UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from to

Commission File Number: 001-38594

Tilray, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**82-4310622**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1100 Maughan Road
Nanaimo, BC, Canada, V9X IJ2
(Address of principal executive offices)
(Zip Code)
Registrant’s telephone number, including area code: (844) 845-7291

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class 2 Common Stock, $0.0001 par value per share	TLRY	The Nasdaq Global Select Market

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☒		

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

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

As of November 13, 2019, the registrant had 16,666,667 shares of Class 1 Common Stock, $0.0001 par value per share, and 83,840,987 shares of Class 2 Common Stock, $0.0001 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

TILRAY, INC.
Condensed Consolidated Balance Sheets
(in thousands of U.S. dollars, except for share and par value data, unaudited)

	September 30, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	$ 100,159	$ 487,255
Short-term investments	22,213	30,335
Accounts receivable, net of allowance for doubtful accounts of $612 and $292, respectively	36,040	16,525
Other receivables	2,886	969
Inventory	110,487	16,211
Prepaid expenses and other current assets	58,895	3,007
Total current assets	330,680	554,302
Property and equipment, net	166,489	80,214
Intangible assets, net	329,928	4,486
Goodwill	163,041	—
Investments	42,318	16,911
Deposits and other assets	7,744	754
Total assets	$ 1,040,200	$ 656,667
Liabilities		
Current liabilities		
Accounts payable	58,688	10,649
Accrued expenses and other current liabilities	71,387	14,818
Accrued obligations under capital lease	127	470
Total current liabilities	130,202	25,937
Accrued obligations under capital lease	9,166	8,286
Deferred tax liability	57,100	4,424
Convertible Notes, net of issuance cost	427,983	420,367
Total liabilities	$ 624,451	$ 459,014
Stockholders' equity		
Class 1 common stock ($0.0001 par value, 250,000,000 shares authorized; 16,666,667 shares issued and outstanding)	2	2
Class 2 common stock ($0.0001 par value; 500,000,000 shares authorized; 83,605,076 and 76,504,200 shares issued and outstanding, respectively	8	8
Additional paid-in capital	623,254	302,057
Accumulated other comprehensive income	1,694	3,763
Accumulated deficit	(209,209)	(108,177)
Total stockholders' equity	415,749	197,653
Total liabilities and stockholders' equity	$ 1,040,200	$ 656,667

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

TILRAY, INC.
Condensed Consolidated Statements of Net Loss and Comprehensive Loss
(in thousands of U.S. dollars, except for share and per share data, unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenue	$ 51,101	$ 10,047	$ 120,043	$ 27,599
Cost of sales	35,248	6,979	86,532	16,458
Gross profit	15,853	3,068	33,511	11,141
General and administrative expense	19,978	7,001	49,240	16,488
Sales and marketing expense	16,974	3,493	39,161	9,061
Depreciation and amortization expense	3,190	529	7,438	1,032
Stock-based compensation expense	8,315	11,245	21,206	16,877
Research and development expense	2,315	802	4,891	2,416
Loss from equity method investments	1,837	—	1,837	—
Acquisition-related (income) expense, net	(13,454)	10	(6,598)	10
Operating loss	(23,302)	(20,012)	(83,664)	(34,743)
Foreign exchange loss (gain), net	2,585	(1,591)	1,153	913
Interest expense, net	8,687	480	26,018	1,393
Finance income from ABG Profit Participation Arrangement	(210)	—	(557)	—
Other income, net	(1,313)	(225)	(5,661)	(422)
Loss before income taxes	(33,051)	(18,676)	(104,617)	(36,627)
Deferred income tax expense (recovery)	2,432	—	(3,987)	—
Current income tax expense	195	24	402	87
Net loss	$ (35,678)	$ (18,700)	$ (101,032)	$ (36,714)
Net loss per share - basic and diluted	(0.36)	(0.20)	(1.04)	(0.39)
Weighted average shares used in computation of net loss per share - basic and diluted	98,130,507	93,144,042	96,742,626	93,144,042
Net loss	$ (35,678)	$ (18,700)	$ (101,032)	$ (36,714)
Foreign currency translation loss	(4,863)	(451)	(2,414)	(538)
Unrealized (loss) gain on cash equivalents and investments	(301)	—	345	—
Other comprehensive loss	(5,164)	(451)	(2,069)	(538)
Comprehensive loss	$ (40,842)	$ (19,151)	$ (103,101)	$ (37,252)

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

TILRAY, INC.
Condensed Consolidated Statements of Stockholders' Equity
(in thousands of U.S. dollars, except for share data, unaudited)

	Common stock		Additional	Accumulated other		Total
	Number of shares	Amount	paid-in capital	comprehensive income	Accumulated deficit	equity (deficit)
Balance as of December 31, 2018	93,170,867	$ 10	$ 302,057	$ 3,763	$ (108,177)	$ 197,653
Shares issued for Natura acquisition	180,332	—	15,100	—	—	15,100
Shares issued for Manitoba Harvest acquisition	1,209,946	—	96,844	—	—	96,844
Shares issued for ABG Profit Participation Arrangement	1,680,214	—	125,097	—	—	125,097
Receivable for ABG Profit Participation Arrangement, net of finance income	—	—	(30,292)	—	—	(30,292)
Shares issued under stock-based compensation plans	545,000	—	931	—	—	931
Shares issued for employee compensation	11,868	—	649	—	—	649
Stock-based compensation expense	—	—	5,306	—	—	5,306
Other comprehensive income	—	—	—	933	—	933
Net loss	—	—	—	—	(30,301)	(30,301)
Balance as of March 31, 2019	96,798,227	10	515,692	4,696	(138,478)	381,920
Shares issued under stock-based compensation plans	530,943	—	3,483	—	—	3,483
Shares issued for investment	28,361	—	70	—	—	70
Stock-based compensation expense	—	—	7,585	—	—	7,585
Other comprehensive income	—	—	—	2,162	—	2,162
Net loss	—	—	—	—	(35,053)	(35,053)
Balance as of June 30, 2019	97,357,531	10	526,830	6,858	(173,531)	360,167
Shares issued for common stock at-the-market, net of issuance costs	1,344,166	—	37,445	—	—	37,445
Shares issued for Manitoba Harvest acquisition	899,306	—	31,866	—	—	31,866
Shares issued for investments and S&S acquisition	433,338	—	14,438	—	—	14,438
Finance income for receivable for ABG Profit Participation Arrangement	—	—	1,393	—	—	1,393
Shares issued under stock-based compensation plans	237,402	—	2,967	—	—	2,967
Stock-based compensation expense	—	—	8,315	—	—	8,315
Other comprehensive loss	—	—	—	(5,164)	—	(5,164)
Net loss	—	—	—	—	(35,678)	(35,678)
Balance as of September 30, 2019	100,271,743	$ 10	$ 623,254	$ 1,694	$ (209,209)	$ 415,749

TILRAY, INC.
Condensed Consolidated Statements of Stockholders' Equity
(in thousands of U.S. dollars, except for share data, unaudited)

	Convertible preferred shares		Common stock		Additional	Accumulated other		Total
	Number of shares	Amount	Number of shares	Amount	paid-in capital	comprehensive income	Accumulated deficit	equity (deficit)
Balance as of December 31, 2017	—	$ —	—	$ —	$ 31,736	$ 3,866	$ (40,454)	$ (4,852)
Shares issued for convertible preferred stock, net of issuance costs	7,794,042	1	—	—	52,639	—	—	52,640
Shares issued for common stock, net of issuance costs	—	—	75,000,000	8	—	—	—	8
Stock-based compensation expense	—	—	—	—	31	—	—	31
Other comprehensive loss	—	—	—	—	—	(1)	—	(1)
Net loss	—	—	—	—	—	—	(5,181)	(5,181)
Balance as of March 31, 2018	7,794,042	1	75,000,000	8	84,406	3,865	(45,635)	42,645
Stock-based compensation expense	—	—	—	—	5,601	—	—	5,601
Other comprehensive loss	—	—	—	—	—	(86)	—	(86)
Net loss	—	—	—	—	—	—	(12,833)	(12,833)
Balance as of June 30, 2018	7,794,042	1	75,000,000	8	90,007	3,779	(58,468)	35,327
Conversion of preferred stock	(7,794,042)	(1)	7,794,042	1	—	—	—	—
Shares issued for common stock, net of issuance costs	—	—	10,350,000	1	160,692	—	—	160,693
Stock-based compensation expense	—	—	—	—	11,245	—	—	11,245
Other comprehensive loss	—	—	—	—	—	(451)	—	(451)
Net loss	—	—	—	—	—	—	(18,700)	(18,700)
Balance as of September 30, 2018	—	$ —	$ 93,144,042	$ 10	$ 261,944	$ 3,328	$ (77,168)	$ 188,114

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

TILRAY, INC.
Condensed Consolidated Statements of Cash Flows
(in thousands of U.S. dollars, unaudited)

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Operating activities		
Net loss	$ (101,032)	$ (36,714)
Adjusted for the following items:		
Depreciation and amortization expense	10,441	2,552
Stock-based compensation expense	21,206	16,877
Change in fair value of contingent consideration	(17,019)	—
Loss from equity method investments	1,837	—
Deferred taxes	(3,987)	—
Amortization of discount on Convertible Notes	7,616	—
Other operating activities	1,755	1,618
Changes in non-cash working capital:		
Accounts receivable	(13,102)	(4,808)
Other receivables	(1,917)	(3,553)
Inventory	(73,758)	(7,754)
Prepaid expenses and other current assets	(54,607)	(4,686)
Accounts payable	38,773	4,500
Accrued expenses and other current liabilities	16,539	5,528
Net cash used in operating activities	(167,255)	(26,440)
Investing activities		
Acquisition of Manitoba Harvest, net of cash acquired	(151,003)	—
Acquisition of Natura, net of cash acquired	(15,083)	—
Investment in ABG Profit Participation Arrangement	(33,333)	—
Investment in equity method investees and S&S acquisition	(14,302)	—
Change in deposits and other assets	85	—
Purchases of short-term and non-current investments	(8,486)	(44,061)
Proceeds from sales and maturities of short-term investments	8,640	29,393
Purchases of property and equipment	(50,421)	(38,076)
Disposals of property and equipment	—	34
Purchases of intangible assets	(941)	(834)
Net cash used in investing activities	(264,844)	(53,544)
Financing activities		
Proceeds from at-the-market equity offering, net of costs	37,445	—
Proceeds from ABG Profit Participation Arrangement	3,333	—
Repayment under Privateer debt facilities	—	(36,940)
Advances under Privateer debt and construction facilities	—	3,700
Proceeds from issuance of common stock pursuant to IPO, net	—	160,785
Proceeds from Preferred Shares - Series A, net	—	52,638
Proceeds from exercise of stock options	4,885	—
Minimum lease payments under capital lease	(565)	(516)
Net cash provided by financing activities	45,098	179,667
Effect of foreign currency translation on cash and cash equivalents	(95)	2,239
Cash and cash equivalents		
(Decrease) increase in cash and cash equivalents	(387,096)	101,922
Cash and cash equivalents, beginning of period	487,255	2,323
Cash and cash equivalents, end of period	$ 100,159	$ 104,245
Supplemental Disclosure for Cash Flow Information		
Cash paid for interest	$ 17,613	$ 930
Non-cash investing activities		
Acquisition of Manitoba Harvest	$ 157,917	$ —
Acquisition of Natura	$ 38,980	$ —
Investment in ABG Profit Participation Arrangement, net of receivable	$ 94,805	$ —
Purchases of investments and S&S acquisition	$ 14,508	$ —

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

1. Summary of Significant Accounting Policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements (the “financial statements”) reflect the accounts of Tilray, Inc. and its wholly owned subsidiaries (collectively “Tilray”, the “Company”, “we”, “our”, or “us”). The financial statements were prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) and pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, these financial statements do not include all the information and footnotes required for annual financial statements and should be read in conjunction with the audited consolidated financial statements included in the Company’s annual report on Form 10-K for the year ended December 31, 2018 (the “Annual Financial Statements”).

These financial statements reflect all adjustments, consisting solely of normal recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of the Company’s financial position and results of operations. The results of operations for the three and nine months ended September 30, 2019 and 2018 are not necessarily indicative of results that can be expected for the full year.

The Condensed Consolidated Statement of Net Loss and Comprehensive Loss for the three and nine months ended September 30, 2018 were reclassified to conform to the current period’s presentation. Specifically, depreciation and amortization expense as well as acquisition-related (income) expense, net, which were formerly presented as part of general and administrative expenses, are now presented separately.

Other than as described below, there were no changes to our significant accounting policies described in our Annual Financial Statements that had a material impact on our financial statements and related notes.

Emerging growth company status

The Company is an emerging growth company under the JOBS Act and has elected to take advantage of the extended transition period for complying with new or revised accounting standards applicable to public companies. Because the market value of the Company’s Class 2 common stock held by non-affiliates exceeded $700 million as of June 30, 2019, the Company will be deemed a large accelerated filer under the Exchange Act and will lose emerging growth company status as of December 31, 2019.

Business combinations and goodwill

The Company accounts for business combinations using the acquisition method in accordance with 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. Any excess of the purchase consideration over the net fair value of tangible and identified intangible assets acquired less liabilities assumed is recorded as goodwill. The costs of business acquisitions, including fees for accounting, legal, professional consulting and valuation specialists, are expensed as incurred. 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.

For business combinations achieved in stages, the Company’s previously held interest in the acquiree is remeasured at its acquisition date fair value, with the resulting gain or loss recorded in the Consolidated Statements of Net Loss and Comprehensive Loss. For a pre-existing relationship between the Company and acquiree that is not extinguished on the business combination, such a relationship is considered effectively settled as part of the business combination even if it is not legally cancelled. At the acquisition date, it becomes an intercompany relationship and is eliminated upon consolidation.

The estimated fair value of acquired assets and assumed liabilities are determined primarily using a discounted cash flow approach, with estimated cash flows discounted at a rate that the Company believes a market participant would determine to be commensurate with the inherent risks associated with the asset and related estimated cash flow streams. Contingent consideration in a business combination is remeasured at fair value each reporting period until the contingency is resolved and any change in fair value from either the passage of time or events occurring after the acquisition date, is recorded within acquisition-related (income) expense, net on the Consolidated Statements of Net Loss and Comprehensive Loss.

Intangible assets

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 in a business combination 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 as follows:

Patents	20 years
Customer relationships	14 to 16 years
Developed technology	10 years
Websites	3 years
Supply contract	3 years
Licenses	2 years

The Company has rights under the ABG Profit Participation Arrangement, trademarks and a cultivation license with indefinite life. Intangible assets that are determined to have an indefinite life 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-life intangible asset is impaired by the amount of the excess.

Equity method investments

Investments in entities over which the Company has significant influence but not a controlling interest are accounted for using the equity method, with the Company’s share of earnings or losses reported in loss from equity method investments on the Consolidated Statements of Net Loss and Comprehensive Loss. Equity method investments are recorded at cost, plus the Company’s share of undistributed earnings or losses, within investments on the Consolidated Balance Sheets.

The Company assesses investment in equity method investments if there is reason to believe an impairment may have occurred including, but not limited to, ongoing operating losses, projected decreases in earnings, increases in the weighted-average cost of capital, or significant business disruptions. The significant assumptions used to estimate fair value include revenue growth and profitability, capital spending, depreciation and taxes, foreign currency exchange rates, and discount rate. By their nature, these projections and assumptions are uncertain. If it is determined that the current fair value of an investment is less than the carrying value of the investment, the Company will assess if the shortfall is of a temporary or permanent nature and write down the investment to its fair value if it is concluded the impairment is other than temporary.

Stock-based payments

Fully vested, non-forfeitable equity instruments issued to parties other than employees are measured on the date they are issued where there is no specific performance required by the grantee to retain those equity instruments. Stock-based payment transactions with non-employees are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. Where fully vested, non-forfeitable equity instruments are granted to parties other than employees in exchange for notes or financing receivable, the note or receivable is presented in additional paid-in capital on the Consolidated Balance Sheets.

