capacity achieved through out-sourcing to third party production facilities as well as leveraging our own internal production and improved procurement processes, which has allowed CC Pharma to improve its product mix.

Beverage alcohol revenue

Revenue from our Beverage alcohol operations increased to \$24.2 million for the three months ended August 31, 2023, compared to revenue of \$20.7 million for the prior year same period. The increase in the three month period relates primarily to our acquisition of Montauk which occurred on November 7, 2022, and is not reflected in the prior year comparative period.

Wellness revenue

Our Wellness revenue from Manitoba Harvest was relatively consistent at \$13.3 million for the three months ended August 31, 2023 compared to \$13.4 million from the prior year same period. On a constant currency basis for the three months ended August 31, 2023, Wellness revenue increased to \$13.5 million from \$13.4 million. Overall, sales remained relatively consistent period over period despite increasing pricing when compared to prior year to combat the inflation of ingredient costs.

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

Our gross profit and gross margin for the three months ended August 31, 2023 and 2022, is as follows:

(in thousands of U.S. dollars)	For the three months ended August 31,		Change 2023 vs. 2022	% Change
	2023	2022		
Cannabis				
Net revenue	70,333	58,570	11,763	20%
Cost of goods sold	50,517	28,861	21,656	75%
Gross profit	19,816	29,709	(9,893)	(33)%
Gross margin	28%	51%	(23)%	(45)%
Purchase price accounting step-up	4,516	—	4,516	NM
Adjusted gross profit (1)	24,332	29,709	(5,377)	(18)%
Adjusted gross margin (1)	35%	51%	(16)%	(31)%
Distribution				
Net revenue	69,157	60,585	8,572	14%
Cost of goods sold	61,468	54,984	6,484	12%
Gross profit	7,689	5,601	2,088	37%
Gross margin	11%	9%	2%	22%
Beverage alcohol				
Net revenue	24,162	20,654	3,508	17%
Cost of goods sold	11,266	10,849	417	4%
Gross profit	12,896	9,805	3,091	32%
Gross margin	53%	47%	6%	13%
Purchase price accounting step-up	590	1,107	(517)	(47)%
Adjusted gross profit (1)	13,486	10,912	2,574	24%
Adjusted gross margin (1)	56%	53%	3%	6%
Wellness				
Net revenue	13,297	13,402	(105)	(1)%
Cost of goods sold	9,502	9,903	(401)	(4)%
Gross profit	3,795	3,499	296	8%
Gross margin	29%	26%	3%	12%
Total				
Net revenue	176,949	153,211	23,738	15%
Cost of goods sold	132,753	104,597	28,156	27%
Gross profit	44,196	48,614	(4,418)	(9)%
Gross margin	25%	32%	(7)%	(22)%
Purchase price accounting step-up	5,106	1,107	3,999	361%
Adjusted gross profit (1)	49,302	49,721	(419)	(1)%
Adjusted gross margin (1)	28%	32%	(4)%	(13)%

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

Cannabis gross margin: Gross margin decreased during the three months ended August 31, 2023 to 28% from 51% for the prior year same period. Excluding the impact of the non-cash fair value purchase price accounting step-up, adjusted gross margin during the three months ended August 31, 2023 decreased to 35% from 51% when comparing the same prior year period. The remaining decrease is a result of the termination of the HEXO advisory services agreement which contributed \$1.5 million of gross profit in the current year compared to \$7.8 million in the prior year and a significant wholesale transaction with a negative gross profit of \$(2.7) million, which was entered into to optimize our inventory levels and prioritize the generation of positive operating cash flow. Combining these factors, adjusted gross cannabis margin would have been 39% compared 43% in the prior period and the remaining decrease in gross margin is due to price compression.

Distribution gross margin: Gross margin of 11% for the three months ended August 31, 2023 increased from 9% for the same periods in the prior year. The increase in the three month period is attributed to a change in product mix as the Company continues to focus on higher margin sales and a decrease in its cost of goods driven by the outsourcing of production.

Beverage alcohol gross margin: Gross margin of 53% for the three months ended August 31, 2023 increased from 47% from the same period in the prior year. Adjusted gross margin of 56% for the three months ended August 31, 2023 increased from 53% from the same periods in the prior year. The increase in beverage alcohol gross margin for the current three month period is a result of a change in sales mix between beer and spirits as well as the impacts of the Montauk acquisition that was not completed in the prior period comparison.

Wellness gross margin: Gross margin of 29% for the three months ended August 31, 2023 increased from 26% from the same period in the prior year. The increase in gross margin is a result of increased pricing from the prior period, which was used to combat the impacts of higher input costs of seed ingredients as a result of inflation.

Operating expenses

(in thousands of US dollars)	For the three months ended August 31,		Change	% Change
	2023	2022	2023 vs. 2022	
General and administrative	\$ 40,516	\$ 40,508	\$ 8	0%
Selling	6,859	9,671	(2,812)	(29)%
Amortization	22,225	24,359	(2,134)	(9)%
Marketing and promotion	8,535	7,248	1,287	18%
Research and development	79	166	(87)	(52)%
Change in fair value of contingent consideration	(11,107)	211	(11,318)	(5,364)%
Litigation costs	2,034	445	1,589	357%
Restructuring costs	915	—	915	NM
Transaction (income) costs	8,502	(12,816)	21,318	(166)%
Total operating expenses	\$ 78,558	\$ 69,792	\$ 8,766	13%

Operating expenses are comprised of general and administrative, share-based compensation, selling, amortization, marketing and promotion, research and development, change in fair value of contingent consideration, impairments, litigation costs, restructuring costs and transaction (income) costs. These costs increased by \$8.8 million to \$78.6 million for the three months ended August 31, 2023 as compared to \$69.8 million for the same period of the prior year. These changes period over period are described below.

General and administrative costs

During the three months ended August 31, 2023, general and administrative costs were relatively unchanged as compared to the prior year same periods.

(in thousands of US dollars)	For the three months ended August 31,		Change 2023 vs. 2022	% Change
	2023	2022		
Executive compensation	\$ 3,661	\$ 3,555	\$ 106	3%
Office and general	8,168	5,829	2,339	40%
Salaries and wages	13,114	14,635	(1,521)	(10)%
Stock-based compensation	8,257	9,193	(936)	(10)%
Insurance	3,849	2,703	1,146	42%
Professional fees	1,499	2,490	(991)	(40)%
Gain on sale of capital assets	3	77	(74)	(96)%
Travel and accommodation	1,107	1,161	(54)	(5)%
Rent	858	865	(7)	(1)%
Total general and administrative costs	<u>\$ 40,516</u>	<u>\$ 40,508</u>	<u>\$ 8</u>	<u>0%</u>

Executive compensation increased by 3% in the three months ended August 31, 2023. Executive compensation has remained generally consistent period over period.

