

**Item 8. Financial Statements and Supplementary Data.**

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All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and accompanying notes.

**Tilray, Inc.**  
Consolidated Statements of Financial Position  
(In thousands of U.S. dollars)

	May 31, 2021	May 31, 2020
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 488,466	\$ 360,646
Accounts receivable, net	87,309	37,931
Inventory	256,429	139,781
Prepays and other current assets	48,920	32,660
Convertible notes receivable	2,485	10,609
<b>Total current assets</b>	<b>883,609</b>	<b>581,627</b>
Capital assets	650,698	420,706
Right-of-use assets	18,267	5,356
Intangible assets	1,605,918	263,318
Goodwill	2,832,794	447,330
Interest in equity investees	8,106	—
Long-term investments	17,685	19,595
Other assets	8,285	—
<b>Total assets</b>	<b>\$ 6,025,362</b>	<b>\$ 1,737,932</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness	\$ 8,717	\$ 389
Accounts payable and accrued liabilities	212,813	112,411
Contingent consideration	60,657	—
Warrant liability	78,168	—
Current portion of lease liabilities	4,264	954
Current portion of long-term debt	36,622	6,141
<b>Total current liabilities</b>	<b>401,241</b>	<b>119,895</b>
<b>Long - term liabilities</b>		
Lease liabilities	53,946	4,227
Long-term debt	167,486	94,028
Convertible debentures	667,624	196,405
Deferred tax liability	265,845	48,446
Other liabilities	3,907	—
<b>Total liabilities</b>	<b>1,560,049</b>	<b>463,001</b>
<b>Commitments and contingencies (refer to Note 30)</b>		
	—	—
<b>Shareholders' equity</b>		
Common stock	46	24
Additional paid-in capital	4,792,406	1,366,736
Accumulated other comprehensive income (loss)	152,668	(5,434)
Deficit	(486,050)	(113,352)
<b>Total Tilray shareholders' equity</b>	<b>4,459,070</b>	<b>1,247,974</b>
Non-controlling interests	6,243	26,957
<b>Total shareholders' equity</b>	<b>4,465,313</b>	<b>1,274,931</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 6,025,362</b>	<b>\$ 1,737,932</b>

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

**Tilray, Inc.**

## Consolidated Statements of Loss and Comprehensive Loss

(In thousands of U.S. dollars, except share and per share amounts)

	For the years ended May 31,		
	2021	2020	2019
Net revenue	\$ 513,085	\$ 405,326	\$ 179,303
Cost of goods sold	389,903	309,273	135,792
Gross profit	123,182	96,053	43,511
Operating expenses:			
General and administrative	111,575	93,789	75,841
Selling	26,576	18,975	3,752
Amortization	35,221	15,138	9,550
Marketing and promotion	17,539	15,266	17,400
Research and development	830	1,916	1,052
Impairment	—	50,679	57,259
Transaction costs	63,612	4,299	17,588
Total operating expenses	255,353	200,062	182,442
Operating loss	(132,171)	(104,009)	(138,931)
Finance income (expense), net	(27,977)	(19,371)	5,259
Non-operating (expense) income, net	(184,838)	14,195	95,534
(Loss) income before income taxes	(344,986)	(109,185)	(38,138)
Income taxes (recovery)	(8,972)	(8,352)	(2,045)
Net (loss) income	<u>\$ (336,014)</u>	<u>\$ (100,833)</u>	<u>\$ (36,093)</u>
Total net income (loss) attributable to:			
Shareholders of Tilray Inc.	(367,421)	(102,540)	(25,037)
Non-controlling interests	31,407	1,707	(11,056)
Other comprehensive (loss) income, net of tax			
Foreign currency translation (loss) gain	156,649	(858)	(90)
Unrealized loss on convertible notes receivables	(3,824)	(5,476)	(2,570)
Total other comprehensive (loss) income, net of tax	152,825	(6,334)	(2,660)
Comprehensive (loss) income	(183,189)	(107,167)	(38,753)
Total comprehensive income (loss) attributable to:			
Shareholders of Tilray Inc.	(214,596)	(108,874)	(27,697)
Non-controlling interests	31,407	1,707	(11,056)
Weighted average number of common shares - basic	269,549,852	216,158,217	203,460,138
Weighted average number of common shares - diluted	269,549,852	216,158,217	203,460,138
Earnings (Loss) per share - basic	\$ (1.25)	\$ (0.47)	\$ (0.18)
Earnings (Loss) per share - diluted	<u>\$ (1.25)</u>	<u>\$ (0.47)</u>	<u>\$ (0.18)</u>

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

**Tilray, Inc.**
**Consolidated Statements of Changes in Equity**

(In thousands of U.S. dollars, except share amounts)

	Number of common shares	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Non- controlling interests	Total
Balance at May 31, 2018	176,143,413	\$ 18	\$ 795,134	\$ 2,954	\$ 1,781	\$ 13,828	\$ 813,715
Share issuance - June 2018 bought deal	18,300,341	2	185,967	—	—	—	185,969
Additional share issuance - Broken Coast acquisition	16,731	—	225	—	—	—	225
Share issuance - LATAM acquisition	13,139,992	1	207,122	—	—	21,889	229,012
Share issuance - warrants exercised	461,236	—	1,303	—	—	—	1,303
Share issuance - options exercised	2,205,945	—	3,854	—	—	—	3,854
Share issuance - DSUs exercised	86,324	—	—	—	—	—	—
Income tax recovery on share issuance cost	—	—	2,591	—	—	—	2,591
Share-based payments	—	—	29,028	—	—	—	29,028
Elimination of CTA on disposal	—	—	—	606	(606)	—	—
Non-controlling interests	—	—	—	—	—	7,138	7,138
Comprehensive income (loss) for the period	—	—	—	(2,660)	(25,037)	(11,056)	(38,753)
Balance at May 31, 2019	<u>210,353,982</u>	<u>\$ 21</u>	<u>\$ 1,225,224</u>	<u>\$ 900</u>	<u>\$ (23,862)</u>	<u>\$ 31,799</u>	<u>\$ 1,234,082</u>
Share issuance - January 2020 bought deal	11,771,068	1	74,394	—	—	—	74,395
Share issuance - debt settlement	15,806,989	2	58,232	—	—	—	58,234
Share issuance - options exercised	1,084,288	—	3,060	—	—	—	3,060
Share issuance - RSUs exercised	559,456	—	—	—	—	—	—
Share issuance - DSUs exercised	333,606	—	—	—	—	—	—
Share issuance - warrants exercised	642,296	—	858	—	—	—	858
Cancelled shares	(419,050)	—	(459)	—	459	—	—
Expired options	—	—	(11,924)	—	11,924	—	—
Expired warrants	—	—	(728)	—	728	—	—
Share-based payments	—	—	18,079	—	—	—	18,079
Nuuvera Malta acquisition	—	—	—	—	(61)	61	—
Non-controlling interests	—	—	—	—	—	(6,610)	(6,610)
Comprehensive income (loss) for the period	—	—	—	(6,334)	(102,540)	1,707	(107,167)
Balance at May 31, 2020	<u>240,132,635</u>	<u>\$ 24</u>	<u>\$ 1,366,736</u>	<u>\$ (5,434)</u>	<u>\$ (113,352)</u>	<u>\$ 26,957</u>	<u>\$ 1,274,931</u>
Share issuance - legal settlement	1,893,858	—	10,454	—	—	—	10,454
Share issuance - equity financing	14,610,496	2	103,535	—	—	—	103,537
Share issuance - SweetWater acquisition	8,232,810	1	65,888	—	—	—	65,889
Share issuance - contract settlement	1,165,861	1	21,370	—	—	(40,266)	(18,895)
Share issuance - Arrangement	179,635,973	18	3,204,888	—	—	—	3,204,906
Share issuance - options exercised	318,299	—	144	—	—	—	144
Share issuance - RSUs exercised	450,709	—	—	—	—	—	—
Share-based payments	—	—	19,391	—	—	—	19,391
Settlement of convertible notes receivable	—	—	—	5,277	(5,277)	—	—
Dividends paid to non-controlling interests	—	—	—	—	—	(11,855)	(11,855)
Comprehensive income (loss) for the period	—	—	—	152,825	(367,421)	31,407	(183,189)
Balance at May 31, 2021	<u>446,440,641</u>	<u>\$ 46</u>	<u>\$ 4,792,406</u>	<u>\$ 152,668</u>	<u>\$ (486,050)</u>	<u>\$ 6,243</u>	<u>\$ 4,465,313</u>

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

**Tilray, Inc.**

## Consolidated Statements of Cash Flows

(In thousands of U.S. dollars, except share amounts)

	For the year ended May 31,		
	2021	2020	2019
<b>Cash used in operating activities:</b>			
Net (loss) income for the year	\$ (336,014)	\$ (100,833)	\$ (36,093)
Adjustments for:			
Deferred income tax recovery	(24,873)	(13,305)	(5,833)
Unrealized foreign exchange loss (gain)	49,342	(451)	(194)
Amortization	67,832	35,669	17,210
Loss (gain) on sale of capital assets	(1,523)	8,075	(42)
Impairment	—	50,679	57,202
Loss on promissory notes receivable	—	9,698	—
Transaction costs associated with business acquisitions	59,917	—	11,660
Other non-cash items	3,025	(90)	242
Stock-based compensation	17,351	18,079	21,951
Loss (gain) on long-term investments & equity investments	1,624	24,295	(59,051)
Loss (gain) on convertible debentures	169,537	(53,611)	(36,630)
Change in non-cash working capital	(50,935)	(78,832)	(12,471)
Net cash used in operating activities	(44,717)	(100,627)	(42,049)
<b>Cash used in investing activities:</b>			
Proceeds from disposal of marketable securities	—	14,816	18,667
Investment in capital and intangible assets	(38,874)	(98,786)	(155,751)
Proceeds from disposal of capital and intangible assets	6,608	1,411	42
Promissory notes advances	(2,419)	—	(14,746)
Repayment of convertible notes receivable	5,752	19,396	6,466
Investment in long-term investments and equity investees	—	(451)	(54,724)
Proceeds from disposal of long-term investments and equity investees	8,430	19,570	83,343
Net cash acquired (paid) on business acquisitions	66,608	(25,902)	(17,814)
Net cash used in investing activities	46,105	(69,946)	(134,517)
<b>Cash provided by (used in) financing activities:</b>			
Share capital issued, net of cash issuance costs	102,550	74,395	185,969
Proceeds from warrants and options exercised	144	3,918	5,157
Proceeds from convertible debentures	—	—	343,607
Repayment of convertible debentures	—	(812)	—
Proceeds from long-term debt	102,798	60,944	21,053
Repayment of long-term debt	(64,559)	(8,114)	(8,601)
Repayment of lease liabilities	(1,058)	(126)	—
Increase in bank indebtedness	8,328	401	—
Amounts paid to non-controlling interest	(23,895)	—	—
Net cash used in financing activities	124,308	130,606	547,185
Effect of foreign exchange on cash and cash equivalents	2,124	(6,572)	(9,570)
Net increase (decrease) in cash and cash equivalents	127,820	(46,539)	361,049
Cash and cash equivalents, beginning of period	360,646	407,185	46,136
<b>Cash and cash equivalents, end of period</b>	<b>\$ 488,466</b>	<b>\$ 360,646</b>	<b>\$ 407,185</b>
<b>Supplementary disclosure of cash flow information</b>			
Cash paid during the year:			
Income taxes	\$ 5,623	\$ 2,649	\$ 4,878

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

## **Tilray, Inc.**

Notes to the Consolidated Financial Statements

(In thousands of U.S. dollars, except share and per share amounts)

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

Tilray, Inc., a Delaware corporation, and its wholly owned subsidiaries (collectively “Tilray”, the “Company”, “we”, “us” or the “Successor”) is a global medical cannabis research, cultivation, processing and distribution organization, and is one of the leading suppliers of adult-use cannabis in Canada. The Company also markets and distributes food products from hemp seed, offering a broad range of natural and organic hemp-based food products and ingredients that are sold through retailers and websites globally.

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

Under the terms of the Arrangement, stockholders of Aphria received 0.8381 (the “Exchange Ratio”) of a share of Tilray common stock for each Aphria share held. Tilray stockholders continued to hold their Tilray common stock, which remains outstanding. The Exchange Ratio resulted in Aphria stockholders and Tilray stockholders owning 61.2% and 38.8%, respectively, of the post-closing outstanding Tilray common stock (on a fully diluted basis), resulting in the reverse acquisition of Tilray under the acquisition method, whereby Aphria is deemed to be the acquiring entity from an accounting perspective. Following the completion of the Arrangement, Tilray is the consolidated parent of Aphria and the resulting company operates under the Tilray corporate name.

### **2. Basis of preparation**

The policies applied in these consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”).

Based on the determination that Aphria was the accounting acquirer in the Arrangement, Aphria’s historical financial statements became the historical financial statements of the Company. The acquired assets and liabilities of Tilray are included in the Company’s consolidated balance sheets as of April 30, 2021 and the results of its operations and cash flows are included in the Company’s consolidated statement of income (loss) and comprehensive income (loss) and cash flows for periods beginning after April 30, 2021. In conjunction with the reverse acquisition, the Company elected to adopt Aphria’s fiscal year end of June 1 to May 31.

Prior to April 30, 2021 Aphria was a foreign private issuer reporting its financial statements under International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standard Boards. These consolidated financial statements, for all periods, are presented in accordance with GAAP.

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. For the fiscal year ended May 31, 2021 the Company reported a consolidated net loss of \$336,014 and a consolidated net loss of \$100,833 and \$36,093 for the years ending May 31, 2020 and May 31, 2019, respectively.

For the years ended May 31, 2021, 2020 and 2019, the Company had cash flows used in operating activities of \$44,717, \$100,627 and \$42,049, respectively. As of May 31, 2021 and 2020, the Company had working capital of \$482,368 and \$ 461,732 respectively.

Current management forecasts and related assumptions support the view that the Company can adequately manage the operational needs of the business with the current cash on hand for the next twelve months from the date of issuance of these financial statements.

These financial statements reflect all adjustments, which, in the opinion of management, are necessary for a fair presentation of the Company's financial position and results of operations.

#### *Foreign currency*

These consolidated financial statements are presented in U.S. dollars ("USD"), which is the Company's reporting currency; however, the functional currency of the entities in these financial statements are their respective local currencies, including Canadian dollar, USD, Euro, Australian dollar, and Great Britain pound.

Foreign currency transactions are remeasured to the respective functional currencies of the Company's entities at the exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are remeasured to the functional currency at the foreign exchange rate applicable at the statement of financial position date. Non-monetary items carried at historical cost denominated in foreign currencies are remeasured to the functional currency at the date of the transactions. Non-monetary items carried at fair value denominated in foreign currencies are remeasured to the functional currency at the date when the fair value was determined. Realized and unrealized exchange gains and losses are recognized through profit and loss.

On consolidation, the assets and liabilities of foreign operations reported in their functional currencies are translated into USD, the Group's presentation currency, at period-end exchange rates. Income and expenses, and cash flows of foreign operations are translated into USD using average exchange rates. Exchange differences resulting from translating foreign operations are recognized in other comprehensive income (loss) and accumulated in equity.