Impairment of goodwill and indefinite life intangible assets

Goodwill and indefinite life intangible assets are tested for impairment annually, or more frequently when events or circumstances indicate that impairment may have occurred. As part of the impairment evaluation, the Company may elect to perform an assessment of qualitative factors. If this qualitative assessment indicates that it is more likely than not that the fair value of the indefinite-lived intangible asset or the reporting unit (for goodwill) is less than its carrying value, a quantitative impairment test to compare the fair value to the carrying value and record an impairment charge if the carrying value exceeds the fair value is conducted.

Significant estimates and judgments

The preparation of the Company’s financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of revenue, expenses, assets, liabilities, accompanying disclosures and the disclosure of contingent liabilities. These estimates and judgments are subject to change based on experience and new information. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets or liabilities affecting future periods. Estimates and judgments are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Financial statement areas that require significant estimates and judgments are as follows:

Business combinations – The Company uses judgment 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 is typically estimated using the present value of future discounted cash flows, an income approach. Significant estimates in the discounted cash flow model include the discount rate, rates of future revenue growth and profitability of the acquired business, and working capital effects. The discount rate considers the relevant risk associated with business-specific characteristics and the uncertainty related to the ability to achieve projected cash flows. These estimates and the resulting valuations require significant judgment.

Contingent consideration – Contingent consideration is subject to measurement uncertainty as the financial impact will only be confirmed by the outcome of a future event. The assessment of contingent consideration involves a significant amount of judgment, including determining a reliable estimate of the amount of cash outflow required to settle the obligation based on significant unobservable inputs as well as estimates around the probability and timing of satisfying the future events on which the contingent consideration is based.

Asset impairment – Asset impairment tests require the allocation of assets to asset groups, which requires significant judgment and interpretation with respect to the integration between the assets and shared resources. Asset impairment tests require the determination of whether there is an indication of impairment. The assessment of whether an indication of impairment exists is performed at the end of each reporting period and requires the application of judgment, historical experience, and external and internal sources of information.

Stock-based payments – Stock-based payment transactions are measured and recognized based on estimated fair value, which requires judgment in determining the appropriate valuation model and assumptions, including discount for shares not registered with the Securities Exchange Commission ("SEC") subject to transfer restrictions.

Imputed interest for loans receivable – In connection with the loans obtained as part of the ABG Profit Participation Arrangement, judgment is required to estimate the prevailing market interest rate at each time a loan is issued.

New accounting pronouncements not yet adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), a new standard on revenue recognition. Further, the FASB issued a number of additional ASUs regarding the new revenue recognition standard. The new standard, as amended, will supersede existing revenue recognition guidance and apply to all entities that enter into contracts to provide goods or services to customers. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers – Deferral of the Effective Date, which amends ASU 2014-09 to defer the effective date by one year. For public companies, the new standard is effective for annual reporting periods beginning after December 31, 2017, including interim periods within that reporting period. For all other entities, including emerging growth companies, this standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is evaluating the impact on the financial statements, including both the quantitative impact of recognition and presentation of related disclosures, and expects to implement the provisions of ASU 2014-09 for the annual financial statements for the year ended December 31, 2019.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities, which requires all investments in equity securities with readily determinable fair value to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in consolidation of the investee). ASU 2016-01 is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information and removes the requirement to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet. For public companies, the new standard is effective for annual periods beginning after December 15, 2017, including interim periods within the fiscal year. For all other entities, including emerging growth companies, ASU 2016-01 is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Company is evaluating the impact on the financial statements and expects to implement the provisions of ASU 2016-01 for the annual financial statements for the year ended December 31, 2019.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the current accounting for leases and while retaining two distinct types of leases, finance and operating, (1) requires lessees to record a right of use asset and a related liability for the rights and obligations associated with a lease, regardless of lease classification, and recognize lease expense in a manner similar to current accounting, (2) eliminates most real estate specific lease provisions, and (3) aligns many of the underlying lessor model principles with those in the new revenue standard. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. For public companies, the new standard is effective for annual and interim periods in fiscal years beginning after December 15, 2018. For all other entities, including emerging growth companies, this standard is effective for annual reporting periods beginning after December 15, 2019, and interim periods within fiscal years beginning after December 2020. Earlier application is permitted. The Company is evaluating the impact on the financial statements and expects to implement the provisions of ASU 2016-02 for the annual financial statements for the year ended December 31, 2019 using the modified retrospective transition method with a cumulative adjustment to retained earnings rather than retrospectively adjusting prior periods. This adoption approach will result in a balance sheet presentation that is not comparable to the prior period in the first year of adoption. On adoption, our operating leases, excluding those with terms less than 12 months, will be discounted and recorded as assets and liabilities on our consolidated balance sheet.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Adoption of ASU 2016-13 will require financial institutions and other organizations to use forward-looking information to better formulate their credit loss estimates. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. This update will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is evaluating the impact on the financial statements and expects to implement the provisions of ASU 2016-13 as of January 1, 2020.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820). ASU 2018-13 adds, modifies, and removes certain fair value measurement disclosure requirements. ASU 2018-13 is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact on the financial statements and expects to implement the provisions of ASU 2018-13 as of January 1, 2020.

2. Investments

Long-term investments are comprised of the following items:

	September 30, 2019	December 31, 2018
Investments under the cost method	$ 20,731	$ 15,066
Investment in securities under available-for-sale method	9,531	1,845
Equity method investments	12,056	—
Total investments	$ 42,318	$ 16,911

As of September 30, 2019, total unrealized loss recognized in accumulated other comprehensive income related to long-term available-for-sale equity securities from initial recognition was $538 (December 31, 2018 – $802).

As of September 30, 2019, equity method investments primarily relates to the Company's joint venture with Anheuser-Busch InBev ("AB InBev") entered in December 2018 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. During the nine months ended September 30, 2019, the Company contributed $10,090 to the joint venture.

3. Fair Value Measurement

The Company complies with ASC 820, Fair Value Measurements, for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and includes situations where there is little, if any, market activity for the asset or liability.

The following table presents information about the Company's assets that are measured at fair value on a recurring basis as of September 30, 2019 and December 31, 2018, and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value:

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
September 30, 2019				
Investments				
Short-term investments	$ 22,213	$ —	$ —	$ 22,213
Investment in equity securities under available-for-sale method	3,357	—	—	3,357
Investment in debt securities under available-for-sale method	—	1,174	5,000	6,174
Total investments	25,570	1,174	5,000	31,744
Acquisition-related contingent consideration	—	—	(34,034)	(34,034)
Total	$ 25,570	$ 1,174	$ (29,034)	$ (2,290)
December 31, 2018				
Cash equivalents	$ 203,761	$ —	$ —	$ 203,761
Investments				
Short-term investments	30,335	—	—	30,335
Investment in equity securities under available-for-sale method	1,163	682	—	1,845
Total investments	31,498	682	—	32,180
Total	$ 235,259	$ 682	$ —	$ 235,941

As of September 30, 2019, the carrying amount of short-term investments, which includes corporate bonds and treasury bills, includes an unrealized gain recognized in accumulated other comprehensive income of $17 (December 31, 2018 – gain of $69). For the three and nine months ended September 30, 2019, $751 and $2,741, respectively, were reclassified from other comprehensive (loss) income to other income, net for realized gains on short-term investments. No amounts were reclassified for the comparative periods in 2018. Contractual maturities for debt securities under available-for-sale method are less than three years. Contingent consideration is recorded within accrued expenses and other current liabilities and primarily reflects the consideration for: (i) the acquisition of Manitoba Harvest payable in shares of Class 2 common stock contingent on revenues earned in 2019, and (ii) the acquisition of Natura payable in shares of Class 2 common stock contingent on production levels. Refer to Note 9 for details. There were no transfers between fair value measurement hierarchy levels during the three months ended September 30, 2019.

4. Inventory

Inventory is comprised of the following items:

	September 30, 2019	December 31, 2018
Raw materials	$ 5,362	$ 2,132
Work-in-process	81,342	12,812
Finished goods	23,783	1,267
Total	$ 110,487	$ 16,211

Inventory is written down for any obsolescence or when the net realizable value of inventory is less than the carrying value. For the three and nine months ended September 30, 2019, the Company recorded write-downs within work-in-process of $201 and $726, respectively, (2018 – $795 and $1,498) in cost of sales. As of September 30, 2019, the Company's inventory balance is in excess of historical sales for the past twelve months. This increase in inventory primarily relates to cannabis derivative products in anticipation for the next phase of the adult-use market given legislation effective in December 2019. Management believes no loss will be incurred on its disposition.

5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets is comprised of the following items:

	September 30, 2019	December 31, 2018
Deposits	$ 45,255	$ 1,511
Prepaid expenses	8,904	1,496
Loan receivable	3,817	—
Other current assets	919	—
Total	$ 58,895	$ 3,007

Deposits include prepayments on future purchases of inventory to secure supply. The loan receivable relates to a working capital loan to 420 Investments Ltd. (“FOUR20”) until the closing of the acquisition anticipated in the first quarter of 2020 upon regulatory approval.

6. Property and Equipment, Net

Property and equipment, net consists of the following:

	September 30, 2019	December 31, 2018
Land	$ 5,585	$ 4,498
Buildings and leasehold improvements	94,695	51,111
Laboratory and manufacturing equipment	25,229	6,131
Office and computer equipment	3,289	970
Assets under capital lease	9,989	9,661
Construction in process	41,719	15,343
	180,506	87,714
Less: accumulated depreciation and amortization	(14,017)	(7,500)
Total	$ 166,489	$ 80,214

For the three and nine months ended September 30, 2019, depreciation expense related to general office space and equipment was $197 and $741, respectively (2018 – $34 and $93). In addition, depreciation expense included in cost of sales relating to manufacturing equipment and production facilities was $1,496 and $3,003 for the three and nine months ended September 30, 2019, respectively, (2018 – $208 and $467) with the remaining depreciation included in inventory.

For the three and nine months ended September 30, 2019, capitalized interest included in construction-in-progress was $140 and $306, respectively (2018 – nil and $169).

The Company had $94,906 in property and equipment additions related to building and leasehold improvements, laboratory and manufacturing equipment, office and computer equipment and construction in process during the nine months ended September 30, 2019 (2018 – $35,725). Additions to building and leasehold improvements primarily relate to the Company’s acquisitions of Manitoba Harvest and Natura. Additions to construction in process primarily relate to the ongoing construction of the Company’s London, Ontario and Portugal facilities.

7. Intangible Assets

Intangible assets are comprised of the following items:

	Weighted Average Amortization Period (in years)	September 30, 2019 Cost	Accumulated Amortization	Net	December 31, 2018 Cost	Accumulated Amortization	Net
Customer relationships	15	$ 133,501	$ 4,903	$ 128,598	$ —	$ —	$ —
Developed technology	9	6,947	405	6,542	—	—	—
Websites	2	4,824	3,006	1,818	3,755	2,253	1,502
Alef license	2	4,086	—	4,086	2,984	—	2,984
Other intangibles	3	3,086	70	3,016	—	—	—
Cultivation license	Indefinite	10,496	—	10,496	—	—	—
Trademarks	Indefinite	56,006	—	56,006	—	—	—
Rights under ABG Profit Participation Arrangement	Indefinite	119,366	—	119,366	—	—	—
Total		$ 338,312	$ 8,384	$ 329,928	$ 6,739	$ 2,253	$ 4,486

The net carrying value of intangible assets not yet available for use as of September 30, 2019 was $6,427 (December 31, 2018 – $3,027). At September 30, 2019, this consisted of the Alef license and a supply contract arising from the acquisition of Natura.

Intangible asset additions for the nine months ended September 30, 2019 primarily related to customer relationships, developed technology and trademarks as part of the acquisition of Manitoba Harvest as well as cultivation license and supply contract as part of the acquisition of Natura. Refer to Note 15 for details. Moreover, indefinite-lived rights under the ABG Profit Participation Arrangement were acquired in the first quarter of 2019. Refer to Note 14 for details.

The amortization expense for the next five years on intangibles assets in use are as follows: remaining in 2019 – $2,555; 2020 – $10,223; 2021 – $9,658; 2022 – $9,318; 2023 – $9,207, and thereafter – $103,099.

8. Goodwill

The following table shows the change in carrying amount of goodwill:

Balance as of December 31, 2018	$ —
Acquisition of Manitoba Harvest	131,082
Acquisition of Natura	26,974
Acquisition of S&S	5,493
Foreign currency translation adjustment	(508)
Balance as of September 30, 2019	$ 163,041

9. Accounts Payable, Accrued Expenses and Other Current Liabilities

Accounts payable, accrued expenses and other current liabilities are comprised of the following items:

	September 30, 2019	December 31, 2018
Accounts payable - trade	$ 58,411	$ 9,716
Accounts payable - related parties	277	933
Total accounts payable	$ 58,688	$ 10,649
Accrued interest on Convertible Notes	$ 11,875	$ 5,302
Accrued payroll	7,559	3,278
Accrued legal and professional fees	452	565
Contingent consideration for acquisitions	34,034	—
Other accrued expenses and current liabilities	17,467	5,673
Total accrued expenses and other current liabilities	$ 71,387	$ 14,818

As part of the acquisition of Manitoba Harvest (see Note 15), the Company entered into a contingent consideration arrangement whereby the Company may pay a maximum of $37,129 (C$49,000) payable in shares of Class 2 common stock. The payment amount is based on gross branded cannabidiol ("CBD") product sales in the United States for the period from January 1, 2019 to December 31, 2019. The estimated fair value of the contingent consideration was valued using a probability-weighted discounted cash flow model based on internal forecasts and the estimated cost of debt for the Company. The contingent consideration is reassessed and adjusted to fair value each quarter through acquisition-related (income) expense, net. The fair value of contingent consideration decreased $7,562 from the closing date to September 30, 2019 primarily due to updated forecasts and actual results to date.

As part of the acquisition of Natura (see Note 15), the Company entered into a contingent consideration arrangement whereby the Company issued promissory notes with an aggregate principal amount of $26,205 (C$34,500). The ultimate payment amounts are based on production levels of consumer grade dry finished cannabis flower from Natura facilities during four periods from February 1, 2019 to January 31, 2020 and are payable in shares of Class 2 common stock. The estimated fair value of the contingent consideration on the acquisition date was valued using a discounted cash flow analysis based on internal forecasts projected using a Monte Carlo simulation model, an expected quarterly production distribution function, and a weighted average cost of capital adjusted to account for revenue risk derived as of February 15, 2019. The contingent consideration is reassessed and adjusted to fair value each quarter though acquisition-related (income) expense, net, valued using a probability-weighted discounted cash flow model based on internal forecasts and the estimated cost of debt for the Company. The fair value of contingent consideration decreased $9,294 from the closing date to September 30, 2019 primarily due to updated forecasts and actual results to date.

10. Convertible Notes

In October 2018, the Company issued convertible senior notes with a face value of $475,000 (the "Convertible Notes"). The net proceeds from the offering were approximately $460,134, after deducting commissions and other fees and expenses payable by the Company. The Convertible Notes bear interest at a rate of 5.00% per annum, payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 1, 2019. Additional interest may accrue on the Convertible Notes in specified circumstances. The Convertible Notes 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 Convertible Notes, except in the case of redemption or events of defaults.

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 our 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. Throughout the term of the Convertible Notes, 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 Convertible Notes 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 Convertible Notes, in multiples of one thousand dollar principal amount, at the option of the holder regardless of the aforementioned circumstances.

As of September 30, 2019, the Convertible Notes are not yet convertible. The Convertible Notes will become convertible upon the satisfaction of the above circumstances. Transaction costs attributable to the Convertible Notes totaling $13,467 are amortized as non-cash interest expense over the term of the Convertible Notes. As of September 30, 2019, the Company was in compliance with all the covenants set forth under the indenture.

The following table sets forth the net carrying amount of the Convertible Notes:

	September 30, 2019	December 31, 2018
5.00% Convertible Notes	$ 475,000	$ 475,000
Unamortized discount	(35,897)	(41,687)
Unamortized transaction costs	(11,120)	(12,946)
Net carrying amount	$ 427,983	$ 420,367

The following table sets forth total interest expense recognized related to the Convertible Notes:

	Nine months ended September 30,	
	2019	2018
Contractual coupon interest	$ 17,813	$ —
Amortization of discount	5,790	—
Amortization of transaction costs	1,826	—
Total	$ 25,429	$ —

11. Stockholders' Equity

Common and convertible preferred stock

The Company's certificate of incorporation authorized the Company to issue the following classes of shares with the following par value and voting rights as of September 30, 2019. The liquidation and dividend rights are identical among Class 1 common stock and Class 2 common stock, and all classes of common stock share equally in our earnings and losses.

