

---

**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 November 30, 2021

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, INC.**

(Exact Name of Registrant as Specified in its Charter)

---

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**655 Madison Avenue, Suite 1900**

**New York, NY**

(Address of principal executive offices)

**82-4310622**

(I.R.S. Employer  
Identification No.)

**10065**

(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
Class 2 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 January 4, 2022, the registrant had 466,522,611 shares of common stock, \$0.0001 par value per share, issued and outstanding.

---

## Table of Contents

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

## **Cautionary Note Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q for the quarter ended November 30, 2021 (the “Form 10-Q”) contains forward-looking statements within the meaning of safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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. 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 strategic initiatives, business strategy, supply chain, brand portfolio and product performance; the COVID-19 pandemic; current or future macroeconomic trends; and future corporate acquisitions and strategic transactions.

Risks and uncertainties that may cause actual results to differ materially from forward-looking statements include: our ability to successfully complete the integration of the businesses of Tilray and Aphria; challenges and uncertainty resulting from the COVID-19 pandemic; the highly regulated environment in which we operate and our dependence on regulatory approvals and licenses; our ability to manage our supply chain effectively; disruption of operations at our cultivation and manufacturing facilities; challenges and uncertainty resulting from the impact of competition; our ability to manage risks associated with our international sales and operations; our ability to successfully develop and commercialize new products; our ability to execute our strategic plan and other initiatives, including our ability to achieve \$4 billion of revenue by the end of our fiscal year 2024; our dependency on significant customers, which generate a significant amount of our revenue; input cost inflation; disruptions to information technology systems; pending and future litigation; volatility in our stock; our ability to raise funds; and other risks and matters described in our most recent Annual Report on Form 10-K, this Form 10-Q and our other filings 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 Quarterly Report on 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.**

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

	November 30, 2021	May 31, 2021
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 331,783	\$ 488,466
Accounts receivable, net	84,575	87,309
Inventory	233,020	256,429
Prepays and other current assets	57,340	48,920
Convertible notes receivable	1,560	2,485
<b>Total current assets</b>	<u>708,278</u>	<u>883,609</u>
Capital assets	604,249	650,698
Right-of-use assets	13,933	18,267
Intangible assets	1,450,015	1,605,918
Goodwill	2,814,163	2,832,794
Interest in equity investees	4,440	8,106
Long-term investments	168,244	17,685
Other assets	164	8,285
<b>Total assets</b>	<u>\$ 5,763,486</u>	<u>\$ 6,025,362</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness	\$ 8,736	\$ 8,717
Accounts payable and accrued liabilities	168,300	212,813
Contingent consideration	62,339	60,657
Warrant liability	40,455	78,168
Current portion of lease liabilities	3,588	4,264
Current portion of long-term debt	31,510	36,622
<b>Total current liabilities</b>	<u>314,928</u>	<u>401,241</u>
<b>Long - term liabilities</b>		
Lease liabilities	49,265	53,946
Long-term debt	151,819	167,486
Convertible debentures	554,854	667,624
Deferred tax liability	219,311	265,845
Other liabilities	320	3,907
<b>Total liabilities</b>	<u>1,290,497</u>	<u>1,560,049</u>
<b>Commitments and contingencies (refer to Note 17)</b>		
<b>Shareholders' equity</b>		
Common stock (\$0.0001 par value; 990,000,000 shares authorized; 463,802,393 and 265,423,304 shares issued and outstanding, respectively)	46	46
Additional paid-in capital	4,954,547	4,792,406
Accumulated other comprehensive income	9,595	152,668
Accumulated Deficit	(527,900)	(486,050)
<b>Total Tilray shareholders' equity</b>	<u>4,436,288</u>	<u>4,459,070</u>
Non-controlling interests	36,701	6,243
<b>Total shareholders' equity</b>	<u>4,472,989</u>	<u>4,465,313</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 5,763,486</u>	<u>\$ 6,025,362</u>

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

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

	Three months ended November 30,		Six months ended November 30,	
	2021	2020	2021	2020
Net revenue	\$ 155,153	\$ 129,459	\$ 323,176	\$ 246,949
Cost of goods sold	122,387	94,176	239,455	176,721
Gross profit	32,766	35,283	83,721	70,228
Operating expenses:				
General and administrative	33,469	28,273	82,956	54,245
Selling	9,210	6,079	16,642	11,896
Amortization	29,016	4,208	59,755	8,335
Marketing and promotion	7,120	4,252	12,585	9,177
Research and development	515	225	1,300	345
Transaction costs	8,120	18,206	33,699	20,664
Total operating expenses	87,450	61,243	206,937	104,662
Operating loss	(54,684)	(25,960)	(123,216)	(34,434)
Interest expense, net	(9,940)	(4,832)	(20,110)	(10,568)
Non-operating income (expense), net	64,750	(72,649)	113,610	(86,008)
Income (loss) before income taxes	126	(103,441)	(29,716)	(131,010)
Income taxes (recovery)	(5,671)	(14,192)	(909)	(20,017)
Net income (loss)	\$ 5,797	\$ (89,249)	\$ (28,807)	\$ (110,993)
Total net income (loss) attributable to:				
Shareholders of Tilray Inc.	(201)	(99,900)	(41,850)	(134,243)
Non-controlling interests	5,998	10,651	13,043	23,250
Other comprehensive (loss) income, net of tax				
Foreign currency translation (loss) gain	(32,367)	(910)	(133,139)	475
Unrealized loss on convertible notes receivable	52	—	(597)	—
Change in fair value of long-term investments	(16,357)	—	(16,357)	—
Total other comprehensive (loss) income, net of tax	(48,672)	(910)	(150,093)	475
Comprehensive loss	(42,875)	(90,159)	(178,900)	(110,518)
Total comprehensive income (loss) attributable to:				
Shareholders of Tilray Inc.	(41,853)	(100,810)	(184,923)	(133,768)
Non-controlling interests	(1,022)	10,651	6,023	23,250
Weighted average number of common shares - basic	460,254,275	243,477,655	454,797,598	242,207,388
Weighted average number of common shares - diluted	460,254,275	243,477,655	454,797,598	242,207,388
Net income (loss) per share - basic	\$ (0.00)	\$ (0.41)	\$ (0.09)	\$ (0.55)
Net income (loss) per share - diluted	\$ (0.00)	\$ (0.41)	\$ (0.09)	\$ (0.55)

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

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

	<b>Number of common shares</b>	<b>Common stock</b>	<b>Additional paid-in capital</b>	<b>Accumulated other comprehensive income (loss)</b>	<b>Accumulated Deficit</b>	<b>Non- controlling interests</b>	<b>Total</b>
Balance at May 31, 2020	<u>240,132,635</u>	\$ 24	\$ 1,366,736	\$ (5,434)	\$ (113,352)	\$ 26,957	\$ 1,274,931
Share issuance - legal settlement	1,389,884	—	7,018	—	—	—	7,018
Share issuance - options exercised	41,065	—	4	—	—	—	4
Share issuance - RSUs exercised	429,280	—	2,246	—	—	—	2,246
Share-based payments	—	—	1,233	—	—	—	1,233
Comprehensive income (loss) for the period	—	—	—	1,385	(34,343)	12,599	(20,359)
Balance at August 31, 2020	<u>241,992,864</u>	\$ 24	\$ 1,377,237	\$ (4,049)	\$ (147,695)	\$ 39,556	\$ 1,265,073
Share issuance - legal settlement	503,974	—	3,436	—	—	—	3,436
Share issuance - equity financing	14,610,496	2	103,594	—	—	—	103,596
Share issuance - SweetWater acquisition	8,232,810	1	69,189	—	—	—	69,190
Share issuance - options exercised	74,337	—	86	—	—	—	86
Share issuance - RSUs exercised	8,823	—	306	—	—	—	306
Share-based payments	—	—	1,017	—	—	—	1,017
Comprehensive income (loss) for the period	—	—	—	(910)	(99,900)	10,651	(90,159)
Balance at November 30, 2020	<u>265,423,304</u>	\$ 27	\$ 1,554,865	\$ (4,959)	\$ (247,595)	\$ 50,207	\$ 1,352,545
Balance at May 31, 2021	<u>446,440,641</u>	\$ 46	\$ 4,792,406	\$ 152,668	\$ (486,050)	\$ 6,243	\$ 4,465,313
Third party contribution to Superhero Acquisition LP	—	—	—	—	—	52,995	52,995
Share issuance - options exercised	417,489	—	2,756	—	—	—	2,756
Share issuance - RSUs exercised	3,665,337	—	6,661	—	—	—	6,661
Share-based payments, net	—	—	(5,944)	—	—	—	(5,944)
Comprehensive income (loss) for the period	—	—	—	(101,421)	(41,649)	7,045	(136,025)
Balance at August 31, 2021	<u>450,523,467</u>	\$ 46	\$ 4,795,879	\$ 51,247	\$ (527,699)	\$ 66,283	\$ 4,385,756
Share issuance - Superhero Acquisition LP	9,817,061	—	117,804	—	—	—	117,804
Share issuance - DDH note	2,677,596	—	28,560	—	—	(28,560)	—
Share issuance - options exercised	98,044	—	1,939	—	—	—	1,939
Share issuance - RSUs exercised	470,324	—	6,314	—	—	—	6,314
Share-based payments, net	215,901	—	4,051	—	—	—	4,051
Comprehensive income (loss) for the period	—	—	—	(41,652)	(201)	(1,022)	(42,875)
Balance at November 30, 2021	<u>463,802,393</u>	\$ 46	\$ 4,954,547	\$ 9,595	\$ (527,900)	\$ 36,701	\$ 4,472,989

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

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

	For the six months ended November 30,	
	2021	2020
<b>Cash used in operating activities:</b>		
Net loss	\$ (28,807)	\$ (110,993)
Adjustments for:		
Deferred income tax recovery	(11,228)	(36,175)
Unrealized foreign exchange (gain) loss	(6,530)	6,648
Amortization	76,804	23,010
Loss on sale of capital assets	230	—
Inventory valuation write down	12,000	—
Other non-cash items	3,739	(134)
Stock-based compensation	17,670	8,339
Loss on long-term investments & equity investments	2,197	1,519
Loss (gain) on derivative instruments	(133,436)	70,342
Loss on contingent consideration	1,682	—
Transaction costs associated with business acquisitions	—	13,897
Change in non-cash working capital:		
Accounts receivable	2,734	(28,570)
Prepays and other current assets	(6,299)	(4,019)
Inventory	3,409	(18,352)
Accounts payable and accrued liabilities	(44,513)	20,827
Net cash used in operating activities	<u>(110,348)</u>	<u>(53,662)</u>
<b>Cash used in investing activities:</b>		
Investment in capital and intangible assets	(23,856)	(29,863)
Proceeds from disposal of capital and intangible assets	8,264	6,607
Promissory notes advances	—	(2,419)
Repayment of notes receivable	—	4,032
Proceeds from disposal of long-term investments and equity investees	—	2,676
Net cash paid on business acquisitions	—	(275,603)
Net cash used in investing activities	<u>(15,592)</u>	<u>(294,570)</u>
<b>Cash (used in) provided by financing activities:</b>		
Share capital issued, net of cash issuance costs	—	102,559
Proceeds (payment) from warrants and options exercised	(3,927)	90
Proceeds from long-term debt	—	1,881
Repayment of long-term debt	(20,779)	(2,210)
Repayment of lease liabilities	(3,360)	(71)
Increase in bank indebtedness	19	3,689
Net cash (used in) provided by financing activities	<u>(28,047)</u>	<u>105,938</u>
Effect of foreign exchange on cash and cash equivalents	<u>(2,696)</u>	<u>29,853</u>
Net decrease in cash and cash equivalents	<u>(156,683)</u>	<u>(212,441)</u>
Cash and cash equivalents, beginning of period	<u>488,466</u>	<u>360,646</u>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 331,783</b>	<b>\$ 148,205</b>

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

## **TILRAY, INC.**

### **Notes to Consolidated Financial Statements**

#### **Note 1. Description of business**

Tilray, Inc., and its wholly owned subsidiaries (collectively “Tilray”, the “Company”, “we”, or “us”) is a leading global cannabis-lifestyle and consumer packaged goods company headquartered in New York, with operations in Canada, the United States, Europe, Australia, New Zealand and Latin America that is changing people’s lives for the better – one person at a time – by inspiring and empowering the worldwide community to live their very best life by providing them with products that meet the needs of their mind, body, and soul and invoke a sense of wellbeing. Tilray’s mission is to be the trusted partner for its patients and consumers by providing them with a cultivated experience and health and wellbeing through high-quality, differentiated brands and innovative products. A pioneer in cannabis research, cultivation and distribution, Tilray’s production platform supports over 20 brands in over 20 countries, including comprehensive cannabis offerings, hemp-based foods, and alcoholic beverages.

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

#### **Note 2. Basis of presentation and summary of significant accounting policies**

The accompanying unaudited consolidated financial statements (the “financial statements”) reflect the accounts of the Company. The financial statements were prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) and pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) for interim financial information. The information included in this Form 10-Q should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended May 31, 2021 (the “Annual Financial Statements”). These financial statements reflect all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. The Company’s balance sheet in these interim financial statements was derived from the audited Annual Financial Statements but does not contain all of the footnote disclosures from the Annual Financial Statements.

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

As a result of the April 30, 2021 business combination with Aphria, the reported results do not include the results of operations of Tilray and its subsidiaries on and prior to April 30, 2021, in accordance with the accounting treatment applicable to the Arrangement. Accordingly, comparisons between the Company’s results for the three and six months ended November 30, 2021 and prior periods may not be meaningful.

Information about the accounting treatment of the Arrangement including details of the transaction, determination of the total fair value consideration, and allocation of the purchase price, are included in the Company’s Annual Report for the year ended May 31, 2021 filed in Form 10-K with the U.S. Securities and Exchange Commission on July 28, 2021 (“Annual Report”).

The purchase price allocation for the Arrangement is open for adjustments and has been allocated based on estimated fair values of the assets acquired and liabilities assumed at the acquisition date. In the event that more information is obtained, the purchase price allocation may change. Any future adjustments to the purchase price allocation, including changes within identifiable intangible assets or estimation uncertainty impacted by market conditions, may impact future net earnings. The purchase price allocation adjustments can be made through the end of the measurement period, which is not to exceed one year from the acquisition date.

#### *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 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 Company’s Annual Report for the year ended May 31, 2021 filed in Form 10-K with the U.S. Securities and Exchange Commission on July 28, 2021 (“Annual Report”).

On August 13, 2021, the Company and other unrelated persons formed Superhero Acquisition L.P., a Delaware limited partnership (“SH Acquisition”), for the purpose of acquiring certain senior secured convertible notes in the principal amount of approximately \$165.8 million (the “MM Notes”) originally issued by MedMen Enterprises Inc. (“MedMen”) together with certain associated warrants (the “MM Warrants”) to acquire Class B subordinate voting shares of Medmen (the “MedMen Shares”) from certain funds affiliated with Gotham Green Partners (the “MM Transaction”). The MM Notes mature on August 17, 2028. On August 17, 2021, SH Acquisition completed the MM Transaction and issued 9,817,061 shares of its common stock as partial consideration for the MM Transaction. The balance of the consideration for the MM Transaction was paid in cash by the other unrelated investors of SH Acquisition.

In connection with its issuance of 9,817,061 shares of its common stock, the Company’s received an interest in SH Acquisition equal to approximately 68% of the interests in SH Acquisition and, therefore, indirectly acquired a right to 68% of the MM Notes and related MM Warrants, which were convertible into approximately 21% of the MedMen Shares outstanding (if such MM Notes and MM Warrants were converted and exercised upon closing the MM Transaction). In addition, interest on the principal amount of the MM Notes shall accrue at an interest rate of LIBOR plus 6%, with a LIBOR floor of 2.5% and, any accrued interest shall be pay-in-kind at a price equal to the trailing 30-day volume weighted average price of the MedMen Shares, as and when such pay-in-kind interest becomes due and payable. SH Acquisition was also granted “top-up” rights enabling it (and its limited partners) to maintain its percentage ownership (on an “as-converted” basis) in the event that MedMen issues equity securities upon conversion of convertible securities that may be issued by MedMen. Tilray’s ability to convert the Notes 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.