### *Basis of consolidation*

Subsidiaries are entities controlled by the Company. Control exists when the Company either has a controlling voting interest or is the primary beneficiary of a variable interest entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The following is a list of the Company's operating subsidiaries:

<b>Subsidiaries</b>	<b>Jurisdiction of incorporation</b>	<b>Ownership interest</b>
Natura Naturals Inc.	Canada	100%
Tilray, Inc.	United States	100%
Manitoba Harvest USA LLC	United States	100%
Tilray Canada, Ltd.	Canada	100%
Dorada Ventures, Ltd.	Canada	100%
FHF Holdings Ltd.	Canada	100%
High Park Farms Ltd.	Canada	100%
Tilray Deutschland GmbH	Germany	100%
Pardal Holdings, Lda.	Portugal	100%
Tilray Portugal Unipessoal, Lda.	Portugal	100%
Tilray Australia New Zealand Pty. Ltd.	Australia	100%
Tilray Ventures Ltd.	Ireland	100%
Manitoba Harvest Japan K.K.	Japan	100%
High Park Holdings, Ltd.	Canada	100%
Fresh Hemp Foods Ltd.	Canada	100%
Natura Naturals Holdings Inc.	Canada	100%
National Cannabinoid Clinics Pty Ltd.	Australia	100%
Tilray Latin America SpA	Chile	100%
Tilray Portugal II, Lda.	Portugal	100%
High Park Gardens Inc.	Canada	100%
1197879 B.C. Ltd	Canada	100%
High Park Shops Inc.	Canada	100%
Privateer Evolution, LLC	United States	100%
Tilray France SAS	France	100%
High Park Holdings B.V.	Netherlands	100%
High Park Botanicals B.V.	Netherlands	100%
Broken Coast Cannabis Ltd.	British Columbia, Canada	100%
SweetWater Brewing Company, LLC	United States	100%
SweetWater Colorado Brewing Co.	United States	100%
ARA – Avanti Rx Analytics Inc.	Ontario, Canada	100%
FL Group S.r.l.	Italy	100%
ABP, S.A.	Argentina	100%
Aphria Germany GmbH	Germany	100%
Aphria RX GmbH	Germany	100%
CC Pharma GmbH	Germany	100%
CC Pharma Research and Development GmbH	Germany	100%
Aphria Wellbeing GmbH	Germany	100%
CC Pharma Luxemburg GmbH	Luxemburg	100%
ASG Pharma Ltd.	Malta	100%
ColCanna S.A.S.	Colombia	90%
CC Pharma Nordic ApS	Denmark	75%
1974568 Ontario Ltd.	Ontario, Canada	51%

Intragroup balances, and any unrealized gains and losses or income and expenses arising from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity.

A Variable Interest Entity (“VIE”) is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support, is structured such that equity investors lack the ability to make significant decisions relating to the entity’s operations through voting rights, or do not substantively participate in the gains and losses of the entity. Upon inception of a contractual agreement, the Company performs an assessment to determine whether the arrangement contains a variable interest in a legal entity and whether that legal entity is a VIE. The primary beneficiary has both the power to direct the activities of the VIE that most significantly impact the entity’s economic performance and the obligation to absorb losses or the right to receive benefits from the VIE entity that could potentially be significant to the VIE. Where the Company concludes it is the primary beneficiary of a VIE, the Company consolidates the accounts of that VIE. When the Company is not the primary beneficiary, the VIE is accounted for using the equity method and is included in equity method investments on the balance sheets. At May 31, 2021, 2020, and 2019, the Company had no consolidated VIEs. Refer to Note 13 *Interest in equity investees* for the Company’s VIEs accounted for using the equity method.

The Company regularly reviews and reconsiders previous conclusions regarding whether it is the primary beneficiary of a VIE. The Company also reviews and reconsiders previous conclusions regarding whether the Company holds a variable interest in a potential VIE, the status of an entity as a VIE, and whether the Company is required to consolidate such a VIE in the financial statements when a change occurs.

The Company treats transactions that do not result in a loss of control as equity transactions and generally no gain or loss is recognized. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to the owners of the Company.

#### *Equity method investments*

In accordance with ASC 323, *Investments – Equity Method and Joint Ventures*, investments in entities over which the Company does not have a controlling financial interest but has significant influence are accounted for using the equity method, with the Company’s share of earnings or losses reported in earnings or losses from equity method investments on the statements of net loss and comprehensive loss. Equity method investments are recognized initially at cost, which includes transaction costs. After initial recognition, the consolidated financial statements include the Company’s share of undistributed earnings or losses, and impairment, if any, until the date on which significant influence ceases.

If the Company’s share of losses in an equity investment equals or exceeds its interest in the entity, including any net advances, the group does not recognize further losses, unless it has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee.

Unrealized gains on transactions between the Company and its equity-method investees are eliminated only to the extent of the Company’s interest in these entities. Unrealized losses are also eliminated, except to the extent that the underlying asset is impaired.

### **3. Significant accounting policies**

The significant accounting policies used by the Company are as follows:

#### *Cash and cash equivalents*

Cash and cash equivalents are comprised of cash and highly liquid investments that are both readily convertible into known amounts of cash with original maturities of three months or less. Cash and cash equivalents include amounts held in United States dollar, Canadian dollar, Euro, Australian dollar, Great Britain pound, Colombian peso, Argentine peso, and corporate bonds, commercial paper, treasury bills and money market funds.

### *Accounts receivable*

The Company maintains an allowance for credit losses at an amount sufficient to absorb losses inherent in its accounts receivable portfolio as of the reporting dates based on the projection of expected credit losses. The Company applies the aging method to estimate the allowance for expected credit losses. The aging method is applied to accounts receivables at the business unit level to reflect shared risk characteristics, such as receivable type, customer type and geographical location. The aging method assigns accounts receivables to a level of delinquency and applies loss rates to each class based on historical loss experience. The Company also considers relevant qualitative and quantitative factors to assess whether historical loss experience should be adjusted to better reflect the risk characteristics of the current classes and the expected future loss. This assessment incorporates all available information relevant to considering the collectability of its current classes, including considering economic and business conditions, default trends, changes in its class composition, among other internal and external factors. The expected credit loss estimates are adjusted for current conditions and reasonable supportable forecasts.

As part of the Company's analysis of expected credit losses, it may analyze contracts on an individual basis in situations where such accounts receivables exhibit unique risk characteristics and are not expected to experience similar losses to the rest of their class.

### *Inventory*

Inventory consists of our cannabis, wellness, beverage, and distribution inventory, as follows:

Cannabis inventory consists of our plants, dried cannabis, cannabis trim, cannabis derivatives such as oils, and vape products. Cannabis inventory costs include pre-harvest, post-harvest, shipment and fulfillment, as well as costs related to accessories. Pre-harvest costs include labor and direct materials to grow cannabis, which includes water, electricity, nutrients, integrated pest management, growing supplies and allocated overhead. Post-harvest costs include costs associated with drying, trimming, blending, extracting, purifying, quality testing and allocated overhead. Shipment and fulfillment costs include the costs of packaging, labelling, courier services, and allocated overhead.

Wellness inventory cost includes hemp seeds, packaging and co-packing. Seed costs include commodity cost paid to farmers, genetic seed cost to provide and manage contracted farmers, hulling and processing costs, including labor and overhead. Packaging costs include packaging materials, labor and overhead to run machinery. Co-packing cost are generally for products not manufactured by the Company directly and would include all costs to produce the products.

Beverage inventory cost includes materials we incur to make and ship beer beverages. These costs include brewing materials, such as barley, hops and various grains. Packaging materials such as glass bottles, aluminum cans, cardboard and paperboard are also included in the cost of our beverage inventory. Additionally, our cost of goods sold include both direct and indirect labor, shipping and handling including freight costs, utilities, maintenance costs, warehousing costs, purchasing and receiving costs, amortization, promotional packaging, and other manufacturing overheads

Distribution inventory includes costs related to procurement of pharmaceutical products for re-sale in entities' respective markets.

Inventory is valued at the lower of cost and net realizable value, determined using weighted average cost. All direct and indirect costs related to inventory are capitalized as they are incurred, and they are subsequently recorded in cost of goods sold on the statements of loss and comprehensive loss at the time inventory is sold. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. At the end of each reporting period, the Company performs an assessment of inventory and records write-downs for excess and obsolete inventories based on the Company's estimated forecast of product demand, production requirements, market conditions, regulatory environment, and spoilage. Actual inventory losses may differ from management's estimates and such differences could be material to the Company's statements of financial position, statements of loss and comprehensive loss and statements of cash flows.

### *Capital assets*

Capital assets are recorded at cost, net of accumulated amortization and impairment, if any. Amortization for the properties included in our capital assets is calculated using the following terms and methods:

<b>Asset type</b>	<b>Depreciation method</b>	<b>Depreciation term (estimated useful life)</b>
Land	Not depreciated	No term
Production facility	Straight-line	20 – 30 years
Equipment	Straight-line	3 – 25 years
Leasehold improvements	Straight-line	Lesser of estimated useful life or lease term
Construction in progress	Not depreciated	No term
Finance lease right-of-use assets	Straight-line	Lesser of the lease term and the useful life of the leased asset

The estimated residual values and useful lives are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

When assets are retired or disposed of, the cost and accumulated amortization are removed from the respective accounts and any related gain or loss is recognized. Maintenance and repairs are charged to expenses as incurred. Significant expenditures, which extend the useful lives of assets or increase productivity, are capitalized. When significant parts of one of our capital assets have different useful lives, they are accounted for as separate items or components of capital assets.

Construction in progress includes construction progress payments, deposits, engineering costs and other costs directly related to the construction of the facilities. Expenditures are capitalized during the construction period and construction in progress is transferred to the relevant class of capital assets when the assets are available for use, at which point in time the amortization of the asset commences.

### *Intangible assets*

Intangible assets include intangible assets acquired as part of business combinations, asset acquisitions and other business transactions. The Company records intangible assets at cost, net of accumulated amortization and accumulated impairment losses, if any. Cost is measured based on the fair values of cash consideration paid and equity interests issued. The cost of an intangible asset acquired is its acquisition date fair value.

Amortization of definite life intangible assets is calculated on a straight -line basis over the estimated useful lives of the assets using the following terms:

<b>Asset type</b>	<b>Amortization term</b>
Customer relationships and distribution channel	14 – 16 years
Licences, permits & applications	90 months – indefinite
Brands, intellectual property and trademarks	15 months – 25 years
Non-compete agreements	Over term of non-compete
Know how	5 years

When there is no foreseeable limit on the period of time over which an intangible asset is expected to contribute to the cash flows of the Company, an intangible asset is determined to have an indefinite-lived. Indefinite-lived intangible assets are not amortized but tested for impairment annually or more frequently when indicators of impairment exist. If the carrying value of an individual indefinite-lived intangible asset exceeds its fair value, such individual indefinite-lived intangible asset is impaired by the amount of the excess.

The estimated useful lives are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

### *Impairment of long-lived assets*

The Company reviews long-lived assets, including capital assets and definite life intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In order to determine if assets have been impaired, assets are grouped and tested at the lowest level for which identifiable independent cash flows are available (“asset group”). An impairment loss is recognized when the sum of projected undiscounted cash flows is less than the carrying value of the asset group. The measurement of the impairment loss to be recognized is based on the difference between the fair value and the carrying value of the asset group. Fair value may be determined using a market approach or income approach. The reversal of impairment losses is prohibited.

### *Business combinations and goodwill*

The Company accounts for business combinations using the acquisition method in accordance with Accounting Standards Codification, ASC 805, *Business Combinations* which requires recognition of assets acquired and liabilities assumed, including contingent assets and liabilities, at their respective fair values on the date of acquisition.

Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates, with the corresponding gain or loss recognized in profit or loss.

Non-controlling interests in the acquiree are measured at fair value on acquisition date. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements).

Purchase price allocations may be preliminary and, during the measurement period not to exceed one year from the date of acquisition, changes in assumptions and estimates that result in adjustments to the fair value of assets acquired and liabilities assumed are recorded in the period the adjustments are determined.

Goodwill represents the excess of the consideration transferred for the acquisition of subsidiaries over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

### *Impairment of goodwill and indefinite-lived intangible assets*

Goodwill is allocated to the reporting unit in which the business that created the goodwill resides. A reporting unit is an operating segment, or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. We operate in five operating segments which are our reporting units, and goodwill is allocated at the operating segment level. The Company reviews goodwill and indefinite-lived intangible assets annually for impairment in the fourth quarter, or more frequently, if events or circumstances indicate that the carrying amount of an asset may not be recoverable.

### *Leases*

The Company determines if an arrangement is a lease at inception. The Company has operating and finance leases for facilities, office spaces, production equipment and vehicles. Operating leases are included in right-of-use (“ROU”) assets and finance lease ROU assets are included in capital assets in the statements of financial position. The lease liabilities are included in lease liabilities (current and non-current) in the statements of financial position.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets are classified as a finance lease or an operating lease. A finance lease is a lease in which:

- ownership of the property transfers to the lessee by the end of the lease term;
- the lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise;
- the lease is for a major part of the remaining economic life of the underlying asset;
- the present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already included in the lease payments equals or exceeds substantially all of the fair value; or
- the underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

The Company classifies a lease as an operating lease when it does not meet any one of these criteria.

The ROU asset is initially measured at cost, which is primarily comprised of the initial amount of the lease liability, plus initial direct costs and lease payments at or before the commencement date, less any lease incentives received. All ROU assets are reviewed periodically for impairment.

The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The incremental borrowing rate is defined as the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

For finance leases, lease expenses are the sum of interest on the lease obligations and amortization of the ROU assets. Finance lease ROU assets are amortized based on the lesser of the lease term and the useful life of the leased asset according to the capital asset accounting policy. If ownership of the ROU assets transfers to the Company at the end of the lease term or if the Company is reasonably certain to exercise a purchase option, amortization is calculated using the estimated useful life of the leased asset.

For operating leases, the lease expenses are generally recognized on a straight-line basis over the lease term and recorded to general and administrative expenses in the statements of loss and comprehensive loss.

The Company has elected to apply the practical expedient, for each class of underlying asset, to not separate non-lease components from the associated lease components of the lessee's contract and account for both components as a single lease component.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases (defined as leases with a lease term of 12 months or less that do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise). Short-term leases include real estate and vehicles and are not significant in comparison to the Company's overall lease portfolio. For these leases, the Company recognizes the leases as an operating expense on a straight-line basis over the term of the lease.

### *Convertible notes receivable*

Convertible notes receivables include various investments in which the Company has the right to convert the indenture into common stock shares of the investee and are classified as available-for-sale and are recorded at fair value. Unrealized gains and losses during the year, net of the related tax effect, are excluded from income and reflected in other comprehensive income (loss), and the cumulative effect is reported as a separate component of shareholders' equity until realized. The Company assesses its convertible notes receivables for impairment at each measurement date. Convertible notes receivables are impaired when a decline in fair value is determined to be other-than-temporary. 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 loss and comprehensive 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).

### *Long-term investments*

Long-term investments include investments in equity securities of entities over which the Company does not have a controlling financial interest or significant influence and 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 is less than carrying values. Changes in value are recorded in non-operating income (loss).

### *Equity method investments*

Investments in entities over which the Company does not have a controlling financial interest but has significant influence, are accounted for using the equity method, with the Company's share of losses reported in loss from equity method investments on the statements of loss and comprehensive loss. Equity method investments are recorded at cost, plus the Company's share of undistributed earnings or losses, and impairment, if any, within interest in equity investees on the statements of financial position.