Office and general increased by 40% during the three months ended August 31, 2023. The increase for the three months is a result of the acquisition of Montauk and HEXO, which did not occur in the prior period.

Salaries and wages decreased by 10% during the three months ended August 31, 2023. The decrease is primarily due to our focus on optimizing our cost structure and is offset by the inclusion of Montauk and HEXO employees, which were not in the prior period.

The Company recognized stock-based compensation expense of \$8.3 million for the three months ended August 31, 2023 compared to \$9.2 million for the same period in the prior year. The balance has remained relatively consistent period over period as this is based on the time-based vesting schedules.

Insurance expenses increased by 42% for the three months ended August 31, 2023 to \$3.8 million from \$2.7 million for the same period in the prior year. This increase was driven by the expanded policies required for our recently acquired HEXO and Montauk entities.

Selling costs

For the three months ended August 31, 2023, the Company incurred selling costs of \$6.9 million or 3.9% of net revenue as compared to \$9.7 million and 6.3% of net revenue in the prior year period. These costs relate to third-party distributor commissions, shipping costs, Health Canada cannabis fees, and patient acquisition and maintenance costs. Patient acquisition and ongoing patient maintenance costs include funding to individual clinics to assist with additional costs incurred by clinics resulting from the education of patients using the Company's products. The decrease in the three month period was related to the renegotiation of terms in one of our distributor relationships resulting in reduced variable fees. This impact was also emphasized in the three month period as a portion of our selling fees related to our Canadian adult-use cannabis with fixed components did not increase with the increase in our revenue during the quarter.

Amortization

The Company incurred non-production related amortization charges of \$22.2 million for the three months ended August 31, 2023 compared to \$24.4 million in the prior year period. The decreased amortization in the period, is a result of the reduced intangible asset levels.

Marketing and promotion costs

For the three months ended August 31, 2023, the Company incurred marketing and promotion costs of \$8.5 million as compared to \$7.2 million for the prior year period. The increase is due to the acquisition of HEXO and Montauk in the period.

Research and development

Research and development costs were \$0.1 million during the three months ended August 31, 2023 compared to \$0.2 million in the prior year period. These relate to external costs associated with the development of new products.

Change in fair value of contingent consideration

The Company measures contingent consideration at fair value classified as Level 3, as discussed in Note 23 (Fair value measurements). The Company currently has three contingent consideration liabilities of \$3.0 million, \$13.0 million and \$4.2 million for the Sweetwater, Montauk, and Truss acquisitions, respectively, as of August 31, 2023 compared to \$16.2 million, \$10.9 million and \$nil respectively as of May 31, 2023. The decrease in fair value of \$11.1 million was driven by the lowered probability of achieving the incentive targets, primarily relating to Sweetwater.

Litigation

For the three months ended August 31, 2023, the Company recorded \$2.0 million of litigation cost compared to an expense of \$0.4 million for the prior period comparative. The increase is related to period to period variability as litigation is non-recurring in nature.

Restructuring costs

In connection with executing our acquisition strategy and strategic transactions, the Company has incurred non-recurring restructuring and exit costs associated with the integration efforts of these transactions. For the three months ended August 31, 2023, the Company incurred \$0.9 million of restructuring costs compared to \$nil for the prior period comparative. The restructuring charges for the three months ended August 31, 2023 are related to the HEXO cost optimizations occurring subsequent to acquisition and the operating costs of the Truss facility, which is classified as assets held for sale.

Transaction (income) costs

Items classified as transaction (income) costs are non-recurring or extraordinary in nature and correspond largely to our acquisition and synergy strategy. The three months decrease of 166% from the prior year period is related to the following items:

- the current period included costs associated with exit and closing costs on completing the HEXO Acquisition on June 22, 2023, including, but not limited to, discretionary incentive compensation payments of \$5.8 million, transaction income from the loan amendment agreement of \$(6.0) million, and HEXO director and office runoff insurance of \$5.1 million;
- in the prior year period comparative, we recognized transaction income for a change in fair value of \$18.3 million on the HTI Share Consideration's purchase price derivative as a result of an increase in our share price on the shares paid for the HEXO convertible note receivable in the previous year. This did not recur in the current period results.

Non-operating (expense) income, net

Non-operating (expense) income is comprised of:

(in thousands of US dollars)	For the three months ended August 31,		Change 2023 vs. 2022	% Change
	2023	2022		
Change in fair value of convertible debenture payable	\$ (2,147)	\$ (7,884)	\$ 5,737	(73)%
Change in fair value of warrant liability	(8,198)	1,548	(9,746)	(630)%
Foreign exchange loss (gain)	6,267	(25,573)	31,840	(125)%
Loss on long-term investments	(109)	(1,008)	899	(89)%
Other non-operating (losses) gains, net	(215)	(75)	(140)	187%
Total non-operating income (expense)	<u>\$ (4,402)</u>	<u>\$ (32,992)</u>	<u>\$ 28,590</u>	<u>(87)%</u>

For the three months ended August 31, 2023, the Company recognized a change in fair value of its convertible debentures payable of (\$2.1) million compared to (\$7.9) million in the prior year same periods. The change is driven primarily by the changes in the Company's share price and the change in the trading price of the convertible debentures payable. Additionally, for the three months ended August 31, 2023, the Company recognized a change in fair value of its warrants, resulting in a loss of (\$8.2) million compared to \$1.5 million also as a result of the change in our share price and the exercise price of the instrument. For the three months ended August 31, 2023, the Company recognized a gain of \$6.3 million, resulting from the changes in foreign exchange rates during the period, compared to losses of (\$25.6) million for the prior year same periods, largely associated with the recovery of the Euro. Lastly, included in other non-operating (losses) gains, net for the three months ended August 31, 2023 was the disposal of an operating entity during the period.

Reconciliation of Non-GAAP Financial Measures to GAAP Measures

Adjusted EBITDA

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

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

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

For three months ended August 31, 2023, adjusted EBITDA decreased to \$11.4 million compared to \$13.5 million from the prior year same period. The decrease was primarily driven by the aforementioned negative impacts to our cannabis gross margin.