		Par Value	Authorized	Voting Rights
Class 1 common stock	$	0.0001	250,000,000	10 votes for each share
Class 2 common stock	$	0.0001	500,000,000	1 vote for each share
Convertible preferred stock	$	0.0001	10,000,000	N/A

In connection with the profit participation agreement with ABG Intermediate Holdings 2, LLC ("ABG"), the Company issued 840,107 shares of Class 2 common stock in January 2019 and 840,107 shares of Class 2 common stock in March 2019 at a deemed issuance price of $79.35 per share. Given that the shares of Class 2 common stock issued to ABG were not registered with the SEC and subject to transfer restrictions, the fair values of the issuances were $89.13 and $59.77 per share, respectively, as recorded in the Condensed Consolidated Statements of Stockholders' Equity. Refer to Note 14 for details.

In February 2019, the Company issued 180,332 shares of Class 2 common stock at a deemed issuance price of $83.73 per share in connection with the closing of the Natura acquisition. Refer to Note 15 for details.

In connection with the acquisition of Manitoba Harvest, the Company issued 1,209,946 shares of Class 2 common stock in March 2019 at a deemed issuance price of $80.04 per share on closing and 899,306 shares of Class 2 common stock in August 2019 at a deemed issuance price of $35.48 per share as share consideration six months after close. Refer to Note 15 for details.

On September 10, 2019, the Company entered into a sales agreement with Cowen and Company, LLC pursuant to which the Company can issue and sell, through a sales agent, shares of Class 2 common stock from time to time up to up to an aggregate offering price of $400 million through an "at-the-market" equity offering program. During the three months ended September 30, 2019, the Company issued 1,344,166 shares of Class 2 common stock for gross proceeds of $38,209 (net proceeds of $37,445) under the program.

12. General and Administrative Expenses

General and administrative expenses are comprised of the following items:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Salaries	$ 8,637	$ 2,846	$ 22,289	$ 6,203
Professional fees	6,051	1,438	12,716	4,094
Travel expenses	1,448	411	3,330	1,130
Other expenses	3,842	2,306	10,905	5,061
Total	$ 19,978	$ 7,001	$ 49,240	$ 16,488

13. Stock-based Compensation

Original Stock Option Plan

Certain employees of the Company participate in the equity-based compensation plan of Privateer Holdings, Inc. (the "Original Plan") under the terms and valuation method detailed in our Annual Financial Statements. For the three and nine months ended September 30, 2019, the total stock-based compensation expense associated with the Original Plan was $143 and $411, respectively (2018 – $76 and $276).

Stock option activity under the Original Plan is as follows:

	Stock options		Weighted-average exercise price	Weighted-average remaining contractual term (years)		Aggregate intrinsic value
Balance December 31, 2018	592,594	$	4.14	8.1	$	989
Allocated to Tilray	143,794		4.21			
Exercised	(20,162)		3.88			
Forfeited	(6,686)		4.24			
Cancelled	(8,267)		3.48			
Balance September 30, 2019	701,273	$	4.22	7.5	$	13,153
Vested and expected to vest, September 30, 2019	645,722	$	4.06	7.5	$	12,203
Vested and exercisable, September 30, 2019	394,288	$	3.27	7.1	$	7,731

No stock options were granted under the Original Plan during the nine months ended September 30, 2019 (2018 - 301,442). As of September 30, 2019, the total remaining unrecognized stock-based compensation expense related to non-vested stock options amounted to $757 which will be recognized over the weighted-average remaining requisite service period of approximately 0.8 year. The total fair value of stock options vested during the nine months ended September 30, 2019 was $478 (2018 – $524).

New Stock Option and Restricted Stock Unit Plan

The Company adopted the 2018 Equity Incentive Plan (the “New Plan”) as amended and approved by stockholders in May 2018 under the terms and valuation methods detailed in our Annual Financial Statements. As of September 30, 2019, 12,926,172 shares were reserved for issuance under the New Plan. For the three and nine months ended September 30, 2019, total stock-based compensation expense associated with the New Plan was $8,172 and $20,795, respectively (2018 - $11,245 and $16,877).

Stock option and restricted stock unit (“RSU”) activity under the New Plan are as follows:

Time-based stock option activity

	Stock options		Weighted-average exercise price	Weighted-average remaining contractual term (years)		Aggregate intrinsic value
Balance December 31, 2018	6,015,041	$	13.54	7.7	$	342,916
Granted	10,000		70.25			
Exercised	(549,533)		7.76			
Forfeited	(58,936)		28.40			
Balance September 30, 2019	5,416,572	$	14.06	8.7	$	81,894
Vested and expected to vest, September 30, 2019	5,248,544	$	13.91	8.7	$	79,591
Vested and exercisable, September 30, 2019	2,221,809	$	11.53	8.7	$	35,249

The weighted-average fair values of stock options granted during the nine months ended September 30, 2019 was $12.01 per share. During the nine months ended September 30, 2018, 6,106,011 time-based stock options were granted under the New Plan. As of September 30, 2019, the total remaining unrecognized compensation expense related to non-vested stock options of $25,391 will be recognized over the weighted-average remaining requisite service period of approximately 2.1 years. The total fair value of stock options vested for the nine months ended September 30, 2019 was $11,734 (2018 – nil).

Performance-based stock option activity

	Stock options	Weighted-average exercise price	Weighted-average remaining contractual term (years)	Aggregate intrinsic value
Balance December 31, 2018	600,000	$ 7.76	9.4	$ 37,668
Exercised	(80,000)	7.76		
Balance September 30, 2019	520,000	$ 7.76	8.6	$ 8,830
Vested and exercisable, September 30, 2019	520,000	$ 7.76	8.6	$ 8,830

No performance-based stock options were granted under the New Plan during the nine months ended September 30, 2019. During the nine months ended September 30, 2018, 600,000 performance-based stock options were granted under the New Plan. As of September 30, 2019, there was no remaining unrecognized compensation expense related to non-vested stock options. The total fair value of stock options vested as of September 30, 2019 was $2,159 (December 31, 2018 – $1,246).

Time-based RSU activity

	Time-based RSUs	Weighted-average grant-date fair value per share
Non-vested December 31, 2018	237,222	$ 49.86
Granted	944,616	50.51
Issued on vesting	(54,635)	12.45
Forfeited	(42,715)	59.99
Non-vested September 30, 2019	1,084,488	$ 51.91

As of September 30, 2019, $43,372 of total unrecognized compensation expense related to non-vested time-based RSUs will be recognized over a weighted-average period of 2.5 years. During the nine months ended September 30, 2018, 140,000 time-based RSUs were granted under the New Plan.

Performance-based RSUs activity

	Performance-based RSUs	Weighted-average grant-date fair value per share
Non-vested December 31, 2018	1,050,000	$ 7.76
Issued on vesting	(731,250)	7.76
Non-vested September 30, 2019	318,750	$ 7.76

As of September 30, 2019, $465 of total unrecognized compensation expense related to non-vested performance-based RSUs will be recognized over a weighted-average period of 1.3 years. During the nine months ended September 30, 2018, 1,050,000 performance-based RSUs were granted under the New Plan.

14. ABG Profit Participation Arrangement

On January 14, 2019, the Company entered into a Profit Participation Arrangement with ABG Intermediate Holdings 2, LLC (“ABG”) that offers the Company: (i) participation rights in up to 49% of the net (i.e. post-expense) cannabis revenues from certain existing ABG brands in perpetuity, (ii) guaranteed minimum receipt of $10,000 annually for ten years (prorated based on total consideration paid to ABG) in quarterly payments for participation rights, (iii) preferred supplier rights of all cannabinoid ingredients for products under cannabis-related licenses of certain existing ABG brands in perpetuity, (iv) preferred royalty rates for the Company to license and develop cannabis products for certain existing ABG brands, and (v) first negotiation and matching rights related to participation rights in net cannabis revenues for any additional brands acquired by ABG after entering into the Profit Participation Arrangement.

As consideration for this arrangement, the Company issued 840,107 shares of Class 2 common stock and paid $20,000 in cash in January 2019, paid $13,333 in cash in February 2019, and issued 840,107 shares of Class 2 common stock in March 2019. Under the terms of the arrangement, the Company shall pay $83,333, in a combination of Class 2 common stock and up to $16,667 in cash at ABG's election, upon certain triggers relating to the regulatory status of tetrahydrocannabinol ("THC") in the United States or receipt of $5,000 in participation rights distributions from cannabis products containing THC outside the United States, in accordance with terms outlined in the arrangement. The Company will record a liability related to this contingent payment when the triggers are met and the consideration becomes payable.

Since the arrangement conveys a right for the Company to receive guaranteed minimum cash from ABG over ten years, it meets the definition of a loan pursuant to ASC 310 "Receivables." As of September 30, 2019 $447 was recorded in other receivables and $6,958 in deposits and other assets for the current and non-current portions of the loans relating to cash paid to ABG. The portion of the loans relating to shares issued to ABG of $30,705 is recorded within additional paid-in capital as of September 30, 2019. The allocation of the loans between the asset and equity portions was determined on a relative fair value basis. As the loans have no stated interest rate, fair value was determined using the present value of the expected cash flows at a 12% discount rate, which reflects an appropriate market rate for each loan at the time it was issued. Interest on the loan is calculated using the effective interest rate method and recognized in finance income from ABG Profit Participation Arrangement on the Condensed Consolidated Statements of Net Loss and Comprehensive Loss for the portion of the loan relating to cash paid to ABG, and in additional paid-in capital on the Condensed Consolidated Balance Sheets for the portion relating to shares issued to ABG.

As of September 30, 2019, the Company recorded intangible assets with indefinite life in the amount of $119,366 for the participation rights, preferred supplier rights, and preferred royalty rights under the Profit Participation Arrangement, as described above. The cost of these intangible assets was calculated using the fair value of the cash paid and shares issued, less the fair value attributable to the loan described above.

15. Business Combinations

Acquisition of Manitoba Harvest

On February 28, 2019, the Company completed the acquisition of all issued and outstanding shares of FHF Holdings Ltd. ("Manitoba Harvest"). Manitoba Harvest develops and distributes a diverse portfolio of hemp-based natural food and wellness products and enables the Company to expand into the growing CBD product market in the United States.

During the three months ended September 30, 2019, the Company revised the preliminary purchase price of the Manitoba Harvest acquisition to include withholding tax amounts related to the acquisition. The Company also revised the preliminary allocation of the purchase price to assets acquired and liabilities assumed at the acquisition date, resulting in a $3,401 increase in goodwill and $781 decrease in deferred tax liability. The final purchase price allocation will be adjusted as needed, pending the finalization of estimates and assumptions used in valuing the deferred tax liability, among other identifiable assets acquired and liabilities assumed, and will be finalized no later than one year after the acquisition date. The goodwill of $131,082 is attributable to factors such as market share, reputation with customers and vendors, and the skilled workforce of Manitoba Harvest. Goodwill is not deductible for tax purposes. The gross contractual amount of receivables is $6,340, of which approximately $133 is not expected to be collected.

The financial results of Manitoba Harvest are included in the Company's financial statements since acquisition close. The Consolidated Statements of Net Loss and Comprehensive Loss include revenue of $15,568 and $41,084, and net income of $4,173 and loss of $695 of Manitoba Harvest for the three and nine months ended September 30, 2019, respectively. The Company incurred acquisition costs of $1,328 for the acquisition of Manitoba Harvest.

Acquisition of Natura

On February 15, 2019, the Company acquired the remaining 97% issued and outstanding shares of Natura Naturals Holdings Inc. ("Natura"). Natura is licensed to cultivate and produce medical cannabis, expanding the Company's capacity to supply high-quality branded cannabis products to the Canadian market.

During the three months ended September 30, 2019, the Company revised the preliminary allocation of the purchase price to assets acquired and liabilities assumed at the acquisition date for the acquisition of Natura. This resulted in a $2,144 increase in both deferred tax liability and goodwill. The final purchase price allocation will be adjusted as needed, pending the finalization of estimates and assumptions used in valuing property and equipment, intangible assets, and deferred tax liability, among other identifiable assets acquired and liabilities assumed, and will be finalized no later than one year after the acquisition date. The goodwill of $26,974 is attributable to factors such as strong supply chain, quality of products and the skilled workforce of Natura. Goodwill is not deductible for tax purposes.

The financial results of Natura are included in the Company's financial statements since acquisition close. The Consolidated Statements of Net Loss and Comprehensive Loss include revenue of $3,017 and $8,193, and net income of $119 and net loss of $396 for the three and nine months ended September 30, 2019, respectively. The Company incurred acquisition costs of $824 for the acquisition of Natura.

The preliminary purchase price of the Manitoba Harvest and Natura acquisitions are calculated as follows:

	Manitoba Harvest	Natura
Cash paid on closing	$ 118,767	$ 15,252
Cash paid six months after closing	37,490	—
Class 2 common stock issued on closing (1)(2)	96,844	15,100
Class 2 common stock issued six months after closing (1)	31,866	—
Working capital adjustment	280	—
Contingent consideration	29,207	20,007
Fair value of previously held interest (3)	—	1,565
Effective settlement of pre-existing debt (4)	—	2,308
Total fair value of consideration transferred	$ 314,454	$ 54,232

(1) For the acquisition of Manitoba Harvest, 1,209,946 shares of Class 2 common stock were issued on closing and 899,306 shares of Class 2 common stock were issued six months after closing.
(2) For the acquisition of Natura, 180,332 shares of Class 2 common stock were issued on closing.
(3) The fair value of the Company's investment in Natura on the acquisition date was determined based on the fair value of total consideration transferred and reflected book value on the acquisition date.
(4) The Company held C$3,000 convertible debt of Natura at the acquisition date. On acquisition, this debt and related accrued interest was effectively settled.

The preliminary allocations of the purchase price to assets acquired and liabilities assumed on the respective acquisition dates of Manitoba Harvest and Natura are as follows:

	Manitoba Harvest	Natura
Assets		
Cash and cash equivalents	$ 5,534	$ 169
Accounts receivable	6,207	109
Inventory	15,331	3,482
Prepaid expenses and other current assets	1,030	166
Property and equipment	23,581	17,435
Intangible assets	195,966	12,834
Goodwill	131,082	26,974
Total assets	378,731	61,169
Liabilities		
Accounts payable	4,973	3,280
Accrued expenses and other current liabilities	4,911	876
Deferred tax liability	54,393	2,781
Total liabilities	64,277	6,937
Net assets acquired	$ 314,454	$ 54,232

Acquisition of S&S

On July 11, 2019, the Company acquired all issued and outstanding shares of Smith & Sinclair Ltd. ("S&S"), which crafts edible candies, fragrances and creative consumables in the United Kingdom and enables the Company to develop CBD-infused edibles and beverages as well as alcohol-infused edibles for distribution in Canada, United States and Europe. The preliminary purchase consideration of $8,002 includes $2,440 (£1,940) in cash paid on closing, 79,289 shares of Class 2 common stock issued on closing, and contingent consideration up to $3,095 (£2,472) payable in Class 2 common stock based on revenue targets during two periods from January 1, 2019 to December 31, 2020 as well as (i) launches of CBD products in the United States and Europe and (ii) launch of CBD or THC products in Canada by June 1, 2020.

Supplemental pro forma information

The unaudited pro forma information for the periods set forth below gives effect to the acquisitions of Manitoba Harvest and Natura as if the acquisitions had occurred as of January 1, 2018. 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 acquisitions been consummated as of that time:

	Nine months ended September 30	
	2019	2018
Revenue	$ 130,808	$ 86,730
Net loss	(105,363)	(59,839)
Net loss per share - basic and diluted	(1.08)	(0.63)

Acquisition-related (income) expense, net

Acquisition-related (income) expense, net for the three and nine months ended September 30, 2019 are comprised of the following items:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Acquisition and integration expense	$ 3,533	$ 10	$ 10,421	$ 10
Change in fair value of contingent consideration	(16,987)	—	(17,019)	—
Total	$ (13,454)	$ 10	$ (6,598)	$ 10

16. Financial Instruments

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, and arises principally from the Company's cash and cash equivalents, accounts receivable and short-term investments.