Under the SH Acquisition partnership agreement, certain material events described therein require the approval of the Company, and, upon a Triggering Event, the Company has the ability to appoint two of the three members of the board of directors of the general partner of SH Acquisition. As a result, we consolidated SH Acquisition as a subsidiary of Tilray beginning on August 17, 2021. Additional information about the MM Transaction is included in Note 7 *Long-term investments*.

#### *Long-term investments*

Debt securities are classified as available-for-sale and are recorded at fair value and are subject to impairment testing. Other than impairment losses, unrealized gains and losses during the period, 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. Upon sale, realized gain and losses are reported in net income. Debt securities are impaired when a decline in fair value is determined to be other-than-temporary. If the cost of an investment exceeds its fair value, the Company evaluates, among other factors, general market conditions, credit quality of debt instrument issuers, and the duration and extent to which the fair value is less than cost. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in the statements of net loss and a new cost basis for the investment is established. The Company also evaluates whether there is a plan to sell the security or it is more likely than not that the Company will be required to sell the security before recovery. If neither of the conditions exist, then only the portion of the impairment loss attributable to credit loss is recorded in the statements of net loss and the remaining amount is recorded in other comprehensive income (loss).

Investments in equity securities of entities over which the Company does not have a controlling financial interest or significant influence are accounted for at fair value. Equity investments without readily determinable fair values are measured at cost with adjustments for observable changes in price or impairments (referred to as the “measurement alternative”). In applying the measurement alternative, the Company performs a qualitative assessment on a quarterly basis and recognizes an impairment if there are sufficient indicators that the fair value of the equity investments are 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, plus 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.

#### *New accounting pronouncements not yet adopted*

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity* (“ASU 2020-06”), which amends and simplifies existing guidance in an effort to reduce the complexity of accounting for convertible instruments and to provide financial statement users with more meaningful information. ASU 2020-06 is effective for the Company beginning June 1, 2022. This update may be applied retrospectively or on a modified retrospective basis with the cumulative effect recognized as an adjustment to the opening balance of retained earnings on the date of adoption. The Company is currently evaluating the effect of adopting this ASU.

In May 2021, the FASB issued ASU 2021-04, *Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40)* (“ASU 2021-04”), which amends existing guidance for earnings per share (EPS) in accordance with Topic 260. ASU 2021-04 is effective for the Company beginning June 1, 2022. This update should be applied prospectively on or after the effective date of the amendments. The Company is currently evaluating the effect of adopting this ASU.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Subtopic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* (“ASU 2021-08”), which is intended to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency. ASU 2021-08 is effective for the Company beginning June 1, 2023. This update should 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 December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes* (“ASU 2019-12”), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. The standard is effective for annual reporting periods beginning after December 15, 2020 and including interim periods within those fiscal years. The Company adopted the ASU beginning June 1, 2021 and the adoption of ASU 2019-12 did not have a material impact on our consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments – Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)* (“ASU 2020-01”), which is intended to clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. The Company adopted the ASU beginning June 1, 2021 and the adoption of ASU 2020-01 did not have a material impact on our consolidated financial statements.

#### **Note 3. Inventory**

Inventory consisted of the following:

	<b>November 30, 2021</b>	<b>May 31, 2021</b>
Plants	\$ 19,935	\$ 23,083
Dried cannabis	115,970	118,269
Cannabis trim	3,725	2,931
Cannabis derivatives	28,215	24,158
Cannabis vapes	3,193	3,791
Packaging and other inventory items	22,768	31,462
Wellness inventory	12,412	15,171
Beverage alcohol inventory	4,792	5,402
Distribution inventory	22,010	32,162
Total	<b>\$ 233,020</b>	<b>\$ 256,429</b>

During the three and six months ended November 30, 2021, the Company recorded \$12,000 and \$12,000 in our cannabis segment of charges related to inventory write downs as a component of cost of goods sold (November 30, 2020-\$0 and \$0).

#### Note 4. Capital assets

Capital assets consisted of the following:

	November 30, 2021	May 31, 2021
Land	\$ 26,779	\$ 28,549
Production facility	411,611	346,510
Equipment	236,239	215,408
Leasehold improvement	7,444	17,059
ROU-assets under finance lease	34,798	34,726
Construction in progress	14,949	85,322
	<u>\$ 731,820</u>	<u>\$ 727,574</u>
Less: accumulated amortization	(127,571)	(76,876)
Total	<u>\$ 604,249</u>	<u>\$ 650,698</u>

#### Note 5. Intangible Assets

Intangible assets consisted of the following items:

	Customer relationships & distribution channel	Licenses, permits & applications	Non- compete agreements	Intellectual property, trademarks, know how & brands	Total intangible assets
<b>Cost</b>					
At May 31, 2021	\$ 239,810	414,930	12,453	990,917	\$ 1,658,110
Additions	—	182	—	856	1,038
Effect of foreign exchange	(9,300)	(17,346)	(659)	(51,738)	(79,043)
At August 31, 2021	\$ 230,510	397,766	11,794	940,035	\$ 1,580,105
Additions	—	26	—	97	123
Effect of foreign exchange	(6,240)	(11,776)	—	(10,099)	(28,115)
At November 30, 2021	\$ 224,270	386,016	11,794	930,033	\$ 1,552,113
<b>Accumulated amortization</b>					
At May 31, 2021	\$ 18,302	1,167	4,299	28,424	\$ 52,192
Amortization	9,466	116	833	14,684	25,099
At August 31, 2021	\$ 27,768	1,283	5,132	43,108	\$ 77,291
Amortization	10,904	122	1,188	12,593	24,807
At November 30, 2021	\$ 38,672	1,405	6,320	55,701	\$ 102,098
<b>Net book value at May 31, 2021</b>	<b>\$ 221,508</b>	<b>0\$ 413,763</b>	<b>0\$ 8,154</b>	<b>0\$ 962,493</b>	<b>0\$ 1,605,918</b>
<b>Net book value at August 31, 2021</b>	<b>\$ 202,742</b>	<b>\$ 396,483</b>	<b>\$ 6,662</b>	<b>\$ 896,927</b>	<b>\$ 1,502,814</b>
<b>Net book value at November 30, 2021</b>	<b>\$ 185,598</b>	<b>0\$ 384,611</b>	<b>0\$ 5,474</b>	<b>0\$ 874,332</b>	<b>0\$ 1,450,015</b>

As of November 30, 2021, included in Licenses, permits & applications is \$383,445 of indefinite-lived intangible assets (May 31, 2021 - \$412,000).

Expected future amortization expense for intangible assets as of November 30, 2021 are as follows:

	Amortization
2022 (remaining six months)	\$ 35,746
2023	63,770
2024	57,094
2025	56,091
2026	56,091
Thereafter	797,778
<b>Total</b>	<b>\$ 1,066,570</b>

## Note 6. Goodwill

The following table shows the carrying amount of goodwill:

	Segment	November 30, 2021	May 31, 2021
Broken Coast Cannabis Ltd.	Cannabis business	\$ 105,963	\$ 105,963
Nuuvera Corp.	Cannabis business	273,606	273,606
LATAM Holdings Inc.	Cannabis business	63,239	63,239
CC Pharma GmbH	Distribution business	4,458	4,458
SweetWater	Beverage alcohol business	100,202	100,202
Tilray-provisional	Cannabis business	2,155,471	2,144,143
Tilray-provisional	Wellness business	77,470	77,470
Effect of foreign exchange		33,754	63,713
Total		<u>\$ 2,814,163</u>	<u>\$ 2,832,794</u>

Pursuant to the Arrangement, as described in Note 1, the Company is within the measurement period of the business acquisition. As of November 30, 2021, the fair values of assets and liabilities acquired have been prepared on a provisional basis and are subject to further adjustments as the Company completes its analysis. The Company will finalize the amounts recognized by April 30, 2022. The fair value adjustments made during the three and six months ended November 30, 2021 are not significant and are reflected in the table below:

		November 30, 2021	May 31, 2021
<b>Assets</b>			
Cash and cash equivalents		\$ 375,673	\$ 375,673
Accounts receivable		28,054	28,054
Inventory		68,547	76,547
Prepays and other current assets		2,960	8,960
Capital assets		136,637	136,637
Right-of-use assets, operating leases		12,606	12,606
Definite-lived intangible assets (estimated useful life)			
Distribution channel (15 years)		404,000	404,000
Customer relationships (15 years)		59,000	59,000
Know how (5 years)		115,000	115,000
Brands (10 to 25 years)		301,000	301,000
Indefinite-lived intangible assets			
Licenses		200,000	200,000
Goodwill-provisional		2,232,941	2,221,613
Other assets		22,879	22,879
<b>Total assets</b>		<u>3,959,297</u>	<u>3,961,969</u>
<b>Liabilities</b>			
Accounts payable		62,292	62,292
Accrued expenses and other current liabilities		85,120	85,120
Accrued lease obligations		21,962	21,962
Warrant liability		79,402	79,402
Deferred tax liability		233,719	236,391
Convertible notes		267,862	267,862
Other liabilities		4,034	4,034
<b>Total liabilities</b>		<u>754,391</u>	<u>757,063</u>
<b>Net assets acquired</b>		<u>\$ 3,204,906</u>	<u>\$ 3,204,906</u>

## Note 7. Long term investments

Long term investments consisted of the following:

	November 30, 2021	May 31, 2021
Debt securities classified under available-for-sale method	\$ 154,442	\$ —
Equity investments measured at fair value level 1	5,918	9,251
Equity investments measured at fair value level 2	2,384	2,934
Equity investments under measurement alternative	5,500	5,500
Total investments in debt and equity securities	<u>\$ 168,244</u>	<u>\$ 17,685</u>

As of November 30, 2021, the Company's debt securities under available-for-sale method include the MM Notes, described in Note 2 *Basis of presentation and summary of significant accounting policies*. Interest on the principal amount of the MM Notes shall accrue at an interest rate of LIBOR plus 6%, with a LIBOR floor of 2.5% and, any accrued interest shall be pay-in-kind at a price equal to the trailing 30-day volume weighted average price of the MedMen Shares, as and when such pay-in-kind interest becomes due and payable. The MM Notes, which mature in 2028, are indirectly held by the Company through its majority-owned subsidiary, SH Acquisition. The Company has the ability, in its sole discretion, to transfer its partnership interest in SH Acquisition and/or the pro rata portion of the MM Notes and the corresponding portion of accrued and unpaid pay-in-kind interest, and/or cause the redemption of the partnership interest and/or the pro rata portion of the MM Notes held by the minority interest in SH Acquisition at any time. The total unrealized loss of \$16,357 in accumulated other comprehensive income at November 30, 2021 relates to the long-term available-for-sale debt securities. The Company's allowance for credit losses on debt securities classified as available-for-sale is \$0 at November 30, 2021 and no related credit loss expenses were recorded during the three and six months ended November 30, 2021. Comparisons are not provided for the comparable prior year periods given the MM Transaction did not close until August 17, 2021.

The Company values debt securities under available-for-sale method using the Black-Scholes model (Level 3) with the following weighted-average assumptions:

Expected term	0.4 to 6.7 years
Expected volatility	70%
Effective interest rate	20.4%
Expected dividend yield	0.0%
Probability of conversion	0% to 60%
Strike price	\$0.15 to \$4.29
Fair value of common stock	\$ 0.22

The Company's equity investments at fair value consist of publicly traded shares and warrants held by the Company, including certain warrants acquired with the MM Notes and exercisable for equity securities of MedMen's Class B subordinate voting shares. The Company's equity investment under measurement alternative includes equity investments without readily determinable fair values.

Unrealized gains and losses recognized in non-operating income (expense) during the three and six months ended November 30, 2021 on equity investments still held at November 30, 2021 are a loss of \$1,806 and a loss of \$3,883 (2020 – loss of \$399 and loss of \$1,326). There were no impairments or adjustments to equity investments under the measurement alternative for the three and six months ended November 30, 2021 and November 30, 2020.

## Note 8. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are comprised of:

	November 30, 2021	May 31, 2021
Trade payables	\$ 64,980	\$ 57,706
Accrued liabilities	62,915	112,594
Accrued payroll and employment related taxes	18,403	19,390
Income taxes payable	14,957	14,764
Accrued interest	6,764	148
Other accruals	281	8,211
<b>Total</b>	<b>\$ 168,300</b>	<b>\$ 212,813</b>

#### **Note 9. Bank indebtedness**

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 November 30, 2021, the Company has not drawn on the line of credit. The operating line of credit is secured by a security interest on that certain real property at 265 Talbot St. West, Leamington, Ontario.

CC Pharma GmbH, a subsidiary of the Company, has three operating lines of credit for €8,000, €3,500, and €500 each, which bear interest at Euro Over Night Index Average plus 1.79% and Euro Interbank Offered Rate plus 3.682% respectively. As of November 30, 2021, a total of €7,353 (\$8,264) was drawn down from the available credit of €12,000. The operating lines of credit are secured by a security interest in on the inventory held by CC Pharma GmbH.

Four Twenty Corporation ("420"), a subsidiary of the Company, has a revolving credit facility of \$20,000 which bears interest at EURIBOR plus an applicable margin. As of November 30, 2021, the Company has not drawn any amount on the revolving line of credit. The revolving credit facility is secured by all of 420 and SweetWater's assets and includes a corporate guarantee by a subsidiary of the Company.

#### Note 10. Long-term debt

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

	November 30, 2021	May 31, 2021
Credit facility - C\$80,000 - Canadian prime interest rate plus an applicable margin, 3-year term, with a 10-year amortization, repayable in blended monthly payments, due in November 2022	\$ 56,160	\$ 62,964
Term loan - C\$25,000 - Canadian 5-year bond interest rate plus 2.73% with a minimum 4.50%, 5-year term, with a 15-year amortization, repayable in blended monthly payments, due in July 2023	13,015	14,335
Term loan - C\$25,000 - 3.95%, compounded monthly, 5-year term with a 15-year amortization, repayable in equal monthly instalments of \$188 including interest, due in April 2022	15,446	17,117
Term loan - C\$1,250 - 3.85%, 5-year term, with a 10-year amortization, repayable in equal monthly instalments of \$13 including interest, due in August 2026	505	587
Mortgage payable - C\$3,750 - 3.85%, 5-year term, with a 20-year amortization, repayable in equal monthly instalments of \$23 including interest, due in August 2026	2,354	2,562
Vendor take-back mortgage - C\$2,850 - 6.75%, 5-year term, repayable in equal monthly instalments of \$56 including interest, due in June 2021	—	92
Term loan - €5,000 - Euro Interbank Offered Rate plus 1.79%, 5-year term, repayable in quarterly instalments of €250 plus interest, due in December 2023	2,543	3,356
Term loan - €5,000 - Euro Interbank Offered Rate plus 2.68%, 5-year term, repayable in quarterly instalments of €250 plus interest, due in December 2023	2,543	3,356
Term loan - €1,500 - Euro Interbank Offered Rate plus 2.00%, 5-year term, repayable in quarterly instalments of €98 including interest, due in April 2025	1,491	1,831
Term loan - €1,500 - Euro Interbank Offered Rate plus 2.00%, 5-year term, repayable in quarterly instalments of €98 including interest, due in June 2025	1,589	1,831
Term loan - \$100,000 - EUROBIR rate plus an applicable margin, 3-year term, repayable in quarterly instalments beginning March 31, 2021 of \$7,500 in its first twelve months and \$10,000 in each of the next two years, due in March 2024	89,375	98,138
Carrying amount of long-term debt	185,021	206,169
Unamortized financing fees	(1,692)	(2,061)
Net carrying amount	183,329	204,108
Less principal portion included in current liabilities	(31,510)	(36,622)
Total noncurrent portion of long-term debt	<u>\$ 151,819</u>	<u>\$ 167,486</u>

As of November 30, 2021, the Company was in compliance with all the long-term debt covenants.