Adjusted EBITDA reconciliation:	For the three months ended August 31,		Change	% Change
	2023	2022	2023 vs. 2022	
Net loss	\$ (55,863)	\$ (65,794)	\$ 9,931	(15)%
Income tax expense	7,264	7,211	53	1%
Interest expense, net	9,835	4,413	5,422	123%
Non-operating income (expense), net	4,402	32,992	(28,590)	(87)%
Amortization	30,789	34,069	(3,280)	(10)%
Stock-based compensation	8,257	9,193	(936)	(10)%
Change in fair value of contingent consideration	(11,107)	211	(11,318)	(5,364)%
Purchase price accounting step-up	5,106	1,107	3,999	361%
Facility start-up and closure costs	600	1,800	(1,200)	(67)%
Lease expense	700	700	—	0%
Litigation costs	2,034	445	1,589	357%
Restructuring costs	915	—	915	NM
Transaction (income) costs	8,502	(12,816)	21,318	(166)%
Adjusted EBITDA	<u>\$ 11,434</u>	<u>\$ 13,531</u>	<u>\$ (2,097)</u>	<u>(15)%</u>

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

- Non-cash inventory valuation adjustments;
- Non-cash amortization and amortization expenses and, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future;
- Stock-based compensation expenses, a non-cash expense and are an important part of our compensation strategy;
- Non-cash impairment charges, as the charges are not expected to be a recurring business activity;
- Non-cash foreign exchange gains or losses, which accounts for the effect of both realized and unrealized foreign exchange transactions. Unrealized gains or losses represent foreign exchange revaluation of foreign denominated monetary assets and liabilities;
- Non-cash change in fair value of warrant liability;
- Interest expense, net;
- Costs incurred to start up new facilities, and to fund emerging market operations for our German cultivation facilities and Columbian operations. The prior period also included start up costs for SweetWater Colorado and Malta facilities;
- Lease expense, to conform with competitors who report under IFRS;
- Transaction (income) costs, which includes acquisition related income and expenses, related legal, financial advisor and due diligence cost and expenses and transaction related compensation, which vary significantly by transaction and are excluded to evaluate ongoing operating results;
- Restructuring charges;
- Litigation costs includes costs related to legacy and non-operational litigation matters, legal settlements and recoveries;
- Amortization of purchase accounting fair value step-up in inventory value included in costs of goods sold; and
- Current and deferred income tax expenses and recoveries, which could be a significant recurring expense or recovery in our business in the future and reduce or increase cash available to us.

Adjusted Gross Profit and Adjusted Gross Margin

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

Liquidity and Capital Resources

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

For the Company's short-term liquidity requirements, we are focused on generating positive cash flows from operations and being free cash flow positive. As a result of delays in legalization across multiple markets, management continues to optimize our operating structure, headcount, as well as the elimination of other discretionary operational costs. Some of these actions may be less accretive to our adjusted EBITDA in the short term, however we believe that they will be required for our liquidity aspirations in the near term future. Additionally, the Company continues to invest our excess cash in the short-term in marketable securities which are comprised of U.S. treasury bills and term deposits with major Canadian banks.

For the Company's long-term liquidity requirements, we will be focused on funding operations through profitable organic and inorganic growth through acquisitions. We may need to take on additional debt or equity financing arrangements in order to achieve these ambitions on a long-term basis.

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

	For the three months ended August 31,	
	2023	2022
Net cash provided by (used in) operating activities	\$ (15,842)	\$ (46,269)
Net cash (used in) investing activities	(26,290)	(1,537)
Net cash (used in) provided by financing activities	14,018	123,620
Effect on cash of foreign currency translation	614	(1,080)
Cash and cash equivalents, beginning of period	206,632	415,909
Cash and cash equivalents, end of period	\$ 179,132	\$ 490,643
Marketable securities	287,333	-
Less: restricted cash	(1,613)	-
Cash and marketable securities(1)	\$ 464,852	\$ 490,643

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

Cash flows from operating activities

The change in net cash used in operating activities was (\$15.8) million for three months ended August 31, 2023 compared to (\$46.3) million for the prior year same period. This decrease in cash used in the three month period was primarily related to improved operating efficiencies and increased management of our working capital requirements.

Cash flows from investing activities

The change in net cash used in investing activities was (\$26.3) million for three months ended August 31, 2023 compared to (\$1.5) million for the prior year same period, and is a result of investing in marketable securities partially offset by cash acquired from the HEXO Acquisition, Note 6 (Business acquisitions).

Cash flows from financing activities

The change in cash provided by financing activities was \$14.0 million for three months ended August 31, 2023 compared to \$123.6 million for the prior year same period. In the current period, cash was provided by funds from the overallotment of TLRY 27 Notes and other long term debt, while in the comparative period a larger amount of cash was provided by the ATM capital raise.

Subsequent Events

Refer to Part I, Financial Information, Note 25 *Subsequent Events*.

Contingencies

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

Critical Accounting Estimates

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. The accounting principles we use require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and amounts of income and expenses during the reporting periods presented. We believe in the quality and reasonableness of our critical accounting policies; however, materially different amounts may be reported under different conditions or using assumptions different from those that we have applied. The accounting estimates that have been identified as critical to our business operations and to understanding the results of our operations pertain to revenue recognition, valuation of inventory, valuation of long-lived assets, goodwill and intangible assets, stock-based compensation and valuation allowances for deferred tax assets. The application of each of these critical accounting policies and estimates is discussed in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the fiscal year ended May 31, 2023.

Recently Issued Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in market risk from those addressed in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2023 during the three months ended August 31, 2023. See the information set forth in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2023.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, and summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report was made under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer.

Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of May 31, 2023, our disclosure controls and procedures (a) are effective to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is timely recorded, processed, summarized and reported and (b) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Consistent with guidance issued by the SEC, the scope of management's assessment of the effectiveness of our disclosure controls and procedures did not include the internal controls over financial reporting of Montauk Brewing Company, Inc., which we acquired on November 7, 2022, of HEXO Corp., which we acquired June 22, 2023 and of Truss Beverage Co. which we acquired August 3, 2023, and represented 1.3%, 3.2% and 0.3% of our consolidated assets and 1.5%, 7% and 0.9% of our consolidated revenues respectively as of and for the three months ended August 31, 2023.

Changes in Internal Control over Financial Reporting

There have been no changes in our "internal control over financial reporting" (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this Quarterly Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As mentioned above, the Company acquired Montauk Brewing Company, Inc. on November 7, 2022, HEXO Corp. on June 22, 2023 and Truss Beverage Co., on August 3, 2023. The Company is in the process of reviewing the internal control structure of Montauk Brewing Company, Inc., HEXO Corp., and Truss Beverage Co., if necessary, will make appropriate changes as it integrates them into the Company's overall internal control over financial reporting process.

PART II—OTHER INFORMATION

Item 1. 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, our management believes that it has established appropriate legal reserves. Any 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.

“Item 3. Legal Proceedings” of our Annual Report on Form 10-K for the fiscal year ended May 31, 2023 includes a discussion of our legal proceedings. There have been no material changes from the legal proceedings described in our Form 10-K, except with respect to the matters disclosed and incorporated herein by reference to Note 18 (Commitments and contingencies), in the Notes to the Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Item 1A. Risk Factors.

“Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended May 31, 2023 includes a discussion of our known material risk factors, other than risks that could apply to any issuer or offering. A summary of our risk factors is included below. Except for the below risk factors, there have been no material changes from the risk factors described in our Form 10-K.

- We may not achieve the expected revenue or other benefits from the craft beer operations acquired from Anheuser-Busch.
- Additional impairments of our goodwill, impairments of our intangible and other long-lived assets, and changes in the estimated useful lives of intangible assets could have a material adverse impact on our financial results.
- We may experience difficulties integrating Tilray and HEXO’s operations and realizing the expected benefits of the Arrangement.
- Our business is dependent upon regulatory approvals and licenses, ongoing compliance and reporting obligations, and timely renewals.
- Government regulation is evolving, and unfavorable changes or lack of commercial legalization could impact our ability to carry on our business as currently conducted and the potential expansion of our business.
- Our production and processing facilities are integral to our business and adverse changes or developments affecting our facilities may have an adverse impact on our business.
- We face intense competition, and anticipate competition will increase, which could hurt our business.
- Regulations constrain our ability to market and distribute our products in Canada.
- United States regulations relating to hemp-derived CBD products are new and rapidly evolving, and changes may not develop in the timeframe or manner most favorable to our business objectives.
- Changes in consumer preferences or public attitudes about alcohol could decrease demand for our beverage alcohol products.
- SweetWater, Breckenridge and Montauk each face substantial competition in the beer industry or the broader market for alcoholic beverage products which could impact our business and financial results.
- We have a limited operating history and a history of net losses, and we may not achieve or maintain profitability in the future.
- We are subject to litigation, arbitration and demands, which could result in significant liability and costs, and impact our resources and reputation.
- Our strategic alliances and other third-party business relationships may not achieve the intended beneficial impact and expose us to risks.
- We may not be able to successfully identify and execute future acquisitions, dispositions or other equity transactions or to successfully manage the impacts of such transactions on our operations.
- We are subject to risks inherent in an agricultural business, including the risk of crop failure.
- We depend on significant customers for a substantial portion of our revenue. If we fail to retain or expand our customer relationships or significant customers reduce their purchases, our revenue could decline significantly.
- Our products may be subject to recalls for a variety of reasons, which could require us to expend significant management and capital resources.
- Significant interruptions in our access to certain supply chains for key inputs such as raw materials, supplies, electricity, water and other utilities may impair our operations.
- Management may not be able to successfully establish and maintain effective internal controls over financial reporting.
- The price of our common stock in public markets has experienced and may continue to experience severe volatility and fluctuations.
- The volatility of our stock and the stockholder base may hinder or prevent us from engaging in beneficial corporate initiatives.
- The terms of our outstanding warrants may limit our ability to raise additional equity capital or pursue acquisitions, which may impact funding of our ongoing operations and cause significant dilution to existing stockholders.
- We may not have the ability to raise the funds necessary to settle conversions of the convertible securities in cash or to repurchase the convertible securities upon a fundamental change.
- We are subject to other risks generally applicable to our industry and the conduct of our business.

We may experience difficulties achieving the expected benefits, including revenue and sales growth, of acquiring certain craft beer operations from Anheuser-Busch (the “ABI Acquisitions”).

The success of the ABI Acquisitions will depend in part on our ability to achieve the expected business opportunities, revenue and sales growth prospects from the ABI Acquisitions in an efficient and effective manner. We may also not be able to fully realize the operational efficiencies and

associated cost synergies or leverage the potential business opportunities and growth prospects to the extent anticipated or at all.

The ABI Acquisitions were completed on September 29, 2023. Efforts to achieve expected benefits of the ABI Acquisitions may require substantial resources and divert management attention. Challenges associated with achieving such benefits may include those related to sales and marketing efforts across our expanded product portfolio, operational efficiency and production optimization, and effectively integrating the ABI Acquisitions into Tilray. If we are unable to successfully integrate certain aspects of the operations of the ABI Acquisitions or experience delays, we may incur unanticipated liabilities and be unable to fully realize the potential benefit of the revenue growth, synergies and other anticipated benefits resulting from the arrangement, and our business, results of operations and financial condition could be adversely affected. Some of these factors are outside our control, and any of them could delay or increase the cost of our efforts.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**Recent Sales of Unregistered Equity Securities**

On June 30, 2023, Tilray entered into an assignment and assumption agreement with Double Diamond Holdings Ltd. (“DDH”), an Ontario corporation, pursuant to which, among other things, Tilray acquired from DDH a promissory note in the amount of \$8,057,622 (the “Note”) payable by 1974568 Ontario Limited (“Aphria Diamond”). DDH is a joint venturer with Aphria Inc. (Tilray’s wholly-owned subsidiary) in Aphria Diamond. As consideration for the Note, Tilray issued 5,004,735 shares of its common stock to DDH.

Each of the foregoing issuances of Tilray’s common stock was made in reliance on the exemption provided by Section 4(a)(2) of the Securities Act of 1933, as amended, for the offer and sale of securities not involving a public offering. No underwriter participated in the offer and sale of the shares issued pursuant to the foregoing issuances, and no commission or other remuneration was paid or given directly or indirectly in connection therewith. Additionally, each of the foregoing issuance of Tilray's common stock was reported on a Form 8-K filed by the Company with the U.S. Securities and Exchange Commission.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exhibit Number	Description
10.1*	<u>Promissory note in the amount of \$8,057,622 payable by 1974568 Ontario Limited.</u>
10.2	<u>Amended Credit Agreement, effective August 31, 2023, by and among Four Twenty Corporation, certain subsidiaries and affiliates of Four Twenty Corporation, Bank of America, N.A., City National Bank, the lenders party thereto and BofA Securities, Inc.</u> (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 1, 2023)
10.3	<u>Purchase Agreement, dated August 7, 2023, by and among Tilray, Anheuser-Busch Companies, LLC, Craft USA Holdings, LLC, Craft Brew Alliance, Inc. and Tilray Beverages, LLC</u> (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 7, 2023).
10.4*	<u>Form of 2023 EBITDA PSU Equity Incentive Award.</u>
31.1*	<u>Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1**	<u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>

Exhibit Number	Description
32.2**	<u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101*	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2023, formatted in Inline XBRL: (i) Consolidated Statements of Financial Position, (ii) Consolidated Statements of Loss and Comprehensive Loss , (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Condensed Interim Consolidated Financial Statements, tagged as blocks of text and including detailed tags.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)
*	Filed herewith.
**	Furnished herewith.
†	Schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Tilray Brands, Inc.