The Company's cash and cash equivalents are deposited in major financial institutions in Canada, Australia, Portugal, Germany, Netherlands 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 is also exposed to credit risk from the potential default by any of its counterparties on its financial assets.

The Company evaluates the collectability of its accounts receivable and provides an allowance for potential credit losses as necessary. As of September 30, 2019 and December 31, 2018, the Company was not exposed to any significant credit risk related to counterparty performance of outstanding accounts receivable.

Foreign currency risk

As the Company conducts its business in many areas of the world involving transactions denominated in a variety of currencies, the Company is exposed to foreign currency risk. A significant portion of the Company's assets, revenue, and expenses are denominated in Canadian dollars. A 10% change in the exchange rates for the Canadian dollar would affect the carrying value of net assets by approximately $4,208 as of September 30, 2019, with a corresponding impact to accumulated other comprehensive income.

Liquidity risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. As of September 30, 2019, the most significant financial liabilities are Convertible Notes, contingent consideration, accounts payable and accrued expenses.

17. Related-Party Transactions

The Company was a wholly owned subsidiary of Privateer Holdings, Inc. ("Privateer") prior to its Series A preferred stock financing and initial public offering. As of September 30, 2019, Privateer holds more than 10% of the Company's outstanding shares of Class 2 common stock and holds 100% of the Company's Class 1 common stock.

During the second quarter of 2019, the Company assumed a real estate operating lease upon assignment from Privateer. In connection with this lease, the Company reimbursed Privateer $2,070 for leasehold improvements at cost and $1,000 for the security deposit held by the landlord at cost, recorded within property and equipment and deposits and other assets, respectively, on the Condensed Consolidated Balance Sheets as of September 30, 2019.

Pursuant to the Subversive Capital Alliance Agreement dated May 15, 2018 between Privateer and Subversive Capital, LLC ("Subversive") as agent for Privateer, Subversive held 5,530 shares of S&S at a cost of £347.96 per share (£1,924 in aggregate) on July 11, 2019. Subversive is a company controlled by Michael Auerbach, who is a member of the Company's Board of Directors. On July 11, 2019, the Subversive Capital Alliance Agreement was terminated in connection with the Company's acquisition of S&S and the Company paid £1,924 in cash to Subversive for the 5,530 shares, which represented approximately 30% ownership of S&S and only the original cost basis in such shares. The cash paid to Subversive as part of the purchase consideration for the acquisition of S&S reflected no gain on its investment, thereby eliminating any economic conflict of interest or appearance thereof. In accordance with the Company's Related-Persons Transactions Policy, the Audit Committee of the Board of Directors, comprised solely of the independent directors, approved the acquisition of S&S and the payment to Subversive.

Privateer management fees

Management services charged by Privateer for services performed include management services, support services, business development services and research and development services recorded in operating expenses for the three and nine months ended September 30, 2019 in the amounts of nil and $106, respectively (2018 – $1,014 and $2,887). Depending on the nature of the services performed, these expenses are included within general and administrative expenses, sales and marketing expenses or research and development expenses in the Consolidated Statements of Net Loss and Comprehensive Loss. Pursuant to the Company's agreement with Privateer entered in February 2018 and terminated in February 2019, personnel compensation was charged at cost plus a 3.0% markup and other services at cost. As of September 30, 2019, no amounts were recorded within accounts payable for management services due to Privateer (December 31, 2018 – $3,878).

Ten Eleven management fees

In February 2019, the Company entered into a management agreement with Ten Eleven Management LLC doing business as Privateer Management ("Ten Eleven"), pursuant to which Ten Eleven provides the Company with certain general administrative and corporate services on an as-requested basis for a monthly service fee. This agreement ends on December 31, 2019 and the Company does not intend to renew the agreement. As of September 30, 2019, the owners of Ten Eleven collectively hold more than 10% of the Company's outstanding shares of Class 2 common stock and more than 10% of the Company's Class 1 common stock indirectly through investment in Privateer. During the three and nine months ended September 30, 2019, management services of $75 and $200, respectively, were recorded within general and administrative expense in the Consolidated Statements of Net Loss and Comprehensive Loss. No amounts were recorded for the comparative periods in 2018. As of September 30, 2019, $25 due to Ten Eleven for management services was recorded within accounts payable (December 31, 2018 – nil).

18. Business Segment Information

Segment reporting is prepared on the same basis that the Company's Chief Executive Officer, who is the Company's chief operating decision maker, manages the business, makes operating decisions and assesses performance. Management has determined that the Company operates in one segment: the development and sale of cannabis products.

Revenue for the three and nine months ended September 30, 2019 includes $2,931 and $8,707, respectively, of excise taxes. There was no excise tax for the comparative periods in 2018. Sources of revenue were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Dried cannabis	$ 29,412	$ 4,832	$ 62,214	$ 14,701
Cannabis extracts	5,819	5,180	16,172	12,725
Hemp products	15,650	—	41,167	—
Accessories and other	220	35	490	173
Total	$ 51,101	$ 10,047	$ 120,043	$ 27,599

Revenue attributed to geographic region based on the location of the customer was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Canada	$ 33,585	$ 8,746	$ 81,138	$ 25,758
United States	10,836	—	28,407	—
Other countries	6,680	1,301	10,498	1,841
Total	$ 51,101	$ 10,047	$ 120,043	$ 27,599

Long-lived assets consisting of property and equipment, net of accumulated depreciation, attributed to geographic regions based on their physical location were as follows:

	September 30, 2019	December 31, 2018
Canada	$ 132,365	$ 64,687
Portugal	30,758	15,455
United States	2,755	—
Other countries	611	72
Total	$ 166,489	$ 80,214

Three customers accounted for 20%, 14%, and 10% of our revenue, respectively, for the three months ended September 30, 2019. Two customers accounted for 12% and 11% of our revenue, respectively, for the nine months ended September 30, 2019. One customer accounted for 28% and 29% of the Company's revenue for the three and nine months ended September 30, 2018, respectively.

Two customers accounted for 16% and 10%, respectively, of our accounts receivable balance as of September 30, 2019. Two customers accounted for 30% and 16%, respectively, of our accounts receivable balance as of December 31, 2018.

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

You should read the following discussion and analysis of our financial condition and results of operations together with the unaudited financial information and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q, and our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (“Annual Report”). Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business and related financing, includes “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or “forward -looking information” within the meaning of Canadian securities laws. These statements are often identified by the use of words such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “will,” “would” or the negative or plural of these words or similar expressions or variations. Such forward-looking statements and forward-looking information are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements or forward-looking information. Factors that could cause or contribute to such differences include, but are not limited to, those identified in this Quarterly Report on Form 10-Q and those discussed in the section titled “Risk Factors” set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q and in our other SEC and Canadian public filings. In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Quarterly Report on Form 10-Q and while we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements. You should not rely upon forward-looking statements or forward-looking information as predictions of future events. Furthermore, such forward-looking statements or forward-looking information speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements or forward-looking information to reflect events or circumstances after the date of such statements.

Overview

We aspire to lead, legitimize and define the future of our industry by building the world’s most trusted and valuable cannabis company. We are pioneering the future of medical, wellness and adult-use cannabis and hemp research, cultivation, processing and distribution globally, and we intend to become a global leader in the cannabis and hemp market where regulations permit.

We produce medical cannabis in Canada and Europe, and we have supplied high-quality cannabis products to tens of thousands of patients in thirteen countries spanning five continents through our subsidiaries in Australia, Canada, Germany, Latin America, Portugal, the United Kingdom and through agreements with established pharmaceutical distributors. In Canada and Portugal, we are also authorized to distribute certain products on a wholesale basis and in Canada we also sell certain products direct to patients through our e-commerce platform or over the phone.

We are witnessing a global paradigm shift for cannabis and hemp, and as a result of this shift, the transformation of a multibillion dollar industry from a state of prohibition to a state of legalization. Medical cannabis is now authorized at the national or federal level in forty-one countries. The legal market for medical cannabis is still in its early stages and we believe the number of countries with legalized regimes will continue to increase. We believe that as this transformation occurs, trusted global brands with multinational supply chains will become market leaders by earning the confidence of patients, doctors, governments and adult consumers around the world.

We are a leader in the Canadian adult-use market. We have entered into agreements to supply certain provinces and territories with our adult-use products for sale through the distribution systems they have established. Adult-use legalization occurred in Canada on October 17, 2018 and on October 17, 2019, the Canadian adult-use regulations were amended to permit the sale of new class of cannabis including edibles, beverages and vape products, which will become available for sale starting December 16, 2019. We expect the adult-use market to represent a higher proportion of our revenues as new consumers participate in, and previously illicit consumers adopt, Canada’s framework for the sale of cannabis.

We continue to develop strategic alliances, such as our collaboration with Sandoz to increase the availability of high quality medical cannabis products, and our joint venture with Anheuser-Busch InBev, through its subsidiary Labatt Breweries of Canada, to research non-alcohol beverages containing tetrahydrocannabinol (“THC”) and cannabidiol (“CBD”), demonstrating our continuing commitment to pioneer the development of a professional, transparent, and well-regulated cannabis industry. In the third quarter of 2019, we partnered with Cannfections Group Inc., a leader in the confectionery space with 85 years of experience developing and producing the world’s favorite confectionary brands, to further build our product and manufacturing capacity of confectionery cannabis products and expedite innovation and new products to market.

On January 14, 2019, we entered into a Profit Participation Arrangement with ABG Intermediate Holdings 2, LLC ("ABG") where we purchased: (i) participation rights in up to 49% of the net (i.e. post-expense) cannabis revenues from certain existing ABG brands into perpetuity, (ii) guaranteed minimum receipt of $10 million annually for ten years (prorated based on total consideration paid to ABG) in quarterly payments for participation rights, (iii) preferred supplier rights of all cannabinoid ingredients for products under cannabis-related licenses of certain existing ABG brands into perpetuity, (iv) preferred royalty rates for us to license and develop cannabis products for brands currently within the ABG portfolio, and (v) first negotiation and matching rights related to participation rights in net cannabis revenues for any additional brands acquired by ABG after entering into the Profit Participation Arrangement. As consideration for this arrangement, we paid to date approximately $33 million in cash and 1,680,214 shares of Class 2 common stock. We also agreed to pay approximately $83 million, in a combination of Class 2 common stock and up to $17 million in cash at ABG's election, upon certain triggers relating to the regulatory status of THC in the United States, or receipt of $5 million in participation rights distributions from cannabis products containing THC outside the United States, in accordance with terms outlined in the arrangement.

On February 15, 2019, we acquired Natura Naturals Holdings Inc. ("Natura"), a licensed cultivator under the Cannabis Act specializing in greenhouse cultivation. Our acquisition of Natura increases our capacity to supply high-quality branded cannabis products to the Canadian market. The preliminary purchase price of approximately $54 million consists of approximately $15 million in cash and 180,332 shares of Class 2 common stock issued on closing, approximately $20 million contingent consideration based on production levels, and effective settlement of pre-existing debt and previously held interest. Refer to "Part I, Item 1. Note 15 – Business Combinations" to our financial statements appearing elsewhere in this Quarterly Report on Form 10-Q for further details.

On February 28, 2019, we acquired FHF Holdings Ltd. ("Manitoba Harvest"), a developer and distributor of a diverse portfolio of hemp-based natural food and wellness products that enables us to expand into the growing CBD product market in the United States. The preliminary purchase price of approximately $310 million consists of approximately $115 million in cash and 1,209,946 shares of Class 2 common stock issued on closing, approximately $37 million in cash and approximately $32 million in Class 2 common stock issued six months after closing, and approximately $29 million contingent consideration based on gross branded CBD product sales in the United States in 2019. Refer to "Part I, Item 1. Note 15 – Business Combinations" to our financial statements appearing elsewhere in this Quarterly Report on Form 10-Q for further details.

On July 11, 2019, we acquired Smith & Sinclair Ltd. ("S&S"), which crafts edible candies, fragrances and creative consumables in the United Kingdom and enables us to develop CBD-infused edibles and beverages as well as alcohol-infused edibles for distribution in Canada, United States and Europe. The purchase consideration includes approximately $2 million in cash and 79,289 shares of Class 2 common stock issued on closing, and approximately $2 million contingent consideration based on revenue as well as the revenue and launch of CBD product in the United States and Europe or THC product in Canada by milestones in 2019 and 2020. Refer to "Part I, Item 1. Note 15 – Business Combinations" to our financial statements appearing elsewhere in this Quarterly Report on Form 10-Q for further details.

On August 28, 2019, we signed a definitive agreement to acquire 420 Investments Ltd. ("FOUR20"), an adult-use cannabis retail operator in Alberta, Canada that provides us a platform to expand into other Canadian provincial markets where Licensed Producer retail ownership will be permitted in the future. The purchase price consists of $53 million in shares of Class 2 common stock on closing and up to $30 million of contingent consideration subject to the achievement of certain performance milestones by FOUR20.

Key Operating Metrics

We use the following key operating metrics to evaluate our business and operations, measure our performance, identify trends affecting our business, project our future performance and make strategic decisions.

	Three months ended September 30,				Nine months ended September 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
Kilograms equivalents sold - cannabis	10,848	1,613	9,235	573%	19,448	4,425	15,023	340%
Kilograms harvested - cannabis	15,498	5,032	10,466	208%	35,366	8,186	27,180	332%
Thousand units sold - hemp products	1,946	—	N/A	N/A	5,645	—	N/A	N/A
Average net selling price per gram - cannabis	$ 3.25	$ 6.21	$ (2.96)	(48)%	$ 4.03	$ 6.19	$ (2.16)	(35)%
Average cost per gram sold - cannabis	$ 2.28	$ 3.13	$ (0.85)	(27)%	$ 2.95	$ 3.36	$ (0.41)	(12)%
Average gross selling price per unit - hemp products	$ 8.04	$ —	N/A	N/A	$ 7.29	$ —	N/A	N/A

N/A: Not a meaningful comparison

Kilogram equivalents sold – cannabis. We sell two cannabis product categories: (1) dried cannabis, which includes whole flower and ground flower and (2) cannabis extracts, which includes full-spectrum and purified oil drops and capsules. Cannabis extracts are converted to flower equivalent grams based on the type and number of dried cannabis grams required to produce extracted cannabis in the form of cannabis oils. This conversion ratio is based on the amount of active cannabinoids in the products rather than the volume of oil. For example, our 40mL oil drops are converted to five gram equivalents.

Total kilogram equivalents sold increased for the three and nine months ended September 30, 2019 from the comparable periods in 2018 primarily due to increased adult-use, bulk and international medical sales.

Kilograms harvested – cannabis. Kilograms harvested represents the weight of dried whole plants after harvest, drying and curing. This operating metric is used to measure the production efficiency of our facilities and production team.

Total kilograms harvested increased for the three and nine months ended September 30, 2019 from the comparable periods in 2018 primarily due to additional operational capacity through the acquisition of Natura and ramp up of new production facilities.

The High Park Farms facility, with 13 acres of greenhouse space, has been steadily increasing production and harvest yields since its first harvest in July 2018. High Park Farms has had consistent harvest yields every month this year and total harvest quantities for this quarter increased by 607% compared to our Q4 2018 output and improved 59% since Q2 2019. Similarly, Tilray Portugal has shown steady improvement month over month since its first harvest in Q4 2018 and 154% growth improvement from Q2 2019.

It is our expectation that harvest quantities will continue to increase in future quarters with the improvement of operational efficiencies as our operational processes mature and capital expansion plans progress. During the Q2 2019, we announced plans to add 203,000 square feet at three of our existing facilities – High Park Farms, High Park Processing Facility and Tilray Canada. This expansion will increase current production and manufacturing footprint by 18% to 1.3 million square feet worldwide. This quarter, we announced additional increases for international export capacity with a new outdoor cultivation site in Portugal with Esporão, adding 20 hectares of outdoor cultivation space in Alentejo, Portugal to our existing 5 hectares of indoor and outdoor cultivation and 70,000 square feet of manufacturing, processing and research space at our European Union (EU) Campus in Cantanhede, Portugal.