#### Note 11. Convertible debentures

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

	November 30, 2021	May 31, 2021
5.25% Convertible Notes ("APHA 24")	\$ 284,724	\$ 399,444
5.00% Convertible Notes ("TLRY 23")	270,130	268,180
<b>Total</b>	<b>\$ 554,854</b>	<b>\$ 667,624</b>

**APHA 24**

	<b>November 30, 2021</b>	<b>May 31, 2021</b>
5.25% Contractual debenture	\$ 350,000	\$ 350,000
Debt settlement	(90,760)	(90,760)
Fair value adjustment	25,484	140,204
<b>Net carrying amount of APHA 24</b>	<b>\$ 284,724</b>	<b>\$ 399,444</b>

Holders of the APHA 24 may convert all or any portion of their Notes, in multiples of \$1 principal amount, at their option at any time between December 1, 2023 to the maturity date. The initial conversion rate for the APHA 24 will be 89.31162364 shares of common stock, par value \$0.0001 per share, of Tilray, Inc. per \$1,000 principal amount of Notes, which will be settled in cash, common shares of Aphria or a combination thereof, at Tilray's election. This is equivalent to an initial conversion price of approximately \$11.20 per common share, subject to adjustments in certain events. In addition, holders of the APHA 24 may convert all or any portion of their Notes, in multiples of \$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 for each trading day of the measurement period is less than 98% of the product of the last reported sale price of the Company's common shares and the conversion rate on each such trading day;
- (c) the Company calls any or all of the APHA 24 for redemption or;
- (d) upon occurrence of specified corporate event.

The Company may not 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 Notes, 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 estimated the fair value of the APHA 24 convertible debenture at November 30, 2021 at \$1,098 per convertible debenture using the Black-Scholes model (Level 3) with the following weighted-average assumptions:

Risk-free interest rate	1.43%
Expected volatility	70%
Expected term	2.5 years
Expected dividend yield	0.0%

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

**TLRY 23**

	<b>November 30, 2021</b>	<b>May 31, 2021</b>
5.00% Contractual debenture	\$ 277,856	\$ 277,856
Unamortized discount	(7,726)	(9,676)
<b>Net carrying amount of TLRY 23</b>	<b>\$ 270,130</b>	<b>\$ 268,180</b>

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 1,659,737 shares of common stock, based on the \$277,856 aggregate principal amount of convertible notes outstanding as of May 31, 2021 (2020 - \$nil). 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, 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.

#### Note 12. Warrant liability

Warrants outstanding at November 30, 2021:

	<b>Classification</b>	<b>Exercise Price</b>	<b>Balance May 31, 2021</b>	<b>Issued</b>	<b>Exercised/Expired</b>	<b>Balance November 30, 2021</b>
Expiration date – September 26, 2021	Equity	3.08	166,000	—	(166,000)	—
Expiration date – January 30, 2022	Equity	9.08	5,828,651	—	—	5,828,651
Expiration date – March 17, 2025	Liability	5.95	6,209,000	—	—	6,209,000
			<u>12,203,651</u>	<u>—</u>	<u>(166,000)</u>	<u>12,037,651</u>
			<b>November 30, 2021</b>		<b>November 30, 2020</b>	
			<b>Number of warrants</b>	<b>Weighted average price</b>	<b>Number of warrants</b>	<b>Weighted average price</b>
Outstanding, opening			12,203,651	\$ 7.41	5,994,651	\$ 8.91
Exercised during the period			—	—	—	—
Issued during the period			—	—	—	—
Cancelled during the period			—	—	—	—
Expired during the period			(166,000)	\$ 3.08	—	—
Outstanding, ending			<u>12,037,651</u>	<u>\$ 7.47</u>	<u>5,994,651</u>	<u>\$ 8.91</u>

The Company estimated the fair value of the Warrant liability at November 30, 2021 at \$6.51 per warrant using the Black-Scholes pricing model (Level 3) with the following weighted-average assumptions:

Risk-free interest rate	1.40%
Expected volatility	70%
Expected term	3.80 years
Expected dividend yield	0.0%
Strike price	\$ 5.95
Fair value of common stock	\$ 10.12

### Note 13. Stock-based compensation

The Company operates stock-based compensation plans as disclosed in our Annual Report. For the three and six months ended November 30, 2021, the total stock-based compensation was \$8,253 and \$17,670 (2020 - \$5,489 and \$8,339).

During the three and six months ended November 30, 2021, the Company did not grant any further stock options or RSUs out of Aphria's predecessor plan. The Company's total stock-based compensation expense recognized is as follows:

	For the three months ended November 30,		For the six months ended November 30,	
	2021	2020	2021	2020
Stock options	\$ 1,939	\$ 879	\$ 4,695	\$ 2,250
RSUs	6,314	4,610	12,975	6,089
Total	<u>\$ 8,253</u>	<u>\$ 5,489</u>	<u>\$ 17,670</u>	<u>\$ 8,339</u>

For the three and six months ended November 30, 2021, the Company granted 69,508 and 1,414,666 performance-based RSUs, with none vesting in the period (2020 – none and none). During the three and six months ended November 30, 2021, the Company accelerated the vesting of none and 679,000 RSUs to fully vested (2020 – none and none)

### Note 14. Accumulated other comprehensive income (loss)

Accumulated other comprehensive loss includes the following components:

	Foreign currency translation gain (loss)	Unrealized loss on convertible notes receivables	Unrealized loss on available-for-sale debt securities	Less non-controlling interests	Total
Balance May 31, 2021	\$ 156,417	\$ (3,749)	\$ —	\$ —	\$ 152,668
Other comprehensive loss	(100,772)	(649)	—	—	(101,421)
Balance August 31, 2021	\$ 55,645	\$ (4,398)	\$ —	\$ —	\$ 51,247
Other comprehensive loss	(32,367)	52	(16,357)	7,020	(41,652)
Balance November 30, 2021	<u>\$ 23,278</u>	<u>\$ (4,346)</u>	<u>\$ (16,357)</u>	<u>\$ 7,020</u>	<u>\$ 9,595</u>

### Note 15. Non-controlling interests

The following tables summarize the information relating to the Company's subsidiaries, Superhero LP, CC Pharma Nordic ApS, Aphria Diamond, and ColCanna S.A.S. before intercompany eliminations. During the three and six months ended November 30, 2021, the Company made contributions to Superhero LP of \$0 and \$117,804 in the form of Tilray Class 2 common shares, the Company paid dividends of C\$70,000 and C\$70,000 (USD\$56,630) to the shareholders of Aphria Diamond ("DDH note"), with the portion allocated to the non-controlling partner settled via issuance of Tilray Class 2 common shares. There were no other contributions or distributions during the period.

Non-controlling interests as of November 30, 2021:

	Superhero LP	CC Pharma Nordic ApS	Aphria Diamond	ColCanna S.A.S.	November 30, 2021
Current assets	\$ —	\$ 629	\$ 82,882	\$ 359	\$ 83,870
Non-current assets	154,442	134	156,004	141,952	452,532
Current liabilities	—	(709)	(133,360)	(6,639)	(140,708)
Non-current liabilities	—	(410)	(62,853)	(16)	(63,279)
Net assets	<u>\$ 154,442</u>	<u>\$ (356)</u>	<u>\$ 42,673</u>	<u>\$ 135,656</u>	<u>\$ 332,415</u>

Non-controlling interests as of May 31, 2021:

	<b>CC Pharma Nordic ApS</b>	<b>Aphria Diamond</b>	<b>ColCanna S.A.S.</b>	<b>May 31, 2021</b>
Current assets	\$ 919	\$ 19,531	\$ 315	\$ 20,765
Non-current assets	103	153,696	146,587	300,386
Current liabilities	(956)	(28,511)	(62)	(29,529)
Non-current liabilities	(406)	(69,332)	(6,606)	(76,344)
Net assets	<u>\$ (340)</u>	<u>\$ 75,384</u>	<u>\$ 140,234</u>	<u>\$ 215,278</u>

Non-controlling interests for the six months ended November 30, 2021:

	<b>Superhero LP</b>	<b>CC Pharma Nordic ApS</b>	<b>Aphria Diamond</b>	<b>ColCanna S.A.S.</b>	<b>November 30, 2021</b>
Revenue	\$ —	\$ 136	\$ 53,101	\$ —	\$ 53,237
Total expenses	—	178	26,367	458	27,003
Net (loss) income	—	(42)	26,734	(458)	26,234
Other comprehensive (loss) income	(16,357)	26	(2,817)	(4,120)	(23,268)
Net comprehensive income	<u>\$ (16,357)</u>	<u>\$ (16)</u>	<u>\$ 23,917</u>	<u>\$ (4,578)</u>	<u>\$ 2,966</u>
Non-controlling interest %	32%	25%	49%	10%	NA
Net comprehensive (loss) income	<u>\$ (5,234)</u>	<u>\$ (4)</u>	<u>\$ 11,719</u>	<u>\$ (458)</u>	<u>\$ 6,023</u>

Non-controlling interests for the six months ended November 30, 2020:

	<b>CC Pharma Nordic ApS</b>	<b>Aphria Diamond</b>	<b>ColCanna S.A.S.</b>	<b>November 30, 2020</b>
Revenue	\$ 368	\$ 79,515	\$ —	\$ 79,883
Total expenses	703	31,791	500	32,994
Net (loss) income	(335)	47,724	(500)	46,889
Other comprehensive (loss) income	—	—	—	—
Net comprehensive income	<u>\$ (335)</u>	<u>\$ 47,724</u>	<u>\$ (500)</u>	<u>\$ 46,889</u>
Non-controlling interest %	25%	49%	10%	NA
Net comprehensive (loss) income	<u>\$ (85)</u>	<u>\$ 23,385</u>	<u>\$ (50)</u>	<u>\$ 23,250</u>

#### Note 16. 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-based 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 benefit of \$(5,671) and \$(909) for the three and six months ended November 30, 2021 and income tax benefit of \$(14,192) and \$(20,017) for the three and six months ended November 30, 2020. 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 17. Commitments and contingencies

### *Purchase and other commitments*

The Company has payments on long-term debt (refer to Note 10 *Long-term debt*), convertible notes (refer to Note 11 *Convertible Debentures*), material purchase commitments and construction commitments as follows:

	2022 (remaining six months)		2023	2024	2025	2026	Thereafter
	Total	\$ 34,201	\$ 75,242	\$ 72,045	\$ 1,602	\$ 990	\$ 941
Long-term debt repayment	\$ 185,021						
Convertible notes, principal and interest	599,090	13,756	27,512	298,422	259,400	—	—
Material purchase obligations	28,951	12,024	14,741	1,101	407	254	424
Construction commitments	3,534	3,534	—	—	—	—	—
<b>Total</b>	<b>\$ 816,596</b>	<b>\$ 63,515</b>	<b>\$ 117,495</b>	<b>\$ 371,568</b>	<b>\$ 261,409</b>	<b>\$ 1,244</b>	<b>\$ 1,365</b>

Effective November 10, 2021, the Company entered into a termination and settlement agreement with ABG Intermediate Holdings 2, LLC ("ABG") and certain of its affiliates. Pursuant to this settlement agreement, the Company terminated \$6,600 in remaining guaranteed royalty payments owed to ABG in exchange for the payment of \$3,925 as a termination fee. The termination fee was comprised of a \$1,500 cash payment plus the issuance of 215,901 Class 2 common shares.

The following table presents the future undiscounted payment associated with lease liabilities as of November 30, 2021:

	Operating leases	Finance leases
2022 (remaining six months)	2,071	1,114
2023	3,845	7,026
2024	3,236	2,061
2025	2,681	2,122
2026	2,898	2,186
Thereafter	7,242	39,586
<b>Total minimum lease payments</b>	<b>\$ 21,973</b>	<b>\$ 54,095</b>
Imputed interest	(4,240)	(18,975)
<b>Obligations recognized</b>	<b>\$ 17,733</b>	<b>\$ 35,120</b>

### *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.

#### Note 18. Net revenue

The Company reports its net revenue in four reporting segments: cannabis, distribution, beverage alcohol and wellness, in accordance with ASC 280 Segment Reporting. The Company generates revenues from these segments through contracts and purchase orders with customers, each with a single performance obligation, being the sale of products.

Net revenue is comprised of:

	For the three months ended November 30,		For the six months ended November 30,	
	2021	2020	2021	2020
Cannabis revenue	\$ 73,429	\$ 70,155	\$ 163,362	\$ 137,275
Cannabis excise taxes	(14,654)	(15,389)	(34,138)	(31,307)
Net cannabis revenue	58,775	54,766	129,224	105,968
Beverage alcohol revenue	14,544	754	31,027	754
Beverage alcohol excise taxes	(837)	(44)	(1,859)	(44)
Net beverage alcohol revenue	13,707	710	29,168	710
Distribution revenue	68,869	73,983	136,055	140,271
Wellness revenue	13,802	—	28,729	—
<b>Total</b>	<b>\$ 155,153</b>	<b>\$ 129,459</b>	<b>\$ 323,176</b>	<b>\$ 246,949</b>

#### Note 19. Cost of goods sold

Cost of goods sold is comprised of:

	For the three months ended November 30,		For the six months ended November 30,	
	2021	2020	2021	2020
Cannabis costs	\$ 45,259	\$ 29,632	\$ 85,450	\$ 55,407
Beverage alcohol costs	5,921	281	12,583	281
Distribution costs	61,237	64,263	120,527	121,033
Wellness costs	9,970	—	20,895	—
<b>Total</b>	<b>\$ 122,387</b>	<b>\$ 94,176</b>	<b>\$ 239,455</b>	<b>\$ 176,721</b>

#### Note 20. General and administrative expenses

General and administrative expenses are comprised of:

	For the three months ended November 30,		For the six months ended November 30,	
	2021	2020	2021	2020
Executive compensation	\$ 2,237	\$ 2,711	\$ 5,327	\$ 4,961
Office and general	5,206	4,418	17,973	8,839
Salaries and wages	8,149	8,821	23,460	18,164
Stock-based compensation	8,253	5,489	17,670	8,339
Insurance	4,995	2,904	9,626	6,110
Professional fees	3,355	3,171	6,068	6,106
Travel and accommodation	982	525	1,774	1,252
Rent	292	234	1,058	474
<b>Total</b>	<b>\$ 33,469</b>	<b>\$ 28,273</b>	<b>\$ 82,956</b>	<b>\$ 54,245</b>

## Note 21. Non-operating income (expense)

Non-operating income (expense) is comprised of:

	For the three months ended November 30,		For the six months ended November 30,	
	2021	2020	2021	2020
Change in fair value of convertible debenture	\$ 56,353	\$ (70,683)	\$ 95,723	\$ (70,343)
Change in fair value of warrant liability	20,178	—	37,713	—
Foreign exchange loss	(10,180)	(3,371)	(15,904)	(19,702)
Loss on long-term investments	(1,833)	(399)	(3,508)	(1,519)
Gain from equity investees	—	—	1,356	—
Other non-operating (losses) gains, net	232	1,804	(1,770)	5,556
Total	<u>\$ 64,750</u>	<u>\$ (72,649)</u>	<u>\$ 113,610</u>	<u>\$ (86,008)</u>

## Note 22. Fair value measurements

### Financial instruments

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

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 November 30, 2021 the Company's long-term debt of \$18,305 (May 31, 2021 - \$20,358) is 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 Government of Canada securities of similar duration. In each period thereafter, the incremental premium is held constant while the Government of Canada 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 November 30, 2021 and May 31, 2021 and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value:

	November 30,			2021
	Level 1	Level 2	Level 3	
<b>Financial assets</b>				
Cash and cash equivalents	\$ 331,783	\$ —	\$ —	\$ 331,783
Convertible notes receivable	—	1,560	—	1,560
Equity investments measured at fair value	5,918	2,384	—	8,302
Debt securities classified under available-for-sale method	—	—	154,442	154,442
<b>Financial liabilities</b>				
Warrant liability	—	—	40,455	40,455
Contingent consideration	—	—	62,339	62,339
APHA 24 Convertible debenture	—	—	284,724	284,724
Total recurring fair value measurements	<u>\$ 337,701</u>	<u>\$ 3,944</u>	<u>\$ 541,960</u>	<u>\$ 883,605</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>May 31, 2021</u>
<b>Financial assets</b>				
Cash and cash equivalents	\$ 488,466	—	—	\$ 488,466
Convertible notes receivable	—	2,485	—	2,485
Equity investments measured at fair value	9,251	2,934	—	12,185
Debt securities classified under available-for-sale method	—	—	—	—
<b>Financial liabilities</b>				
Warrant liability	—	—	78,168	78,168
Contingent consideration	—	—	60,657	60,657
APHA 24 Convertible debenture	—	—	399,444	399,444
<b>Total recurring fair value measurements</b>	<b>\$ 497,717</b>	<b>\$ 5,419</b>	<b>\$ 538,269</b>	<b>\$ 1,041,405</b>

The Company's financial assets and liabilities required to be measured on a recurring basis are its equity investments measured at fair value, debt securities classified as available-for-sale, acquisition-related contingent consideration, and warrant liability.