Date: October 4, 2023

By: /s/ Irwin D. Simon

Irwin D. Simon
Chairman and Chief Executive Officer

Date: October 4, 2023

By: /s/ Carl Merton

Carl Merton
Chief Financial Officer

**PROMISSORY NOTE
NON INTEREST-BEARING DEMAND**

Amount: USD \$8,057,622

Due: On Demand

FOR VALUE RECEIVED the undersigned, 1974568 Ontario Limited (the “**Corporation**”), acknowledges itself indebted to and unconditionally promises to pay to the order of Double Diamond Holdings Ltd. (the “**Shareholder**”), the principal amount of USD \$8,057,622 without interest, ON DEMAND.

The Corporation may at any time, without notice, bonus or penalty, pay all or part of the amount outstanding under the promissory note. This promissory note is non-assignable and non-transferable without the prior written consent of the Corporation.

This promissory note is issued pursuant to and shall be interpreted and enforced in accordance with, and the obligations of the Corporation shall be governed by, the laws of the Province of Ontario and the federal laws of Canada applicable therein.

The Corporation hereby waives presentment for payment, notice of dishonour, protest and notice of protest, bringing of suit and diligence in taking any action.

IN WITNESS WHEREOF the Corporation has duly executed and delivered this promissory note.

DATED as of the June 30, 2023.

1974568 ONTARIO LIMITED

By:

Authorized Signing Officer

**FORM OF
TILRAY BRANDS, INC.
RESTRICTED STOCK UNIT GRANT NOTICE
(2023 EBITDA PERFORMANCE AWARD)
(AMENDED AND RESTATED 2018 EQUITY INCENTIVE PLAN)**

Tilray, Inc. (the “*Company*”), pursuant to its Amended and Restated 2018 Equity Incentive Plan (as amended, the “*Plan*”), hereby awards to Participant a Restricted Stock Unit Award for the number of shares of the Company’s Common Stock (“*Restricted Stock Units*”) set forth below (the “*2023 EBITDA Performance Award*”). The Performance Award is subject to all of the terms and conditions as set forth in this notice of grant (this “*Restricted Stock Unit Grant Notice*”), and in the Plan and the Restricted Stock Unit Award Agreement (the “*Award Agreement*”), both of which are attached hereto and incorporated herein in their entirety. Capitalized terms not explicitly defined herein shall have the meanings set forth in the Plan or the Award Agreement. In the event of any conflict between the terms in this Restricted Stock Unit Grant Notice or the Award Agreement and the Plan, the terms of the Plan shall control.

Participant:	_____
Date of Grant:	_____
Measurement Period:	June 1, 2023 to May 31, 2026
Number of Restricted Stock Units:	_____

Vesting Schedule: All of the Restricted Stock Units are nonvested and forfeitable as of the Date of Grant. The Restricted Stock Units shall fully vest and become nonforfeitable subject to Participant’s Continuous Service through the end of the Measurement Period (except as provided otherwise below), and the achievement of Cumulative Adjusted EBITDA (defined below) as determined by the Compensation Committee.

As soon as reasonably practicable following the end of the Measurement Period, the Compensation Committee will review and certify in writing the level of Cumulative Adjusted EBITDA achieved for the Measurement Period and the number of Restricted Stock Units that the Participant has earned, if any, for the Measurement Period. The Compensation Committee’s certification shall be final, conclusive and binding on Participant, and on all other persons, to the maximum extent permitted by law and Restricted Stock Units shall be settled within [thirty (30) days] following such date (the “*Vesting Date*”).

For purposes of this Performance Award, the following terms have the meanings set forth below:

“*Adjusted EBITDA*” means net (loss) income before income taxes, interest expense, net, non-operating expense (income), net, amortization, and before stock-based compensation, change in fair value of contingent consideration, impairment, inventory valuation adjustments, purchase price accounting step up, facility start-up and closure costs, lease expense, litigation costs and transaction costs, as determined by the Company’s Compensation Committee in its sole discretion. The Adjusted EBITDA for the first Annual Performance Period shall be determined by the Compensation Committee as soon as practicable after the date hereof. The Adjusted EBITDA for the second and third Annual Performance Periods shall be determined by the Compensation Committee, in its sole discretion, within sixty (60) days following the end of the immediately preceding Annual Performance Period, and the terms of this Performance Award shall be modified accordingly without further action of the Compensation Committee or amendment of this Notice.

“*Annual Performance Period*” means, with respect to the Measurement Period, each twelve-month performance period beginning each June 1st during the Measurement Period.

“*Cumulative Adjusted EBITDA*” means the sum of the annual Adjusted EBITDA for each Annual Performance Period during the Measurement Period.

If at the end of the Measurement Period, the Company achieves the Cumulative Adjusted EBITDA “*Performance Level*” below, then the percentage of Restricted Stock Units that vest on the Vesting Date shall be as follows:

Performance Level (Percentage of Achievement of Cumulative Adjusted EBITDA)

% of EBITDA Award Vested

Number of RSUs	% of EBITDA Award Vested
50% or below	0%
0	0
75%	50%
50%	-
-	100% or greater
100% or greater	100%
-	-

- If the percentage of achievement of Cumulative Adjusted EBITDA falls between levels, the actual percentage of the Restricted Stock Units earned shall be determined by linear interpolation between the percentages listed on a straight-line basis.

There shall be no proportionate or partial vesting of Restricted Stock Units during the Measurement Period, and all vesting of Restricted Stock Units shall occur only on the Vesting Date, subject to Participant’s Continuous Service. Except as provided below, upon the termination or cessation of Participant’s Continuous Service before the Vesting Date, the Restricted Stock Units shall automatically and without notice terminate, be forfeited, and become null and void.

To the extent not already vested or previously forfeited, the Restricted Stock Units will become 100% vested and nonforfeitable (i) as of the date of Participant’s termination of employment by the Company without Cause or Participant’s resignation for Good Reason within 24 months after a Change of Control, (ii) Participant’s termination due to Disability or (iii) Participant’s death. In the event of the Participant’s termination of employment by the Company without Cause or Participant’s resignation for Good Reason not in connection with a Change in Control,

the Continuous Service vesting condition shall be deemed satisfied (i.e., Restricted Stock Units will become vested, if at all, on the Vesting Date to the extent of the level of the Cumulative Adjusted EBITDA that is achieved). For purposes of this Award Agreement, the terms “Cause”, “Good Reason,” “Disability” and “Change in Control” shall have the meanings set forth in the Executive Employment Agreement between the Participant and the Company.

Issuance Schedule: Subject to any Capitalization Adjustment, one share of Common Stock (or its cash equivalent, at the discretion of the Company) will be issued for each Restricted Stock Unit that vests at the time set forth in Section 6 of the Award Agreement.