Thousand units sold – hemp products. As a result of the acquisition of Manitoba Harvest, we sell hemp products such as shelled hemp seed, ground hemp, broad spectrum hemp extract containing CBD and hemp seed oil that are tracked by individual units.

This is our third quarter reporting hemp product sales and we have no sales data in the comparable periods in 2018.

Average net selling price per gram – cannabis. The average net selling price per gram is an indicator that shows our pricing trends over time on a gram equivalent basis and is impacted by sales mix, channel and product type. We exclude revenue associated with hemp products, accessories and freight sales to arrive at cannabis-related revenue. We calculate average net selling price per gram by dividing cannabis-related revenue by kilogram equivalents sold.

The average net selling price per gram decreased for the three and nine months ended September 30, 2019 from the comparable periods in 2018 due to a shift in distribution channels and product mix. Since legalization, adult-use products increased to 32% of total revenue. Adult-use products are sold directly to wholesalers, which have lower sales price per gram and higher sales volume compared to medical channel sales. We expect our average selling price to increase over time as a result of two factors: 1) an increase in our sales mix of international medical cannabis due to GMP certifications at our Portugal facility and 2) an increase in new form factors for the Canadian adult use market that generally have higher price points. The new form factors include edible, beverage and vape products and can begin to be sold on December 16, 2019.

To determine the Canadian dollar average net selling price per gram range above, revenue and costs are converted using the average exchange rate during the reporting period. All input costs are individually converted by multiplying the U.S. dollar to Canadian dollar rate to determine the Canadian dollar amount.

Average cost per gram sold – cannabis. The average cost per gram sold measures the efficiency in our cultivation, manufacturing and fulfillment operations. We deduct hemp products, inventory adjustments and the cost of sales related to accessories from total cost of sales to arrive at cannabis-related cost of sales. Cannabis-related cost of sales is then divided by total kilogram equivalents sold to calculate the average cost per gram sold.

The average cost per gram sold decreased for the three and nine months ended September 30, 2019 from the comparable periods in 2018 primarily as a result of improved harvest quantities. In Q3 2018, all the product sold were from Tilray Canada, a GMP indoor grow facility, compared to three greenhouses in operation in Q3 2019. Our greenhouse operations have lower overhead costs compared to indoor operations, driving improvement in our cost per gram. Moreover, Q3 2019 was the first full quarter of operations for the High Park Processing Facility, with higher output and lower manufacturing costs compared to the temporary operation at High Park Farm used in prior quarters. Improvement in production costs during the quarter resulted in a 42% decrease in our average cost per gram from $3.92 per gram in Q2 2019. We expect that this will continue to decrease in future quarters.

Average gross selling price per unit – hemp products. The average gross selling price per unit is an indicator that shows our pricing trends over time on a unit basis for our hemp products and is impacted by sales mix, channel and product type. We exclude revenue associated with cannabis, accessories and freight sales to arrive at hemp product-related revenue. We calculate average gross selling price per unit by dividing hemp product-related revenue by units sold.

This is our third quarter reporting hemp product activity and we have no sales data in the comparable periods in 2018.

Other companies, including companies in our industry, may calculate key operating metrics with similar names differently, which may reduce their usefulness as comparative measures.

Critical Accounting Policies and Significant Judgments and Estimates

There were no material changes to our critical accounting policies and estimates from the information provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our Annual Report, other than those noted in "Part I, Item 1. Note 1 – Summary of Significant Accounting Policies" to our condensed consolidated financial statements (the "financial statements") contained in this Quarterly Report on Form 10-Q. The most significant update is as follows:

Business combinations, including acquired intangibles and goodwill

We account for business combinations using the acquisition method, recording the acquisition-date fair value of total consideration over the acquisition-date fair value of net assets acquired as goodwill. The estimated fair value of acquired assets and assumed liabilities are determined primarily by using a discounted cash flow approach, with estimated cash flows discounted at a rate that the Company believes a market participant would determine to be commensurate with the inherent risks associated with the asset and related estimated cash flow streams. These estimates and the resulting valuations require significant judgment.

Results of Operations

Financial data is expressed in thousands of U.S. dollars.

Condensed Consolidated Statements of Net Loss Data

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Revenue	$ 51,101	$ 10,047	$ 120,043	$ 27,599
Cost of sales	35,248	6,979	86,532	16,458
Gross profit	15,853	3,068	33,511	11,141
General and administrative expense	19,978	7,001	49,240	16,488
Sales and marketing expense	16,974	3,493	39,161	9,061
Depreciation and amortization expense	3,190	529	7,438	1,032
Stock-based compensation expense	8,315	11,245	21,206	16,877
Research and development expense	2,315	802	4,891	2,416
Loss from equity method investments	1,837	—	1,837	—
Acquisition-related (income) expense, net	(13,454)	10	(6,598)	10
Operating loss	(23,302)	(20,012)	(83,664)	(34,743)
Foreign exchange loss (gain), net	2,585	(1,591)	1,153	913
Interest expense, net	8,687	480	26,018	1,393
Finance income from ABG Profit Participation Arrangement	(210)	—	(557)	—
Other income, net	(1,313)	(225)	(5,661)	(422)
Deferred income tax expense (recovery)	2,432	—	(3,987)	—
Current income tax expense	195	24	402	87
Net loss	$ (35,678)	$ (18,700)	$ (101,032)	$ (36,714)
Other Financial Data				
Adjusted EBITDA (1)	$ (23,545)	$ (7,353)	$ (56,017)	$ (15,304)

(1) Adjusted EBITDA is a non-GAAP financial measure. For information on how we define and calculate Adjusted EBITDA, and a reconciliation of net loss to Adjusted EBITDA, see "Net Loss and Adjusted EBITDA."

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
(as a percentage of revenue)				
Revenue	100%	100%	100%	100%
Cost of sales	69	69	72	60
Gross profit	31	31	28	40
General and administrative expense	39	70	41	60
Sales and marketing expense	33	35	33	33
Depreciation and amortization expense	6	5	6	4
Stock-based compensation expense	16	112	18	61
Research and development expense	5	8	4	9
Loss from equity method investments	4	—	2	—
Acquisition-related (income) expense, net	(26)	N/A	(5)	N/A
Operating loss	(46)	(199)	(70)	(126)
Foreign exchange loss (gain), net	5	(16)	1	3
Interest expense, net	17	5	22	5
Finance income from ABG Profit Participation Arrangement	N/A	—	N/A	—
Other income, net	(3)	(2)	(5)	(2)
Deferred income tax expense (recovery)	5	—	(3)	—
Current income tax expense	N/A	N/A	N/A	N/A
Net loss	(70)%	(186)%	(84)%	(133)%
Other Financial Data				
Adjusted EBITDA (1)	(46)%	(73)%	(47)%	(55)%

(1) Adjusted EBITDA is a non-GAAP financial measure. For information on how we define and calculate Adjusted EBITDA, and a reconciliation of net loss to Adjusted EBITDA, see "Net Loss and Adjusted EBITDA."

N/A: Not a meaningful percentage

Revenue

	Three months ended September 30,				Nine months ended September 30,			
	2019	2018	$ Change	% Change	2019	2018	$ Change	% Change
Adult-use	$ 15,834	$ —	$ 15,834	N/A	$ 38,756	$ —	$ 38,756	N/A
ACMPR (direct to patient & bulk)	13,909	9,098	4,811	53%	30,750	25,743	5,007	19%
Hemp products	15,650	—	15,650	N/A	41,167	—	41,167	N/A
International - medical	5,708	949	4,759	501%	9,370	1,856	7,514	405%
Total revenue	$ 51,101	$ 10,047	$ 41,054	409%	$ 120,043	$ 27,599	$ 92,444	335%
Excise tax included in revenue	$ 2,931	$ —	$ 2,931	N/A	$ 8,707	$ —	$ 8,707	N/A

N/A: Not a meaningful percentage

Revenue increased 409% to $51.1 million (C$67.8 million) and 335% to $120.0 million (C$159.3 million) for the three and nine months ended September 30, 2019, respectively, compared to revenue of $10.0 million and $27.6 million (C$13.0 million and C$35.5 million) for the same periods in 2018, respectively. The acceleration in growth was primarily driven by the Canadian adult use market, which began in October of 2018, the acquisition of Manitoba Harvest during the first quarter of 2019, and the acceleration of international medical sales as a result of our Portugal facility receiving its GMP certification. We expect continued growth in these markets for the remainder of 2019.

We welcomed Manitoba Harvest to our portfolio of companies on February 28, 2019. Manitoba Harvest is the world's largest hemp food manufacturer and a leader in the natural foods industry, producing, manufacturing, marketing and distributing a broad-based portfolio of hemp-based (cannabis) consumer products sold in over 16,000 stores at major retailers across the United States and Canada. Manitoba Harvest also launched a line of CBD products in the United States in 2019, which are available in over 500 locations.

Revenue from international medical sales grew more than five times of the comparative periods in 2018, driven by Tilray Portugal's first export of cannabis flower to Cannamedical Pharma GmbH to supply patients in Germany, which contributed $3.0 million of revenue in Q3 2019. This was enabled by the EU Campus in Portugal that is a GMP certified, multi-faceted production facility with indoor, outdoor and greenhouse cultivation sites. Increasing our presence in the international markets is a strategic priority for us and we believe we are well positioned to serve International markets from Portugal as more countries legalize medical cannabis.

Our cannabis extract products revenue was $5.8 million and $16.2 million (C$7.7 million and C$21.5 million), for the three and nine months ended September 30, 2019, respectively, compared to $5.2 million and $12.7 million (C$6.7 million and C$16.4 million) for the same periods in 2018, respectively. On a percentage of revenue basis, extract products accounted for 17% and 21% of revenue from non-hemp products for the three and nine months ended September 30, 2019, respectively (2018 – 52% and 46%). The launch of the adult-use market in Canada and contributed $15.8 million (C$21.0 million) and $38.8 million (C$51.4 million) to our revenue, representing 31% and 32% of revenue for the three and nine months ended September 30, 2019, respectively.

ACMPR (direct to patient & bulk) includes bulk sales of $10.0 million and $21.5 million for the three and nine months ended September 30, 2019, respectively. Bulk sales are expected to significantly decrease in the future.

The Canadian dollar revenue was derived using the average exchange rate during the reporting period. Amounts are individually converted by multiplying the U.S. dollar to Canadian dollar rate to determine the Canadian dollar amount.

Cost of Sales and Gross Profit

	Three months ended September 30,				Nine months ended September 30,			
	2019	2018	$ Change	% Change	2019	2018	$ Change	% Change
Cost of sales	$ 35,248	$ 6,979	$ 28,269	405%	$ 86,532	$ 16,458	$ 70,074	426%
Gross profit	15,853	3,068	12,785	417%	33,511	11,141	22,370	201%
Gross profit percentage	31%	31%			28%	40%		

Cost of sales increased for the three and nine months ended September 30, 2019 from the comparable periods in 2018 primarily due to greater sales, the addition of our acquisitions of Manitoba Harvest and Natura, the start-up of High Park Farms and Portugal, and a shift towards a mix of high THC and high CBD cultivars that have lower yields.

Gross profit percentage remained relatively consistent for the three months ended September 30, 2019 from the comparable period in 2018 despite the change in product mix from 2018 primarily due to benefits of economies of scale for our new cultivation facilities and processing facilities. Gross profit percentage decreased for nine months ended September 30, 2019 from the comparable period in 2018 primarily due to procurement of third-party supply, low yields, and low throughput during the scaling of new facilities impacting us in the first half of the year. In the second quarter of 2019 our High Park Processing Facility came online, allowing us to discontinue the temporary set up in High Park Farms, this location had higher costs and lower output than the Processing Facility. Moreover, the gross profit on hemp products was impacted by a non-cash charge due to the one-time purchase accounting step-up in inventory value in the amount of $2.0 million for the six months ended June 30, 2019.

During 2019, we improved throughput and increased efficiencies due to our new facilities. As a result, our gross profit percentage has improved sequentially since the first quarter of 2019, from 23%, to 27%, to 31%. Gross profit percentage is also impacted by product and sales channel mix, with higher valued products and international medical being the highest margin and low value added and bulk wholesale being the lowest margin.

Operating Costs and Expenses

	Three months ended September 30,				Nine months ended September 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
General and administrative expense	$ 19,978	$ 7,001	$ 12,977	185%	$ 49,240	$ 16,488	$ 32,752	199%
Sales and marketing expense	16,974	3,493	13,481	386	39,161	9,061	30,100	332
Depreciation and amortization expense	3,190	529	2,661	503	7,438	1,032	6,406	621
Stock-based compensation expense	8,315	11,245	(2,930)	(26)	21,206	16,877	4,329	26
Research and development expense	2,315	802	1,513	189	4,891	2,416	2,475	102
Loss from equity method investments	1,837	—	1,837	N/A	1,837	—	1,837	N/A
Acquisition-related (income) expense, net	(13,454)	10	(13,464)	N/A	(6,598)	10	(6,608)	N/A
Total operating expenses	$ 39,155	$ 23,080	$ 16,075	70%	$ 117,175	$ 45,884	$ 71,291	155%
(as a percentage of revenue)								
General and administrative expense	39%	70%			41%	60%		
Sales and marketing expense	33	35			33	33		
Depreciation and amortization expense	6	5			6	4		
Stock-based compensation expense	16	112			18	61		
Research and development expense	5	8			4	9		
Loss from equity method investments	4	—			2	—		
Acquisition-related (income) expense, net	(26)	N/A			(5)	N/A		
Total operating expenses	77%	230%			98%	166%		

N/A: Not a meaningful percentage

General and administrative expense increased for the three and nine months ended September 30, 2019 from the comparable periods in 2018 primarily due to higher employee costs to support a larger business from the acquisition of Manitoba Harvest, increases in professional fees related to legal, audit and human resources, IT services to support our growth, and public company costs. During the three and nine months ended September 30, 2019, we incurred $1.5 million and $2.3 million of non-recurring costs respectively. During the three months ended September 30, 2019 we expanded corporate offices, increasing our occupancy costs by $1.0 million

Sales and marketing expense increased for the three and nine months ended September 30, 2019 from the comparable periods in 2018 primarily due to the acquisition of Manitoba Harvest, development of our Canadian adult-use sales and marketing team, and the development of our European leadership team with five senior appointments last quarter, as we expand our international presence. In three months ended September 30, 2019, High Park developed a comprehensive portfolio of new brands and products for next phase of the adult-use market. The expanded broad-based portfolio includes innovative cannabis products and formats, including edibles, vape products and CBD beverages.

Depreciation and amortization expense increased for the three and nine months ended September 30, 2019 from the comparable periods in 2018 primarily due to the acquisitions of Manitoba Harvest and Natura in 2019, contributing $2.5 million and $5.7 million of the increase for the three and nine months ended September 30, 2019, respectively.

Stock-based compensation expense decreased for the three months ended September 30, 2019 from the comparable period in 2018 primarily due to unusually high stock-based compensation expense in three months ended September 30, 2018, as a result of our initial public offering ("IPO") and the related stock options, restricted stock units and certain IPO contingency triggers related to performance-based awards under the New Plan. Stock-based compensation expense increased for the nine months ended September 30, 2019 from the comparable period in 2018 due to the issuance of stock options and restricted stock units granted under the New Plan for more employees to support a larger business.

Research and development expense increased for the three and nine months ended September 30, 2019 from the comparable periods in 2018 primarily due to our continued support in advancing cannabinoid-based science to further understand the potential benefits of medical cannabis as a treatment. During the quarter, we supported two new clinical research studies with NYU School of Medicine. The two studies will test the efficacy of CBD to treat patients suffering from alcohol use disorder ("AUD") and patients suffering from AUD comorbid with post-traumatic stress disorder ("PTSD"). We expect our research and development expense to increase as we pursue more clinical trial opportunities and continue to invest in developing non-combustible delivery formats and formulations.