Convertible notes receivable, and equity investments recorded at fair value. The estimated fair value is determined using quoted market prices, broker or dealer quotations or discounted cash flows and is classified as Level 2. Certain equity investments recorded at fair value have quoted prices in active markets for identical assets and are classified as Level 1.

Debt securities classified as available-for sale are recorded at fair value. The estimated fair value is determined using the Black-Scholes option pricing model and is classified as Level 3. The Company classified these securities as level 2 in the period of acquisition, when the valuation was determined to reflect the recent market transaction.

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

The contingent consideration from the acquisition of SweetWater, first due in December 2023 and payable in cash, is determined by discounting future expected cash outflows at a discount rate of 5%. The inputs into the future expected cash outflows are classified as Level 3.

The APHA 24 Convertible debentures are recorded at fair value. The estimated fair value is determined using the Black-Scholes option pricing model and is 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:

	<b>APHA 24 Convertible Debt</b>	<b>Warrant Liability</b>	<b>Contingent Consideration</b>	<b>Debt Securities AFS</b>	<b>Total</b>
Balance, May 31, 2021	(399,444)	(78,168)	(60,657)	—	(538,269)
Additions	—	—	—	170,799	170,799
Disposals	—	—	—	—	—
Unrealized gain (loss) on fair value	114,720	37,713	(1,682)	(16,357)	134,394
Balance, November 30, 2021	<b>\$ (284,724)</b>	<b>\$ (40,455)</b>	<b>\$ (62,339)</b>	<b>\$ 154,442</b>	<b>\$ (233,076)</b>

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 non-operating income (loss) using the following inputs:

<b>Financial asset / financial liability</b>	<b>Valuation technique</b>	<b>Significant unobservable input</b>	<b>Inputs</b>
APHA Convertible debentures	Black-Scholes	Volatility, expected life	70%
Warrant liability	Black-Scholes	Volatility, expected life	2.5 years
Contingent consideration	Discounted cash flows	Discount rate, achievement	70%
Debt securities classified under available-for-sale method	Black-Scholes	Interest rate, conversion	3.8 years
			100%
			20%
			0% to 60%

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 23. Segment reporting

The Company operates in four reporting segments. 1) cannabis operations, which encompasses the production, distribution and sale 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. While the Company reported "business under development" as a fifth segment in its previous Annual Report, management determined that this no longer met the definition of a reporting segment.

Segment net revenue from external customers:

	For the three months ended November 30,		For the six months ended November 30,	
	2021	2020	2021	2020
Cannabis business	\$ 58,775	\$ 54,766	\$ 129,224	\$ 105,968
Distribution business	68,869	73,983	136,055	140,271
Beverage alcohol business	13,707	710	29,168	710
Wellness business	13,802	—	28,729	—
Total	<u>\$ 155,153</u>	<u>\$ 129,459</u>	<u>\$ 323,176</u>	<u>\$ 246,949</u>

Segment gross profit from external customers:

	For the three months ended November 30,		For the six months ended November 30,	
	2021	2020	2021	2020
Cannabis business	\$ 13,516	\$ 25,134	\$ 43,774	\$ 50,561
Distribution business	7,632	9,720	15,528	19,238
Beverage alcohol business	7,786	429	16,585	429
Wellness business	3,832	—	7,834	—
Total	<u>\$ 32,766</u>	<u>\$ 35,283</u>	<u>\$ 83,721</u>	<u>\$ 70,228</u>

Channels of Cannabis revenue were as follows:

	For the three months ended November 30,		For the six months ended November 30,	
	2021	2020	2021	2020
Revenue from Canadian medical cannabis products	\$ 7,929	\$ 6,260	\$ 16,303	\$ 12,640
Revenue from Canadian adult-use cannabis products	49,535	58,175	119,128	115,123
Revenue from wholesale cannabis products	2,259	1,440	3,959	5,232
Revenue from international cannabis products	13,706	4,280	23,972	4,280
Less excise taxes	(14,654)	(15,389)	(34,138)	(31,307)
Total	<u>\$ 58,775</u>	<u>\$ 54,766</u>	<u>\$ 129,224</u>	<u>\$ 105,968</u>

Geographic net revenue:

	For the three months ended November 30,		For the six months ended November 30,	
	2021	2020	2021	2020
North America	\$ 72,443	\$ 54,475	\$ 162,986	\$ 105,667
EMEA	74,916	73,714	150,925	138,791
Rest of World	7,794	1,270	9,265	2,491
Total	<u>\$ 155,153</u>	<u>\$ 129,459</u>	<u>\$ 323,176</u>	<u>\$ 246,949</u>

Geographic capital assets:

	November 30, 2021	May 31, 2021
North America	\$ 467,646	\$ 504,575
EMEA	132,666	140,838
Rest of World	3,937	5,285
Total	<u>\$ 604,249</u>	<u>\$ 650,698</u>

Major customers are defined as customers that each individually account for greater than 10% of the Company's annual revenues. For the three and six months ended November 30, 2021 and 2020, there were no major customers representing greater than 10% of our annual revenues.

#### Note 24. Subsequent Events

On December 1, 2021, the Company acquired all the membership interests in Cheese Grits, LLC, a Georgia limited liability company that owns the SweetWater Brewing Company brewery and taproom in Atlanta, Georgia (the "SW Acquisition"), which facility was previously leased to the Company. As consideration for the SW Acquisition, the Company paid a purchase price at closing equal to \$30,665, which purchase price was satisfied through the assumption of outstanding debt as well as the issuance of 843,687 shares of Tilray's Class 2 common stock with a fair value of \$8,741. On December 17, 2021, the Company issued an additional 82,224 Class 2 common shares with a fair value at issuance of \$776 to satisfy its contractual obligations under the SW Acquisition.

On December 7, 2021, the Company acquired all the membership interests in Double Diamond Distillery LLC (d/b/a Breckenridge Distillery), a Colorado limited liability company and a leading distilled spirits brand located in Breckenridge, Colorado, widely known for its award-winning bourbon whiskey collection and innovative craft spirits portfolio (the "Breckenridge Acquisition"). As consideration for the Breckenridge Acquisition, the Company paid a purchase price in an aggregate amount equal to \$102,900, which purchase price was satisfied through the issuance of 11,245,511 shares of Tilray's Class 2 common shares.

On December 7, 2021, the Company entered into the Second Amendment to Credit Agreement (the "Amendment") with the Bank of Montreal (as amended, the "Credit Agreement"). The Amendment reduced our total outstanding long-term debt under the Credit Agreement to \$79,375 and increased our current line of credit to \$30,000. On December 7, 2021, the Company drew \$10,000 borrowed on the line of credit.

On December 17, 2021, the Company acquired certain assets from WC IPA LLC, consisting of certain intellectual property, inventory and other assets relating to the Alpine and Green Flash brands (the "Alpine Acquisition"). As consideration for the Alpine Acquisition, the Company paid a purchase price in an aggregate amount equal to \$5,133, which purchase price was satisfied through the payment of cash and the issuance of 366,308 shares of Tilray's Class 2 common shares with a fair value of \$3,000.

## **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 Consolidated Financial Statements and the related Notes thereto for the period ended November 30, 2021 contained in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended May 31, 2021. 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 New York, New York with the largest global geographic footprint in the industry; including operations in Canada, the United States, Europe, Australia, New Zealand and Latin America that is changing people's lives for the better – one person at a time – by inspiring and empowering the worldwide community to live their very best life by providing them with products that meet the needs of their mind, body, and soul and invoke a sense of wellbeing. Tilray's mission is to be the trusted partner for its patients and consumers by providing them with a cultivated experience and health and wellbeing through high-quality, differentiated brands and innovative products.

In the pursuit of our strategic vision and mission, we continue to leverage our scale, expertise and capabilities to drive brand awareness and market share in Canada, Europe, the United States and the rest of world, achieve industry-leading, profitable growth and build sustainable, long-term stockholder value. In order to ensure the long-term sustainable growth of our Company, we continue to focus on developing strong capabilities, including in consumer and patient insights, drive category management leadership and assess growth opportunities with the introduction of innovative new products and the entry into new markets. In addition, we are relentlessly focused on managing our cost of goods and expenses in order to maintain our strong financial position and expand our profit margins.

On April 30, 2021, upon consummation of the arrangement with Aphria Inc. ("Aphria") pursuant to a plan of arrangement under the Business Corporations Act (Ontario) (the "Arrangement"), Aphria stockholders and Tilray stockholders owned approximately 61.2% and 38.8%, respectively, of the post-closing outstanding Tilray common stock resulting in the reverse acquisition of Tilray, whereby Tilray is the legal acquirer and Aphria is the acquirer for accounting purposes. Accordingly, as reported in our Annual Report and in this Form 10-Q, the assets and liabilities of Aphria are presented at their historical carrying values and the assets and liabilities of Tilray are recognized on the effective date of the business combination transaction and measured at fair value. The operating results for the comparable period, the three and six months ended November 30, 2020, are of those of Aphria. In conjunction with the reverse acquisition, the Company elected to adopt Aphria's fiscal year of June 1 to May 31.

Prior to the completion of the Arrangement, our condensed consolidated financial statements were presented under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and in Canadian Dollars (C\$). All prior periods have been recast and are shown in this Form 10-Q under GAAP and in United States Dollars (\$).

### **Trends and Other Factors Affecting Our Business**

#### *Market Dynamics.*

Our cannabis business reporting segment operates in an industry that is still in its early stages of development. In Canada, the industry celebrated its third year of adult-use legalization in October 2021. As the industry continues to mature, there are a number of new entrants into the industry, which has led to increased competition. This competitive environment in the Canadian cannabis industry subjects us to the risk of loss of market share, price discounting by competitors, and to the challenge of acquiring new customers amidst the evolving market changes. The number of licenses granted, and the number of licensed producers ultimately authorized by Health Canada could have an adverse impact on our ability to compete for market share in Canada. During the three months ended November 30, 2021, we maintained our market leadership within Canada but experienced a decline in market share percent to 12.8% from the 15.7% market share we maintained at May 31, 2021. Prior to the end of our fiscal second quarter, the Company was primarily focused on margin maintenance in Canada. With the current market dynamics and the Company's cost advantages, the Company adjusted its focus to be more price competitive in the value, mainstream and premium plus market categories, particularly, in vape and pre-rolled products. Management continues to explore key partnerships and acquisitions as a strategy to maintain and expand our market share position.

The cannabis industry in Europe is also 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 broadly legalize adult-use cannabis (Germany, Portugal, Luxembourg and Malta), 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 COVID-19 pressure, cannabis legalization (both medicinal and adult-use) will continue to gain traction, especially following actions of the Maltese and German governments. We also continue to believe that Tilray remains uniquely positioned to win in these markets with its infrastructure being the only company with EU-GMP cultivation facilities in two countries within Europe and our demonstrated commitment to the consistency, quality and safety of our products. Today, Germany remains the largest medical cannabis market in Europe. We are the market leader in medical cannabis within Germany with a market share of approximately 19.7% with our dried flower, extracts and Dronabinol products.

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

*Germany.* The new coalition government led by chancellor Olaf Schulz declared its intention to legalize adult-use cannabis use, which aims to regulate the sale of adult-use cannabis.

*Malta.* In December 2021, Malta now allows its citizens to grow up to six plants at home, possess up to seven grams for personal use, establish a dedicated government authority, and allows the creation of social cannabis clubs. Although commercial sales are still forbidden, such achievement marks an important cornerstone for the cannabis industry in Europe.

*Luxemburg.* The government stated intentions to legalize adult-use cannabis in October 2021, thereby allowing cultivation, possession, and sale of seeds. However, legislation delays are due to the COVID-19 pandemic. The Luxemburg government has refined its draft bill, which we believe will be enacted in calendar year 2022.

*Italy.* Cannabis activists successfully set up a referendum to decriminalize domestic cannabis cultivation and remove penalties for cannabis possession through the amendment of several articles of narcotics law, which may come to a vote in calendar year 2022.

*Portugal.* There are currently two draft bills to allow for the consumption, cultivation, and possession of cannabis for adult use.

*Switzerland.* In October 2021, Switzerland announced its intention to legalize cannabis by allowing production, cultivation, trade, and consumption. In the meantime, Zurich, Switzerland's largest city, will be the location of a three-year pilot project starting in the Fall 2022 to conduct scientific studies on the cannabis market and its impact on Swiss society.

*The Netherlands.* The Dutch government aims to initiate an experiment involving the cultivation of cannabis for adult use to determine whether and how regulated cannabis can be legally supplied to coffee shops and what the resulting effects.

*Spain.* A subcommittee on cannabis was recently created and will commence its work in early February 2022 on a report leading the way for a government sponsored bill on medical cannabis.

*France.* France launched a two-year pilot experiment to supply approximately 3,000 patients with medical cannabis. To date, approximately 1,000 patients are enrolled in the experiment.

*United Kingdom.* Medical cannabis is legal in the United Kingdom, however, there is a need to maximize both clinical research and patient benefit in a safe, cautious and ethical manner so that those patients for whom medical cannabis is shown to be effective can access it. Currently, a new piece of legislation is in discussion, which aims to improve access to cannabinoid-based medicine through two measures: (1) expanding the ability to prescribe these products to General Practitioners (GPs) who are registered with the General Medical Council and (2) establishing a commission for the assessment of cannabinoid-based medicinal products.

#### *Acquisitions and synergies.*

We have grown, and expect to continue to grow, our business through a combination of organic growth and acquisition. While we continue to execute against our strategic initiatives that we believe will result in long-term, sustainable growth, we also evaluate potential acquisitions and other strategic transactions of businesses that we believe complement our existing businesses or provide us with the opportunity to enter attractive new geographic markets and/or expand our products portfolio and capabilities. We incur transaction costs in connection with identifying and completing acquisitions as well as ongoing integration costs as we integrate acquired companies and seek to achieve synergies. For the six months ended November 30, 2021, we incurred \$33.7 million of transaction costs.

In connection with the Arrangement, we committed to achieving at least \$80 million of synergies in connection with the integration of Tilray and Aphria and developed a robust plan and timeline to achieve such synergies. In connection with the development of our integration plan, we evaluated and optimized the organizational structure, evaluated and retained the talent and capabilities we identified as necessary to achieve our longer-term growth plan and vision, evaluated contracts and arrangements, and evaluated our supply chain and our strategic partnerships. During the six months ended November 30, 2021, we have executed on a series of synergistic actions which included:

- We entered into a termination and settlement agreement with ABG Intermediate Holdings 2, LLC (“ABG”) and certain of its affiliates whereby we terminated the license to use certain trademarks and the obligation to pay associated royalties. Pursuant to this settlement agreement, we terminated \$6.6 million in remaining guaranteed royalty payments owed to ABG in exchange for the payment of a \$3.9 million termination fee.
- We concluded our joint venture relationship with AB InBev whereby we retained the manufacturing equipment associated with CBD and THC beverages, obtained a royalty-free, perpetual, worldwide license to utilize the technology related to the manufacture of CBD and THC beverages, which was developed by the joint venture and negotiated a co-manufacturing arrangement to manufacture CBD beverages on behalf of Fluent.
- We continued efforts to close down the legacy-Tilray Canadian facilities in Nanaimo and Enniskillen and integrate their forecasted demand into our Leamington facilities, thereby aligning our cost structure across our brands and products in Canada.

As of the date of this filing, we have achieved \$70 million in cost-savings on a run-rate basis and \$36 million in actual cash-savings.