Additional Terms/Acknowledgements: Participant acknowledges that as of the Date of Grant, this Restricted Stock Unit Grant Notice, the Award Agreement and the Plan set forth the entire understanding between Participant and the Company regarding the acquisition of the Common Stock pursuant to the Award specified above and supersede all prior oral and written agreements on the terms of this Award, with the exception, if applicable, of (i) restricted stock unit awards or options previously granted and delivered to Participant, (ii) the written employment agreement, offer letter or other written agreement entered into between the Company and Participant specifying the terms that should govern this specific Award, and (iii) any compensation recovery policy that is adopted by the Company or is otherwise required by applicable law.

By accepting this Award, Participant acknowledges having received and read the Restricted Stock Unit Grant Notice, the Award Agreement and the Plan and agrees to all of the terms and conditions set forth in these documents. Participant consents to receive Plan documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

TILRAY BRANDS, INC.

PARTICIPANT:

By: _____
Signature

Signature

Title: _____

Date: _____

Date: _____

ATTACHMENTS: Award Agreement and Amended and Restated 2018 Equity Incentive Plan

ATTACHMENT I
TILRAY BRANDS, INC.
AMENDED AND RESTATED 2018 EQUITY INCENTIVE PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT

Pursuant to the Restricted Stock Unit Grant Notice (the “*Grant Notice*”) and this Restricted Stock Unit Award Agreement (the “*Agreement*”), Tilray Brands, Inc. (the “*Company*”) has awarded you (“*Participant*”) a Restricted Stock Unit Award (the “*Award*”) pursuant to the Company’s Amended and Restated 2018 Equity Incentive Plan (as amended, the “*Plan*”) for the number of Restricted Stock Units/shares indicated in the Grant Notice. Capitalized terms not explicitly defined in this Agreement or the Grant Notice shall have the same meanings given to them in the Plan. The terms of your Award, in addition to those set forth in the Grant Notice, are as follows.

1. GRANT OF THE AWARD. This Award represents the right to be issued on a future date one (1) share of Common Stock for each Restricted Stock Unit that vests on the applicable vesting date(s) (subject to any adjustment under Section 3 below) as indicated in the Grant Notice. As of the Date of Grant, the Company will credit to a bookkeeping account maintained by the Company for your benefit (the “*Account*”) the number of Restricted Stock Units/shares of Common Stock subject to the Award. Notwithstanding the foregoing, the Company reserves the right to issue you the cash equivalent of Common Stock, in part or in full satisfaction of the delivery of Common Stock in connection with the vesting of the Restricted Stock Units, and, to the extent applicable, references in this Agreement and the Grant Notice to Common Stock issuable in connection with your Restricted Stock Units will include the potential issuance of its cash equivalent pursuant to such right. This Award was granted in consideration of your services to the Company.

2. VESTING. Subject to the limitations contained herein, your Award will vest, if at all, in accordance with the vesting schedule provided in the Grant Notice. Vesting will cease upon the termination of your Continuous Service and the Restricted Stock Units credited to the Account that were not vested on the date of such termination will be forfeited at no cost to the Company and you will have no further right, title or interest in or to such Award or the shares of Common Stock to be issued in respect of such portion of the Award.

3. NUMBER OF SHARES. The number of Restricted Stock Units subject to your Award may be adjusted from time to time for Capitalization Adjustments, as provided in the Plan. Any additional Restricted Stock Units, shares, cash or other property that becomes subject to the Award pursuant to this Section 3, if any, shall be subject, in a manner determined by the Board, to the same forfeiture restrictions, restrictions on transferability, and time and manner of delivery as applicable to the other Restricted Stock Units and shares covered by your Award. Notwithstanding the provisions of this Section 3, no fractional shares or rights for fractional shares of Common Stock shall be created pursuant to this Section 3. Any fraction of a share will be rounded down to the nearest whole share.

4. SECURITIES LAW COMPLIANCE. You may not be issued any Common Stock under your Award unless the shares of Common Stock underlying the Restricted Stock Units are either (i) then registered under the Securities Act, or (ii) the Company has determined that such issuance would be exempt from the registration requirements of the Securities Act. Your Award must also comply with other applicable laws and regulations governing the Award, and you shall not receive such Common Stock if the Company determines that such receipt would not be in material compliance with such laws and regulations.

5. TRANSFER RESTRICTIONS. Prior to the time that shares of Common Stock have been delivered to you, you may not transfer, pledge, sell or otherwise dispose of this Award or the shares issuable in respect of your Award, except as expressly provided in this Section 5. For example, you may not use shares that may be issued in respect of your Restricted Stock Units as security for a loan. The restrictions on transfer set forth herein will lapse upon delivery to you of shares in respect of your vested Restricted Stock Units.

(a) Death. Your Award is transferable by will and by the laws of descent and distribution. At your death, your executor or administrator of your estate shall be entitled to receive, on behalf of your estate, any Common Stock or other consideration that vested but was not issued before your death.

(b) Domestic Relations Orders. Upon receiving written permission from the Board or its duly authorized designee, and provided that you and the designated transferee enter into transfer and other agreements required by the Company, you may transfer your right to receive the distribution of Common Stock or other consideration hereunder, pursuant to a domestic relations order, marital settlement agreement or other divorce or separation instrument as permitted by applicable law that contains the information required by the Company to effectuate the transfer. You are encouraged to discuss the proposed terms of any division of this Award with the Company General Counsel prior to finalizing the domestic relations order or marital settlement agreement to verify that you may make such transfer, and if so, to help ensure the required information is contained within the domestic relations order or marital settlement agreement.

6. DATE OF ISSUANCE.

(a) The issuance of shares in respect of the Restricted Stock Units is intended to be exempt under Treasury Regulations Section 1.409A-1(b)(4) and will be construed and administered in such a manner. Subject to the satisfaction of the Withholding Obligation set forth in Section 11 of this Agreement, in the event one or more Restricted Stock Units vests, the Company shall issue to you one (1) share of Common Stock for each Restricted Stock Unit that vests on the applicable vesting date(s) (subject to any adjustment under Section 3 above, and subject to any different provisions in the Grant Notice). Each issuance date determined by this paragraph is referred to as an “*Original Issuance Date*”.