### *Convertible debentures*

The Company accounts for its convertible debentures in accordance with ASC 470-20 *Debt with Conversion and Other Options*, which requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement, to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. The initial proceeds from the sale of convertible notes are allocated between a liability component and an equity component in a manner that reflects interest expense at the rate of similar nonconvertible debt that could have been issued at such time. The equity component represents the excess initial proceeds received over the fair value of the liability component of the notes as of the date of issuance. The resulting debt discount is amortized over the period during which the convertible notes are expected to be outstanding as additional non-cash interest expenses.

Upon repurchase of convertible debt instruments, ASC 470-20 requires the issuer to allocate total settlement consideration, inclusive of transaction costs, amongst the liability and equity components of the instrument based on the fair value of the liability component immediately prior to repurchase. The difference between the settlement consideration allocated to the liability component and the net carrying value of the liability component, including unamortized debt issuance costs, would be recognized as gain (loss) on extinguishment of debt in the statements of loss and comprehensive loss. The remaining settlement consideration allocated to the equity component would be recognized as a reduction of additional paid-in capital in the statements of financial position.

For convertible debentures with an embedded conversion feature that did not meet the equity scope exception from derivative accounting pursuant to ASC 815-15, the Company elected the fair value option under ASC 825 *Fair Value Measurements*. When the fair value option is elected, the convertible debenture is initially recognized at fair value on the statements of financial position and all subsequent changes in fair value, excluding the impact of the change in fair value related to instrument-specific credit risk are recorded in non-operating income (loss). The changes in fair value related to instrument-specific credit risk is recorded through other comprehensive income (loss). Transaction costs directly attributable to the issuance of the convertible debenture is immediately expensed in the statements of loss and comprehensive loss.

#### *Warrants*

Warrants are accounted for in accordance with applicable accounting guidance provided in ASC 815 *Derivatives and Hedging – Contracts in Entity's Own Equity*, as either liabilities or as equity instruments depending on the specific terms of the warrant agreement. Warrants classified as liabilities are recorded at fair value and are remeasured at each reporting date until settlement. Changes in fair value is recognized as a component of change in fair value of warrant liability in the statements of loss and comprehensive loss. Transaction costs allocated to warrants that are presented as a liability were immediately expensed in the statements of loss and comprehensive loss. Warrants classified as equity instruments are initially recognized at fair value and are not subsequently remeasured.

#### *Fair value measurements*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying values of accounts receivable, prepaids and other current assets, bank indebtedness and accounts payable and accrued liabilities approximate their fair values due to their short periods to maturity. The Company calculates the estimated fair value of financial instruments, including convertible notes receivable, long-term investments, warrant liability, contingent consideration, and convertible debentures, using quoted market prices when available. When quoted market prices are not available, fair value is determined based on valuation techniques using the best information available and may include quoted market prices, market comparables, and discounted cash flow projections.

#### *Income taxes*

Income taxes are recognized in the consolidated statements of loss and comprehensive loss and are comprised of current and deferred taxes. Current tax is recognized in connection with income for tax purposes, unrealized tax benefits and the recovery of tax paid in a prior period and measured using enacted tax rates and laws applicable to the taxation period during which the income for tax purposes arose. Deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Management makes an assessment of the likelihood that a deferred tax asset will be realized, and a valuation allowance is provided to the extent that it is more likely than not that all or a portion of a deferred tax asset will not be realized.

The Company recognizes uncertain income tax positions at the largest amount that is more likely than not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. A change in the recognition or measurement of an unrealized tax benefit is reflected in the period during which the change occurs.

#### *Revenue*

Revenue is recognized when the control of the promised goods, through performance obligation, is transferred to the customer in an amount that reflects the consideration we expect to be entitled to in exchange for the performance obligations.

Excise taxes remitted to tax authorities are government-imposed excise taxes on cannabis and beer. Excise taxes are recorded as a reduction of sales in net revenue in the consolidated statements of operations and recognized as a current liability within accounts payable and other current liabilities on the consolidated balance sheets, with the liability subsequently reduced when the taxes are remitted to the tax authority.

In addition, amounts disclosed as net revenue are net of excise taxes, sales tax, duty tax, allowances, discounts and rebates.

In determining the transaction price for the sale of goods, the Company considers the effects of variable consideration and the existence of significant financing components, if any.

Some contracts for the sale of goods may provide customers with a right of return, volume discount, bonuses for volume/quality achievement, or sales allowance. In addition, the Company may provide in certain circumstances, a retrospective price reduction to a customer based primarily on inventory movement. These items give rise to variable consideration. The Company uses the expected value method to estimate the variable consideration because this method best predicts the amount of variable consideration to which the Company will be entitled. The Company uses historical evidence, current information and forecasts to estimate the variable consideration. The Company reduces revenue and recognizes a contract liability equal to the amount expected to be refunded to the customer in the form of a future rebate or credit for a retrospective price reduction, representing its obligation to return the customer's consideration. The estimate is updated at each reporting period date.

The Company may receive short-term advances from its customers. Using the practical expedient in ASC 606, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised good to a customer and when the customer pays for that good or service will be one year or less. The Company has not, nor expects to receive long-term advances from customers.

#### *Cost of goods sold*

Cost of goods sold represents costs directly related to manufacturing and distribution of the Company's products. Primary costs include raw materials, packaging, direct labor, overhead, shipping and handling, the amortization of manufacturing equipment and production facilities and tariffs. Manufacturing overhead and related expenses include salaries, wages, employee benefits, utilities, maintenance and property taxes. Cost of goods sold also includes inventory valuation adjustments. The Company recognizes the cost of goods sold as the associated revenues are recognized.

#### *General and administrative*

General and administrative expenses are comprised primarily of (i) personnel related costs such as salaries, benefits, annual employee bonus expense and stock-based compensation costs for personnel in corporate, finance, legal, and other administrative positions; (ii) legal, accounting, consulting and other professional fees; and (iii) corporate insurance and other facilities costs associated with our corporate and administrative locations.

#### *Selling*

Selling expenses are comprised direct selling costs which primarily consist of (i) commissions paid to our third-party workforce, (ii) patient acquisition and maintenance fees, (iii) Health Canada's cannabis fees and (iv) freight.

#### *Marketing and promotion*

Marketing and promotion expenses are comprised primarily of marketing and advertising expenses.

### *Research and development*

Research and development costs are expensed as incurred. Research and development are comprised primarily of costs for personnel, clinical study costs, contracted research, consulting services, materials and supplies, milestones, an allocation of our occupancy costs and other expenses incurred to sustain our overall research and development programs.

### *Stock-based compensation*

The Company has an omnibus plan which includes issuances of stock options, restricted stock units (“RSUs”) and stock appreciation rights (“SARs”) in place. The Company estimates the fair value of stock options on the date of grant using the Black-Scholes option pricing model. The fair value of RSUs is based on the share price as at date of grant and no SARs were issued to date. The share-based compensation expense is based on the fair value of the stock-based awards at the grant date and the expense is recognized over the related service period following a straight-line vesting expense schedule. The Company estimates forfeitures at the time of grant and revises these estimates in subsequent periods if actual forfeitures differ from those estimates. Any revisions are recognized in the consolidated statements of loss and comprehensive loss such that the cumulative expense reflects the revised estimate.

For performance-based stock options and RSUs, the Company records compensation expense over the estimated service period adjusted for a probability factor of achieving the performance-based milestones. At each reporting date, the Company assesses the probability factor and records compensation expense accordingly, net of estimated forfeitures.

### *Earnings (loss) per share*

Basic earnings (loss) per share is computed by dividing reported net income (loss) by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is computed by dividing reported net income (loss) by the sum of the weighted average number of common shares and the number of dilutive potential common share equivalents outstanding during the period. Potential dilutive common share equivalents consist of the incremental common shares issuable upon the exercise of vested share options, warrants, and RSUs and the incremental shares issuable upon conversion of the convertible debentures and similar instruments.

In computing diluted earnings (loss) per share, common share equivalents are not considered in periods in which a net loss is reported, as the inclusion of the common share equivalents would be anti-dilutive.

### *Critical accounting estimates and judgments*

The preparation of the Company’s financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses. These estimates and judgements are subject to change based on experience and new information which could result in outcomes that require a material adjustment to the carrying amounts of assets or liabilities affecting future periods. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Financial statement areas that require significant judgement are as follows:

*Leases* – The Company applies judgement in determining whether a contract contains a lease and if a lease is classified as an operating lease or a finance lease. The Company determines the lease term as the non-cancellable term of the lease, which may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

*Long-term investments and convertible notes receivable* – The determination of fair value of the Company’s long-term investments and convertible notes receivable at other than initial cost is subject to certain limitations. Financial information for private companies in which the Company has investments may not be available and, even if available, that information may be limited and/or unreliable.

Use of the valuation approach described below may involve uncertainties and determinations based on the Company’s judgment and any value estimated from these techniques may not be realized or realizable.

Company-specific information is considered when determining whether the fair value of a long-term investment or convertible notes receivable should be adjusted upward or downward at the end of each reporting period. In addition to company-specific information, the Company will consider trends in general market conditions and the share performance of comparable publicly traded companies when valuing long-term investments and convertible notes receivable.

The fair value of long-term investments and convertible notes receivable may need to be adjusted if:

- There has been a significant subsequent equity financing provided by outside investors at a valuation different than the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place;
- There have been significant corporate, political, or operating events affecting the investee company that, in management’s opinion, have a material impact on the investee company’s prospects and therefore its fair value. In these circumstances, the adjustment to the fair value of the investment will be based on management’s judgment and any value estimated may not be realized or realizable;
- The investee company is placed into receivership or bankruptcy;
- Based on financial information received from the investee company, it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern;
- Important positive or negative management changes by the investee company that the Company’s management believes will have a positive or negative impact on the investee company’s ability to achieve its objectives and build value for shareholders.

Adjustment to the fair value of a long-term investment and convertible notes receivable will be based upon management’s judgment and any value estimated may not be realized or realizable. The resulting values for non-publicly traded investments may differ from values that would be realized if a ready market existed.

*Estimated useful lives, impairment considerations and amortization of capital and intangible assets* – Amortization of capital and intangible assets is dependent upon estimates of useful lives based on management’s judgment.

Goodwill and indefinite-lived intangible asset impairment testing require management to make estimates in the impairment testing model. On at least an annual basis, the Company tests whether goodwill and indefinite-lived intangible assets are impaired. Impairment of definite long-lived assets is influenced by judgment in defining a reporting unit and determining the indicators of impairment, and estimates used to measure impairment losses

The reporting unit’s fair value is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates. The uncertainties of coronavirus’ (“COVID-19”) impact on the future cash flow estimates are further described in Note 10 *Business acquisitions and goodwill*.

*Stock-based compensation* – The fair value of stock-based compensation expenses are estimated using the Black-Scholes option pricing model and rely on a number of assumptions including the fair value of common shares on the grant date, risk-free rate, volatility rate, annual dividend yield, the expected term, and the estimated rate of forfeiture of options granted. Volatility is estimated by using the historical volatility of the Company.

*Business combinations* – Judgement is used in determining a) whether an acquisition is a business combination or an asset acquisition. We use judgement in applying the acquisition method of accounting for business combinations and estimates to value identifiable assets and liabilities at the acquisition date. Estimates are used to determine cash flow projections, including the period of future benefit, and future growth and discount rates, among other factors. The values allocated to the acquired assets and liabilities assumed affect the amount of goodwill recorded on acquisition. Fair value of assets acquired and liabilities assumed is typically estimated using an income approach, which is based on the present value of future discounted cash flows. Significant estimates in the discounted cash flow model include the discount rate, rate of future revenue growth and profitability of the acquired business and working capital effects. The discount rate considers the relevant risk associated with the business-specific characteristics and the uncertainty related to the ability to achieve projected cash flows. These estimates and the resulting valuations require significant judgment. Management engages third party experts to assist in the valuation of material acquisitions.

*Convertible debentures* – The fair value of Convertible Debentures where the Company had elected the fair value option are determined using the Black-Scholes option pricing model. Assumptions and estimates are made in determining an appropriate conversion price, volatility, dividend yield, and the fair value of common stock. There is judgement in assessing what portion of the gain or loss, if any, relates to the change in the instrument-specific credit risk.

*Warrant liability* – The fair value of the warrant liability is measured using a Black Scholes pricing model. Assumptions and estimates are made in determining an appropriate risk-free interest rate, volatility, term, dividend yield, discount due to exercise restrictions, and the fair value of common stock. Any significant adjustments to the unobservable inputs would have a direct impact on the fair value of the warrant liability.

#### *New accounting pronouncements not yet 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, 2021 and including interim periods within those fiscal years, which means that it will be effective for the Company in the first quarter of our year beginning June 1, 2021. The Company is currently evaluating the effect of adopting this ASU on the Company’s financial Statements. We do not expect the adoption of ASU 2019-12 to 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. ASU 2020-01 is effective for the Company beginning June 1, 2021. The Company is currently evaluating the effect of adopting this ASU.

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.

#### 4. Prepaids and other current assets

Prepaids and other current assets are comprised of:

	May 31, 2021	May 31, 2020
Prepaid assets	\$ 31,012	13,760
Sales tax receivable	9,331	8,464
Prepaid corporate taxes	—	4,670
Other	8,577	5,766
	<u>\$ 48,920</u>	<u>\$ 32,660</u>

Included within prepaid assets are insurance, deposits, advanced payments on contracts, and other prepayments that will result in future benefit.

#### 5. Inventory

Inventory is comprised of:

	May 31, 2021	May 31, 2020
Plants	\$ 23,083	\$ 12,288
Dried cannabis	118,269	59,045
Cannabis trim	2,931	2,796
Cannabis derivatives	24,158	19,496
Cannabis vapes	3,791	4,124
Packaging and other inventory items	31,462	16,398
Wellness inventory	15,171	—
Beverage alcohol inventory	5,402	—
Distribution inventory	32,162	25,634
Total inventory	<u>\$ 256,429</u>	<u>\$ 139,781</u>

Inventory is written down for any obsolescence, spoilage and excess inventory or when the net realizable value of inventory is less than the carrying value. During the year ended May 31, 2021, the Company recorded charges for inventory and inventory-related write downs as a component of cost of sales. Cannabis products were written down by \$19,919 for the year ended May 31, 2021 and there were no write downs for the years ended May 31, 2020 and 2019.

#### 6. Related party transactions

In the normal course of business, the Company enters into related party transactions with certain entities under common control and joint ventures as detailed below.

##### *Leafly Holdings, Inc. (“Leafly”)*

The Company has an agreement with Leafly providing for data licensing activities. During the year ended May 31, 2021, 2020, and 2019 operational expenses were nil, respectively was recorded within general and administrative expenses in the statements of loss and comprehensive loss.

##### *Docklight LLC (“Docklight”) royalty and management services*

The Company pays Docklight a royalty fee pursuant to a brand licensing agreement which provides the Company with exclusive rights in Canada for the use of certain adult-use brands. During the year ended May 31, 2021, 2020 and 2019 royalty fees of were \$125, nil, and nil, respectively were recorded within general and administrative expenses in the statements of loss and comprehensive loss.

### Fluent and Cannfections

The Company has joint venture arrangements with a 50% ownership and voting interest in each of Fluent and Cannfections. Refer to Note 13 for details over transactions with these entities for the year ended May 31, 2021, 2020 and 2019.