During the six months ended November 30, 2021, we also executed on other strategic transactions, which completed after the end of our fiscal quarter ended November 30, 2021 but before the filing of this Form 10-Q, as follows (Refer to Part I, Financial Information, Note 24 *Subsequent Events*):

- The acquisition of Breckenridge Distillery, a leading distilled spirits brand located in Breckenridge, Colorado, widely known for its award-winning bourbon whiskey collection and innovative craft spirits portfolio. Breckenridge Distillery joins SweetWater Brewing Company as the cornerstones of Tilray’s beverage alcohol segment and further diversifies the company’s net revenue mix. In addition to acquiring a strong brand and accretive business, this strategic acquisition delivers additional scale in the beverage alcohol category and further positions Tilray with additional infrastructure and a larger footprint in the U.S. market upon federal cannabis legalization. When federally permissible, Tilray believes the acquisition of Breckenridge Distillery will enable us to commercialize new and innovative products through the development of non-alcoholic distilled spirits, including bourbon whisky, that is infused with cannabis.
- The purchase of the previously leased SweetWater Brewing facility and taproom located in Atlanta, Georgia, which provides SweetWater with ownership of its state-of-the-art brewing facility and integrated restaurant and live music venue.
- Building upon SweetWaters’s strategic plan to expand into all 50 states within the U.S., we acquired the Alpine and Green Flash brands, two iconic West Coast craft beer brands that boast award-winning brews. This strategic acquisition was completed shortly after SweetWater announced plans to move into a 32,450-square-foot production facility in Fort Collins, Co that it recently acquired, which also includes a 10,000-square-foot taproom. We believe that these initiatives, coupled with SweetWater’s new taproom inside Denver International Airport, will provide a launch pad for SweetWater to further distribute to the West Coast.

#### **The Coronavirus ("COVID-19") Pandemic, Its Impact on Us**

We continuously address the effects of the COVID-19 pandemic, a discussion of which is available in sections entitled “*Risk Factors*” in Item 1A of Part I and “*The Coronavirus ("COVID-19") Pandemic, Its Impact on Us*” in Item 7 of our Annual Report on Form 10-K for the fiscal year ended May 31, 2021.

During the three and six months ended November 30, 2021, our business operations experienced the following as result of the COVID-19 pandemic:

Our Canadian adult-use cannabis business continued to experience the effect of the changes in consumer demand that were established during the onset of COVID-19 pandemic and periods of lockdown. As we have previously reported, consumers shifted their demand behavior to purchasing elections based primarily on pricing. This consumer model of purchasing eroded the sales of our higher quality, higher priced brands resulting in our market share reduction during the period. Our Canadian medical cannabis business experienced a slight uptick in patient demand. Our international cannabis business continued to experience delays from regulatory authorities overseeing access to medical cannabis in several European jurisdictions. In accessible markets, the access to physician practices remains limited due to protective measures in place throughout Germany, slowing down the adoption of cannabis as an innovative treatment option. Our distribution business experienced slight improvement in the global supply chain disrupted by the COVID-19 pandemic resulting in a modest increase in net revenue in its base currency but due to the weakening of the US dollar against the Euro resulted in a decrease in sales from the prior year's comparable period. Our beer and alcohol business continues to see a decline in on-premise business primarily as the on-premise industry dealt with a lack of staffing and a change demand pattern related to after work alcohol consumption. The continued impact of the COVID-19 pandemic has hampered revenue growth in our main consumer facing markets. Within the hemp food segment of our business, we continue to navigate the changes with growth in ecommerce and "click + pickup" channels offsetting declines in traditional retailer channels as consumer shopping behaviors shift.

Our business and operating results for the three and six months ended November 30, 2021 continue to be impacted by the COVID-19 pandemic, including Delta and Omicron variants. The COVID-19 pandemic remains highly volatile, and the responses of local governments based on numbers of new cases, disease severity, risk of reinfection, and vaccine performance continue are unpredictable. We cannot accurately predict the duration or extent of the impact of the COVID-19 virus. We will continue to assess our operations and will continue to consider the guidance of local governments throughout the world. If economic conditions caused by the pandemic do not recover as currently estimated by management or market factors currently in place change, there could be a further impact on our results of operations, financial condition and cash flows from operations.

## 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		Change	% Change	For the six months		Change	% Change
	November 30, 2021	2020			November 30, 2021	2020		
	\$ 1,55,153	\$ 1,29,459	\$ 25,694	20%	\$ 3,23,176	\$ 2,46,949	\$ 76,227	31%
Net revenue								
Cost of goods sold	1,22,387	94,176	28,211	30%	2,39,455	1,76,721	62,734	35%
Gross profit	32,766	35,283	(2,517)	(7%)	83,721	70,228	13,493	19%
Operating expenses:								
General and administrative	33,469	28,273	5,196	18%	82,956	54,245	28,711	53%
Selling	9,210	6,079	3,131	52%	16,642	11,896	4,746	40%
Amortization	29,016	4,208	24,808	590%	59,755	8,335	51,420	617%
Marketing and promotion	7,120	4,252	2,868	67%	12,585	9,177	3,408	37%
Research and development	515	225	290	129%	1,300	345	955	277%
Transaction costs	8,120	18,206	(10,086)	(55%)	33,699	20,664	13,035	63%
Total operating expenses	87,450	61,243	26,207	43%	2,06,937	1,04,662	1,02,275	98%
Operating loss	(54,684)	(25,960)	(28,724)	111%	(1,23,216)	(34,434)	(88,782)	258%
Interest expense, net	(9,940)	(4,832)	(5,108)	106%	(20,110)	(10,568)	(9,542)	90%
Non-operating (expense) income, net	64,750	(72,649)	1,37,399	(189%)	1,13,610	(86,008)	1,99,618	(232%)
Income (loss) before income taxes	126	(1,03,441)	1,03,567	(100%)	(29,716)	(1,31,010)	1,01,294	(77%)
Income taxes (recovery)	(5,671)	(14,192)	8,521	(60%)	(909)	(20,017)	19,108	(95%)
Net income (loss)	5,797	(89,249)	95,046	(106%)	(28,807)	(1,10,993)	82,186	(74%)

## Key Operating Metrics

We use the following key operating metrics 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 key operating metrics 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 November 30,		For the six months ended November 30,	
	2021	2020	2021	2020
Net cannabis revenue	\$ 58,775	\$ 54,766	\$ 1,29,224	\$ 1,05,968
Net beverage alcohol revenue	13,707	710	29,168	710
Distribution revenue	68,869	73,983	1,36,055	1,40,271
Wellness revenue	13,802	—	28,729	—
Cannabis gross margin	23%	46%	34%	48%
Cannabis adjusted gross margin	43%	46%	43%	48%
Beverage alcohol gross margin	57%	60%	57%	60%
Distribution gross margin	11%	13%	11%	14%
Wellness gross margin	28%	NA	27%	NA
Adjusted EBITDA	13,760	10,139	26,457	18,209
Cash and cash equivalents	3,31,783	1,48,205	3,31,783	1,48,205
Working capital	3,93,350	3,21,904	3,93,350	3,21,904
Free cash flow	(24,093)	(6,863)	(1,25,940)	(76,918)
Adjusted free cash flow	(15,973)	11,343	(69,430)	(56,254)

NA=This reporting segment did not exist in the prior year period. The related acquisition occurred thereafter.

## Segment Reporting

Management updated our reporting segments during the six months ended November 30, 2021. While the Company reported "business under development" as a fifth reporting segment in its previous Annual Report, management determined that this no longer met the definition of a reporting segment. Our reporting segments revenue is primarily comprised of revenues from our cannabis, distribution, beverage alcohol operations, and wellness, as follows:

(in thousands of U.S. dollars)	For the three months ended November 30,		Change 2021 vs. 2020	For the six months ended November 30,		Change 2021 vs. 2020
	2021	2020		2021	2020	
Cannabis business	\$ 58,775	\$ 54,766	\$ 4,009	7%	\$ 1,29,224	\$ 1,05,968
Distribution business	68,869	73,983	(5,114)	(7%)	1,36,055	1,40,271
Beverage alcohol business	13,707	710	12,997	NM	29,168	710
Wellness business	13,802	—	13,802	NM	28,729	—
Total net revenue	\$ 1,55,153	\$ 1,29,459	\$ 25,694	20%	\$ 3,23,176	\$ 2,46,949

Our geographic revenue is, as follows:

(in thousands of U.S. dollars)	For the three months ended November 30,		Change 2021 vs. 2020	For the six months ended November 30,		Change 2021 vs. 2020
	2021	2020		2021	2020	
North America	\$ 72,443	\$ 54,475	\$ 17,968	33%	\$ 1,62,986	\$ 1,05,667
EMEA	74,916	73,714	1,202	2%	1,50,925	1,38,791
Rest of World	7,794	1,270	6,524	514%	9,265	2,491
Total net revenue	\$ 1,55,153	\$ 1,29,459	\$ 25,694	20%	\$ 3,23,176	\$ 2,46,949

Our geographic capital assets are, as follows:

(in thousands of U.S. dollars)	November 30, 2021	May 31, 2021	2021 vs. 2020
North America	\$ 4,67,646	\$ 5,04,575	\$ (36,929) (7%)
EMEA	1,32,666	1,40,838	(8,172) (6%)
Rest of World	3,937	5,285	(1,348) (26%)
Total capital assets	<u>\$ 6,04,249</u>	<u>\$ 6,50,698</u>	<u>\$ (46,449) (7%)</u>

## Cannabis revenue

Cannabis revenue based on market channel is, as follows:

(in thousands of US dollars)	For the three months ended November 30,		Change 2021 vs. 2020	For the six months ended November 30,		Change 2021 vs. 2020
	2021	2020		2021	2020	
Revenue from Canadian medical cannabis products	\$ 7,929	\$ 6,260	\$ 1,669 27%	\$ 16,303	\$ 12,640	\$ 3,663 29%
Revenue from Canadian adult-use cannabis products	49,535	58,175	\$ (8,640) (15%)	1,19,128	1,15,123	\$ 4,005 3%
Revenue from wholesale cannabis products	2,259	1,440	\$ 819 57%	3,959	5,232	\$ (1,273) (24%)
Revenue from international cannabis products	13,706	4,280	\$ 9,426 220%	23,972	4,280	\$ 19,692 460%
Total cannabis revenue	<u>73,429</u>	<u>70,155</u>	<u>\$ 3,274 5%</u>	<u>1,63,362</u>	<u>1,37,275</u>	<u>\$ 26,087 19%</u>
Excise taxes	(14,654)	(15,389)	\$ 735 (5%)	(34,138)	(31,307)	\$ (2,831) 9%
Total cannabis net revenue	<u>\$ 58,775</u>	<u>\$ 54,766</u>	<u>\$ 4,009 7%</u>	<u>\$ 1,29,224</u>	<u>\$ 1,05,968</u>	<u>\$ 23,256 22%</u>

**Revenue from Canadian medical cannabis products:** Revenue from Canadian medical cannabis products increased 27% to \$7.9 million and 29% to \$16.3 million for the three and six months ended November 30, 2021, compared to revenue of \$6.3 million and \$12.6 million for the prior year same periods. This increase in revenue from medical cannabis products is primarily driven by the contributions of legacy Tilray's medical cannabis business resulting from the business combination of April 30, 2021. The increase is also due to new innovative product launches, including our new brand Symbios launched earlier in the year, to address unmet medical needs and to provide patients with more choices in managing their health conditions with medical products. There has been some offset from downward pressure caused by the COVID-19 pandemic from patients unable or unwilling to see a doctor as well as increased competition from the adult-rec and the price compression therein.

**Revenue from Canadian adult-use cannabis products:** During the three and six months ended November 30, 2021, our gross revenue from Canadian adult-use cannabis product decreased 15% to \$49.5 million and increased 3% to \$119.1 million for the three and six months ended November 30, 2021 compared to revenue of \$58.2 million and \$115.1 million for the prior year same periods. The three month decreases in gross revenue is primarily due to a series of factors, as follows:

- We continued to experience the residual impact related to the COVID-19 pandemic in relation to consumer behaviors and to a much heavier focus on price;
- We continued to experience a shift in retail cannabis demand to price-based brands during the COVID-19 pandemic. The decline is primarily due to shifting consumer trends to price compression in the market, magnified by consumer behavior during the lockdowns; and
- We also experienced additional declines in average gross selling price due to increased price-based competition in the more recent months from increased competition in the market. During the three months ended November 30, 2021, we maintained our market leadership but experienced a decline in market share percent to 12.8% from 15.7% at May 31, 2021.

We continue to focus on expanding our product offerings to accommodate the changes in our adult-use customers. During the first quarter, we completed our first shipments to Nunavut. In the second quarter we expanded the terms of our distribution partnership with Rose LifeScience, which will now represent the entire Tilray portfolio; and expanded our partnership with Great North Distributors, Inc. to cover all of Canada, except for Quebec, using its established network.

The six months increase in gross revenue is attributable to the inclusion of Tilray legacy products in our brand portfolio offerings.

**Wholesale cannabis revenue:** Revenue from wholesale cannabis products increased 57% to \$2.3 million and decreased 24% to \$4.0 million for the three and six months ended November 30, 2021 compared to revenue of \$1.4 million and \$5.2 million for the prior year same periods. The Company continues to believe that wholesale cannabis revenue will remain subject to quarter-to-quarter variability and is based on opportunistic sales.

**International cannabis revenue:** Revenue from international cannabis products increased 220% to \$13.7 million and 460% to \$24.0 million for the three and six months ended November 30, 2021 compared to revenue of \$4.3 million and \$4.3 million for the prior year same periods. The increase is due to the contributions of legacy Tilray's larger international cannabis business as well as newly obtained business to business transactions. In Europe, we believe that, despite continuing COVID-19 pressure, cannabis legalization (both medicinal and adult-use) will continue to gain traction, especially following actions of the German and Maltese governments. We also continue to believe that Tilray remains uniquely positioned to win in these markets with its infrastructure being the only company with EU-GMP cultivation facilities in two countries within Europe and our demonstrated commitment to the consistency, quality and safety of our products.

*Germany.* During the three and six months ended November 30, 2021, we continued to experience some deceleration in the growth of our business caused by the COVID-19 pandemic, which resulted in some patients unable or unwilling to see a doctor. Despite these impacts,

- We generated 16% revenue growth in connection with our medical cannabis extract products when compared to the prior quarter.
- We generated 10% revenue growth on our dried flower products when compared to the prior quarter.
- We are a market leader in medical cannabis within Germany with an overall market share of approximately 19.7% with our dried flower, extracts and Dronabinol products.

*Portugal.* We are the only approved medical cannabis product in the market, which is distributed through our distribution partners to medical stakeholders throughout Portugal.

*Luxembourg.* We were selected by the Luxembourg Ministry of Health as the exclusive supplier for the country's medical cannabis program for dried flower and oils.

*Switzerland.* We distribute our cannabinoid-based medical extract products to Suisse patients through our partner "Lehenmatt Apotheke".

*France.* We were selected as one of the four suppliers in a two-year pilot experiment to supply approximately 3,000 patients with medical cannabis.

*Italy.* We are one of five distributors licensed to import medical cannabis into the Italian medical cannabis market.

*United Kingdom.* In the quarter, we completed a shipment of a wide range of dried flower products with high, medium and balanced potencies into the UK medical cannabis market.

*Ireland.* We are one out of only three suppliers within the Irish market whose cannabinoid-based medical products are eligible for reimbursement.

*Australia.* We continue to strengthen the reputation of our Tilray medical brand whereby, through a contract with the Department of Health in Victoria, 90 children are now participating in a government funded seizure program utilizing our cannabinoid-based medical products, which will continue to the end of calendar year 2024.

## Distribution revenue

Revenue from Distribution operations decreased 7% to \$68.9 million and 3% to \$136.1 million for the three and six months ended November 30, 2021 compared to revenue of \$74.0 million and \$140.3 million for the prior year same periods. Included in distribution revenue is \$68.0 million and \$133.0 million of revenue from CC Pharma, and \$0.9 million and \$3.1 million of revenue from other distribution companies for the three and six months ended November 30, 2021 versus \$72.0 million and \$136.2 million from CC Pharma and \$2.0 million and \$4.1 million from other distribution companies, respectively, in the prior year same periods.