(b) If the Original Issuance Date falls on a date that is not a business day, delivery shall instead occur on the next following business day. In addition, if:

(i) the Original Issuance Date does not occur (1) during an “open window period” applicable to you, as determined by the Company in accordance with the Company’s then-effective policy on trading in Company securities, or (2) on a date when you are otherwise permitted to sell shares of Common Stock on an established stock exchange or stock market (including but not limited to under a previously established written trading plan that meets the requirements of Rule 10b5-1 under the Exchange Act and was entered into in compliance with the Company’s policies (a “*10b5-1 Arrangement*”)), and

(ii) either (1) a Withholding Obligation does not apply, or (2) the Company decides, prior to the Original Issuance Date, (A) not to satisfy the Withholding Obligation by withholding shares of Common Stock from the shares otherwise due, on the Original Issuance Date, to you under this Award, and (B) not to permit you to enter into a “same day sale” commitment with a broker-dealer pursuant to Section 11 of this Agreement (including but not limited to a commitment under a 10b5-1 Arrangement) and (C) not to permit you to pay your Withholding Obligation in cash, then the shares that would otherwise be issued to you on the Original Issuance Date will not be delivered on such Original Issuance Date and will instead be delivered on the first

business day when you are not prohibited from selling shares of the Company's Common Stock in the open public market, but in no event later than December 31 of the calendar year in which the Original Issuance Date occurs (that is, the last day of your taxable year in which the Original Issuance Date occurs), or, if and only if permitted in a manner that complies with Treasury Regulations Section 1.409A-1(b)(4), no later than the date that is the 15th day of the third calendar month of the applicable year following the year in which the shares of Common Stock under this Award are no longer subject to a "substantial risk of forfeiture" within the meaning of Treasury Regulations Section 1.409A-1(d).

(c) The form of delivery (e.g., a stock certificate or electronic entry evidencing such shares) shall be determined by the Company.

7. DIVIDENDS. You shall receive no benefit or adjustment to your Award with respect to any cash dividend, stock dividend or other distribution that does not result from a Capitalization Adjustment; provided, however, that this sentence will not apply with respect to any shares of Common Stock that are delivered to you in connection with your Award after such shares have been delivered to you.

8. RESTRICTIVE LEGENDS. The shares of Common Stock issued in respect of your Award shall be endorsed with appropriate legends as determined by the Company.

9. EXECUTION OF DOCUMENTS. You hereby acknowledge and agree that the manner selected by the Company by which you indicate your consent to your Grant Notice is also deemed to be your execution of your Grant Notice and of this Agreement. You further agree that such manner of indicating consent may be relied upon as your signature for establishing your execution of any documents to be executed in the future in connection with your Award.

10. AWARD NOT A SERVICE CONTRACT.

(a) Nothing in this Agreement (including, but not limited to, the vesting of your Award or the issuance of the shares in respect of your Award), the Plan or any covenant of good faith and fair dealing that may be found implicit in this Agreement or the Plan shall: (i) confer upon you any right to continue in the employ or service of, or affiliation with, the Company or an Affiliate; (ii) constitute any promise or commitment by the Company or an Affiliate regarding the fact or nature of future positions, future work assignments, future compensation or any other term or condition of employment or affiliation; (iii) confer any right or benefit under this Agreement or the Plan unless such right or benefit has specifically accrued under the terms of this Agreement or Plan; or (iv) deprive the Company of the right to terminate you at will and without regard to any future vesting opportunity that you may have.

(b) By accepting this Award, you acknowledge and agree that the right to continue vesting in the Award pursuant to the vesting schedule provided in the Grant Notice may not be earned unless (in addition to any other conditions described in the Grant Notice and this Agreement) you continue as an employee, director or consultant at the will of the Company and affiliate, as applicable (not through the act of being hired, being granted this Award or any other award or benefit) and that the Company has the right to reorganize, sell, spin-out or otherwise restructure one or more of its businesses or Affiliates at any time or from time to time, as it deems appropriate (a "**reorganization**"). You acknowledge and agree that such a reorganization could result in the termination of your Continuous Service, or the termination of Affiliate status of your employer and the loss of benefits available to you under this Agreement, including but not limited to, the termination of the right to continue vesting in the Award. You further acknowledge and agree that this Agreement, the Plan, the transactions contemplated hereunder and the vesting schedule set forth herein or any covenant of good faith and fair dealing that may be found implicit in any of them do not constitute an express or implied promise of continued engagement as an employee or consultant for the term of this Agreement, for any period, or at all, and shall not interfere in any way with the Company's right to terminate your Continuous Service at any time, with or without your cause or notice, or to conduct a reorganization.

11. WITHHOLDING OBLIGATION.

(a) On each vesting date, and on or before the time you receive a distribution of the shares of Common Stock in respect of your Restricted Stock Units, and at any other time as reasonably requested by the Company in accordance with applicable tax laws, you hereby authorize any required withholding from the Common Stock issuable to you and/or otherwise agree to make adequate provision, including in cash, for any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or any Affiliate that arise in connection with your Award (the "**Withholding Obligation**").

(b) By accepting this Award, you acknowledge and agree that the Company or any Affiliate may, in its sole discretion, satisfy all or any portion of the Withholding Obligation relating to your Restricted Stock Units by any of the following means or by a combination of such means: (i) causing you to pay any portion of the Withholding Obligation in cash; (ii) withholding from any compensation otherwise payable to you by the Company; (iii) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to you in connection with the Award with a Fair Market Value (measured as of the date shares of Common Stock are issued pursuant to Section 6) equal to the amount of such Withholding Obligation; provided, however, that the number of such shares of Common Stock so withheld will not exceed the amount necessary to satisfy the Withholding Obligation using the maximum statutory withholding rates for federal, state, local and foreign tax purposes, including payroll taxes, that are applicable to supplemental taxable income; and *provided*, further, that to the extent necessary to qualify for an exemption from application of Section 16(b) of the Exchange Act, if applicable, such share withholding procedure will be subject to the express prior approval of the Board or the Company's Compensation Committee; and/or (iv) permitting or requiring you to enter into a "same day sale" commitment, if applicable, with a broker-dealer that is a member of the Financial Industry Regulatory Authority (a "**FINRA Dealer**"), pursuant to this authorization and without further consent, whereby you irrevocably elect to sell a portion of the shares to be delivered in connection with your Restricted Stock Units to satisfy the Withholding Obligation and whereby the FINRA Dealer irrevocably commits to forward the proceeds necessary to satisfy the Withholding Obligation directly to the Company and/or its Affiliates. Unless the Withholding Obligation is satisfied, the Company shall have no obligation to deliver to you any Common Stock or any other consideration pursuant to this Award.

(c) In the event the Withholding Obligation arises prior to the delivery to you of Common Stock or it is determined after the delivery of Common Stock to you that the amount of the Withholding Obligation was greater than the amount withheld by the Company, you agree to indemnify and hold the Company harmless from any failure by the Company to withhold the proper amount.

12. TAX CONSEQUENCES. The Company has no duty or obligation to minimize the tax consequences to you of this Award and shall not be liable to you for any adverse tax consequences to you arising in connection with this Award. You are hereby advised to consult with your own personal tax, financial and/or legal advisors regarding the tax consequences of this Award and by signing the Grant Notice, you have agreed that you have done so or knowingly and voluntarily declined to do so. You understand that you (and not the Company) shall be responsible for your own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement.