#### 7. Capital assets

Capital asset consisted of the following:

	Land	Production facility	Equipment	Leasehold improvements	ROU assets under finance lease	Construction in process	Total capital assets
<b>Cost:</b>							
At May 31, 2019	\$24,047	\$168,614	\$ 57,755	\$ 896	\$ —	\$ 126,338	\$377,650
Additions	—	3,342	15,691	925	—	75,557	95,515
Transfers	54	27,968	81,112	11,996	—	(121,130)	—
Disposals	—	—	(5,339)	—	—	(4,147)	(9,486)
Impairment	(11)	(2,561)	(34)	(89)	—	(1,602)	(4,297)
Effect of foreign exchange	(2)	(505)	(2,117)	(345)	—	1,476	(1,493)
At May 31, 2020	24,088	196,858	147,068	13,383	—	76,492	457,889
Business acquisition	5,538	55,916	35,045	1,560	35,519	46,151	179,729
Additions	261	3,236	6,284	525	—	25,773	36,079
Transfers	—	63,159	11,189	—	—	(74,348)	—
Disposals	(5,237)	—	(513)	(192)	—	—	(5,942)
ROU Amortization	—	—	—	—	(827)	—	(827)
Effect of foreign exchange	3,899	27,341	16,335	1,783	34	11,254	60,646
At May 31, 2021	\$28,549	\$346,510	\$215,408	\$ 17,059	\$34,726	\$ 85,322	\$727,574
<b>Accumulated amortization:</b>							
At May 31, 2019	\$ —	\$ 5,556	\$ 6,469	\$ 137	\$ —	\$ —	\$ 12,162
Amortization	—	10,134	14,551	336	—	—	25,021
At May 31, 2020	—	15,690	21,020	473	—	—	37,183
Amortization	—	14,007	24,996	690	—	—	39,693
At May 31, 2021	\$ —	\$ 29,697	\$ 46,016	\$ 1,163	\$ —	\$ —	\$ 76,876
<b>Net book value:</b>							
At May 31, 2019	\$24,047	\$163,058	\$ 51,286	\$ 759	\$ —	\$ 126,338	\$365,488
At May 31, 2020	\$24,088	\$181,168	\$126,048	\$ 12,910	\$ —	\$ 76,492	\$420,706
At May 31, 2021	\$28,549	\$316,813	\$169,392	\$ 15,896	\$34,726	\$ 85,322	\$650,698

#### 8. Leases

The Company has operating and finance leases for facilities, office spaces, production equipment and vehicles.

Leases have varying terms with remaining lease terms of up to approximately 20 years. Certain of our lease arrangements provide us with the option to extend or to terminate the lease early.

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

	Classification on Balance Sheet	May 31, 2021	May 31, 2020
<b>Assets</b>			
Operating lease, right-of-use assets	Right of use assets	\$ 18,267	\$ 5,356
Finance lease, right-of-use assets	Capital assets	34,726	—
Total right-of-use asset		<u>\$ 52,993</u>	<u>\$ 5,356</u>
<b>Liabilities</b>			
Current:			
Operating lease liability	Accrued lease obligations - current	\$ 3,613	\$ 954
Finance lease liability	Accrued lease obligations - current	651	—
Non-current:			
Operating lease liability	Accrued lease obligations - non-current	18,465	4,227
Finance lease liability	Accrued lease obligations - non-current	35,481	—
Total lease liabilities		<u>\$ 58,210</u>	<u>\$ 5,181</u>

The table below presents certain information related to the lease costs for finance and operating leases.

	May 31, 2021	May 31, 2020
<b>Finance lease cost:</b>		
Amortization of right-of-use assets	\$ 806	\$ —
Interest on lease liabilities	765	—
Operating lease cost	1,374	1,128
Total lease cost	<u>\$ 2,945</u>	<u>\$ 1,128</u>

The Company does not have short term lease expense or sublease income for the year ending May 31, 2021.

The table below presents supplemental cash flow information related to leases.

	May 31, 2021	May 31, 2020
<b>Cash paid for amounts included in the measurement of lease liabilities</b>		
Operating cash flows from operating leases	\$ 1,466	\$ 994
Operating cash flows from finance leases	774	—
Financing cash flows from finance leases	231	—

The following table presents the future undiscounted payment associated with lease liabilities as of May 31, 2021:

	Year ending May 31,	
	Operating leases	Finance leases
2022	7,824	2,404
2023	4,272	7,183
2024	3,925	2,061
2025	3,023	2,122
2026	2,964	2,186
Thereafter	4,102	39,586
Total minimum lease payments	<u>\$ 26,110</u>	<u>\$ 55,542</u>
Less: amounts of leases related to interest payments	(419)	(18,759)
Present value of minimum lease payments	25,691	36,783
Less: current accrued lease obligation	(3,613)	(651)
Obligation recognized	<u>\$ 22,078</u>	<u>\$ 36,132</u>

## 9. Intangible assets

Intangible assets are comprised 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, 2019	\$ 23,957	\$ 200,102	\$ 2,415	\$ 72,122	\$ 298,596
Additions	84	2,158	—	3,608	\$ 5,850
Impairment	—	(14,445)	—	—	\$ (14,445)
Effect of foreign exchange	(269)	393	(10)	(1,918)	\$ (1,804)
At May 31, 2020	23,772	188,208	2,405	73,812	\$ 288,197
Business acquisition	214,000	202,716	10,000	912,080	\$ 1,338,796
Effect of foreign exchange	2,038	24,006	48	5,025	\$ 31,117
At May 31, 2021	\$ 239,810	\$ 414,930	\$ 12,453	\$ 990,917	\$ 1,658,110
<b>Accumulated amortization</b>					
At May 31, 2019	\$ 4,354	\$ 623	\$ 1,081	\$ 8,172	\$ 14,230
Amortization	4,506	131	1,006	5,006	\$ 10,649
At May 31, 2020	8,860	754	2,087	13,178	\$ 24,879
Amortization	9,442	413	2,212	15,246	\$ 27,313
At May 31, 2021	\$ 18,302	\$ 1,167	\$ 4,299	\$ 28,424	\$ 52,192
<b>Net book value</b>					
At May 31, 2019	\$ 19,603	\$ 199,479	\$ 1,334	\$ 63,950	\$ 284,366
At May 31, 2020	\$ 14,912	\$ 187,454	\$ 318	\$ 60,634	\$ 263,318
At May 31, 2021	\$ 221,508	\$ 413,763	\$ 8,154	\$ 962,493	\$ 1,605,918

Included in Licences, permits & applications is \$412,000 of indefinite-lived intangible assets (2020 - \$186,000).

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

	Years ending May 31,
2022	\$ 72,172
2023	68,409
2024	65,946
2025	65,533
2026	65,533
Thereafter	855,801
	\$ 1,193,394

## 10. Business Acquisitions

### Reverse Acquisition

On December 15, 2020, Tilray entered into an Arrangement Agreement (as amended, the “Arrangement Agreement” with Aphria Inc. (“Aphria”), or the “Aphria-Tilray business combination”, pursuant to which Tilray acquired all of the issued and outstanding common shares of Aphria pursuant to a plan of arrangement (the “Plan of Arrangement”) under the Ontario Business Corporations Act (the “Arrangement”) with the primary objective to increase its scalable operational footprint, expand its portfolio of diverse medical and adult-use cannabis brands and products, expand its multi-continent distribution network, and gain a robust capital structure to fund a global expansion strategy. The transaction closed on April 30, 2021 (“Closing Date”).

The fair value of the purchase price is, as follows:

	<b>April 30, 2021</b>
Number of Tilray common shares outstanding at acquisition date	179,635,973
Conversion ratio	0.8381
Tilray common shares issued at closing	214,337,159
Market share price of Aphria converted stock units	\$ 14.62
Fair value of Tilray common stock transferred to Aphria shareholders	3,133,609
Consideration related to stock-based compensation <sup>(1)</sup>	71,297
<b>Total fair value of consideration transferred</b>	<b>\$ 3,204,906</b>

- <sup>(1)</sup> On acquisition date there was consideration in the form of 1,207,010 restricted stock units and 4,782,132 stock options that had been issued before the acquisition date to employees and non-employees of Tilray. The pre-combination fair value of these awards is \$17,646 and \$53,650, respectively. The consideration will be reassessed and adjusted to fair value each quarter through General and Administration Expense in the Statement of Loss and Comprehensive Loss.

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

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

In connection with the reverse acquisition, the Company incurred transaction costs of \$42,000. The goodwill of \$2,221,613 is primarily related to factors such as synergies and market share and reportable under the Company's Cannabis and Wellness segment is as follows on a preliminary basis:

	<u>Cannabis</u>	<u>Wellness</u>	<u>Total</u>
Goodwill related to Tilray	2,144,143	77,470	2,221,613

Goodwill is not deductible for tax purposes. The financial results of Tilray are included in the Company's financial statements since acquisition date. The Consolidated Statements of Loss and Comprehensive Loss include net revenue of \$13,018 and net income of \$645.

*Supplemental pro forma information (unaudited)*

The unaudited pro forma information for the periods set forth below gives effect to the reverse acquisition as if the reverse acquisition had occurred as of June 1, 2019. This pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the transactions been consummated as of that time.

	<u>Years ended May 31,</u>	
	<u>2021</u>	<u>2020</u>
Revenue	\$ 692,270	\$ 624,950
Net loss	\$ (795,251)	\$ (649,276)
Net loss per share - basic and diluted	\$ (1.77)	\$ (1.71)

The above pro forma revenue and net loss include adjustments directly attributable to the business combination and related primarily non-recurring transaction costs of \$37,000, increase in intangible assets amortization expense of \$28,000 and decrease in interest expense associated with Tilray's convertible senior notes of 5,000

*Acquisition of SW Brewing Company, LLC*

On November 25, 2020, the Company, through its wholly-owned subsidiary Four Twenty Corporation, completed the purchase of all the shares of SW Brewing Company, LLC which is the holding company of 100% of the common shares of SweetWater. The purchase price consisted of cash consideration of \$255,543, share consideration of 8,232,810 shares, and additional cash consideration of up to \$66,000 contingent on SweetWater achieving specified EBITDA targets. The fair value of the shares on the date the Company closed the acquisition was \$65,889, the fair value of the contingent consideration on the date the Company closed the acquisition was \$58,959.

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

	<u>Amount</u>
<b>Consideration</b>	
Cash	\$ 255,543
Shares	65,889
Contingent consideration	58,959
<b>Total consideration</b>	<u>380,391</u>
<b>Net assets acquired</b>	
Current assets	
Cash and cash equivalents	6,988
Accounts receivable	3,810
Prepays and other current assets	528
Inventory	4,815
Long-term assets	
Capital assets	43,093
Customer relationships	155,000
Intellectual property, trademarks & brands	92,000
Non-compete agreements	10,000
Goodwill	100,202
<b>Total assets</b>	<u>416,436</u>
Current liabilities	
Accounts payable and accrued liabilities	5,289
Current portion of lease liabilities	434
Long-term liabilities	
Lease liabilities	30,322
<b>Total liabilities</b>	<u>36,045</u>
<b>Total net assets acquired</b>	<u><u>\$ 380,391</u></u>

The contingent consideration from the acquisition of SweetWater is a fair value measurement and as such is carried at fair value. The fair value has been determined by discounting future expected cash outflows at a discount rate of 5%. The inputs into the future expected cash outflows are level 3 on the fair value hierarchy and are subject to volatility and uncertainty, which could significantly affect the fair value of the contingent consideration in future periods. As at May 31, 2021, the fair value of the contingent consideration was \$60,657, expected to be paid in December 2023. The goodwill of \$102,202 is primarily related to factors such as synergies and market opportunities and reportable under the Company's Beverage Alcohol segment.

*Supplemental pro forma information (unaudited)*

The unaudited pro forma information for the periods set forth below gives effect to the acquisition of SW Brewing Company, LLC as if the transaction had occurred as of June 1, 2019. This pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the transactions been consummated as of that time.

	<u>Years ended May 31,</u>	
	<u>2021</u>	<u>2020</u>
Revenue	\$ 542,000	\$ 470,000
Net loss	\$ (328,000)	\$ (80,000)
Net loss per share - basic and diluted	\$ (0.73)	\$ (0.37)

## 11. Goodwill

The goodwill recognized is as a result of expected synergies from combining operations through business acquisitions and none of the goodwill is deductible for income tax purposes.

Goodwill is comprised of:

	Segment	May 31, 2021	May 31, 2020
Broken Coast Cannabis Ltd.	Cannabis business	105,963	105,963
Nuuvera Corp.	Business under development	273,606	273,606
LATAM Holdings Inc.	Business under development	63,239	63,239
CC Pharma GmbH	Distribution business	4,458	4,458
SweetWater	Beverage alcohol business	100,202	—
Tilray	Cannabis business	2,144,143	—
Tilray	Wellness business	77,470	—
Effect of foreign exchange		63,713	64
		<u>\$ 2,832,794</u>	<u>\$ 447,330</u>

During the year ended May 31, 2021, the Company completed its annual goodwill impairment assessment of the fair value of the Company's reporting units compared to their carrying amount. For the year ended May 31, 2021 there were no impairment charges recognized. For the year ended May 31, 2020, the Company recorded the following impairment charges:

\$3,581 (C\$4,800) on CannInvest Africa Ltd. and Verve Dynamics Incorporated (Pty) Ltd., the Company used a discount rate of 38.5%;

\$3,730 (C\$5,000) on ABP, S.A., the Company used a discount rate of 23.3%;

\$14,301 (C\$19,171) on Marigold Projects Jamaica Limited ("Marigold"), the Company used a discount rate of 38.5%; and

\$29,067 (C\$35,000) on ColCanna S.A.S., the Company used a discount rate of 40.0%.

## 12. Convertible notes receivable

During the year ended May 31, 2021, the Company did not purchase any convertible notes (2020 - \$nil). The unrealized loss on convertible notes receivable recognized in other comprehensive income amounts to \$3,824 and \$5,476 for the years ended May 31, 2021 and 2020 respectively.

During the year ended May 31, 2021, and 2020 the Company received total proceeds of \$1,251, and \$nil respectively from sales of available-for-sale securities and gain (loss) of \$5,277, and \$nil respectively was reclassified out of accumulated other comprehensive income into earnings.

The fair value was determined using the Black-Scholes option pricing model using the following assumptions: the risk-free rate of 1.25%; expected life of the convertible note; volatility of 70% based on comparable companies; forfeiture rate of nil; dividend yield of nil; and, the exercise price of the respective conversion feature.

Convertible notes receivable is comprised of the following investments:

	May 31, 2021	May 31, 2020
HydRx Farms Ltd. (d/b/a Scientus Pharma)	\$ —	\$ 4,352
10330698 Canada Ltd. (d/b/a Starbuds)	828	3,429
High Tide Inc.	1,657	2,828
Total convertible notes receivable	2,485	10,609
Deduct - current portion	(2,485)	(10,609)
Total convertible notes receivable, non current portion	<u>\$ —</u>	<u>\$ —</u>

### **HydRx Farms Ltd. (d/b/a Scientus Pharma)**

On August 14, 2017, Aphria purchased C\$11,500 in secured convertible debentures of Scientus Pharma (“SP”). The convertible debentures bore interest at 8%, paid semi-annually, matured in two years and included the right to convert the debentures into common shares of SP at C\$2.75 per common share at any time before maturity. During the year ended May 31, 2021, the Company settled the note receivable for \$4,032 (C\$5,000).