Acquisition-related (income) expense resulted in income for the three months ended September 30, 2019 from the comparable period expense in 2018 due to a change in fair value of contingent consideration for the acquisitions of Manitoba Harvest and Natura based on actual results to date and forecasts for the remainder of the earn-out periods. The reductions in the fair value of continent consideration offset acquisition related expense incurred during the quarter. Acquisition-related expense increased for the nine months ended September 30, 2019 from the comparable period in 2018 primarily due to costs incurred to close and integrate the acquisitions of Manitoba Harvest and Natura.

Foreign Exchange (Loss) Gain, Net

The impact of foreign exchange for the three and nine months ended September 30, 2019 was a loss of $2.6 million and $1.2 million, respectively, compared to a gain of $1.6 million and a loss $0.9 million for the comparable periods in 2018. As we hold a significant portion of balances in Canadian dollars, the fluctuation in foreign exchange rates between Canadian dollars and U.S. dollars drove the foreign exchange loss in both the three and nine months ended September 30, 2019.

Interest Expense

Interest expense for the three and nine months ended September 30, 2019 was $8.7 million and $26.0 million, respectively (2018 – $0.5 million and $1.4 million). The increase was primarily attributable to the issuance of $475.0 million in Convertible Notes in October 2018. We expect an increase in interest expense in 2019 to reflect a full year of expense related to the Convertible Notes.

Net Loss and Adjusted EBITDA

	Three months ended September 30,				Nine months ended September 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
Net loss	$ (35,678)	$ (18,700)	$ (16,978)	91%	$ (101,032)	$ (36,714)	$ (64,318)	175%
Adjusted EBITDA	$ (23,545)	$ (7,353)	$ (16,192)	220%	$ (56,017)	$ (15,304)	$ (40,713)	266%

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Adjusted EBITDA reconciliation:				
Net loss	$ (35,678)	$ (18,700)	$ (101,032)	$ (36,714)
Depreciation and amortization expense	4,686	1,404	10,441	2,552
Stock-based compensation expense	8,315	11,245	21,206	16,877
Acquisition-related (income) expense, net	(13,454)	10	(6,598)	10
Foreign exchange loss (gain), net	2,585	(1,591)	1,153	913
Interest expense, net	8,687	480	26,018	1,393
Other income, net	(1,313)	(225)	(5,661)	(422)
Amortization of inventory step-up	—	—	2,041	—
Deferred income tax expense (recovery)	2,432	—	(3,987)	—
Current income tax expense	195	24	402	87
Adjusted EBITDA	$ (23,545)	$ (7,353)	$ (56,017)	$ (15,304)

Net loss increased for the three and nine months ended September 30, 2019 from the comparable periods in 2018 primarily due to an increase in operating expenses related to continued growth, expansion of our international teams, interest expense from the Convertible Notes, and results of the Manitoba Harvest and Natura businesses acquired.

Adjusted earnings before interest, tax and depreciation (“Adjusted EBITDA”) decreased in the three and nine months ended September 30, 2019 from the comparable periods in 2018 primarily due to an increase in operating expenses related to continued growth as well as expansion and development into new markets.

To supplement our financial statements, which are prepared and presented in accordance with U.S. generally accepted accounting principles (“GAAP”), we use Adjusted EBITDA, as described below, to understand and evaluate our operating performance. Adjusted EBITDA, which may be different than similarly titled measures used by other companies, is presented to help investors’ overall understanding of our financial performance and should not be considered a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP.

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

- Adjusted EBITDA excludes certain recurring, non-cash charges such as depreciation and amortization expense and, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future;
- Adjusted EBITDA excludes stock-based compensation expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and an important part of our compensation strategy;
- Adjusted EBITDA excludes third-party acquisition and integration expenses and changes in the fair value of contingent consideration, which are considered non-recurring, to reflect normal business activity;
- Adjusted EBITDA excludes foreign exchange gains or losses, which account for the effect of both realized and unrealized foreign exchange transactions. Unrealized gains or losses represent foreign exchange revaluation of foreign denominated monetary assets and liabilities;
- Adjusted EBITDA excludes interest expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and reduces cash available to us;
- Adjusted EBITDA excludes the non-recurring, non-cash impact of the amortization of purchase accounting step-up in inventory value, to reflect normal business activity; and
- Adjusted EBITDA excludes current and deferred income tax expense and recovery, which could be a significant recurring expense or recovery in our business in the future and reduce or increase cash available to us.

Liquidity and Capital Resources

As of September 30, 2019, we had cash and cash equivalents of $100.2 million and short-term investments totaling $22.2 million which were held for working capital purposes. Our cash, cash equivalents and short-term investments consist primarily of cash, treasury bills and corporate bonds.

In February and March 2018, we issued 7,794,042 shares of Series A preferred stock at $7.10 per share in exchange for cash proceeds of approximately $55.0 million from third-party institutional investors. On our IPO, all shares of the outstanding Series A preferred stock automatically converted into 7,794,042 shares of Class 2 common stock on a one-for-one basis.

In July 2018, we completed our IPO, whereby 10,350,000 shares of our Class 2 common stock were sold at a price of $17.00 per share, which included 1,350,000 shares sold pursuant to the underwriters' option to purchase additional shares. We received net proceeds of approximately $163.7 million after deducting the underwriting discount.

In October 2018, we entered into an indenture relating to the issuance of $475.0 million aggregate principal amount of 5.00% Convertible Notes, which included $25.0 million pursuant to the underwriters' option to purchase an additional aggregate principal amount. Net proceeds from the issuance were approximately $460.8 million, after deducting the initial purchasers' commissions.

In September 2019, we entered into a sales agreement with Cowen and Company, LLC that enables us to issue and sell shares of Class 2 common stock from time to time up to up to an aggregate offering price of $400.0 million through an "at-the-market" equity offering program. During the three months ended September 30, 2019, we issued 1,344,166 shares of Class 2 common stock for gross proceeds of approximately $38 million under the program.

Our primary need for liquidity is to fund working capital requirements, capital expenditures, debt service obligations and for general corporate purposes. Our ability to fund operations and make planned capital expenditures and debt service obligations depends on future operating performance and cash flows, which are subject to prevailing economic conditions and financial, business and other factors.

The following table sets forth the major components of our Condensed Consolidated Statements of Cash Flows for the periods presented:

	Nine months ended September 30, 2019	2018
Net cash used in operating activities	$ (167,255)	$ (26,440)
Net cash used in investing activities	(264,844)	(53,544)
Net cash provided by financing activities	45,098	179,667
Effect of foreign currency translation on cash and cash equivalents	(95)	2,239
(Decrease) increase in cash and cash equivalents	$ (387,096)	$ 101,922

The change in net cash used by operating activities primarily related to changes in working capital fluctuations and changes in non-cash expenses, all of which are highly variable.

The change in net cash used in investing activities primarily related to our acquisitions of Manitoba Harvest and Natura, investment in the ABG Profit Participation Arrangement, and purchase of property and equipment related to our expansion projects in Canada and Portugal.

The change in net cash provided by financing activities primarily related to proceeds from our "at-the-market" equity offering program, exercise of stock options, and ABG Profit Participation Arrangement.

The table below sets out the cash and cash equivalents, short-term investments and inventory:

	September 30, 2019	December 31, 2018
Cash and cash equivalents	$ 100,159	$ 487,255
Short-term investments	22,213	30,335
Inventory	110,487	16,211

We primarily financed our operations through the issuance of common stock, sale of Convertible Notes and revenue generating activities. We believe that our existing cash will be sufficient to meet our working capital requirements.

We manage our liquidity risk by preparing budgets and cash forecasts to ensure we have sufficient funds to meet obligations. In managing working capital, we may limit the amount of our cash needs by selling inventory at wholesale rates, pursuing additional financing sources and managing the timing of capital expenditures. While we believe we have sufficient cash to meet working capital requirements in the short term, we may need additional sources of capital and/or financing, to meet planned growth requirements and to fund construction activities at our cultivation and processing facilities.

Contractual Obligations

As a result of the acquisitions of Manitoba Harvest and Natura, contractual operating lease obligations of the Company increased by approximately $0.3 million from December 31, 2018. The Company has contractual commitments relating to contingent consideration for the acquisitions of Manitoba Harvest and Natura as well as the ABG Profit Participation Arrangement subject to certain regulatory or commercial triggers. Refer to "Part I, Item 1. Note 15 – Business Combinations" and "Part I, Item 1. Note 14 – ABG Profit Participation Arrangement" to our financial statements appearing elsewhere in this Quarterly Report on Form 10-Q for further details. In addition, the Company entered into various purchase obligations that require future minimum contractual commitments of approximately $172.9 million as of September 30, 2019.

Emerging Growth Company Status

We are an "emerging growth company" as defined in Section 2(a) of the Exchange Act, as modified by the Jumpstart Our Business Start-ups Act of 2012, or the JOBS Act. The JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 13(a) of the Exchange Act for complying with new or revised accounting standards applicable to public companies. We have elected to take advantage of this extended transition period and as a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates.

We will no longer be able to take advantage of this exemption beginning on December 31, 2019, when we will be deemed a large accelerated filer and, as a result, cease to be an "emerging growth company."

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the SEC.

Recently Issued Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes to our market risk disclosures as set forth in Part II Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2019. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, or DCPs, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. DCPs include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our DCPs, our Chief Executive Officer and Chief Financial Officer concluded that, due to a previously reported material weakness, the Company's internal control over financial reporting was not effective as of September 30, 2019. A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act), or ICFR, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. Specifically, our inventory cost calculations and the financial close processes are manual in nature such that a timely, sufficiently precise and detailed review to mitigate the risk of material misstatement is not currently feasible due to the complexity of the spreadsheet-based models used. There were no material errors in the financial results or balances identified, no restatements of prior period financial statements, and no changes in previously released financial results were required as a result of this control deficiency.

Remediation Efforts to Address Material Weakness

As previously described in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2018, the Company began implementing a remediation plan to address the material weakness mentioned above. Management will continue to increase the depth and experience within our operations, accounting and finance organizations, and design and implement improved processes and internal controls with the intent of increasing the use of system-based processes to limit manual calculations and adjustments in the inventory costing and financial close processes. The material weakness will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes in Internal Control over Financial Reporting

Other than with respect to the remediation efforts described above, there have been no changes in the ICFR during the three months ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. We are not currently a party to any legal proceedings the outcome of which, if determined adversely to us, would individually or in the aggregate have a material adverse effect on our business, financial condition, results of operations or prospects.

Item 1A. Risk Factors.

Careful consideration should be given to the following risk factors, in addition to the other information set forth in this Quarterly Report on Form 10-Q and in other documents that we file with the SEC or publicly in Canada, in evaluating our company and our business. Investing in our securities involves a high degree of risk. If any of the following risks actually occur, our business, financial condition, results of operations and future growth prospects could be materially and adversely affected.

Risks Related to our Medical Cannabis Business and the Medical Cannabis Industry

We are dependent upon regulatory approvals and licenses for our ability to grow, process, package, store, sell and export medical cannabis and other products derived therefrom, and these regulatory approvals are subject to ongoing compliance requirements, reporting obligations and fixed terms requiring renewal.

Our ability to grow, process, package, store and sell dried cannabis, cannabis oil, and other classes of cannabis, including both oil and capsules, for medical purposes in Canada is dependent on our current Health Canada licenses under the Cannabis Regulations (“CR”), covering our production facility and patient call center at our Tilray North America Campus in Nanaimo, British Columbia, or Tilray Nanaimo. These licenses allow us to produce cannabis in bulk and finished forms at Tilray Nanaimo and to sell and distribute such cannabis in Canada. They also allow us to import and export medical cannabis in bulk and finished form to and from specified jurisdictions around the world, subject to obtaining, for each specific shipment, an export approval from Health Canada and an import approval (or no objection notice) from the applicable regulatory authority in the country to or from which the export or import is being made. The CR licenses for Tilray Nanaimo are valid for fixed periods and will need to be renewed at the end of such periods.

We also hold licenses under the CR covering our facilities in Enniskillen, London, and Leamington, Ontario which we intend to use to service the adult-use market and support the medical market as needed. These licenses allow us to produce, sell, and distribute cannabis and/or cannabis products in Canada. These licenses are valid for fixed periods and will need to be renewed at the end of such periods.

Our ability to operate in our facility at our Tilray European Union Campus located in Cantanhede, Portugal, or Tilray Portugal, is dependent on our current authorization for the cultivation, import and export of cannabis and our Good Manufacturing Practices, or GMP, certification by the Portuguese National Authority of Medicines and Health Products, or INFARMED, for manufacture of cannabis as an active pharmaceutical ingredient, and in the future will be dependent on our pending authorization (assuming such authorization is approved) for the manufacture of finished cannabis products and GMP certification for manufacture of cannabis as a finished medicinal product. Our current authorization for cultivation, import and export of cannabis is valid for a single growing season at a time and notification to INFARMED is needed to renew the license for subsequent growing seasons. All licenses are subject to ongoing compliance and reporting requirements and renewal.

We intend to apply for a sale license for cannabis products under the CR for our facility in Leamington, Ontario. Any future medical cannabis production facilities that we operate in Canada will also be subject to separate licensing requirements under the CR. Although we believe that we will meet the requirements of the CR for future renewals of our existing licenses, and grants of permits under such licenses, and to obtain corresponding licenses for future facilities in Canada, there can be no assurance that existing licenses will be renewed or new licenses obtained on the same or similar terms as our existing licenses, nor can there be any assurance that Health Canada will continue to issue import or export permits on the same terms or on the same timeline, or that other countries will allow, or continue to allow, imports or exports.

Further, we are subject to ongoing inspections by Health Canada to monitor our compliance with its licensing requirements. Our existing licenses and any new licenses that we may obtain in the future in Canada or other jurisdictions may be revoked or restricted at any time in the event that we are found not to be in compliance. Should we fail to comply with the applicable regulatory requirements or with conditions set out under our licenses, should our licenses not be renewed when required, or be renewed on different terms, or should our licenses be revoked, we may not be able to continue producing or distributing medical cannabis in Canada or other jurisdictions or to export medical cannabis outside of Canada or Portugal.

In addition, we may be subject to enforcement proceedings resulting from a failure to comply with applicable regulatory requirements in Canada or other jurisdictions, which could result in damage awards, a suspension of our existing approvals, a withdrawal of our existing approvals, the denial of the renewal of our existing approvals or any future approvals, recalls of products, product seizures, the imposition of future operating restrictions on our business or operations or the imposition of civil, regulatory or criminal fines or penalties against us, our officers and directors and other parties. These enforcement actions could delay or entirely prevent us from continuing the production, testing, marketing, sale or distribution of our medical products and divert management's attention and resources away from our business operations.

The laws, regulations and guidelines generally applicable to the medical cannabis industry in Canada and other countries may change in ways that impact our ability to continue our business as currently conducted or proposed to be conducted.

The successful execution of our medical cannabis business objectives is contingent upon compliance with all applicable laws and regulatory requirements in Canada and other jurisdictions, including the requirements of the CR in Canada, and obtaining all other required regulatory approvals for the sale, import and export of our medical cannabis products. The commercial medical cannabis industry is a relatively new industry in Canada and the CR is a regime that has only been in effect in its current form since October 2018. The effect of Health Canada's administration, application and enforcement of the regime established by the CR on us and our business in Canada, or the administration, application and enforcement of the laws of other countries by the appropriate regulators in those countries, may significantly delay or impact our ability to participate in the Canadian medical cannabis market or medical cannabis markets outside Canada, to develop medical cannabis products and produce and sell these medical cannabis products.

Further, Health Canada or the regulatory authorities in other countries in which we operate or to which we export our medical cannabis products may change their administration, interpretation or application of the applicable regulations or their compliance or enforcement procedures at any time. Any such changes could require us to revise our ongoing compliance procedures, requiring us to incur increased compliance costs and expend additional resources. There is no assurance that we will be able to comply or continue to comply with applicable regulations.

Any failure on our part to comply with applicable regulations could prevent us from being able to carry on our business.