The decrease in revenue during the three-months ended November 30, 2021 is primarily due to the impact of changes in the exchange rate between the Euro and USD totaling a \$5.3 million reduction to the comparable prior period. Additionally, the decrease in revenue during the six-months ended November 30, 2021 was also the result of the negative impact of an isolated weather event in Densborn, Germany. Specifically, heavy flooding impacted CC Pharma and forced a business closure for approximately five days leading to a decrease in net revenue in the period of almost \$5.0 million.

#### **Beverage alcohol revenue**

Revenue from our Beverage operations increased to \$13.7 million and \$29.2 million for the three and six months ended November 30, 2021 compared to revenue of \$0.7 million for the prior year same periods. SweetWater operates on-premises, wholesale, and specialty sales. Revenues continued to be negatively affected by the COVID-19 pandemic impacting on-premise consumers. The increase is substantially related to our acquisition of SweetWater on November 20, 2020.

Earlier in the year, our beverage operations began operating our new brewing facility in Colorado and opened a new taproom at the Denver International Airport in connection with its strategic expansion initiative. In addition, we released an extensive new line of innovative products, including seltzers, as well as a new beer offering developed in collaboration with our Canadian cannabis Broken Coast brand and a new vodka soda offering developed in collaboration with our Canadian cannabis Riff brand as Tilray continues to strengthen its strategic position in the U.S. by expanding its presence through acquisitions and collaboration with other Tilray cannabis brands. This strategy of leveraging our growing portfolio of brands enables the company to launch THC-based product adjacencies upon federal legalization in the U.S.

#### **Wellness revenue**

Included in Wellness revenue is \$13.8 million and \$28.7 million from Manitoba Harvest, for the three and six months ended November 30, 2021. Manitoba Harvest was part of the assets acquired in the Arrangement. There are no comparable revenues in the prior year being presented.

## Gross profit, gross margin and adjusted gross margin for our reporting segments

Our gross profit and gross margin for the three and six months ended November 30, 2021 and 2020, is as follows:

(in thousands of U.S. dollars)	For the three months ended November 30,				For the six months ended November 30,				Change 2021 vs. 2020	% Change 2021 vs. 2020
			Change	% Change			Change	% Change		
	2021	2020	2021 vs. 2020		2021	2020	2021 vs. 2020			
<b>Cannabis</b>										
Revenue	\$ 73,429	\$ 70,155	\$ 3,274	5%	\$ 163,362	\$ 137,275	\$ 26,087	19%		
Excise taxes	(14,654)	(15,389)	735	(5%)	(34,138)	(31,307)	(2,831)	9%		
Net revenue	58,775	54,766	4,009	7%	129,224	105,968	23,256	22%		
Cost of goods sold	45,259	29,632	15,627	53%	85,450	55,407	30,043	54%		
Gross profit	13,516	25,134	(11,618)	(46%)	43,774	50,561	(6,787)	(13%)		
Gross margin	23%	46%	(23%)	(50%)	34%	48%	(14%)	(29%)		
Inventory valuation adjustments	12,000	—	12,000	(0%)	12,000	—	—	(0%)		
Adjusted gross profit (1)	25,516	25,134	382	10%	55,774	50,561	5,213	22%		
Adjusted gross margin (1)	43%	46%	10%	(3%)	43%	48%	22%	47%		
<b>Distribution</b>										
Revenue	\$ 68,869	\$ 73,983	\$ (5,114)	(7%)	\$ 136,055	\$ 140,271	\$ (4,216)	(3%)		
Excise taxes	—	—	—	NM	—	—	—	NM		
Net revenue	68,869	73,983	(5,114)	(7%)	136,055	140,271	(4,216)	(3%)		
Cost of goods sold	61,237	64,263	(3,026)	(5%)	120,527	121,033	(506)	(0%)		
Gross profit	7,632	9,720	(2,088)	(21%)	15,528	19,238	(3,710)	(19%)		
Gross margin	11%	13%	(2%)	(2%)	11%	14%	(2%)	(17%)		
<b>Beverage alcohol</b>										
Revenue	\$ 14,544	\$ 754	\$ 13,790	NM	\$ 31,027	\$ 754	\$ 30,273	NM		
Excise taxes	(837)	(44)	(793)	NM	(1,859)	(44)	(1,815)	NM		
Net revenue	13,707	710	12,997	NM	29,168	710	28,458	NM		
Cost of goods sold	5,921	281	5,640	NM	12,583	281	12,302	NM		
Gross profit	7,786	429	7,357	NM	16,585	429	16,156	NM		
Gross margin	57%	60%	(4%)	NM	57%	60%	(4%)	NM		
<b>Wellness</b>										
Revenue	\$ 13,802	\$ —	\$ 13,802	NM	\$ 28,729	\$ —	\$ 28,729	NM		
Excise taxes	—	—	—	NM	—	—	—	NM		
Net revenue	13,802	—	13,802	NM	28,729	—	28,729	NM		
Cost of goods sold	9,970	—	9,970	NM	20,895	—	20,895	NM		
Gross profit	3,832	—	3,832	NM	7,834	—	7,834	NM		
Gross margin	28%	—%	28%	NM	27%	—%	27%	NM		
<b>Total</b>										
Revenue	\$ 170,644	\$ 144,892	\$ 25,752	18%	\$ 359,173	\$ 278,300	\$ 80,873	29%		
Excise taxes	(15,491)	(15,433)	(58)	0%	(35,997)	(31,351)	(4,646)	15%		
Net revenue	155,153	129,459	25,694	20%	323,176	246,949	76,227	31%		
Cost of goods sold	122,387	94,176	28,211	30%	239,455	176,721	62,734	35%		
Gross profit	32,766	35,283	(2,517)	(7%)	83,721	70,228	13,493	19%		
Gross margin	21%	27%	(6%)	(1%)	26%	28%	(3%)	62%		
Inventory valuation adjustments	12,000	—	12,000	(0%)	12,000	—	—	(0%)		
Adjusted gross profit (1)	44,766	35,283	9,483	27%	95,721	70,228	25,493	36%		
Adjusted gross margin (1)	29%	27%	37%	2%	30%	28%	33%	118%		

(1) Gross profit (excluding inventory valuation adjustments) and gross margin percentage (excluding inventory valuation adjustments) are non-GAAP financial measures.

**Cannabis gross margin:** Gross margin decreased during the three and six months ended November 30, 2021 to 23% and 34% from 46% and 48% versus the prior year same periods, reflecting the addition of sales of Tilray brands that have higher costs to produce than our legacy brands and a non-cash inventory write down of \$12 million in November 2021. Significant efforts have been taken to reduce the Company's cultivation costs at its legacy Tilray Canadian facilities, including announcing the shutdown of both the Enniskillen and Nanaimo facilities. In the interim and until the inventory cultivated at these facilities work their way through inventory, we expect to report lower gross margins until all inventory is cultivated at legacy Aphria facilities. Our European operations continue to work to optimize the cost structure for their cannabis growing facilities, including working with the Canadian operations team, all in an effort to continually will lower our per unit costs.

**Distribution gross margin:** Gross margin of 11% and 11% for the three and six months ended November 30, 2021 slightly decreased versus the same periods in the prior year driven by increased costs as the Company's primary source of products were unable to ship during border closures and during periods of peak demand.

**Beverage alcohol gross margin:** Gross margin of 57% and 57% for the three and six months ended November 30, 2021 are in line with our expectations. We did not operate in this segment until the final week of the second quarter of the prior year.

**Wellness gross margin:** Gross margin of 28% and 27% for the three and six months ended November 30, 2021 are in line with our expectations and consistent with the preceding fiscal quarter. We acquired the wellness business in the Arrangement and did not operate in this segment during the same periods during prior year.

## Operating expenses

(in thousands of US dollars)	For the three months ended November 30,		Change 2021 vs. 2020	For the six months ended November 30,		Change 2021 vs. 2020
	2021	2020		2021	2020	
General and administrative	\$ 33,469	\$ 28,273	\$ 5,196	18%	\$ 82,956	\$ 54,245
Selling	9,210	6,079	3,131	52%	16,642	11,896
Amortization	29,016	4,208	24,808	590%	59,755	8,335
Marketing and promotion	7,120	4,252	2,868	67%	12,585	9,177
Research and development	515	225	290	129%	1,300	345
Transaction costs	8,120	18,206	(10,086)	(55%)	33,699	20,664
Total operating expenses	<u>\$ 87,450</u>	<u>\$ 61,243</u>	<u>\$ 26,207</u>		<u>\$ 206,937</u>	<u>\$ 104,662</u>
						<u>\$ 1,02,275</u>

Operating expenses are comprised of general and administrative, share-based compensation, selling, amortization, marketing and promotion, research and development, and transaction costs. These costs increased by \$26.2 million and \$102.3 million for the three and six months ended November 30, 2021 as compared to prior year same periods. This was primarily due to reporting full quarters of operating expenses for SweetWater and Tilray, including non-cash amortization charges associated with definite life intangible assets acquired and general and administrative expenses. The remaining increase is from transaction costs related to non-recurring expenses associated with our current acquisitions and evaluation of future potential acquisition, and one-time litigation costs associated with the acquired net assets.

## General and administrative costs

During the three and six months ended November 30, 2021, increased by 18% and 53% as compared to prior year same periods.

(in thousands of US dollars)	For the three months ended November 30,		Change 2021 vs. 2020	For the six months ended November 30,		Change 2021 vs. 2020
	2021	2020		2021	2020	
Executive compensation	\$ 2,237	\$ 2,711	\$ (474)	(17%)	\$ 5,327	\$ 4,961
Office and general	5,206	4,418	788	18%	17,973	8,839
Salaries and wages	8,149	8,821	(672)	(8%)	23,460	18,164
Stock-based compensation	8,253	5,489	2,764	50%	17,670	8,339
Insurance	4,995	2,904	2,091	72%	9,626	6,110
Professional fees	3,355	3,171	184	6%	6,068	6,106
Travel and accommodation	982	525	457	87%	1,774	1,252
Rent	292	234	58	25%	1,058	474
Total general and administrative costs	<u>\$ 33,469</u>	<u>\$ 28,273</u>	<u>\$ 5,196</u>	<u>18%</u>	<u>\$ 82,956</u>	<u>\$ 54,245</u>
						<u>\$ 28,711</u>
						<u>53%</u>

Executive compensation decreased in the three months and increased the six months ended November 30, 2021. The slight decrease in the three months compared to the prior period is primarily related to one-time changes in the overall compensation structure. The increase for the six month period compared to the prior period is primarily due to an increase in the number of directors and executive level personnel on our board of directors and executive management team, respectively, and an increase in base salaries commensurate with the increased complexity of our Company.

Office and general increased during the three and six months ended November 30, 2021 primarily due to reporting SweetWater and Tilray for the periods and the additional one-time costs associated with the upcoming closure of our Nanaimo facility.

Salaries and wages decreased in the three months and increased the six months ended November 30, 2021. The slight decrease from the prior period is primarily related to one-time changes in the overall compensation structure. The increase is primarily due to additions associated with new acquisitions from prior year. The Company's headcount increased to approximately 1,800 employees as a result of the Arrangement compared to 1,000 employees as of November 30, 2020.

The Company recognized stock-based compensation expense of \$8.3 million and \$17.7 million for the three and six months ended November 30, 2021 compared to \$5.5 million and \$8.3 million for the same periods in the prior year. The increase is primarily due to increased number of employees and the accelerated vesting of certain of our stock-based compensation awards tied to the Arrangement. Stock options are valued using the Black-Scholes valuation model and represents a non-cash expense, restricted share units ("RSUs") are valued based on the graded vesting and the grant date fair value.

Insurance expense for the three and six months ended November 30, 2021 increased due primarily to our directors and officers' insurance policy. This increase reflects an increase in premium rates, as the Company continued with legacy Tilray's rating history.

#### **Selling costs**

For the three months ended November 30, 2021, the Company incurred selling costs of \$9.2 million or 5.9% of revenue as compared to \$6.1 million and 4.2% of revenue in the prior year same period. For the six months ended November 30, 2021, the Company incurred selling costs of \$16.6 million or 5.1% of revenue as compared to \$11.9 million and 4.3% of revenue in the prior year same 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 increase in selling costs as a percent of revenue in both the three and six-month periods resulted from incurred costs associated with multiple distributors in the same location, which represent a duplication of costs that will be reduced upon achievement of synergies. The increase is mainly driven by the combination of legacy Tilray.

#### **Amortization**

The Company incurred non-production related amortization charges of \$29.0 million and \$59.8 million for the three and six months ended November 30, 2021 compared to \$4.2 million and \$8.3 million in the prior year same periods. The increase is associated with the amortization on the acquired definite life intangible assets from SweetWater and Tilray.

#### **Marketing and promotion costs**

For the three and six months ended November 30, 2021, the Company incurred marketing and promotion costs of \$7.1 million and \$12.6 million as compared to \$4.3 million and \$9.2 million in the prior year same periods. The increase is mainly driven by the combination of legacy Tilray.

#### **Research and development**

Research and development costs were \$0.5 million and \$1.3 million during the three and six months ended November 30, 2021 compared to \$0.2 million and \$0.3 million in the prior year same periods. These relate to external costs associated with the development of new products. Although the Company spends a significant amount on research and development, the majority of these costs remain in costs of sales, as the Company does not reclassify research and development costs related to the cost of products consumed in research and development activities.

#### **Transaction costs**

The three month decrease is associated with the closing of the SweetWater acquisition in the prior period. This six month increase is associated with the solicitation of shareholder votes supporting an increase in the number of authorized common stock shares, transaction closing costs related to the Arrangement, the MM Transaction and the evaluation of other potential acquisitions and one-time litigation costs.

## Non-operating (expense) income, net

Non-operating (expense) income is comprised of:

(in thousands of US dollars)	For the three months ended November 30,		Change 2021 vs. 2020	For the six months ended November 30,		Change 2021 vs. 2020		
	2021	2020		2021	2020			
Change in fair value of convertible debenture	\$ 56,353	\$ (70,683)	\$ 1,27,036	(180%)	\$ 95,723	\$ (70,343)	\$ 1,66,066	(236%)
Change in fair value of warrant liability	20,178	—	20,178	NM	37,713	—	37,713	NM
Foreign exchange loss	(10,180)	(3,371)	(6,809)	202%	(15,904)	(19,702)	3,798	(19%)
Loss on long-term investments	(1,833)	(399)	(1,434)	359%	(3,508)	(1,519)	(1,989)	131%
Gain from equity investees	—	—	—	NM	1,356	—	1,356	NM
Other non-operating (losses) gains, net	232	1,804	(1,572)	(87%)	(1,770)	5,556	(7,326)	(132%)
Total non-operating income (expense)	\$ 64,750	\$ (72,649)	\$ 1,37,399		\$ 1,13,610	\$ (86,008)	\$ 1,99,618	

For the three and six months ended November 30, 2021, the Company recognized a change in fair value of its APHA 24 convertible debentures of \$56.4 million and \$95.7 million, compared to a decrease in value of \$70.7 million and \$70.3 million for 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. Additionally, for the three and six months ended November 30, 2021 Company recognized a change in fair value of its warrants of resulting in a gain of \$20.2 million and \$37.7 million acquired as part of the Arrangement, also as a result of the decrease in our share price. Furthermore, for three and six months ended November 30, 2021 the Company recognized a loss of \$9.5 million and \$15.2 million, resulting from the changes in foreign exchange rates during the period, compared to losses of \$3.4 million and \$19.7 million for the prior year same periods, largely associated with the strengthening of the US dollar against the Canadian dollar. The remaining other losses relate to changes in fair value in the Company's convertible notes receivable and long-term investments.

## Use of Non-GAAP Measures

We have included in this report measures of financial performance that are not defined by GAAP. We believe that these measures provide useful information to investors and include these measures in other communications to investors. These non-GAAP measures include:

- gross profit (excluding inventory valuation adjustments),
- cannabis gross profit and margin (excluding inventory valuation adjustments),
- adjusted net income (loss),
- free cash flow,
- adjusted free cash flow, and
- adjusted EBITDA.

For each of these non-GAAP financial measures, we are providing below a reconciliation of the differences between the non-GAAP measure and the most directly comparable GAAP measure, an explanation of why our management and Board of Directors believe the non-GAAP measure provides useful information to investors and any additional purposes for which our management and Board of Directors use the non-GAAP measures. These non-GAAP measures should be viewed in addition to, and not in lieu of, the comparable GAAP measures.