### **10330698 Canada Ltd. (d/b/a Starbuds)**

On December 28, 2018, Aphria purchased C\$5,000 in secured convertible debentures of Starbuds. The convertible debentures bear interest at 8.5% per annum accruing daily due until maturity on December 28, 2020. The debentures are secured against the assets of Starbuds. The debentures and any accrued and unpaid interest are convertible into common shares for C\$0.50 per common share and matured on December 28, 2020. Starbuds is currently in default under the convertible debentures.

As at May 31, 2021, the fair value of the Company’s secured convertible debentures was \$828 (C\$1,000) (May 31, 2020 - \$3,429 (C\$4,728)), which includes \$385 (C\$465) (May 31, 2020 - \$157 (C\$216)) of accrued interest. The remaining change resulted in a fair value gain (loss) recognized in other comprehensive income.

### **High Tide Inc.**

On April 10, 2019, Aphria purchased C\$4,500 in unsecured convertible debentures of High Tide Inc. (“High Tide”). The convertible debentures bear interest at 10% per annum, payable annually up front in common shares of High Tide based on the 10-day volume weighted average price (the “Debentures”). The Debentures matured on April 10, 2021. In addition to the Debentures, the Company received 6,000,000 warrants in High Tide as part of the purchase of the unsecured convertible debentures (Note 13). Upon maturity, the Company agreed to extend the maturity date on C\$2,000 of the convertible notes. The extended notes bear interest at 9% per annum and are due on April 21, 2023.

## **13. Interest in equity investees**

The Company acquired the following equity method investments as a results of the Arrangement on April 30, 2021:

### *Plain Vanilla Research Limited Partnership (“Fluent”)*

A joint venture with Anheuser-Busch InBev (“AB InBev”) to research and develop non- alcohol beverages containing cannabis. Under the terms of the arrangement, the Company and AB InBev each have 50% ownership and 50% voting interest in the Plain Vanilla Research Limited Partnership (“Fluent”), headquartered in Canada. The Company has determined that Fluent is a VIE, but the Company is not the primary beneficiary as the Company does not have the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance. Accordingly, the Company does not consolidate the financial statements of Fluent and accounts for this investment using the equity method of accounting. At May 31, 2021 the maximum exposure to loss is limited to the Company’s equity investment in the joint venture.

### *Cannfections Group Inc. (“Cannfections”)*

A joint venture with Cannfections Group Inc. (“Cannfections”) to develop and manufacture confectionary cannabis products. Under the terms of the arrangement, the Company and Cannfections each have 50% ownership and 50% voting interest. During the year ended May 31, 2021 the Company made no contributions to the joint venture.

The Company's ownership interests in its equity method investments as of May 31, 2021 is as follows:

	Approximate ownership %	Carrying value May 31, 2021	Loss from equity method investments year ended May 31, 2021
Investment in Fluent	50%	\$ 3,906	\$ (416)
Investment in Cannfections	50%	4,200	(42)
Total equity method investments		<u>\$ 8,106</u>	<u>\$ (458)</u>

#### 14. Long-term investments

Long-term investments are comprised of the following items:

	Fair value May 31, 2021	Fair value May 31, 2020
Equity investments measured at fair value	12,185	19,595
Equity investments under measurement alternative	5,500	—
Total other investments	<u>17,685</u>	<u>19,595</u>

The Company's equity investments at fair value consist of publicly traded shares, equity interest in non-traded companies and warrants held by the Company. The Company's equity investments under measurement alternative include equity investments without readily determinable fair values. For the year ended May 31, 2021 the Company received proceeds of \$8,430 on the sale of investments (2020-\$19,570, 2019-\$83,343) and recognized \$1,567 in unrealized losses due to the change in fair value of investments (2020-\$23,057, 2019-\$8,122).

#### 15. Income taxes and deferred income taxes

Loss before income taxes includes the following components:

	For the year ended May 31,		
	2021	2020	2019
United States	\$ (7,814)	—	—
Canada	(323,964)	(88,930)	(30,733)
Other countries	(13,208)	(20,255)	(7,405)
	<u>\$ (344,986)</u>	<u>(109,185)</u>	<u>(38,138)</u>

The (recoveries) expense for income taxes consists of:

	For the year ended May 31,		
	2021	2020	2019
<b>Current:</b>			
United States	\$ —	—	—
Canada	15,227	5,294	3,296
Other countries	697	375	407
	<u>\$ 15,924</u>	<u>5,669</u>	<u>3,703</u>
<b>Deferred:</b>			
United States	\$ 1,517	—	—
Canada	(30,111)	(9,226)	(3,281)
Other countries	3,698	(4,795)	(2,467)
	<u>\$ (24,896)</u>	<u>(14,021)</u>	<u>(5,748)</u>
Income tax benefits, net	<u>\$ (8,972)</u>	<u>(8,352)</u>	<u>(2,045)</u>

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

	For the year ended May 31,		
	2021	2020	2019
Loss before net income taxes:	\$ (344,986)	(109,185)	(38,138)
Income tax benefits at statutory rate	(72,408)	(22,929)	(8,009)
Tax impact of foreign operations	(19,016)	(6,310)	(2,504)
Foreign exchange and other	1,011	(63)	(491)
Non-deductible expenses	(1,347)	2,474	5,731
Non-deductible (taxable) losses	45,230	2,152	(11,724)
Changes in enacted rates	135	—	—
Change in fair value of warrant liability	(259)	—	—
Stock based and other compensation	2,902	4,105	14,655
Change in valuation allowance	46,007	1,066	297
Non deductible dividend	(755)	—	—
Non deductible impairment	—	11,153	—
Effect of transaction	(10,472)	—	—
Income tax benefits, net	\$ (8,972)	(8,352)	(2,045)

The following table summarizes the components of deferred tax:

	May 31,		
	2021	2020	2019
Deferred assets			
Operating loss carryforwards - United States	\$ 57,320	—	—
Operating loss carryforwards - Canada	152,382	20,512	9,535
Operating loss carryforwards - Other Countries	7,801	9,037	5,079
Capital loss carryforwards	1,350	1,854	7,028
Intangible assets	86,541	—	—
Property and equipment	17,107	—	—
Currently nondeductible interest	9,491	—	—
Partnership interests	34,108	—	—
Deferred financing costs	4,237	5,022	—
Investment tax credits and related pool balance	526	—	—
Other	26,716	1,704	1,101
Total Deferred tax assets	397,579	38,129	22,743
Less valuation allowance	(265,940)	(4,583)	(4,583)
Net deferred tax assets	131,639	33,546	18,160
Deferred tax liabilities			
Property and equipment	(15,997)	(8,356)	(1,995)
Intangible assets	(376,228)	(69,580)	(73,454)
Convertible Senior Notes Due 2023	(4,977)	(4,056)	(4,739)
Total deferred tax liabilities	(397,202)	(81,992)	(80,188)
Net deferred tax liability	\$ (265,563)	(48,446)	(62,028)

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (“CARES”) Act was enacted and signed into law in the U.S. The CARES Act, among other things, permits U.S. net operating loss (“NOL”) carryovers and carrybacks to offset 100% of U.S. taxable income for taxable years beginning before 2021. The CARES Act also contains modifications on the limitation of business interest for tax years beginning in 2019 and 2020. The modifications to Section 163(j) increase the allowable business interest deduction from 30% of adjusted taxable income to 50% of adjusted taxable income. The CARES Act results in increasing the allowable interest expense and NOL carryover deductions in 2020.

The Tax Cuts and Jobs Act (2017 Tax Act) was enacted on December 22, 2017 and reduced the U.S. statutory federal corporate tax rate from 35% to 21%. The Tax Act also contains additional provisions that are effective for the company in 2018, including a new tax on Global Intangible Low-Taxed Income (“GILTI”). Under GAAP, we are allowed to make an accounting policy choice to either (i) treat taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method"); or (ii) factor in such amounts into the measurement of our deferred taxes (the "deferred method"). The Company has made a policy decision to record GILTI tax as a current-period expense when incurred.

Deferred income taxes have not been recorded on the basis differences for investments in consolidated subsidiaries as these basis differences are indefinitely reinvested or will reverse in a non-taxable manner. Quantification of the deferred income tax liability, if any, associated with indefinitely reinvested basis differences is not practicable. Deferred income taxes have been recorded on the basis differences for investments in nonconsolidated entities.

At May 31, 2021, the Company had United States net operating loss carry-forwards of approximately \$224,795 that can be carried forward indefinitely and generally limited in annual use to 80% of the current year taxable income starting 2021. The Company has Canadian net operating loss carry-forwards of approximately \$510,456 that can be carried forward 20 years and begin to expire in 2028. Management believes that it is more-likely-than-not that the benefit from certain United States and foreign net operating loss carry-forwards will not be realized. In recognition of this risk, the Company has provided a valuation allowance on the deferred tax assets relating to these carry-forwards. The net change in the total valuation allowance was an increase of \$261,357 and \$0 for the years ended May 31, 2021 and 2020, respectively.

The Company recognizes the financial statement impact of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest impact that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The total amount of gross unrecognized tax benefits (“GUTB”) was \$0, \$0, and \$0 as of May 31, 2021, 2020 and 2019 respectively. There is a reasonable possibility that the Company’s unrecognized tax benefits will change within twelve months due to audit settlements or the expiration of statute of limitations, but the Company does not expect the change to be material to the financial statements.

The Company recognizes interest and, if applicable, penalties for any uncertain tax positions. Interest and penalties are recorded as a component of income tax expenses. In the years ended May 31, 2021, 2020 and 2019, the Company recorded approximately \$0, \$0 and \$0, respectively, of interest and penalty expenses related to uncertain tax positions. As of May 31, 2021, and 2020, the Company had a cumulative balance of accrued interest and penalties on unrecognized tax positions of \$0 and \$0, respectively.

The Company and its subsidiaries are subject to United States federal income tax as well as the income tax of multiple state and foreign jurisdictions. The Company is not currently under audit in any jurisdiction for any period. Major jurisdictions where there are wholly owned subsidiaries of Tilray, Inc. which require income tax filings include the Canada, Portugal, Germany, and Australia. The earliest periods open for review by local taxing authorities are fiscal years 2016 for Canada, 2017 for Portugal, 2016 for Germany, 2017 for Australia, and 2018 for United States.

## **16. Bank indebtedness**

The Company secured 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 at May 31, 2021, the Company has not drawn on the line of credit. The operating line of credit is secured by a first charge on the property at 265 Talbot St. West, Leamington, Ontario and a first ranking position on a general security agreement.

The Company’s subsidiary, CC Pharma, has two operating lines of credit for €5,000 and €3,500 each, which bear interest at Euro Over Night Index Average plus 1.79% and Euro Interbank Offered Rate plus 3.682% respectively.

As at May 31, 2021, a total of €7,000 (\$8,717) was drawn down from the available credit of €8,500. The operating lines of credit are secured by a first charge on the inventory held by CC Pharma.

The Company's subsidiary, Four Twenty Corporation ("420"), has a revolving credit facility of \$20,000 which bears interest at EURIBOR plus an applicable margin. As at May 31, 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 the Company.

## 17. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprised of:

	May 31, 2021	May 31, 2020
Trade payables	\$ 57,706	\$ 41,159
Accrued liabilities	112,594	48,105
Accrued payroll and employment related taxes	19,390	—
Income taxes payable	14,764	4,651
Accrued interest	148	—
Accrued legal settlement	—	18,496
Other accruals	8,211	—
	<u>\$ 212,813</u>	<u>\$ 112,411</u>

As part of the reverse acquisition, (refer to Note 10 *Business acquisitions and goodwill*), the Company acquired a trademark and license agreement with Authentic Brands Group ("ABG") for the use of the Prince trademark ("ABG Prince Agreement"). Under the ABG Prince Agreement, the Company pays a royalty on actual product sales in addition to a guaranteed minimum royalty payment of \$375 on a quarterly basis until the maturity date of December 31, 2025.

## 18. Long-term debt

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

	May 31, 2021	May 31, 2020
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	\$ 62,964	\$ 58,026
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	14,335	13,231
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	17,117	15,939
Term loan - C\$1,250 - 3.99%, 5-year term, with a 10-year amortization, repayable in equal monthly instalments of \$13 including interest, due in July 2021	587	602
Mortgage payable - C\$3,750 - 3.95%, 5-year term, with a 20-year amortization, repayable in equal monthly instalments of \$23 including interest, due in July 2021	2,562	2,349
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	508
Term loan - €5,000 - Euro Interbank Offered Rate + 1.79%, 5-year term, repayable in quarterly instalments of €250 plus interest, due in December 2023	3,356	4,163
Term loan - €5,000 - Euro Interbank Offered Rate + 2.68%, 5-year term, repayable in quarterly instalments of €250 plus interest, due in December 2023	3,356	4,163
Term loan - €1,500 - Euro Interbank Offered Rate + 2.00%, 5-year term, repayable in quarterly instalments of €98 including interest, due in April 2025	1,831	1,665
Term loan - €1,500 - Euro Interbank Offered Rate + 2.00%, 5-year term, repayable in quarterly instalments of €98 including interest, due in June 2025	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	98,138	—
	206,169	100,646
Deduct - unamortized financing fees	(2,061)	(477)
- principal portion included in current liabilities	(36,622)	(6,141)
	<u>\$ 167,486</u>	<u>\$ 94,028</u>

The credit facility of C\$80,000 (\$66,278) was entered into on November 29, 2019 by 51% owned subsidiary Aphria Diamond and is secured by a first charge on the property at 620 County Road 14, Leamington, Ontario, owned by Aphria Diamond, and a guarantee from Aphria Inc.

The term loan of C\$25,000 (\$20,712) was entered into on July 27, 2018 and is secured by a first charge on the property at 223, 231, 239, 265, 269, 271 and 275 Talbot Street West, Leamington Ontario, a first position on a general security agreement, and an assignment of fire insurance to the lender. The effective interest rate during the year was 4.68%.

The term loan of C\$25,000 (\$20,712) was entered into on May 9, 2017 and is secured by a first charge on the property at 265 Talbot Street West, Leamington Ontario, a first position on a general security agreement, and an assignment of fire insurance to the lender.

The term loan of C\$1,250 (\$1,036) and mortgage payable of C\$3,750 (\$3,108) were entered into on July 22, 2016 and are secured by a first charge on the property at 265 Talbot Street West, Leamington, Ontario and a first position on a general security agreement.

The vendor take-back mortgage payable of C\$2,850 (\$2,361) was entered into on June 30, 2016 in conjunction with the acquisition of the property at 265 Talbot Street West. The mortgage is secured by a second charge on the property at 265 Talbot Street West, Leamington, Ontario. The mortgage was repaid in full and the security deemed released in June 2021.

During the year ended May 31, 2021, the Company entered into a term loan for €1,500 (\$2,210) through wholly owned subsidiary CC Pharma. The term loans for €9,500 (\$13,955) are held through wholly-owned subsidiary CC Pharma. These term loans are secured against the distribution inventory held by CC Pharma.

During the year ended May 31, 2021, the Company, entered into a secured credit agreement for term loan of \$100,000 through wholly owned subsidiary Four Twenty Corporation ("420"). The Company drew the full amount of the term loan. 420 provided all of its and SweetWater's assets as security for the loan and Aphria Inc. provided a corporate guarantee.

As at May 31, 2021, the Company was in compliance with all the long-term debt covenants.