Health Canada inspectors routinely assess Tilray Nanaimo, High Park Farms, High Park Processing Facility, and High Park Gardens for compliance with applicable regulatory requirements. Our Tilray Portugal facilities have also been inspected for compliance by applicable regulators following completion of the construction, and will be subject to certain ongoing inspections and audits once licensing is complete. Furthermore, the import of our products into other jurisdictions, such as Germany and Australia, is subject to the regulatory requirements of the respective jurisdiction. Any failure by us to comply with the applicable regulatory requirements could require extensive changes to our operations; result in regulatory or agency proceedings or investigations, increased compliance costs, damage awards, civil or criminal fines or penalties or restrictions on our operations; and harm our reputation or give rise to material liabilities or a revocation of our licenses and other permits. There can be no assurance that any pending or future regulatory or agency proceedings, investigations or audits will not result in substantial costs, a diversion of management's attention and resources or other adverse consequences to us and our business.

Our ability to produce and sell our medical products in, and export our medical products to, other jurisdictions outside of Canada is dependent on compliance with additional regulatory and other requirements.

We are required to obtain and maintain certain permits, licenses or other approvals from regulatory agencies in countries and markets outside of Canada in which we operate, or to which we export, to produce or export to, and sell our medical products in, these countries, including, in the case of certain countries, the ability to demonstrate compliance with GMP standards. Our current certification of compliance with GMP standards for production at Tilray Nanaimo and any other GMP certification that we may receive in the future subject us, or will in the future subject us, to extensive ongoing compliance reviews to ensure that we continue to maintain compliance with GMP standards. There can be no assurance that we will be able to continue to comply with these standards.

The continuation or expansion of our international operations depends on our ability to renew or secure necessary permits, licenses and other approvals. An agency's denial of or delay in issuing or renewing a permit, license or other approval, or revocation or substantial modification of an existing permit, license or approval, could prevent us from continuing our operations in, marketing efforts in, or exports to countries other than Canada. For example, Tilray Nanaimo's current certification of GMP compliance must be renewed via re-inspection prior to October 2020, and our failure to maintain such certification, or to comply with applicable industry quality assurance standards or receive similar regulatory certifications at any of our other facilities, may prevent us from continuing the expansion of our international operations. In addition, the export and import of medical cannabis is subject to United Nations treaties establishing country-by-country national estimates and our export and import permits are subject to these estimates which could limit the amount of medical cannabis we can export to any particular country.

The long-term effect of the legalization of adult-use cannabis in Canada on the medical cannabis industry is unknown, and may have a significant negative effect upon our medical cannabis business if our existing or future medical use customers decide to purchase products available in the adult-use market instead of purchasing medical use products from us.

In June 2018, the government of Canada passed Bill C-45, or the Cannabis Act, the Canadian federal legislation allowing individuals over the age of 18 to legally purchase, process and cultivate limited amounts of cannabis for adult use in Canada. The Cannabis Act and accompanying regulations, the CR, became effective on October 17, 2018. On October 17, 2019, the CR was further amended to permit the sale of new classes of cannabis through both adult-use and medical channels, which classes will become available starting December 16, 2019. Individuals who previously relied upon the medical cannabis market to supply their medical cannabis and cannabis-based products may cease this reliance, and instead turn to the adult-use cannabis market to supply their cannabis and cannabis-based products. Factors that may influence this decision include the availability of product in each market, the price of medical cannabis products in relation to similar adult-use cannabis products, and the ease with which each market can be accessed in the individual provinces and territories of Canada. The impact of adult-use cannabis on the medical market is not yet ascertainable by us given the newness of the adult-use market in Canada and the rapid rate of regulatory change, and given industry-wide supply shortages in both the medical and adult-use markets.

A decrease in the overall size of the medical cannabis market as a result of the legal adult-use market in Canada may reduce our medical sales and revenue prospects in Canada. Moreover, the CR regulation of cannabis for medical purposes is expected to be reviewed in light of the adult-use market. The effect on our business, and the medical cannabis market in general, of such a review is uncertain.

There has been limited study on the effects of medical cannabis and future clinical research studies may lead to conclusions that dispute or conflict with our understanding and belief regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis.

Research regarding the medical benefits, viability, safety, efficacy and dosing of cannabis or isolated cannabinoids (such as CBD and THC) remains in relatively early stages. There have been few clinical trials on the benefits of cannabis or isolated cannabinoids conducted by us or by others.

Future research and clinical trials may draw opposing conclusions to statements contained in the articles, reports and studies we have relied on or could reach different or negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing or other facts and perceptions related to medical cannabis, which could adversely affect social acceptance of cannabis and the demand for our products.

Tilray Nanaimo, Manitoba Harvest, High Park Farms, and our High Park Processing Facility and Tilray Portugal are integral to our business and adverse changes or developments affecting any of these facilities may have an adverse impact on us.

Currently, our activities and resources are primarily focused on the operation of Tilray Nanaimo, Manitoba Harvest, High Park Farms, High Park Gardens, Tilray Portugal and our current licenses under the CR are specific to Tilray Nanaimo, High Park Farms, High Park Gardens and our High Park Processing Facility. Adverse changes or developments affecting these facilities, including, but not limited to, disease or infestation of our crops, a fire, an explosion, a power failure, a natural disaster or a material failure of our security infrastructure, could reduce or require us to entirely suspend our production of cannabis. A significant failure of our site security measures and other facility requirements, including any failure to comply with regulatory requirements under the CR, could have an impact on our ability to continue operating under our Health Canada licenses and our prospects of renewing our Health Canada licenses, and could also result in a suspension or revocation of these Health Canada licenses. As we produce much of our medical cannabis products in Tilray Nanaimo, any event impacting our ability to continue production at Tilray Nanaimo, or requiring us to delay production, would prevent us from continuing to operate our business until operations at Tilray Nanaimo could be resumed, or until we were able to commence production at another facility.

We expect to expand Tilray Nanaimo, High Park Farms, our High Park Processing Facility, and our Tilray Portugal facilities. We are also contemplating expanding our High Park Gardens facility. We expect that expanded and additional facilities will significantly increase our cultivation, growing, processing and distribution capacity; however, development impediments such as construction delays or cost over-runs in respect to the development of these facilities, howsoever caused, could delay or prevent our ability to produce cannabis at these facilities. It is also possible that the final costs of the major equipment contemplated by our capital expenditure program relating to the development of our High Park Farms, our High Park Processing Facility and Tilray Portugal may be significantly greater than anticipated, in which circumstance we may be required to curtail, or extend the timeframes for completing, such capital expenditure plans which would reduce our production capacity.

If we are unsuccessful in scaling operations at our facilities, we may become increasingly reliant on third party cannabis suppliers, likely at a higher price than our own cost to produce, which would have a negative impact on gross profit.

The medical cannabis industry and market are relatively new, and this industry and market may not continue to exist or develop as anticipated or we may ultimately be unable to succeed in this industry and market.

We are operating our current business in a relatively new medical cannabis industry and market, and our success depends on our ability to attract and retain patients. In addition to being subject to general business risks applicable to a business involving an agricultural product and a regulated consumer product, we need to continue to build brand awareness of our Tilray brand in the medical cannabis industry and make significant investments in our business strategy and production capacity. These investments include introducing new products into the markets in which we operate, adopting quality assurance protocols and procedures, building our international presence and undertaking regulatory compliance efforts. These activities may not promote our medical products as effectively as intended, or at all, and we expect that our competitors will undertake similar investments to compete with us for market share. Competitive conditions, consumer preferences, regulatory conditions, patient requirements, healthcare practitioner prescribing practices, and spending patterns in this industry and market are relatively unknown and may have unique characteristics that differ from other existing industries and markets and that cause our efforts to further our business to be unsuccessful or to have undesired consequences. As a result, we may not be successful in our efforts to attract and retain patients or to develop new medical cannabis products and produce and distribute these medical cannabis products to the markets in which we operate or to which we export in time to be effectively commercialized, or these activities may require significantly more resources than we currently anticipate in order to be successful.

We compete for market share with other companies, including other producers licensed by Health Canada, some of which have longer operating histories and more financial resources and manufacturing and marketing experience than we have.

We face, and we expect to continue to face, intense competition from Licensed Producers and other potential competitors, some of which have longer operating histories and more financial resources and manufacturing and marketing experience than we have. In addition, it is possible that the medical cannabis industry will undergo consolidation, creating larger companies with financial resources, manufacturing and marketing capabilities and product offerings that are greater than ours. As a result of this competition, we may be unable to maintain our operations or develop them as currently proposed, on terms we consider acceptable, or at all.

There are currently hundreds of applications for Licensed Producer status being processed by Health Canada. The number of licenses granted and the number of Licensed Producers ultimately authorized by Health Canada could have an adverse impact on our ability to compete for market share in Canada's medical cannabis industry. We expect to face additional competition from new market entrants that are granted licenses under the CR or existing license holders that are not yet active in the industry. If a significant number of new licenses are granted by Health Canada, we may experience increased competition for market share and may experience downward price pressure on our medical cannabis products as new entrants increase production.

In addition, the CR permits patients in Canada to produce a limited amount of cannabis for their own medical purposes or to designate a person to produce a limited amount of cannabis on their behalf for such purposes. Widespread reliance upon this allowance could reduce the current or future consumer demand for our medical cannabis products.

If the number of users of cannabis for medical purposes in Canada increases, the demand for products will increase. This could result in the competition in the medical cannabis industry becoming more intense as current and future competitors begin to offer an increasing number of diversified medical cannabis products. Conversely, if there is a contraction in the medical market for cannabis in Canada, resulting from the legalization of adult-use cannabis or otherwise, competition for market share may increase. To remain competitive, we intend to continue to invest in research and development and sales and patient support; however, we may not have sufficient resources to maintain research and development and sales and patient support efforts on a competitive basis.

In addition to the foregoing, the legal landscape for medical cannabis use is changing internationally. We have operations outside of Canada, which may be affected as other countries develop, adopt and change their medical cannabis laws. Increased international competition, including competition from suppliers in other countries who may be able to produce at lower cost, and limitations placed on us by Canadian or other regulations, might lower the demand for our medical cannabis products on a global scale.

The illicit supply of cannabis and cannabis-based products may reduce our sales and impede our ability to succeed in the medical and adult-use cannabis markets.

In addition to competition from Licensed Producers and those able to produce cannabis legally without a license, we also face competition from unlicensed and unregulated market participants, including illegal dispensaries and black market suppliers selling cannabis and cannabis-based products in Canada.

Despite the legalization of medical and adult-use cannabis in Canada, black market operations remain abundant and are a substantial competitor to our business. In addition, illegal dispensaries and black market participants may be able to (i) offer products with higher concentrations of active ingredients that are either expressly prohibited or impracticable to produce under current Canadian regulations, and (ii) use delivery methods, including edibles, concentrates and extract vaporizers, that we are currently prohibited from offering to individuals in Canada, (iii) brand products more explicitly, and (iv) describe/discuss intended effects of products. As these illicit market participants do not comply with the regulations governing the medical and adult-use cannabis industry in Canada, their operations may also have significantly lower costs.

As a result of the competition presented by the black market for cannabis, any unwillingness by consumers currently utilizing these unlicensed distribution channels to begin purchasing from Licensed Producers for any reason or any inability or unwillingness of law enforcement authorities to enforce laws prohibiting the unlicensed cultivation and sale of cannabis and cannabis-based products could (i) result in the perpetuation of the black market for cannabis, (ii) adversely affect our market share and (iii) adversely impact the public perception of cannabis use and licensed cannabis producers and dealers, all of which would have a materially adverse effect on our business, operations and financial condition.

Risks Related to our Adult-Use Cannabis Business and the Adult-Use Cannabis Industry in Canada

The adult-use cannabis industry, and the regulations governing this industry, may develop in a way that is significantly different from our current expectations, resulting in our decreased ability, or inability, to compete in this market and industry.

The Cannabis Act allows for regulated and restricted access to cannabis for recreational adult use in Canada. We operate a part of our business in the adult-use cannabis industry and market.

There is no assurance that the adult-use cannabis industry, and the regulations governing this industry, will continue to develop as anticipated. There are and will be significant restrictions on the marketing, branding, product formats, product composition, packaging, and distribution channels allowed under the Cannabis Act, which may reduce the value of certain of our products and brands or negatively impact our ability to compete with other companies in the adult-use cannabis market in Canada. For instance, adult-use legislation includes a requirement for health warnings on product packaging, the limited ability to use logos and branding (only one brand name and one brand element per package), restrictions on packaging itself, and restrictions on types and avenues of marketing; further, amended regulations governing the production and sale of new classes of cannabis (including vapes and, edibles, which came into force on October 17, 2019, impose considerable restrictions on product composition, labeling, and packaging in addition to being subject to similar marketing restrictions as existing form factors. Additional marketing and product composition restrictions have been imposed by some provinces and territories and are subject to changing interpretation without notice. We are reasonably certain that we will continue to be able to adapt our licensed brands and products to satisfy these restrictions and to package and successfully distinguish these brands in the marketplace while remaining compliant with applicable laws (including all provincial legislation); however provincial or other legislation containing additional restrictions, such as a complete ban on marketing, may impact our ability to do so. Such additional restrictions may impair our ability to develop our adult-use brands, and a complete ban on marketing or additional product restrictions imposed under future regulations, may make it uneconomic or unfeasible for us to introduce our entire portfolio of brands and products into the Canadian market, which means that we will be unable to reap the full benefit of the exclusive rights we have secured to such brands and products or launch new products. Further, each province and territory of Canada has the ability to separately regulate the distribution of cannabis within such province or territory, and the rules (including associated regulations) adopted by these provinces or territories vary significantly. Furthermore, some provinces and territories impose significant restrictions on our ability to merchandise products; for example, some provinces impose restrictions on investment in retailers or distributors and their employees as well as in our ability to negotiate for preferential retail space or in-store marketing. Such variance may make participation in the adult-use cannabis market uneconomic or of limited economic benefit for us in those provinces or territories and could result in significant additional compliance or other costs and limitations on our ability to compete successfully in each such market.

Any failure on our part to comply with supplier standards established by provincial or territorial distributors could prevent us from accessing certain markets in Canada.

Government-run provincial and territorial distributors in Canada require suppliers to meet certain service and business standards, and routinely assess for compliance with such standards. Any failure by us to comply with such standards could result in our being downgraded or disqualified as a supplier, and would severely impede or eliminate our ability to access certain markets within Canada.

The adult-use cannabis market in Canada is continuing to develop and may experience supply fluctuations resulting in revenue and price decreases.

As a result of the legalization of adult cannabis use in Canada, the demand for cannabis may dramatically increase. Licensed Producers, and others licensed to produce cannabis under the Cannabis Act, may not be able to produce enough cannabis to meet adult-use demand. This may result in lower than expected sales and revenues and may result in increased competition for sales and sources of supply. This competition may adversely affect our adult-use business and there is no guarantee that we will be able to supply or acquire the supply, on commercially reasonable terms or at all, to meet the demand for medical and adult-use cannabis.

In response to this surge in demand for cannabis, we and other cannabis producers in Canada may produce more cannabis than is needed to satisfy the collective demand of the Canadian medical and adult-use markets, and we may be unable to export that oversupply into other markets where cannabis use is fully legal under all federal and state or provincial laws. Additionally, the Canadian market may experience increased supply fluctuations as new form factors and products become available. As a result, the available supply of cannabis could exceed demand, resulting in a significant decline in the market price for cannabis. If this were to occur, there is no assurance that we would be able to generate sufficient revenue from the sale of adult-use cannabis to result in profitability.

In connection with the amended Canadian adult-use regulations which became effective October 17, 2019 and will permit new classes of cannabis on December 16, 2019, we will offer cannabis-only vape products in Canada. The vape market is a niche market that remains subject to a great deal of uncertainty and is still evolving. Recent negative public sentiment and regulatory scrutiny of vaporizing in the U.S. may cause Health Canada to further limit usage and diminish Canadian consumer demand for our cannabis vape products.

Cannabis vape products in Canada are regulated under the Cannabis Act and Cannabis Regulations. Although this legislation sets clear rules and standards for the manufacture, composition, packaging, and marketing of cannabis vape products, these rules and standards predate the spate of vaping-related health issues that have recently arisen in the U.S. These issues and accompanying negative public sentiment may prompt Health Canada or individual provinces/territories may decide to further limit or defer industry's ability to sell cannabis vape products, and may also diminish consumer demand for such products. There can be no assurance that we will be able to meet any additional compliance requirements or regulatory restrictions, or remain competitive in face of unexpected changes in market conditions.