All of these non-GAAP financial measures should be considered in addition, 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.

## Reconciliation of Non-GAAP Financial Measures to GAAP Measures

### Adjusted net income (loss) and adjusted EBITDA

	For the three months ended November 30,		Change 2021 vs. 2020	For the six months ended November 30,		Change 2021 vs. 2020		
	2021	2020		2021	2020			
Net income (loss)	\$ 5,797	\$ (89,249)	\$ 95,046	(106%)	\$ (28,807)	\$ (1,10,993)	\$ 82,186	(74%)
Adjusted net income (loss)	\$ (32,181)	\$ 8,500	\$ (40,681)	(479%)	\$ (82,970)	\$ 8,055	\$ (91,025)	(1,130%)
Adjusted EBITDA	\$ 13,760	\$ 10,139	\$ 3,621	36%	\$ 26,457	\$ 18,209	\$ 8,248	45%

### Adjusted net income (loss)

Adjusted net loss represents a non-GAAP financial measure that does not have any standardized meaning prescribed under GAAP and may not be comparable to similar measures presented by other companies. Adjusted net income is calculated as net (loss) income plus (minus) the unrealized loss (gain) on convertible debentures, a non-cash item, share-based compensation, foreign exchange (loss) gain, all non-cash items, and transaction costs, costs which will not necessarily continue in future periods depending on the frequency of additional M&A considered by the Company. It represents a measure management uses in evaluating operating results to reduce the impact of the volatility caused by fair value accounting of instruments associated with our capital structure, that have no impact on operations. The increase in adjusted net loss is primarily driven by higher net loss stemming from higher amortization costs associated with the definite lived assets acquired during the year, the additional general and administrative costs associated with Tilray for the full quarter and increased non-cash unrealized loss on changes to the fair value of our convertible debentures.

Adjusted net loss reconciliation:	For the three months ended November 30,		Change 2021 vs. 2020	For the six months ended November 30,		Change 2021 vs. 2020		
	2021	2020		2021	2020			
Net income (loss)	\$ 5,797	\$ (89,249)	\$ 95,046	(106%)	\$ (28,807)	\$ (1,10,993)	\$ 82,186	(74%)
Unrealized (gain) loss on convertible debentures	(56,353)	70,683	(1,27,036)	(180%)	(95,723)	70,343	(1,66,066)	(236%)
Foreign exchange loss (gain)	10,180	3,371	6,809	202%	15,904	19,702	(3,798)	(19%)
Change in fair value of warrant liability	(20,178)	—	(20,178)	NM	(37,713)	—	(37,713)	NM
Stock-based compensation	8,253	5,489	2,764	50%	17,670	8,339	9,331	112%
Inventory write down	12,000	—	12,000	NM	12,000	—	12,000	NM
Transaction costs	8,120	18,206	(10,086)	(55%)	33,699	20,664	13,035	63%
Adjusted net income (loss)	<u>\$ (32,181)</u>	<u>\$ 8,500</u>	<u>\$ (40,681)</u>		<u>\$ (82,970)</u>	<u>\$ 8,055</u>	<u>\$ (91,025)</u>	

### 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) income before income taxes, net interest expense, depreciation and amortization, equity in net loss of equity-method investees, inventory write downs, stock-based compensation, integration activities, transaction costs, unrealized currency gains and losses and other adjustments.

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 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 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 the period ended November 30, 2021, adjusted EBITDA increased primarily from favorable effects of new lines of business, offset by the inclusion of legacy Tilray's cannabis business, while we work to achieve our synergies plan, as follows:

Adjusted EBITDA reconciliation:	For the three months ended November 30,		Change 2021 vs. 2020	For the six months ended November 30,		Change 2021 vs. 2020		
	2021	2020		2021	2020			
Net income (loss)	\$ 5,797	\$ (89,249)	\$ 95,046	(106%)	\$ (28,807)	\$ (1,10,993)	\$ 82,186	(74%)
Income taxes	(5,671)	(14,192)	8,521	(60%)	(909)	(20,017)	19,108	(95%)
Interest expense, net	9,940	4,832	5,108	106%	20,110	10,568	9,542	90%
Non-operating expense (income), net	(64,750)	72,649	(1,37,399)	(189%)	(1,13,610)	86,008	(1,99,618)	(232%)
Amortization	37,471	12,031	25,440	211%	76,804	23,010	53,794	234%
Stock-based compensation	8,253	5,489	2,764	50%	17,670	8,339	9,331	112%
Facility start-up and closure costs	1,700	—	1,700	NM	7,900	—	7,900	NM
Lease expense	900	373	527	141%	1,600	630	970	154%
Inventory write down	12,000	—	12,000	NM	12,000	—	12,000	NM
Transaction costs	8,120	18,206	(10,086)	(55%)	33,699	20,664	13,035	63%
Adjusted EBITDA	<u>\$ 13,760</u>	<u>\$ 10,139</u>	<u>\$ 3,621</u>		<u>\$ 26,457</u>	<u>\$ 18,209</u>	<u>\$ 8,248</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:

- 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;
- Interest expense and loss on disposal of property and equipment to reflect ongoing operating activities;
- 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;
- 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, which has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and an important part of our compensation strategy;
- Non-cash inventory valuation adjustments;
- Non-cash loss from equity method investments;
- Costs incurred to start up new facilities and/or to close facilities in Nanaimo, Canada and Enniskillen, Canada;
- Lease expense;
- Non-cash inventory write down; and
- Transaction costs associated with current and future business acquisitions.

## 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 make acquisitions. We believe that existing cash, cash equivalents, short-term investments and cash generated by operations, together with access to external sources of funds, will be sufficient to meet our domestic and foreign capital needs in the foreseeable future.

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

	For the six months ended November 30,	
	2021	2020
Net cash used in operating activities	\$ (110,348)	\$ (53,662)
Net cash used in investing activities	\$ (15,592)	\$ (294,570)
Net cash (used in) provided by financing activities	\$ (28,047)	\$ 105,938
Effect on cash of foreign currency translation	\$ (2,696)	\$ 29,853
Cash and cash equivalents, beginning of period	\$ 488,466	\$ 360,646
Cash and cash equivalents, end of period	\$ 331,783	\$ 148,205
Decrease in cash and cash equivalents	\$ (156,683)	\$ (212,441)

### *Cash flows from operating activities*

The changes in net cash used in operating activities during the six months ended November 30, 2021 compared to the prior year same period is primarily related to payments associated with the Arrangement, income taxes at Aphria Diamond and accounts payable and accrued liabilities decreases in the period. This net cash used in operating activities was positively impacted by reductions in inventory and collections of accounts receivable.

### *Cash flows from investing activities*

The change in net cash used in investing activities in the first two fiscal quarters of 2022 as compared to the first two fiscal quarters of 2021 is primarily due to cash paid for the SweetWater acquisition in fiscal year 2021.

### *Cash flows from financing activities*

Cash used in financing activities in the first two fiscal quarters of 2022 as compared to the first two fiscal quarters of 2021 is primarily due to an early payment on SweetWater's term loan facility and the share capital financing completed in fiscal year 2021 that did not recur in fiscal year 2022.

### *Free cash flow and adjusted free cash flow*

Free cash flow and adjusted free cash flow are non-GAAP measures. Free cash flow is relevant to management and investors, because it represents the cash flow available to the Company to repay creditors or potentially make distributions to investors. The measure is comprised of two GAAP amounts deducted from each other which are net cash flow used in operating activities less investments, net of proceeds from disposals, in capital and intangible assets. Adjusted free cash flow removes the cash impact of acquisitions from free cash flow. Our free cash flow and adjusted free cash flow were, as follows:

Free cash flow	For the three months ended November 30,		Change 2021 vs. 2020	For the six months ended November 30,		Change 2021 vs. 2020
	2021	2020		2021	2020	
Net cash provided by (used in) operating activities	\$ (17,121)	\$ 2,438	\$ (19,559)	(802%)	\$ (1,10,348)	\$ (53,662)
Less: investments in capital and intangible assets, net	(6,972)	(9,301)	2,329	(25%)	(15,592)	(23,256)
Free cash flow	\$ (24,093)	\$ (6,863)	\$ (17,230)	251%	\$ (1,25,940)	\$ (76,918)
Cash expended related to acquisitions	8,120	18,206	(10,086)	(55%)	56,510	20,664
Adjusted free cash flow	\$ (15,973)	\$ 11,343	\$ (27,316)	(241%)	\$ (69,430)	\$ (56,254)

## **Subsequent Events**

Refer to Part I, Financial Information, Note 24 *Subsequent Events* of this interim report.

## **Off Balance Sheet Arrangements**

At November 30, 2021, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K that have had, or are likely to have, a material current or future effect on our consolidated financial statements.

## **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 Policies**

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 policies 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, 2021.

## **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 2 – 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 significant changes in market risk from those addressed in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2021 during the three months ended November 30, 2021. 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, 2021.

## **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 November 30, 2021, 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 legacy Tilray, which we acquired on April 30, 2021. Legacy Tilray represented 8.9% of our consolidated assets and 25.8% of our consolidated revenues as of and for the quarter ended November 30, 2021.

*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 legacy Tilray on April 30, 2021. The Company is in the process of reviewing the internal control structure of legacy Tilray and, if necessary, will make appropriate changes as it integrates legacy Tilray into the Company's overall internal control over financial reporting process.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

"Item 3. Legal Proceedings" of our Annual Report on Form 10-K for the fiscal year ended May 31, 2021 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 below.

#### Class Action Suits and Shareholder Derivative Suits – U.S. and Canada

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

On May 4, 2020, Ganesh Kasilingam filed a lawsuit in the U.S. District Court for the Southern District of New York, against Tilray, 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 alleged that Tilray and the individual defendants overstated the anticipated advantages of the Company's revenue sharing agreement with Authentic Brands Group ("ABG"), announced on January 15, 2019, and that the plaintiff suffered losses when Tilray's stock price dropped after Tilray recognized an impairment with respect to the ABG deal on March 2, 2020.

On September 27, 2021, the U.S. District Court entered an Opinion & Order granting the Defendants' motion to dismiss the complaint in the Kasilingam litigation. On December 3, 2021, the lead plaintiff filed a second amended complaint alleging similar claims against Tilray and Brendan Kennedy. The Defendants intend to file a motion to dismiss this amended complaint as well.

##### *Tilray, Inc. Reorganization Litigation (Delaware, New York)*

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

On March 4, 2020, the Delaware Court of Chancery entered an order consolidating the two cases and designating the complaint in the Braun/Noorian action as the operative complaint. The operative complaint asserts claims for breach of fiduciary duty against Brendan Kennedy, Christian Groh, Michael Blue, and Privateer Evolution, LLC (the "Privateer Defendants") for alleged breaches of fiduciary duty in their alleged capacities as Tilray's controlling stockholders and against Kennedy, Maryscott Greenwood, and Michael Auerbach for alleged breaches of fiduciary duties in their capacities as directors and/or officers of Tilray in connection with the prior merger of Privateer Holdings, Inc. with and into a wholly owned subsidiary (the "Downstream Merger"). The complaint alleges that the Privateer Defendants breached their fiduciary duties by causing Tilray to enter into the Downstream Merger and Tilray's Board to approve that Downstream Merger, and that Defendants Kennedy, Greenwood, and Auerbach breached their fiduciary duties as directors by approving the Downstream Merger. Plaintiffs allege that the Downstream Merger gave the Privateer Defendants hundreds of millions of dollars of tax savings without providing a corresponding benefit to Tilray and its minority stockholders and that the Downstream Merger unfairly transferred and extended Kennedy, Blue, and Groh's control over Tilray. On July 17, 2020, the plaintiffs filed an amended complaint asserting substantially similar claims. On August 14, 2020, Tilray and the Privateer Defendants moved to dismiss the amended complaint. At the February 5, 2021 hearing on Defendants' Motions to Dismiss, the Plaintiffs agreed that their perpetuation of control claims are moot and stated that they intend to move for a fee award in connection with those claims. On June 1, 2021, the Court denied Defendants' Motions to Dismiss the Amended Complaint.

In August 2021, the Company's Board of Directors established a Special Litigation Committee (the "SLC") of independent directors to re-assert director control and investigate the derivative claims in this litigation matter. The SLC has appointed the law firm Wilson Sonsini to assist the SLC with an ongoing investigation of the underlying claim and determine whether continued prosecution of such claims is in the best interests of the Company. The SLC has successfully moved to have the Plaintiff's discovery stayed during their investigation.

### Item 1A. Risk Factors.

"Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended May 31, 2021 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. There have been no material changes from the risk factors described in our Form 10-K.

- We are still completing our integration efforts following completion of the Arrangement between Tilray and Aphria on April 30, 2021 and may experience challenges fully achieving the expected benefits of the Arrangement.

- We face ongoing risks related to the ongoing COVID-19 pandemic. The impact of the Delta, Omicron and any new variants will continue to adversely impact our operations and adversely affect our business, results of operations and financial condition.
- Our business is dependent upon regulatory approvals and licenses, ongoing compliance and reporting obligations, and timely renewals.
- Government regulation is evolving, and unfavorable changes 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.
- We may not be able to successfully develop new products or commercialize such products.
- The long-term effect of the legalization of adult-use cannabis in Canada on the medical cannabis industry is unknown, and may negatively impact our medical cannabis business.
- United States regulations relating to hemp-derived CBD products are unclear and rapidly evolving, and changes may not develop in the timeframe or manner most favorable to our business objectives.
- 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.
- We are exposed to risks relating to the laws of various countries as a result of our international operations.
- Our strategic alliances and other third-party business relationships may not achieve the intended beneficial impact and expose us to risks.
- 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.
- 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 may not become the world's leading cannabis-focused consumer branded company with up to \$4 billion of revenue by 2024;
- We are subject to other risks generally applicable to our industry and the conduct of our business.

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

On October 13, 2021, 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 CAD\$34,300,000 (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 2,677,596 shares of its Class 2 common stock to DDH.

Effective November 10, 2021, Tilray entered into a termination and settlement agreement with ABG Intermediate Holdings 2, LLC (“ABG”) and certain of its affiliates. Pursuant to this settlement agreement, the Company issued 215,901 shares of its Class 2 common stock to ABG in exchange for the release of certain claims.

On December 1, 2021, the Company acquired all of the membership interests of Cheese Grits, LLC, a Georgia based company (the “SW Acquisition”) that owned the real estate utilized and previously leased by SweetWater Brewing Company. As consideration for the SW Acquisition, the Company paid a purchase price at closing equal to \$30,665,000, which was satisfied through the assumption of outstanding debt as well as the issuance of 843,687 shares of Tilray’s Class 2 common stock. On December 17, 2021, the Company issued an additional 82,224 Class 2 common shares as consideration for the SW Acquisition.

On December 7, 2021, the Company acquired all of the membership interests of Double Diamond Distillery LLC (d/b/a Breckenridge Distillery), a Colorado limited liability company (the “Breckenridge Acquisition”). As consideration for the Breckenridge Acquisition, the Company paid a purchase price in an aggregate amount equal to \$102,900,000, which purchase price was satisfied through the issuance of 11,245,511 shares of Tilray’s Class 2 common shares to the selling unitholders.

On December 17, 2021, the Company acquired intellectual property and inventory relating to the Alpine and Green Flash craft brew brands from WC IPA LLC (the “Alpine Acquisition”). As consideration for the Alpine Acquisition, the Company paid a purchase price in an aggregate amount equal to \$5,133,000 which purchase price was satisfied through the payment of cash and the issuance of 366,308 shares of Tilray’s Class 2 common shares.

Each of the foregoing issuances of Tilray’s Class 2 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.

**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
3.1*	<a href="#">Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Tilray, Inc. (filed on September 10, 2021)</a>
10.1*	<a href="#">Second Amendment to Credit Agreement with the Bank of Montreal, dated as of December 8, 2020, amended December 7, 2021</a>
31.1*	<a href="#">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.</a>
31.2*	<a href="#">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.</a>
32.1*	<a href="#">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.</a>
32.2*	<a href="#">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.</a>
101*	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 2021, 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 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.