## 19. Convertible debentures

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

	May 31, 2021	May 31, 2020
5.25% Convertible Notes ("APHA 24")	\$ 399,444	\$ 196,405
5.00% Convertible Notes ("TLRY 23")	268,180	—
Total convertible debentures	<u>\$ 667,624</u>	<u>\$ 196,405</u>

### APHA 24

	May 31, 2021	May 31, 2020
Opening balance	\$ 196,405	\$ 305,626
Debt settlement	—	(66,127)
Fair value adjustment	203,039	(43,094)
	<u>\$ 399,444</u>	<u>\$ 196,405</u>

The unsecured convertible debentures were entered into in April 2019, in the principal amount of \$350,000, are due in five years from issuance. The APHA 24 bears interest at a rate of 5.25% per annum, payable semi-annually in arrears on June 1 and December 1 of each year. The APHA 24 matures on June 1, 2024, unless earlier converted. The APHA 24 is an unsecured obligation and ranks senior in right of payment to all indebtedness that is expressly subordinated in right of payment to it. The APHA 24 will rank equal in right of payment with all liabilities that are not subordinated. The APHA 24 is effectively junior to any secured indebtedness to the extent of the value of the assets securing such indebtedness.

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

The overall change in fair value of the APHA 24 during the year ended May 31, 2021 was an increase of \$170,453 with a foreign exchange impact of \$32,586 (2020 – decrease of \$43,094 and \$nil), which included contractual interest of \$13,600 (2020 - \$17,979). As at May 31, 2021, there was \$259,400 principal outstanding (2020 - \$259,400).

### TLRY 23

	May 31, 2021
Opening balance	\$ —
Principal amount issued	277,856
Unamortized discount	(9,676)
Net carrying amount	<u>\$ 268,180</u>

As part of the reverse acquisition (refer to Note 10 *Business acquisitions and goodwill*), the Company acquired convertible notes with a fair value of \$277,857.

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

The TLRY 23 is the Company’s general unsecured obligations and ranks senior in right of payment to all of the Company’s indebtedness that is expressly subordinated in right of payment to the notes; equal in right of payment with any of the Company’s unsecured indebtedness that is not so subordinated; effectively junior in right of payment

to any of Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables but excluding intercompany obligations) of the Company's current or future subsidiaries.

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

The Company may from time to time seek to retire or purchase its TLRY 23, in open market purchases, privately negotiated transactions or otherwise. Such purchases or exchanges, if any, will depend on prevailing market conditions, the company's liquidity requirements, contractual restrictions and other factors. The amounts involved in any such transactions, individually or in the aggregate, may be material.

As of May 31, 2021, the TLRY 23 is not yet convertible. The convertible notes will become convertible upon the satisfaction of the above circumstances. The remaining unamortized debt discount related to the convertible notes as of May 31, 2021 will be accreted over the remaining term of the TLRY 23, which is approximately 28 months.

As at May 31, 2021, the Company was in compliance with all the covenants set forth under the Indenture.

During the year ended May 31, 2021, the Company recognized total interest expense of \$1,585 (2020 - \$nil), which included contractual interest coupon of \$1,158 (2020 - \$nil) and amortization of the discount of \$427 (2020 - \$nil).

## 20. Warrants

The warrant details of the Company are as follows:

Type of warrant	Classification	Expiry date	Number of warrants	Weighted average price
Warrant	Equity	September 26, 2021	166,000	\$ 3.14
Warrant	Equity	January 30, 2022	5,828,651	9.26
Warrant	Liability	March 17, 2025	6,209,000	5.95
			<u>12,203,651</u>	<u>\$ 7.41</u>

As part of the Arrangement, Aphria's 2016 Warrants (the 200,000 warrants issued by Aphria expiring September 26, 2021) were exchanged for 166,000 Replacement Warrants (warrants to purchase Tilray shares pursuant to the Plan of Arrangement), expiring September 26, 2021.

As part of the Arrangement, Aphria's all 2020 Warrants (the 7,022,472 warrants issued by Aphria expiring January 30, 2022), ceased to represent a warrant to acquire Aphria shares and instead represent a right to receive 5,828,651 Tilray shares in accordance with their term.

As part of the Arrangement, all outstanding Tilray Warrants which expire on March 17, 2025 remain outstanding without change to any of their terms. The warrants contain anti-dilution price protection features, which adjust the exercise price of the warrants if the Company subsequently issues common stock at a price lower than the exercise price of the warrants. In the event additional warrants or convertible debt are issued with a lower and/or variable exercise price, the exercise price of the warrants will be adjusted accordingly. There were no triggering events during the year ended May 31, 2021. These warrants are classified as liabilities as they are to be settled in registered shares, and the registration statement is required to be active, unless such shares may be subject to an applicable exemption from registration requirements. The holders, at their sole discretion, may elect to affect a cashless exercise, and be issued exempt securities in accordance with Section 3(a)(9) of the 1933 Act. In the event the Company does not maintain an effective registration statement, the Company may be required to pay a daily cash penalty equal to 1% of the number of shares of common stock due to be issued multiplied by any trading price of the common stock between the exercise date and the share delivery date, as selected by the holder. Alternatively, the Company may deliver registered common stock purchased by the Company in the open market. The Company may also be required to pay cash if it does not have sufficient authorized shares to deliver to the holders upon exercise.

	May 31, 2021		May 31, 2020	
	Number of warrants	Weighted average price	Number of warrants	Weighted average price
Outstanding, beginning of the year	5,994,651	\$ 8.91	1,903,024	\$ 12.01
Exercised during the year	—	—	(636,089)	1.47
Issued during the year	6,209,000	5.95	5,828,652	9.08
Cancelled during the year	—	—	—	—
Expired during the year	—	—	(1,100,936)	19.46
Outstanding, end of the year	<u>12,203,651</u>	<u>\$ 7.41</u>	<u>5,994,651</u>	<u>\$ 8.91</u>

The Company estimated the fair value of the warrant liability at May 31, 2021 at \$12.59 per warrant using the Black Scholes pricing model (Level 3) with the following weighted-average assumptions:

Risk-free interest rate	0.90%
Expected volatility	70%
Expected term	4.3 years
Expected dividend yield	—%
Strike price	\$ 5.95
Fair value of common stock	\$ 16.67

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

## 21. Stock-based compensation

For the year ended May 31, 2021, the total stock-based compensation expense was \$17,351 (2020 - \$18,079 and 2019 - \$21,951). The Company operates multiple stock-based award plans as follows:

### Tilray 2018 Equity Incentive Plan and Original Plan

The 2018 Equity Incentive Plan (EIP) authorizes the award of stock options, restricted stock units ("RSUs") and stock appreciation rights ("SARs") to employees, including officers, non-employee directors and consultants and the employees and consultants of our affiliates. Shares subject to awards granted under the EIP that expire or terminate without being exercised in full, or that are paid out in cash rather than in shares, do not reduce the number of shares available for issuance under the EIP. Additionally, shares become available for future grant under the EIP if they were issued under the EIP and if the Company repurchases them or they are forfeited. This includes shares used to pay the

exercise price of an award or to satisfy the tax withholding obligations related to an award. The maximum number of shares of common stock subject to stock awards granted under the EIP or otherwise during any one calendar year to any non-employee director, taken together with any cash fees paid by the Company to such non-employee director during such calendar year for service on the Board of Directors, will not exceed five hundred thousand dollars in total value, calculating the value of any such stock awards based on the grant date fair value of such stock awards for financial reporting purposes, or, with respect to the calendar year in which a nonemployee director is first appointed or elected to our Board of Directors, one million dollars.

Stock options represent the right to purchase shares of our common stock on the date of exercise at a stated exercise price. The exercise price of a stock option generally must be at least equal to the fair market value of our shares of common stock on the date of grant. The Company's compensation committee may provide for stock options to be exercised only as they vest or to be immediately exercisable with any shares issued on exercise being subject to the Company's right of repurchase that lapses as the shares vest. The maximum term of stock options granted under the EIP is ten years.

RSUs represent a right to receive common stock or their cash equivalent for each RSU that vests, which vesting may be based on time or achievement of performance conditions. Unless otherwise determined by our compensation committee at the time of grant, vesting will cease on the date the participant no longer provides services to the Company and unvested shares will be forfeited. If an RSU has not been forfeited, then on the date specified in the RSUs, the Company will deliver to the holder a number of whole shares of common stock, cash or a combination of shares of our common stock and cash. Additionally, dividend equivalents may be credited in respect of shares covered by the RSUs. Any additional shares covered by the RSU credited by reason of such dividend equivalents will be subject to all of the same terms and conditions of the underlying RSU agreement to which they relate. The RSUs generally vest over a 3-or-4 year period. The fair value of RSUs are based on the share price as at date of grant.

SARs provide for a payment, or payments, in cash or shares of common stock to the holder based upon the difference between the fair market value of shares of our common stock on the date of exercise and the stated exercise price. The maximum term of SARs granted under the EIP is ten years. No SARs were issued to date.

The EIP permits the grant of performance-based stock and cash awards. The performance goals may be based on company-wide performance or performance of one or more business units, divisions, affiliates or business segments and may be either absolute or relative to the performance of one or more comparable companies or the performance of one or more relevant indices. The length of any performance period, the performance goals to be achieved during the performance period, and the measure of whether and to what degree such performance goals have been attained will be conclusively determined by the Board of Directors.

As of April 30, 2021, 9,806,851 shares of common stock had been reserved for issuance under the EIP. The number of shares of common stock reserved for issuance under the 2018 EIP will automatically increase on January 1 of each calendar year, for a period of not more than ten years, starting on January 1, 2019 and ending on and including January 1, 2027, in an amount equal to 4% of the total number of shares of our common stock outstanding on December 31 of the prior calendar year, or a lesser number of shares determined by our Board of Directors. The shares reserved include only the outstanding shares related to stock options and RSUs and excludes stock options outstanding under the Original Plan.

Certain employees and other service providers of the Company participate in the equity-based compensation plan of Privateer Holdings, Inc (the "Original Plan") under the terms and valuation method detailed below. The expected life of the stock options represented the period of time stock options were expected to be outstanding and was estimated considering vesting terms and employees' historical exercise and post-vesting employment termination behavior. Expected volatility was based on historical volatilities of public companies operating in a similar industry to Privateer Holdings. The risk-free rate is based on the United States Treasury yield curve in effect at the time of grant. The expected dividend yield was determined based on the stock option's exercise price and expected annual dividend rate at the time of grant.

No stock options were granted under the EIP during the year ended May 31, 2021. For the year ended May 31, 2020 and 2019, the fair value of each stock option granted is estimated on grant date using the Black-Scholes option pricing model using the following assumptions: risk-free rate for 2020 – 2.10% and 2019 – 2.92% on the date of grant; expected life for 2020 – 8.97 years and 2019 – 5.79 years; volatility for 2020 – 61.33% and 2019 – 58.54% based on comparable companies; dividend yield for 2020 and 2019 of \$nil; and, the exercise price of the respective option. The expected life of the award is estimated using the simplified method since the Company does not have adequate historical exercise data to estimate the expected term.

Stock-based activity under the EIP and Original Plan for the year ended May 31, 2021 is as follows:

*EIP Time-based stock option activity*

	Stock Options	Weighted- average exercise price	Weighted- average remaining contractual term (years)	Aggregate intrinsic value
Balance May 1,	3,182,547	\$ 14.19	1.7	\$ 30,331,823
Granted	—	—	—	—
Exercised	(1,665)	7.76	—	—
Forfeited	(188)	7.76	—	—
Cancelled	(468)	65.20	—	—
Balance May 31,	<u>3,180,226</u>	<u>\$ 14.19</u>	<u>1.3</u>	<u>\$ 25,171,187</u>

*Original plan time-based stock option activity*

	Stock Options	Weighted- average exercise price	Weighted- average remaining contractual term (years)	Aggregate intrinsic value
Balance May 1,	946,948	3.99	2	13,777,571
Exercised	(29,403)	4.71	—	—
Forfeited	—	—	—	—
Cancelled	—	—	—	—
Balance May 31,	<u>917,545</u>	<u>\$ 3.97</u>	<u>1.7</u>	<u>\$ 11,885,699</u>

*Time-based RSU activity*

	Time-based RSUs	Weighted- average grant-date fair value per share	Weighted- average remaining contractual term (years)	Aggregate intrinsic value
Balance May 1,	1,285,134	\$ 15.70	—	—
Granted	198,521	7.76	—	—
Vested	(112,508)	12.99	—	—
Forfeited	(165,904)	11.97	—	—
Cancelled	—	—	—	—
Balance May 31,	<u>1,205,243</u>	<u>\$ 15.16</u>	<u>—</u>	<u>\$ 20,091,286</u>

**Predecessor Plan - Aphria**

Prior to the reverse acquisition (Note 10), Aphria had established the Aphria Omnibus Incentive Plan (the “Predecessor Plan”). Following stockholder approval of the EIP, no new awards have been granted under the Predecessor Plan. In connection with the reverse acquisition Aphria stock options, Aphria RSUs and DSUs issued under the Predecessor Plan were exchanged for options, RSUs under the EIP. As a result of the modification, all grantees were affected, and the Company recognized nil incremental compensation cost.

The fair value of each stock option granted under the Predecessor Plan is estimated on grant date using the Black-Scholes option pricing model using the following assumptions: risk-free rate of 0.39% (2020 – 1.20 – 1.56% and 2019 – 1.66 – 2.38%) on the date of grant; expected life of 5 years (2020 - 5 years and 2019 – 3 - 5 years); volatility of 70% (2020 and 2019 – 70%) based on comparable companies; forfeiture rate of 35% (2020 – 20% and 2019 – 0%); dividend yield of \$nil (2020 and 2019 – \$nil); and, the exercise price of the respective option. The expected life of the award is estimated using the simplified method since the Company does not have adequate historical exercise data to estimate the expected term.

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

*Time-based stock option activity*

	May 31, 2021				
	Number of options	Weighted average exercise price	Weighted average grant date fair value	Weighted average remaining contractual term (years)	Aggregate Intrinsic Amount
Outstanding, beginning of the year	4,484,051	\$ 12.04	\$ 6.24	2.9	(32,781)
Exercised during the year	(1,073,986)	8.70	\$ 4.38	N/A	N/A
Granted during the year	41,500	5.88	\$ 2.18	N/A	N/A
Forfeited during the year	(884,320)	14.06	\$ 7.46	N/A	N/A
Expired during the year	(68,060)	18.72	\$ 8.80	N/A	N/A
Outstanding, end of the year	2,499,185	\$ 12.48	\$ 6.51	2.4	10,472
Vested and exercisable, end of the year	1,846,090	\$ 13.53	\$ 7.16	2.2	5,797

During the year ended May 31, 2021, the Company issued 41,500 stock options at an exercise price of \$5.88 per share, exercisable for 5 years to officers of the Company. The weighted-average grant date fair values of time-based stock options granted during the year ended May 31, 2021 was \$2.18 per share (2020 - \$3.54 and 2019 - \$7.32). The total intrinsic values of these stock options exercised during the year ended May 31, 2021 was \$4,679,758 (2020 - \$4,869,447 and 2019 - \$28,025,979). The total fair value of time-based stock options vested during the year ended May 31, 2021 was \$3,054,257 (2020 - \$9,592,767 and 2019 - \$14,983,131).