13. UNSECURED OBLIGATION. Your Award is unfunded, and as a holder of a vested Award, you shall be considered an unsecured creditor of the Company with respect to the Company's obligation, if any, to issue shares or other property pursuant to this Agreement. You shall not have voting or any other rights as a stockholder of the Company with respect to the shares to be issued pursuant to this Agreement until such shares are issued to you pursuant to Section 6 of this Agreement. Upon such issuance, you will obtain full voting and other rights as a stockholder of the Company. Nothing contained in this Agreement, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind or a fiduciary relationship between you and the Company or any other person.

14. NOTICES. Any notice or request required or permitted hereunder shall be given in writing (including electronically) and will be deemed effectively given upon receipt or, in the case of notices delivered by mail by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company. The Company may, in its sole discretion, decide to deliver any documents related to participation in the Plan and this Award by electronic means or to request your consent to participate in the Plan by electronic means. By accepting this Award, you consent to receive such documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

15. HEADINGS. The headings of the Sections in this Agreement are inserted for convenience only and shall not be deemed to constitute a part of this Agreement or to affect the meaning of this Agreement.

16. MISCELLANEOUS.

(a) The rights and obligations of the Company under your Award shall be transferable by the Company to any one or more persons or entities, and all covenants and agreements hereunder shall inure to the benefit of, and be enforceable by, the Company's successors and assigns.

(b) You agree upon request to execute any further documents or instruments necessary or desirable in the sole determination of the Company to carry out the purposes or intent of your Award.

(c) You acknowledge and agree that you have reviewed your Award in its entirety, have had an opportunity to obtain the advice of counsel prior to executing and accepting your Award and fully understand all provisions of your Award.

(d) This Agreement shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(e) All obligations of the Company under the Plan and this Agreement shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

17. GOVERNING PLAN DOCUMENT. Your Award is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your Award, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. Your Award (and any compensation paid or shares issued under your Award) is subject to recoupment in accordance with The Dodd-Frank Wall Street Reform and Consumer Protection Act and any implementing regulations thereunder, any clawback policy adopted by the Company and any compensation recovery policy otherwise required by applicable law. No recovery of compensation under such a clawback policy will be an event giving rise to a right to voluntarily terminate employment upon a resignation for "good reason," or for a "constructive termination" or any similar term under any plan of or agreement with the Company.

18. EFFECT ON OTHER EMPLOYEE BENEFIT PLANS. The value of the Award subject to this Agreement shall not be included as compensation, earnings, salaries, or other similar terms used when calculating benefits under any employee benefit plan (other than the Plan) sponsored by the Company or any Affiliate except as such plan otherwise expressly provides. The Company expressly reserves its rights to amend, modify, or terminate any or all of the employee benefit plans of the Company or any Affiliate.

19. SEVERABILITY. If all or any part of this Agreement or the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any portion of this Agreement or the Plan not declared to be unlawful or invalid. Any Section of this Agreement (or part of such a Section) so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

20. OTHER DOCUMENTS. You hereby acknowledge receipt or the right to receive a document providing the information required by Rule 428(b)(1) promulgated under the Securities Act. In addition, you acknowledge receipt of the Company's policy permitting certain individuals to sell shares only during certain "window" periods and the Company's insider trading policy, in effect from time to time.

21. AMENDMENT. This Agreement may not be modified, amended or terminated except by an instrument in writing, signed by you and by a duly authorized representative of the Company. Notwithstanding the foregoing, this Agreement may be amended solely by the Board by a writing which specifically states that it is amending this Agreement, so long as a copy of such amendment is delivered to you, and provided that, except as otherwise expressly provided in the Plan, no such amendment materially adversely affecting your rights hereunder may be made without your written consent. Without limiting the foregoing, the Board reserves the right to change, by written notice to you, the provisions of this Agreement in any way it may deem necessary or advisable to carry out the purpose of the Award as a result of any change in applicable laws or regulations or any future law, regulation, ruling, or judicial decision, provided that any such change shall be applicable only to rights relating to that portion of the Award which is then subject to restrictions as provided herein.

22. COMPLIANCE WITH SECTION 409A OF THE CODE. This Award is intended to be exempt from the application of Section 409A of the Code, including but not limited to by reason of complying with the "short-term deferral" rule set forth in Treasury Regulation Section 1.409A-1(b)(4) and any ambiguities herein shall be interpreted accordingly. Notwithstanding the foregoing, if it is determined that the Award fails to satisfy the requirements of the short-term deferral rule and is otherwise not exempt from, and determined to be deferred compensation subject to Section 409A of the Code, this Award shall comply with Section 409A to the extent necessary to avoid adverse personal tax consequences and any ambiguities herein shall be interpreted accordingly. If it is determined that the Award is deferred compensation subject to Section 409A and you are a "Specified Employee" (within the meaning set forth in Section 409A(a)(2)(B)(i) of the Code) as of the date of your "Separation from Service" (as defined in Section 409A), then the issuance of any shares that would otherwise be made upon the date of your Separation from Service or within the first six (6) months thereafter will not be made on the originally scheduled date(s) and will instead be issued in a lump sum on the date that is six (6) months and one day after the date of the Separation from Service, with the balance of the shares issued thereafter in accordance with the original vesting and issuance schedule set forth above,

but if and only if such delay in the issuance of the shares is necessary to avoid the imposition of adverse taxation on you in respect of the shares under Section 409A of the Code. Each installment of shares that vests is intended to constitute a "separate payment" for purposes of Treasury Regulation Section 1.409A-2(b)(2).

* * * * *

This Restricted Stock Unit Award Agreement shall be deemed to be signed by the Company and the Participant upon the signing by the Participant of the Restricted Stock Unit Grant Notice to which it is attached.

ATTACHMENT II
AMENDED AND RESTATED 2018 EQUITY INCENTIVE PLAN

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Irwin D. Simon, certify that:

1. I have reviewed this Form 10-Q of Tilray Brands, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 4, 2023

By: /s/ Irwin D. Simon

Irwin D. Simon
Chairman and Chief Executive Officer

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Carl A. Merton, certify that:

1. I have reviewed this Form 10-Q of Tilray Brands, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 4, 2023

By: /s/ Carl A. Merton
Carl A. Merton
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Tilray Brands, Inc. (the “Company”) on Form 10-Q for the period ending August 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: October 4, 2023

By: /s/ Irwin D. Simon

Irwin D. Simon
Chairman and Chief Executive Officer

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Tilray Brands, Inc. (the “Company”) on Form 10-Q for the period ending August 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: October 4, 2023

By: /s/ Carl A. Merton

Carl A. Merton
Chief Financial Officer