## 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 Inc.

Date: January 10, 2022

By: /s/ Irwin D. Simon

**Irwin D. Simon**

**Chairman and Chief Executive Officer**

Date: January 10, 2022

By: /s/ Carl Merton

**Carl Merton**

**Chief Financial Officer**

**CERTIFICATE OF AMENDMENT OF  
THE AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION OF  
TILRAY, INC.**

The undersigned, for the purposes of amending the certificate of incorporation of Tilray, Inc., a Delaware corporation (the “**Corporation**”), does hereby certify that:

**ONE:** The original certificate of incorporation of the Corporation (the “**Original Certificate**”) was filed with the Secretary of State of the State of Delaware on January 24, 2018, thereby causing the Corporation to become organized and existing under and by virtue of the General Corporation Law of the State of Delaware, as amended (the “**DGCL**”).

**TWO:** The amended and restated certificate of incorporation of the Corporation (the “**First Amended and Restated Certificate**”), which amended and restated in its entirety the Original Certificate, was filed with the Secretary of State of Delaware on July 23, 2018.

**THREE:** The amended and restated certificate of incorporation of the Corporation (the “**Second Amended and Restated Certificate**”), which amended and restated in its entirety the First Amended and Restated Certificate, was filed with the Secretary of State of the State of Delaware on December 12, 2019.

**FOUR:** The certificate of retirement of Class 1 common stock of the Corporation (together with the Second Amended and Restated Certificate, the “**Existing Certificate**”), which amends certain provisions of the Second Amended and Restated Certificate, was filed with the Secretary of State of the State of Delaware on October 1, 2020.

**FIVE:** This amendment of the Existing Certificate shall become effective at the time of filing with Secretary of State of Delaware.

**SIX:** The text of Paragraph A of Article IV of the Existing Certificate is hereby amended and restated in its entirety to read as follows:

“A. The Company is authorized to issue three classes of stock to be designated, respectively, “Class 1 Common Stock,” “Class 2 Common Stock,” and “Preferred Stock.” The total number of shares that the Company is authorized to issue is Nine Hundred and Ninety Million (990,000,000) shares of which Two Hundred Thirty-Three Million Three Hundred Thirty-Three Thousand Three Hundred and Thirty-Three Million (233,333,333) shall be Class 1 Common Stock (the “Class 1 Common Stock”), Seven Hundred Forty-Six Million Six Hundred Sixty-Six Thousand Six Hundred Sixty-Seven (746,666,667) shares of which shall be Class 2 Common Stock (the “Class 2 Common Stock” and together with the Class 1 Common Stock, the “Common Stock”), and Ten Million (10,000,000) shares of which shall be Preferred Stock (the “Preferred Stock”). The Preferred Stock shall have a par value of \$0.0001 per share, the Class 1 Common Stock shall have a par value of \$0.0001 per share, and the Class 2 Common Stock shall have a par value of \$0.0001 per share.”

\* \* \* \*

---

**SEVEN:** The foregoing amendment to the Existing Certificate has been duly adopted by unanimous written consent of the Board of Directors of, and by a meeting of the stockholders of, the Corporation in accordance with the provisions of Sections 141 and 242 of the DGCL.

Tilray, Inc. has caused this Amendment to the Amended and Restated Certificate of Incorporation to be signed by its Global General Counsel on September 10, 2021.

**TILRAY, INC.**

/s/ Mitchell Gendel

Mitchell Gendel,  
Global General Counsel

**Exhibit 10.1**

THIS SECOND AMENDMENT TO CREDIT , dated as of December 7, 2021 (this “Agreement”) amends that certain Credit Agreement, dated as of December 8, 2020, as amended by that certain Agreement dated as of April 29, 2021 (as the same will be amended hereby and may be further amended, restated, supplemented or otherwise modified from time to time, the “Credit Agreement”), by and between, among others, BANK OF MONTREAL as Administrative Agent, (the “Administrative Agent”) FOUR TWENTY CORPORATION as Holdings (“Holdings”) and the Persons named herein as Guarantors.

WHEREAS, Holdings has requested that Lenders agree to certain amendments to the Loan Documents and Lenders are willing to agree to the amendments pursuant to the terms and subject to the conditions set forth herein.

NOW THEREFORE, in consideration of the foregoing and the agreements, provisions and covenants herein contained, the parties to this Agreement hereby agree, on the terms and subject to the conditions set forth herein, as follows:

1        Definitions. Unless otherwise defined in this Agreement (including the Recitals), capitalized terms used herein shall have the meaning given to them in the Credit Agreement.

2        Amendments. With effect from the Effective Date, the Credit Agreement will be amended by:

(a)        replacing Section 5.1(a), with:

“(a) (i) within 90 days after the end of each Fiscal Year from and including the Fiscal Year ending May 31, 2021, the reviewed annual financial statements for such Fiscal Year for Holdings and its Subsidiaries, containing a consolidated balance sheet of Holdings and its Subsidiaries as of the end of such Fiscal Year and the related consolidated statements of income or operations, changes in shareholder’s equity and cash flows (together with all footnotes thereto) of Holdings and its Subsidiaries for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all in reasonable detail, and (ii) within 90 days after the end of each Fiscal Year from and including the Fiscal Year ending May 31, 2022, a copy of the annual audited report for such Fiscal Year for Holdings and its Subsidiaries, containing a consolidated balance sheet of Holdings and its Subsidiaries as of the end of such Fiscal Year and the related consolidated statements of income or operations, changes in shareholder’s equity and cash flows (together with all footnotes thereto) of Holdings and its Subsidiaries for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all in reasonable detail and reported on by independent public accountants of nationally recognized standing (without a “going concern” or like qualification, exception or explanation and without any qualification or exception as to scope of such audit (other than any qualification, exception or explanation resulting from the impending maturity of any Indebtedness or any prospective or actual default under any financial covenant set forth in Article VI) to the effect that such financial statements present fairly in all material respects the financial condition and the results of operations of Holdings and its Subsidiaries for such

---

Fiscal Year on a consolidated basis in accordance with GAAP and that the examination by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards, together with a reasonably detailed management discussion and analysis with respect thereto;”

(b) replacing Section 5.1(b), with:

“(b) within 60 days after the end of each first, second and third Fiscal Quarter, an unaudited consolidated balance sheet of Holdings and its Subsidiaries as of the end of such Fiscal Quarter and the related unaudited consolidated statements of income oroperations, changes in stockholders’ equity and cash flows of Holdings and its Subsidiaries for such Fiscal Quarter and the then elapsed portion of such Fiscal Year, setting forth in each case in comparative form the figures for (i) the corresponding quarter and the corresponding portion of Holdings’ previous Fiscal Year and (ii) thecorresponding quarter as set out in the budget most recently delivered under Section 5.1(f), all in reasonable detail and prepared in accordance with GAAP, such consolidated statements to be certified by the chief executive officer, chief financial officer, treasurer or controller of Holdings as presenting fairly in all material respects the financial condition, results of operations, stockholders’ equity and cash flows of Holdings and its Subsidiaries in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes, together with a reasonably detailedmanagement discussion and analysis with respect thereto;”.

(c) Schedule 1.1 of the Credit Agreement is hereby deleted and replaced in its entirety withthe new Schedule 1.1 attached herein as Exhibit 1 to this Agreement.

3 Representations and Warranties. On the date of this Agreement and on the Effective Date, each Loan Party represents and warrants to the Finance Parties that: (a) it has the legal power and authority to execute and deliver this Agreement; (b) the Person executing this Agreement on its behalf has been duly authorized to execute and deliver the same and bind such Loan Party with respect to the provisions hereof; (c) the execution, delivery and performance by it of this Agreement will not conflict with, result in a violation of, or constitute a default under (i) any provision of its Organization Documents or other instrument binding upon such Loan Party, (ii) any law, governmental regulation, court decree or order applicable to such Loan Party, or (iii) any contractual obligation, agreement, judgment, license, order or permit applicable to or binding upon such Loan Party; (d) this Agreement constitutes a legal, valid and binding obligation of, and is enforceable against, each Loan Party in accordance with its terms, subject to the effects of bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors’ rights generally, and general equitable principles (whether considered in a proceeding in equity or at law); (e) after giving effect to this Agreement, no Default or Event of Default exists, nor will any occur immediately after the execution and delivery of this Agreement or by the performance or observance of any provision hereof, nor will any occur immediately after the Effective Date; (f) no Loan Party has any claim or offset against, or defense or counterclaim to, any

obligations or liabilities of such Loan Party under any Loan Document; and (g) each of the representations and warranties contained in the Loan Documents is true and correct in all material respects (without duplication of any materiality qualifier) as of the date hereof, except to the extent that such representations and warranties expressly relate to an earlier specified date, in which case such representations and warranties shall have been true and correct in all material respects (without duplication of any materiality qualifier) as of the date when made.

4        **Effective Date.** In this Agreement, “**Effective Date**” means the date on which the Administrative Agent has received the following documents and other evidence, in form and substance satisfactory to it:

(a)        this Agreement, duly executed and delivered by a duly authorized officer of each Loan Party which is a party to it;

(b)        there shall exist no Default or Event of Default and all representations and warranties of each Loan Party in the Loan Documents shall be true and correct in all material respects (without duplication of any materiality qualifier) with the same effect as though such representations and warranties had been made on and as of the Effective Date, except to the extent that such representations and warranties expressly relate to an earlier specified date, in which case such representations and warranties shall have been true and correct in all material respects (without duplication of any materiality qualifier) as of the date when made;

(c)        Holdings shall have paid to Administrative Agent (on behalf of the Lenders) an amendment fee in the amount of 0.05% of the total Commitment amount on the Effective Date;

(d)        customary written opinions of (i) DLA Piper LLP (US), and (ii) if Aphria is party to any transactions contemplated by this letter at the Effective Date, DLA Piper (Canada) LLP; and

(e)        a copy of any other authorization or other document, opinion or assurance which in the Administrative Agent’s commercially reasonable opinion is necessary (if it has notified Holdings accordingly) in connection with the entry into and performance of the transactions contemplated by this Agreement or for the validity and enforceability of any Loan Document contemplated by this Agreement.

5        **Loan Party Waiver.** Each Loan Party, by signing below, hereby waives and releases the Finance Parties from any and all claims, offsets, defenses and counterclaims of which such Loan Party is aware, such waiver and release being with full knowledge and understanding of the circumstances and effect thereof and after having consulted legal counsel with respect thereto.

6        **Entire Agreement.** This Agreement is a Loan Document, and together with the other Loan Documents, integrates all the terms and conditions mentioned herein or incidental hereto and supersedes all oral representations and negotiations and prior writings with respect to the subject matter hereof.

7        **Effect of Agreement.** Except as expressly set forth herein, this Agreement shall not by implication or otherwise limit, impair, constitute a waiver of, amend, or otherwise affect the rights and remedies of any Finance Party under any other Loan Documents, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the other Loan Documents, all of which are ratified and affirmed in all respects and shall continue in full force and effect. Except as expressly set forth herein, the Finance Parties expressly reserve, and do hereby expressly reserve, all rights, powers and remedies provided for in the Loan Documents or available by applicable law, whether now or hereafter existing, including, without limitation, all such rights, powers, and remedies available to the Finance Parties based upon an existing default or Event of Default. Nothing herein shall be deemed to entitle a Loan Party to a consent to, or a waiver, amendment, modification or other change of, any of the terms, conditions, obligations, covenants or agreements contained in the other Loan Documents in similar or different circumstances. This Agreement shall apply and be effective with respect to the matters expressly referred to herein. After the Effective Date, any reference to the Credit Agreement shall mean the Credit Agreement with such amendments effected hereby. Unless otherwise stated, references to Sections are to sections of the Credit Agreement.

8        Incorporation. Sections 11.5(b) to (d) (inclusive), 11.6, 11.8 and 11.10 are deemed incorporated into this Agreement with all necessary changes.

9        Governing Law. This Agreement and any claims, controversy, dispute or cause of action (whether in contract or tort or otherwise) based upon, arising out of or relating to this Agreement and the transactions contemplated hereby and thereby shall be construed in accordance with and be governed by the Law (without giving effect to the conflict of law principles thereof) of the State of New York.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first written above.

Borrowers:

**FOUR TWENTY CORPORATION, a**  
Delaware corporation, as a Borrower

By: /s/ Carl Merton  
Name: Carl Merton  
Title: CFO

**SWEETWATER BREWING COMPANY,  
LLC, a Georgia limited liability company, as a Borrower**

By: /s/ Carl Merton  
Name: Carl Merton  
Title: Director

**Signature Page to  
Second Amendment Letter (BMO/Sweetwater) (2021)**

US\_Active\118837451\V-5

---

SECOND AMENDMENT TO CREDIT AGREEMENT

Guarantors:

**FOUR TWENTY CORPORATION, a**  
Delaware corporation, as a Guarantor

By: /s/ Carl Merton  
Name: Carl Merton  
Title: CFO

**SWEETWATER BREWING COMPANY,**  
LLC, a Georgia limited liability company, as a Guarantor

By: /s/ Carl Merton  
Name: Carl Merton  
Title: Director

**Signature Page to**  
**Second Amendment Letter (BMO/Sweetwater) (2021)**

US\_Active\118837451\V-5

---

**SW BREWING COMPANY, LLC**, a  
Delaware limited liability company, as a Guarantor

By: /s/ Carl Merton  
Name: Carl Merton  
Title: Director

**Signature Page to  
Second Amendment Letter (BMO/Sweetwater) (2021)**

US\_Active\118837451\V-5

---

**BANK OF MONTREAL**, as a Lender

By: /s/ Allen Benjamin

Name: Allen Benjamin

Title: Managing Director

By: /s/ Rohit Lobo

Name: Rohit Lobo

Title: Senior Director

**BANK OF MONTREAL**, as Swing LineLender

By: /s/ Allen Benjamin

Name: Allen Benjamin

Title: Managing Director

By: /s/ Rohit Lobo

Name: Rohit Lobo

Title: Senior Director

**BANK OF MONTREAL**, as Issuing Bank

By: /s/ Allen Benjamin

Name: Allen Benjamin

Title: Managing Director

By: /s/ Rohit Lobo

Name: Rohit Lobo

Title: Senior Director

**BANK OF MONTREAL**, as AdministrativeAgent

By: /s/ Rohit Lobo

Name: Rohit Lobo

Title: Senior Director

**Signature Page to  
Second Amendment Letter (BMO/Sweetwater) (2021)**

By: /s/ Allen Benjamin  
Name: Allen Benjamin  
Title: Managing Director

**Signature Page to  
Second Amendment Letter (BMO/Sweetwater) (2021)**

US\_Active\118837451\V-5

---

**TRUIST BANK**, as a Lender

By: /s/ JC Boyanton

Name: JC Boyanton

Title: Senior Vice President

**Signature Page to  
Second Amendment Letter (BMO/Sweetwater) (2021)**

US\_Active\118837451\V-5

---

SECOND AMENDMENT TO CREDIT AGREEMENT

**Exhibit 1**

Schedule 1.1  
Commitment Amounts

<u>Lender</u>	<u>Revolving Commitment</u>	<u>Term Loan A Commitment</u>	<u>Share</u>
Bank of Montreal	\$20,000,000 <sup>1</sup>	\$52,916,666.67	66.67%
Truist Bank	\$10,000,000	\$26,458,333.33	33.33%
<b>Total</b>	<b>\$30,000,000<sup>2</sup></b>	<b>\$79,375,000</b>	<b>100.00%</b>

---

<sup>1</sup> Including Swing Line Commitment of \$3,000,000.

<sup>2</sup> Including the LC Commitment of \$3,000,000 (as well as, for greater certainty, the Swing Line Commitment of \$3,000,000).

**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, 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: January 10, 2022

By: /s/ Irwin D. Simon

**Irwin D. Simon**  
**Chairman and Chief Executive Officer**

**Exhibit 31.2**

**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, 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: January 10, 2022

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, Inc. (the “Company”) on Form 10-Q for the period ending November 30, 2021 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: January 10, 2022

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, Inc. (the “Company”) on Form 10-Q for the period ending November 30, 2021 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: January 10, 2022

By: /s/ Carl A. Merton

**Carl A. Merton**  
**Chief Financial Officer**