As of May 31, 2021, the total remaining unrecognized compensation expenses related to non-vested time-based stock options amounted to \$3,058,733 (2020 - \$8,209,817 and 2019 - \$17,110,533), which will be amortized over the weighted-average remaining requisite service period of approximately 1.06 years (2020 – 1.53 years and 2019 – 1.52 years).

*Performance-based stock option activity*

	May 31, 2021				
	Number of options	Weighted average exercise price	Weighted average grant date fair value	Weighted average remaining contractual term (years)	Aggregate Intrinsic Amount
Outstanding, beginning of the year	398,400	\$ 8.11	\$ 3.80	0.6	(1,347)
Exercised during the year	(166,000)	\$ 5.15	\$ 2.38	N/A	N/A
Granted during the year	—	—	—	N/A	N/A
Forfeited during the year	(232,400)	\$ 10.23	\$ 4.81	N/A	N/A
Expired during the year	—	—	—	N/A	N/A
Outstanding, end of the year	—	—	—	—	—
Vested and exercisable, end of the year	—	—	—	—	—

The weighted-average grant date fair values of performance-based stock options granted during the year ended May 31, 2021 was \$N/A per share (2020 - \$N/A and 2019 - \$N/A). The total intrinsic values of these stock options exercised during the year ended May 31, 2021 was \$746,743 (2020 - \$326,033 and 2019 - \$1,864,100). The total fair value of performance-based stock options vested during the year ended May 31, 2021 was \$395,138 (2020 - \$222,721 and 2019 - \$461,188).

As of May 31, 2021, the total remaining unrecognized compensation expenses related to non-vested performance-based stock options amounted to \$N/A (2020 - \$1,074,701 and 2019 - \$1,206,415), which will be amortized over the weighted-average remaining requisite service period of approximately N/A years (2020 – 0.58 years and 2019 – 0.76 years).

*Time-based and Performance-based RSU activity*

As of May 31, 2021, the total remaining unrecognized compensation expenses related to non-vested time-based RSUs amounted to \$16,273,457 (2020 - \$10,240,001 and 2019 - \$1,392,478), which will be amortized over the weighted-average remaining requisite service period of approximately 1.03 years (2020 – 1.44 years and 2019 – 0.54 years). The total intrinsic values of the time-based RSUs exercised during the year ended May 31, 2021 was \$10,905,991 (2020 - \$5,123,883 and 2019 - \$775,962). The total fair value of time-based RSUs vested during the year ended May 31, 2021 was \$8,777,963 (2020 - \$4,507,883 and 2019 - \$2,044,952).

	May 31, 2021			
	Time-based RSUs	Weighted average grant - date fair value per share	Performance- based RSUs	Weighted average grant - date fair value per share
Non-vested, beginning of the year	1,588,743	\$ 7.71	19,335	\$ 6.01
Granted during the year	2,370,862	\$ 6.24	—	—
Vested during the year	(1,006,222)	\$ (6.83)	—	—
Forfeited during the year	(158,411)	\$ (6.68)	(19,335)	\$ (6.01)
Non-vested, end of the year	<u>2,794,972</u>	<u>\$ 6.88</u>	<u>—</u>	<u>—</u>

**22. Accumulated other comprehensive loss**

Accumulated other comprehensive loss includes the following components:

	Foreign currency translation (loss) gain	Unrealized loss on convertible notes receivables	Total
Balance May 31, 2018	\$ 110	\$ 2,844	\$ 2,954
Other comprehensive income (loss)	(90)	(2,570)	(2,660)
Elimination of CTA on disposal of equity investee	606	—	606
Balance May 31, 2019	626	274	900
Other comprehensive income (loss)	(858)	(5,476)	(6,334)
Balance May 31, 2020	(232)	(5,202)	(5,434)
Settlement of convertible notes receivable	—	5,277	5,277
Other comprehensive income (loss)	156,649	(3,824)	152,825
Balance May 31, 2021	<u>\$ 156,417</u>	<u>\$ (3,749)</u>	<u>\$ 152,668</u>

### 23. Non-controlling interests

The following tables summarise the information relating to the Company's subsidiaries, CC Pharma Nordic ApS, Aphria Diamond, Marigold Projects Jamaica Limited ("Marigold"), and ColCanna S.A.S. before intercompany eliminations.

Non-controlling interests as at May 31, 2021:

	CC Pharma Nordic ApS	Aphria Diamond	Marigold	ColCanna S.A.S.	May 31, 2021
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)
<b>Net assets</b>	<b>(340)</b>	<b>75,384</b>	<b>—</b>	<b>140,234</b>	<b>215,278</b>

Non-controlling interests as at May 31, 2020:

	Aphria Diamond	Marigold	ColCanna S.A.S.	May 31, 2020
Current assets	\$ 25,957	\$ —	\$ 547	\$ 26,504
Non-current assets	156,251	—	83,857	240,108
Current liabilities	(11,337)	—	(274)	(11,611)
Non-current liabilities	(128,031)	—	(24,471)	(152,502)
<b>Net assets</b>	<b>42,840</b>	<b>—</b>	<b>59,659</b>	<b>102,499</b>

Non-controlling interests for the year ended May 31, 2021:

	CC Pharma Nordic ApS	Aphria Diamond	Marigold	ColCanna S.A.S.	May 31, 2021
Revenue	\$ 827	\$ 131,381	\$ —	\$ —	\$ 132,208
Total expenses (recovery)	(958)	(67,030)	—	(923)	(68,911)
Net (loss) income	(131)	64,351	—	(923)	63,297
Other comprehensive (loss) income	—	—	—	—	\$ —
Net comprehensive income	<b>(131)</b>	<b>64,351</b>	<b>—</b>	<b>(923)</b>	<b>63,297</b>

Non-controlling interests for the year ended May 31, 2020:

	Aphria Diamond	Marigold	ColCanna S.A.S.	May 31, 2020
Revenue	\$ 24,142	\$ 40	\$ —	\$ 24,182
Total expenses (recovery)	(25,141)	4,995	19,447	(699)
Net (loss) income	(999)	5,035	19,447	23,483
Other comprehensive (loss) income	—	—	—	\$ —
Net comprehensive loss	<b>(999)</b>	<b>5,035</b>	<b>19,447</b>	<b>23,483</b>

Non-controlling interests for the year ended May 31, 2019:

	Aphria Diamond	CannInvest Africa Ltd.	Verve Dynamics	Nuuvera Malta Ltd.	Marigold	ColCanna S.A.S.	May 31, 2019
Revenue	\$ —	\$ —	\$ —	\$ 174	\$ —	\$ —	\$ 174
Total expenses (recovery)	(21,273)	(8)	(634)	(791)	(572)	(942)	(24,220)
Net (loss) income	(21,273)	(8)	(634)	(617)	(572)	(942)	(24,046)
Other comprehensive (loss) income	—	—	—	—	—	—	—
Net comprehensive loss	<u>(21,273)</u>	<u>(8)</u>	<u>(634)</u>	<u>(617)</u>	<u>(572)</u>	<u>(942)</u>	<u>(24,046)</u>

## 24. Net revenue

Net revenue is comprised of:

	For the year ended May 31,		
	2021	2020	2019
Cannabis revenue	\$ 264,334	153,477	67,592
Cannabis excise taxes	(62,942)	(23,581)	(7,716)
Net cannabis revenue	201,392	129,896	59,876
Beverage alcohol revenue	29,661	—	—
Beverage alcohol excise taxes	(1,062)	—	—
Net beverage alcohol revenue	28,599	—	—
Distribution revenue	277,300	275,430	119,427
Wellness revenue	5,794	—	—
	<u>\$ 513,085</u>	<u>\$ 405,326</u>	<u>\$ 179,303</u>

## 25. Cost of goods sold

Cost of goods sold is comprised of:

	For the year ended May 31,		
	2021	2020	2019
Cannabis costs	\$ 130,511	68,551	31,341
Beverage alcohol costs	12,687	—	—
Distribution costs	242,472	240,722	104,451
Wellness costs	4,233	—	—
	<u>\$ 389,903</u>	<u>\$ 309,273</u>	<u>\$ 135,792</u>

## 26. General and administrative expenses

General and administrative expenses are comprised of the following items:

	For the year ended May 31,		
	2021	2020	2019
Executive compensation	\$ 8,645	\$ 6,777	\$ 4,402
Consulting fees	6,633	9,272	4,928
Office and general	19,503	12,351	12,486
Professional fees	5,146	4,918	8,916
Salaries and wages	37,126	28,252	14,842
Stock-based compensation	17,351	18,079	21,951
Insurance	12,257	9,370	4,050
Travel and accommodation	2,711	2,798	2,356
Rent	2,203	1,972	1,910
	<u>\$ 111,575</u>	<u>\$ 93,789</u>	<u>\$ 75,841</u>

## 27. Finance income (expense), net

Finance income (expense), net is comprised of:

	For the year ended May 31,		
	2021	2020	2019
Interest income	\$ 2,926	\$ 6,273	\$ 11,138
Interest expense	(30,903)	(25,644)	(5,879)
	<u>\$ (27,977)</u>	<u>\$ (19,371)</u>	<u>\$ 5,259</u>

## 28. Non-operating (expense) income

Non-operating (expense) income is comprised of:

	For the year ended May 31,		
	2021	2020	2019
Foreign exchange (loss) gain	\$ (22,347)	\$ 6,145	\$ 692
Loss on marketable securities	—	(252)	(135)
Gain (loss) on sale of capital assets	1,523	(8,075)	42
(Loss) gain from equity investees	(458)	—	44,191
Deferred gain on sale of intellectual property	—	—	257
Loss on promissory notes receivable	—	(9,698)	—
(Loss) gain on long-term investments	(2,352)	(24,295)	14,860
Unrealized (loss) gain on convertible debentures	(170,453)	44,322	36,630
Realized gain on settlement of convertible debentures	—	9,289	—
Legal settlement	—	(3,241)	—
Unrealized loss on financial liabilities	—	—	(1,003)
Change in fair value of warrant liability	1,234	—	—
Other non-operating items, net	8,015	—	—
	<u>\$ (184,838)</u>	<u>\$ 14,195</u>	<u>\$ 95,534</u>

## 29. Change in non-cash working capital

Change in non-cash working capital is comprised of:

	For the year ended May 31,		
	2021	2020	2019
Decrease (increase) in:			
Accounts receivable	\$ (23,512)	\$ (25,593)	\$ 9,421
Prepays and other current assets	(6,772)	(10,899)	4,322
Inventory	(35,286)	(89,660)	(26,069)
Increase (decrease) in:			
Accounts payable and accrued liabilities	14,501	47,335	(8,984)
Deferred revenue	134	(15)	8,839
	<u>\$ (50,935)</u>	<u>\$ (78,832)</u>	<u>\$ (12,471)</u>

## 30. Commitments and contingencies

### *Purchase and other commitments*

The Company has payments on long-term debt (refer to Note 18 *Long-term debt*), convertible notes (refer to Note 19 *Convertible Debentures*), ABG finance liability (refer to Note 17 *Accounts payable and accrued liabilities*) material purchase commitments and construction commitments as follows:

	Total	2022	2023	2024	2025	2026	Thereafter
Long-term debt repayment	\$204,108	36,623	69,925	95,181	1,438	941	—
Convertible notes, principal and interest	571,989	13,893	13,893	284,803	259,400	—	—
ABG finance liability	6,000	1,500	1,500	1,500	1,500	—	—
Material purchase obligations	26,097	21,141	4,009	854	93	—	—
Construction commitments	1,814	1,814	—	—	—	—	—
<b>Total</b>	<u>\$810,008</u>	<u>\$74,971</u>	<u>\$89,327</u>	<u>\$382,338</u>	<u>\$262,431</u>	<u>\$ 941</u>	<u>\$ —</u>

### *Legal proceedings*

From time to time, the Company and/or its subsidiaries may become defendants in legal actions arising out of the ordinary course and conduct of its business. As of May 31, 2021, in the opinion of management, no claims meet the criteria to record a loss contingency.

## 31. Financial risk management and financial instruments

### **Financial instruments**

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

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

The Company's long-term debt of \$20,358 (2020 - \$19,398) 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.

## Fair value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. Cash and cash equivalents are Level 1. The hierarchy is summarized as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2 Inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data
- Level 3 Inputs for assets and liabilities not based upon observable market data

The following tables present information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of May 31, 2021 and 2020 and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value:

	Level 1	Level 2	Level 3	May 31, 2021
<b>Financial assets</b>				
Cash and cash equivalents	\$ 488,466	\$ —	\$ —	\$ 488,466
Convertible notes receivable	—	2,485	—	2,485
Long-term investments	9,251	2,934	—	12,185
<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>\$ (35,133)</b>

	Level 1	Level 2	Level 3	May 31, 2020
<b>Financial assets</b>				
Cash and cash equivalents	\$ 360,646	\$ —	\$ —	\$ 360,646
Convertible notes receivable	—	10,609	—	10,609
Long-term investments	11,244	8,351	—	19,595
<b>Financial liabilities</b>				
APHA 24 Convertible debenture	—	—	(196,405)	(196,405)
<b>Total recurring fair value measures</b>	<b>\$ 371,890</b>	<b>\$ 18,960</b>	<b>\$ (196,405)</b>	<b>\$ 194,445</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 long-term 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.

Warrant liability: 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.

APHA 24: This instrument is held at fair value. The estimated fair value is determined using the Black Scholes option pricing model and is classified as Level 3.

Contingent consideration: The contingent consideration from the acquisition of SweetWater 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 opening balances of assets and liabilities categorized within Level 3 of the fair value hierarchy measured at fair value on a recurring basis are reconciled to the closing balances as follows:

	APHA 24 Convertible debenture	Warrant liability	Contingent consideration	Total
Closing balance May 31, 2020	\$ (196,405)	\$ —	\$ —	\$ (196,405)
Additions	—	(79,402)	(58,959)	(138,361)
Disposals	—	—	—	—
Unrealized gain (loss) on fair value	(203,039)	1,234	(1,698)	(203,503)
Closing balance May 31, 2021	<u>\$ (399,444)</u>	<u>\$ (78,168)</u>	<u>\$ (60,657)</u>	<u>\$ (538,269)</u>

The unrealized gain (loss) on fair value for the Convertible Debenture and the warrant liability is recognized in non-operating income (loss) using the following inputs:

Financial asset / financial liability	Valuation technique	Significant unobservable input	Inputs
APHA Convertible debentures	Black-Scholes	Volatility, expected life	70% 3 years
Warrant liability	Black-Scholes	Volatility, expected life	70% 4 years
Contingent consideration	Discounted cash flows	Discount rate, achievement	5% 100%

#### *Items measured at fair value on a non-recurring basis*

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

### **Financial risk management**

The Company has exposure to the following risks from its use of financial instruments: credit; liquidity; currency rate; interest rate price; equity price risk; and capital management risk.

#### *(a) Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at May 31, 2021, is the carrying amount of cash and cash equivalents, accounts receivable, prepaids and other current assets, promissory notes receivable and convertible notes receivable. All cash and cash equivalents are placed with major financial institutions in Canada, Australia, Portugal, Germany, Colombia, Argentina and the United States. To date, the Company has not experienced any losses on its cash deposits. Accounts receivable are unsecured, and the Company does not require collateral from its customers.

The Company evaluates the collectability of its accounts receivable and maintains an allowance for credit losses at an amount sufficient to absorb losses inherent in the existing accounts receivable portfolio as of the reporting dates based on the estimate of expected net credit losses.

Trade receivables included an allowance for doubtful accounts of \$4,571 at May 31, 2021 (2020-\$2,313), and is comprised of the following aged receivables:

	<u>Total</u>	<u>0-30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>90+ days</u>
Trade receivables	\$ 87,309	70,997	8,253	1,051	7,008
		<u>82%</u>	<u>9%</u>	<u>1%</u>	<u>8%</u>

Due to the uncertainties associated with COVID-19, the Company may be unable to accurately predict the creditworthiness of its counterparties and their ability to meet their obligations. This may result in unforeseen additional credit losses.

*(b) Liquidity risk*

As at May 31, 2021, the Company's financial liabilities consist of bank indebtedness and accounts payable and accrued liabilities, which have contractual maturity dates within one-year, long-term debt, and convertible debentures which have contractual maturities over the next five years.

The Company maintains a debt service charge covenant on certain loans secured by its Aphria One facilities that is measured at year-end only. The Company maintains debt service charge and leverage covenants on certain loans secured by its Aphria Diamond facilities and 420 that are measured quarterly. The Company believes that it has sufficient operating room with respect to its financial covenants for the next fiscal year and does not anticipate being in breach of any of its financial covenants.

The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company's working capital position at May 31, 2021, management regards liquidity risk to be low.

*(c) Currency rate risk*

As at May 31, 2021, a portion of the Company's financial assets and liabilities held in Canadian dollars and Euros consist of cash and cash equivalents, convertible notes receivable, and long-term investments. The Company's objective in managing its foreign currency risk is to minimize its net exposure to foreign currency cash flows by transacting, to the greatest extent possible, with third parties in the functional currency. The Company is exposed to currency rate risk in other comprehensive income, relating to foreign subsidiaries which operate in a foreign currency. The Company does not currently use foreign exchange contracts to hedge its exposure of its foreign currency cash flows as management has determined that this risk is not significant at this point in time.

*(d) Interest rate price risk*

The Company's exposure to changes in interest rates relates primarily to the Company's outstanding debt. The Company manages interest rate risk by restricting the type of investments and varying the terms of maturity and issuers of marketable securities. Varying the terms to maturity reduces the sensitivity of the portfolio to the impact of interest rate fluctuations.

*(e) Equity price risks*

As of May 31, 2021, the Company held long-term equity investments at fair value and equity investments under the measurement alternative. These investment in equities were acquired as part of our strategic transactions. Accordingly, the changes in fair values of investment in equities measured at fair value or under the measurement alternative are recognized through gain (loss) on long-term investment in the statements of net loss and comprehensive loss. Based on the fair value of investment in equities held as of May 31, 2021, a hypothetical decrease of 10% in the prices for these companies would reduce the fair values of the investments and result in unrealized loss recorded in gain (loss) on long-term investment by \$1,769.

Similarly, based on the fair value of our warrant liability as of May 31, 2021, a hypothetical increase of 10% in the price for our common stock would increase the change in fair value of warrant liability and result in unrealized gain recorded in non-operating income by \$9,800.

(f) *Capital management*

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements.

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

### 32. Segment reporting

Information reported to the Chief Operating Decision Maker ("CODM") for the purpose of resource allocation and assessment of segment performance focuses on the nature of the operations. The Company operates in five segments. 1) cannabis operations, which encompasses the production, distribution and sale of both medical and adult-use cannabis, 2) beverage alcohol operations, which encompasses cultivation, distribution and sale of beverage alcohol products, 3) distribution operations, which encompasses the purchase and resale of pharmaceuticals products to customers, 4) wellness products, which encompasses hemp foods and cannabidiol ("CBD") products and 5) businesses under development which encompass operations in which the Company has not received final licensing or has not commenced commercial sales from operations. Factors considered in determining the operating segments include the Company's business activities, the management structure directly accountable to the CODM, availability of discrete financial information and strategic priorities within the organizational structure. Operating segments have not been aggregated and no asset information is provided for the segments because the Company's CODM does not receive asset information by segment on a regular basis.

Segment net revenue from external customers:

	For the year ended May 31,		
	2021	2020	2019
Cannabis business	\$ 201,392	\$ 129,896	\$ 59,876
Distribution business	277,300	275,430	119,427
Beverage alcohol business	28,599	—	—
Wellness business	5,794	—	—
Business under development	—	—	—
Total net revenue	<u>\$ 513,085</u>	<u>\$ 405,326</u>	<u>\$ 179,303</u>

Channels of Cannabis revenue were as follows:

	For the year ended May 31,		
	2021	2020	2019
Revenue from medical cannabis products	\$ 25,539	\$ 28,685	\$ 33,017
Revenue from adult-use cannabis products	222,930	112,207	30,236
Revenue from wholesale cannabis products	6,615	12,585	4,339
Revenue from international cannabis products	9,250	—	—
Less excise tax	(62,942)	(23,581)	(7,716)
Total net cannabis revenue	<u>\$ 201,392</u>	<u>\$ 129,896</u>	<u>\$ 59,876</u>

Geographic net revenue:

	For the year ended May 31,		
	2021	2020	2019
North America	\$ 229,120	\$ 129,663	\$ 59,629
EMEA	279,062	271,291	116,578
Latin America	4,903	4,372	3,096
Total net revenue	<u>\$ 513,085</u>	<u>\$ 405,326</u>	<u>\$ 179,303</u>

Geographic capital assets:

	May 31, 2021	May 31, 2020
North America	504,575	\$ 371,823
EMEA	140,838	44,348
Latin America	5,285	4,535
Total capital assets	<u>\$ 650,698</u>	<u>\$ 420,706</u>

Major customers are defined as customers that each individually account for greater than 10% of the Company's annual revenues. For the years ended May 31, 2021, 2020, and 2019 there were no major customers representing greater than 10% of our annual revenues.

### 33. Quarterly financial data (unaudited)

The following table contains selected quarterly data for 2021 and 2020. information should be read in conjunction with the Company's financial statements and related notes included elsewhere in this report. The Company believes that the following information reflects all normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

	For the three months ended			
	August 31, 2020	November 30, 2020	February 28, 2021	May 31, 2021
Net revenue	\$ 117,490	\$ 129,459	123,900	142,236
Gross profit	34,945	35,283	30,456	22,498
Net income (loss)	(21,744)	(89,249)	(258,626)	33,605
Net income (loss) attributable to Tilray shareholders	(32,958)	(100,811)	(280,856)	47,204
Earnings (loss) per share - basic	(0.09)	(0.37)	(0.97)	0.18
Earnings (loss) per share - fully diluted	(0.09)	(0.37)	(0.97)	0.18

  

	For the three months ended			
	August 31, 2019	November 30, 2019	February 29, 2020	May 31, 2020
Net revenue	\$ 94,078	\$ 89,967	\$ 107,739	\$ 113,542
Gross profit	20,555	21,812	25,879	27,807
Net income (loss)	1,435	(6,265)	(11,699)	(84,306)
Net income (loss) attributable to Tilray shareholders	1,564	(5,996)	(11,003)	(87,105)
Earnings (loss) per share - basic	0.01	(0.03)	(0.05)	(0.39)
Income (loss) per share - fully diluted	0.01	(0.03)	(0.05)	(0.39)

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Tilray, Inc.

### Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of financial position of Tilray, Inc. and its subsidiaries (together, the Company) as of May 31, 2021 and 2020, and the related consolidated statements of loss and comprehensive loss, changes in equity and cash flows for each of the three years in the period ended May 31, 2021, including the related notes (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of May 31, 2021, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of May 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2021, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the COSO.

### Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Controls over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded SweetWater Brewery LLC and Tilray, Inc. from its assessment of internal control over financial reporting as of May 31, 2021, because the entities were acquired by the Company in purchase business combinations during 2021. We have also excluded SweetWater Brewery LLC and Tilray, Inc. from our audit of internal control over financial reporting. SweetWater Brewery LLC and Tilray, Inc. are wholly-owned subsidiaries whose total assets and total revenues excluded from management's assessment and our audit of internal control over financial reporting represent 0.4% and 9.7% of total assets, respectively and 5.6% and 3.7% of total revenues, respectively, of the related consolidated financial statement amounts as of and for the year ended May 31, 2021.

## **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### ***Critical Audit Matters***

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### ***Impairment Assessment of Goodwill and Indefinite-lived Intangible Assets for the Business under development Reporting Unit***

As described in Notes 3, 9 and 11 to the consolidated financial statements, the Company's consolidated goodwill and indefinite-lived intangible assets balances were \$2,832.8 million and \$412.0 million respectively at May 31, 2021. The goodwill associated with the Business under development reporting unit was \$336.8 million at May 31, 2021. Management conducts an impairment assessment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the carrying value of goodwill or indefinite-lived intangibles may not be recoverable. Impairment is recognized by comparing the fair value of the reporting unit to its carrying value. Fair value amounts are estimated by management using a discounted cash flow model. Management's cash flow models included significant judgements and assumptions relating to future cash flows, growth rates and discount rates.

The principal considerations for our determination that performing procedures relating to the impairment assessment of goodwill and indefinite-lived intangible assets for the Business under development reporting unit is a critical audit matter are (i) the significant judgement required by management when developing the estimate of the fair value of the reporting unit; and (ii) a high degree of auditor judgement, subjectivity and effort in performing procedures to evaluate management's significant assumptions, including future cash flows, growth rates and discount rates.

Addressing the matter involved performing procedures and evaluating audit evidence, in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill and indefinite-lived intangible assets impairment assessment over the determination of the fair value of the Business under development reporting unit. These procedures also included, among others, (i) testing management's process for developing the fair value estimates of the Business under development reporting unit; (ii) evaluating the appropriateness of the underlying discounted cash flow models; (iii) testing the completeness and accuracy of underlying data used in the models; and (iv) evaluating the reasonableness of the significant assumptions used by management, including the future cash flows, growth rates and discount rates. Evaluating management's significant assumptions related to future cash flows, growth rates and the discount rates involved evaluating whether the assumptions used by management were reasonable considering (i) the current and

past performance of the reporting unit; (ii) the consistency with external market and industry data; (iii) sensitivities over significant inputs and assumptions; and (iv) whether these assumptions were consistent with evidence obtained in other areas of the audit.

*Fair value measurement of intangible assets acquired and valuation of contingent consideration related to the acquisition of SweetWater Brewery LLC*

As described in Notes 3 and 10 to the consolidated financial statements, the Company completed the acquisition of SweetWater Brewery LLC (“SweetWater”) for net consideration of \$380.4 million in 2021, which resulted in a preliminary estimate of fair value of \$257.0 million of intangible assets being recorded. Included in consideration is contingent consideration of \$59.0 million, which is contingent on SweetWater achieving specified EBITDA targets. The Company accounts for business combinations using the acquisition method which requires recognition of assets acquired and liabilities assumed at their respective fair values at the date of acquisition. Contingent consideration is measured at its acquisition-date fair value and included as consideration transferred in a business combination. Management applied significant judgment in estimating the fair value of intangible assets acquired and the acquisition-date fair value of contingent consideration, which involved the use of significant estimates and assumptions with respect to the cash flow projections, the rate of future revenue growth, profitability of the acquired business and the discount rate, among other factors.

The principal considerations for our determination that performing procedures relating to the fair value measurement of intangible assets acquired and valuation of contingent consideration related to the acquisition of SweetWater is a critical audit matter are (i) the significant judgment by management, including the use of specialists, when estimating the fair value of the intangible assets acquired; (ii) the high degree of auditor judgment and subjectivity in performing procedures relating to the fair value measurement of intangible assets acquired and the acquisition-date fair value of the contingent consideration; (iii) significant audit effort in evaluating the reasonableness of significant assumptions relating to the estimate, such as the cash flow projections, the rate of future revenue growth, profitability of the acquired business and the discount rate; and (iv) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the acquisition accounting, including controls over management’s valuation of the intangible assets and the contingent consideration including controls over development of the cash flow projections, rate of future revenue growth, profitability of the acquired business, and the discount rate assumptions utilized in the valuation of the intangible assets and contingent consideration. These procedures also included, among others, (i) reading the purchase agreement; and (ii) testing management’s process for estimating the fair value of the intangible assets acquired and determining the acquisition-date fair value of the contingent consideration. Testing management’s process included evaluating the appropriateness of the valuation methods, testing the completeness and accuracy of data provided by management, and evaluating the reasonableness of significant assumptions related to the cash flow projections, the rate of future revenue growth, profitability of the acquired business, and the discount rate for the intangible assets and the contingent consideration. Evaluating the reasonableness of the rate of future revenue growth and the profitability of the acquired business, involved considering the past performance of the acquired businesses and market comparable results as well as economic and industry forecasts. The discount rate was evaluated by considering the cost of capital of comparable businesses and other industry factors. Professionals with specialized skill and knowledge were used to assist in the evaluation of the appropriateness of the Company’s valuation models and the reasonability of the discount rate.

*Fair value measurement of intangible assets acquired related to the reverse acquisition of Tilray, Inc.*

As described in Notes 1, 3 and 10 to the consolidated financial statements, the Company entered into a plan of arrangement in 2021 with Aphria Inc. pursuant to which the Company acquired all of the issued and outstanding common shares of Aphria Inc. The terms of the plan of arrangement resulted in a reverse acquisition whereby Aphria was determined to be the acquiring entity from an accounting perspective. The Company accounts for business combinations using the acquisition method which requires recognition of assets acquired and liabilities

assumed at their respective fair values at the date of acquisition. The total fair value of consideration transferred was \$3,204.9 million, which resulted in a preliminary estimate of fair value of \$1,079.0 million of intangible assets being recorded. Management applied significant judgment in the preliminary estimate of fair value of the intangible assets acquired, which involved the use of significant estimates and assumptions with respect to the cash flow projections, the rate of future revenue growth, profitability of the acquired business and the discount rate, among other factors.

The principal considerations for our determination that performing procedures relating to the preliminary estimate of fair value of intangible assets acquired in the reverse acquisition of Tilray, Inc. is a critical audit matter are (i) the significant judgment by management, including the use of specialists, when estimating the fair value of intangible assets; (ii) the high degree of auditor judgment and subjectivity in performing procedures relating to the fair value measurement of intangible assets acquired; (iii) significant audit effort in evaluating the reasonableness of significant assumptions relating to the estimate, such as the cash flow projections, rate of future revenue growth, profitability of the acquired business and the discount rate; and (iv) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the acquisition accounting, including controls over management's valuation of the intangible assets and controls over the development of the cash flow projections, rate of future revenue growth, profitability of the acquired business and the discount rate assumptions utilized in the valuation of the intangible assets. These procedures also included, among others, (i) reading the purchase agreement; and (ii) testing management's process for estimating the fair value of the intangible assets acquired. Testing management's process included evaluating the appropriateness of the valuation methods, testing the completeness and accuracy of data provided by management, and evaluating the reasonableness of significant assumptions related to the cash flow projections, rate of future revenue growth, profitability of the acquired business and the discount rate. Evaluating the reasonableness of the rate of future revenue growth and the profitability of the acquired business involved considering the past performance of the acquired businesses and market comparable results as well as economic and industry forecasts. The discount rate was evaluated by considering the cost of capital of comparable businesses and other industry factors. Professionals with specialized skill and knowledge were used to assist in the evaluation of the appropriateness of the Company's valuation models and the reasonableness of the discount rate.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants  
Toronto, Canada  
July 28, 2021

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