Vaping, electronic cigarettes and related products were recently developed and therefore the scientific community has not had a sufficient period of time to study the long-term health effects of their use. Currently, there is no way of knowing whether these products are safe for their intended use and the medical community is still studying these products' health effects. If the scientific community were to determine conclusively that use of any or all of these products poses long-term health risks, market demand for these products and their use could materially decline. Such a determination could also lead to litigation and significant regulation. Loss of demand for our product, product liability claims and increased regulation stemming from unfavorable scientific studies on cannabis vaping products could have a material adverse effect on our business, results of operations and financial condition.

The adult-use cannabis industry and market in Canada is subject to many of the same risks as the medical cannabis industry and market, including risks related to our need for regulatory approvals, the early status and uncertain growth of this industry and the competition we expect to face in this industry.

The adult-use cannabis industry and market in Canada is subject to certain risks that are unique to this industry, as well as the risks that are currently applicable to the medical cannabis industry, which are described under the heading above titled "*Risk Factors-Risks Related to our Medical Cannabis Business and the Medical Cannabis Industry.*"

If any of these shared risks occur, our business, financial condition, results of operations and prospects could be adversely affected in a number of ways, including by our not being able to successfully compete in the adult-use cannabis industry and by our being subject to fines, damage awards and other penalties as a result of regulatory infractions or other claims brought against us.

We may be unsuccessful in competing in the legal adult-use cannabis market in Canada.

Our Canadian adult-use business faces enhanced competition from other Licensed Producers and those individuals and corporations who are licensed under the Cannabis Act to participate in the adult-use cannabis industry.

As previously noted, there are hundreds of applications being processed for licenses under the CR. Moreover, the Cannabis Act allows individuals to cultivate, propagate, harvest and distribute up to four cannabis plants per household, provided that each plant meets certain requirements. If we are unable to effectively compete with other suppliers to the adult-use cannabis market, or a significant number of individuals take advantage of the ability to cultivate and use their own cannabis, our success in the adult-use business may be limited and may not fulfill the expectations of management.

We will also face competition from existing Licensed Producers and other producers licensed under the Cannabis Act. Certain of these competitors have significantly greater financial, production, marketing, research and development and technical and human resources than we do. As a result, our competitors may be more successful than us in gaining market penetration and market share. Our commercial opportunity in the adult-use market could be reduced or eliminated if our competitors produce and commercialize products for the adult-use market that, among other things, are safer, more effective, more convenient or less expensive than the products that we may produce, have greater sales, marketing and distribution support than our products, enjoy enhanced timing of market introduction and perceived effectiveness advantages over our products and receive more favorable publicity than our products. If our adult-use products do not achieve an adequate level of acceptance by the adult-use market, we may not generate sufficient revenue from these products, and our adult-use business may not become profitable.

General Business Risks and Risks Related to Our Financial Condition and Operations

We have a limited operating history and a history of net losses, and we may not achieve or maintain profitability in the future.

We began operating in 2014 and have yet to generate a profit. We generated net losses of $35.7 million and $101.0 million for the three and nine months ended September 30, 2019, respectively, compared to $18.7 million and $36.7 million, respectively in 2018. Our accumulated deficit was $209.2 million and $108.2 million as of September 30, 2019 and December 31, 2018, respectively. We intend to continue to expend significant funds to increase our growing capacity, complete strategic mergers and acquisitions, invest in research and development, expand our marketing and sales operations to increase our base of registered patients and meet the increased compliance requirements associated with our transition to and operation as a public company. As we continue to grow, we expect the aggregate amount of these expenses will also continue to grow.

Our efforts to grow our business may be more costly than we expect and we may not be able to increase our revenue enough to offset higher operating expenses. We may incur significant losses in the future for a number of reasons, including as a result of unforeseen expenses, difficulties, complications and delays, the other risks described in this Quarterly Report on Form 10-Q and other unknown events. The amount of future net losses will depend, in part, on the growth of our future expenses and our ability to generate revenue. If we continue to incur losses in the future, the net losses and negative cash flows incurred to date, together with any such future losses, will have an adverse effect on our stockholders' equity and working capital. Because of the numerous risks and uncertainties associated with producing cannabis products, as outlined herein, we are unable to accurately predict when, or if, we will be able to achieve profitability. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods. If we are unable to achieve and sustain profitability, the market price of our Class 2 common stock may significantly decrease and our ability to raise capital, expand our business or continue our operations may be impaired.

We are exposed to risks relating to the laws of various countries as a result of our international operations.

We currently conduct operations in multiple countries and plan to expand these operations. As a result of our operations, we are exposed to various levels of political, economic, legal and other risks and uncertainties associated with operating in or exporting to these jurisdictions. These risks and uncertainties include, but are not limited to, changes in the laws, regulations and policies governing the production, sale and use of cannabis and cannabis-based products, political instability, instability at the United Nations level, currency controls, fluctuations in currency exchange rates and rates of inflation, labor unrest, changes in taxation laws, regulations and policies, restrictions on foreign exchange and repatriation and changing political conditions and governmental regulations relating to foreign investment and the cannabis business more generally.

Changes, if any, in the laws, regulations and policies relating to the advertising, production, sale and use of cannabis and cannabis-based products or in the general economic policies in these jurisdictions, or shifts in political attitude related thereto, may adversely affect the operations or profitability of our international operations in these countries. As we explore novel business models, such as global co-branded products, cannabinoid clinics and cannabis retail, international regulations will become increasingly challenging to manage. Specifically, our operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on advertising, production, price controls, export controls, controls on currency remittance, increased income taxes, restrictions on foreign investment, land and water use restrictions and government policies rewarding contracts to local competitors or requiring domestic producers or vendors to purchase supplies from a particular jurisdiction. Failure to comply strictly with applicable laws, regulations and local practices could result in additional taxes, costs, civil or criminal fines or penalties or other expenses being levied on our international operations, as well as other potential adverse consequences such as the loss of necessary permits or governmental approvals.

Furthermore, although we have begun production at Tilray Portugal with a view toward facilitating exports of our cannabis products to countries in the European Union from Portugal rather than from Canada, there is no assurance that these EU countries will authorize the import of our cannabis products from Portugal, or that Portugal will authorize or continue to authorize such exports, or that such exports will provide us with advantages over our current EU export strategy. Each country in the European Union (or elsewhere) may impose restrictions or limitations on imports that require the use of, or confer significant advantages upon, producers within that particular country. As a result, we may be required to establish production facilities similar to Tilray Portugal in one or more countries in the European Union where we wish to distribute our cannabis products in order to take advantage of the favorable legislation offered to producers in these countries.

We plan to expand our business and operations into jurisdictions outside of the current jurisdictions where we conduct business, and there are risks associated with doing so.

We plan in the future to expand our operations and business into jurisdictions outside of the jurisdictions where we currently carry on business. There can be no assurance that any market for our products will develop in any such foreign jurisdiction. We may face new or unexpected risks or significantly increase our exposure to one or more existing risk factors, including economic instability, new competition, changes in laws and regulations, including the possibility that we could be in violation of these laws and regulations as a result of such changes, and the effects of competition. These factors may limit our capability to successfully expand our operations in, or export our products to, those other jurisdictions.

Our business is subject to a variety of U.S. and foreign laws, many of which are unsettled and still developing and which could subject us to claims or otherwise harm our business.

We are subject to a variety of laws in the United States, Canada and elsewhere. In the United States, despite cannabis having been legalized at the state level for medical use in many states and for adult use in a number of states, cannabis meeting the statutory definition of "marihuana" continues to be categorized as a Schedule I controlled substance under the federal Controlled Substances Act, or the CSA, and subject to the Controlled Substances Import and Export Act, or the CSIEA. Hemp and marijuana both originate from the Cannabis sativa plant and cannabidiol ("CBD") is a constituent of both. "Marihuana" or "marijuana" is defined in the CSA as a Schedule I controlled substance whereas "Hemp" is essentially any parts of the Cannabis sativa plant that has not been determined to be marijuana. Pursuant to the Agriculture Improvement Act of 2018, or the Farm Bill, "hemp," or cannabis and cannabis derivatives containing no more than 0.3% of tetrahydrocannabinol ("THC"), is now excluded from the statutory definition of "marijuana" and, as such, is no longer a Schedule I controlled substance under the CSA. Our activity in the United States is limited to (a) certain corporate and administrative services, including accounting, legal and creative services, (b) supply of study drug for clinical trials under DEA and FDA authorization, and (c) participation in the market for hemp and hemp-derived products containing CBD in compliance with the Farm Bill; except as described above, we do not produce or distribute cannabis products in the United States. Therefore, we believe that we are not currently subject to the CSA or CSIEA.

We have commercialized in the United States a variety of products containing hemp, which might include certain cannabinoids including CBD, but would exclude THC at amounts more than 0.3%. While the Farm Bill exempted hemp and hemp derived products from the CSA, any such product commercialization will be subject to various laws, including the Farm Bill, the Federal Food, Drug and Cosmetic Act, or the FD&CA, the Dietary Supplement Health and Education Act, or DSHEA, applicable state and/or local laws, and FDA regulations. The FDA has stated in guidance and other public statements that it is prohibited to sell a food, beverage or dietary supplement to which THC or CBD has been added. While the FDA does not have a formal policy of enforcement discretion with respect to any products with added CBD, the agency has stated that its primary focus for enforcement centers on products that put the health and safety of consumers at risk, such as those claiming to prevent, diagnose, mitigate, treat, or cure diseases in the absence of requisite approvals. While the agency's enforcement to date has therefore been limited to products containing CBD and that make drug-like claims, there is the risk that FDA could expand its enforcement activities and require us to alter our marketing for our hemp-derived CBD products or cease distributing them altogether. Nevertheless, the regulation of hemp and CBD in the United States has been a constantly evolving and changing landscape, with changes in federal and state legislation and regulation occurring on a frequent basis. Violations of applicable FDA and other laws could result in warning letters, significant fines, penalties, administrative sanctions, injunctions, convictions or settlements arising from civil proceedings.

We are further subject to a variety of laws and regulations in the United States, Canada and elsewhere that prohibit money laundering, including the Proceeds of Crime and Terrorist Financing Act (Canada) and the Money Laundering Control Act (United States), as amended, and the rules and regulations thereunder and any related or similar rules, regulations or guidelines issued, administered or enforced by governmental authorities in the United States, Canada or any other jurisdiction in which we have business operations or to which we export. Although we believe that none of our activities implicate any applicable money laundering statutes, in the event that any of our business activities, any dividends or distributions therefrom, or any profits or revenue accruing thereby are found to be in violation of money laundering statutes, such transactions may be viewed as proceeds of crime under one or more of the statutes described above or any other applicable legislation, and any persons, including such U.S.-based investors, found to be aiding and abetting us in such violations could be subject to liability. Any violations of these laws, or allegations of such violations, could disrupt our operations, involve significant management distraction and involve significant costs and expenses, including legal fees. We could also suffer severe penalties, including criminal and civil penalties, disgorgement and other remedial measures.

We are required to comply concurrently with federal, state or provincial, and local laws in each jurisdiction where we operate or to which we export our products.

Various federal, state or provincial and local laws govern our business in the jurisdictions in which we operate or propose to operate, or to which we export or propose to export our products, including laws and regulations relating to health and safety, conduct of operations and the production, management, transportation, storage and disposal of our products and of certain material used in our operations. Compliance with these laws and regulations requires concurrent compliance with complex federal, provincial or state and local laws. These laws change frequently and may be difficult to interpret and apply. Compliance with these laws and regulations requires the investment of significant financial and managerial resources, and a determination that we are not in compliance with these laws and regulations could harm our brand image and business. Moreover, it is impossible for us to predict the cost or effect of such laws, regulations or guidelines upon our future operations. Changes to these laws or regulations could negatively affect our competitive position within our industry and the markets in which we operate, and there is no assurance that various levels of government in the jurisdictions in which we operate will not pass legislation or regulation that adversely impacts our business.

U.S. regulations relating to hemp-derived CBD products are unclear and rapidly evolving.

Our intent to participate in the market for hemp-derived CBD products in the United States and elsewhere may require us to employ novel approaches to existing regulatory pathways. Although the passage of the Farm Bill in December 2018 legalized the cultivation of hemp in the United States to produce products containing CBD and other non-THC cannabinoids, it remains unclear how the FDA will regulate this industry, and whether and when the FDA will propose or implement new or additional regulations. On May 31, 2019, the FDA held a public hearing to obtain scientific data and information about the safety, manufacturing, product quality, marketing, labeling, and sale of products containing cannabis or cannabis-derived compounds, including CBD. The FDA has also formed an internal working group to evaluate the potential pathways to market for CBD products. It remains unclear how CBD products will be regulated by the agency going forward.

In addition, such products may be subject to regulation at the state or local levels. While the Farm Bill created a pathway under which hemp and its derivatives are exempted from the definition of marijuana and, therefore, no longer at risk for deemed a Schedule I controlled substance under the CSA and would be protected from interference in interstate commerce, notwithstanding the ongoing implementation of those provisions, state and local authorities have issued their own restrictions on the cultivation or sale of hemp or hemp-derived CBD. This includes laws that ban the cultivation or possession of hemp or any other plant of the cannabis genus and derivatives thereof, such as CBD. State regulators may take enforcement action against food and dietary supplement products that contain CBD, or enact new laws or regulations that prohibit or limit the sale of such products. Unforeseen regulatory obstacles or compliance costs may hinder our ability to successfully compete in the market for such products.

We may seek to enter into strategic alliances, or expand the scope of currently existing relationships, with third parties that we believe will have a beneficial impact on us, and there are risks that such strategic alliances or expansions of our currently existing relationships may not enhance our business in the desired manner.

We currently have, and may expand or reduce the scope of, and may in the future enter into, strategic alliances with third parties that we believe will complement or augment our existing business. Examples of such strategic alliances include our agreement with Sandoz, joint venture with AB InBev and partnership with ABG. Our ability to complete further strategic alliances is dependent upon, and may be limited by, among other things, the availability of suitable candidates and capital. In addition, strategic alliances could present unforeseen integration obstacles or costs, may not enhance our business and may involve risks that could adversely affect us, including the investment of significant amounts of management time that may be diverted from operations in order to pursue and complete such transactions or maintain such strategic alliances. We may become dependent on our strategic partners and actions by such partners could harm our business. Future strategic alliances could result in the incurrence of debt, costs and contingent liabilities, and there can be no assurance that future strategic alliances will achieve, or that our existing strategic alliances will continue to achieve, the expected benefits to our business or that we will be able to consummate future strategic alliances on satisfactory terms, or at all.

We may not be able to successfully identify and execute future acquisitions or dispositions or to successfully manage the impacts of such transactions on our operations.

Material acquisitions, dispositions and other strategic transactions involve a number of risks, including: (i) the potential disruption of our ongoing business; (ii) the distraction of management away from the ongoing oversight of our existing business activities; (iii) incurring additional indebtedness; (iv) the anticipated benefits and cost savings of those transactions not being realized fully, or at all, or taking longer to realize than anticipated; (v) an increase in the scope and complexity of our operations and (vi) the loss or reduction of control over certain of our assets. Material acquisitions have been and may continue to be material to our business strategy. There is no guarantee that acquisitions, such as High Park Gardens and Manitoba Harvest, will be accretive.

The existence of one or more material liabilities of an acquired company that are unknown to us at the time of acquisition could result in our incurring those liabilities. A strategic transaction may result in a significant change in the nature of our business, operations and strategy, and we may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into our operations.

We are subject to risks inherent in an agricultural business, including the risk of crop failure.

We grow cannabis, which is an agricultural process. As such, our business is subject to the risks inherent in the agricultural business, including risks of crop failure presented by weather, insects, plant diseases and similar agricultural risks. Although we currently grow our products indoors under climate controlled conditions, we are developing outdoor operations and there can be no assurance that natural elements, such as insects and plant diseases, will not entirely interrupt our production activities or have an adverse effect on our business.

We depend on significant customers for a substantial portion of our revenue. If we fail to retain or expand our customer relationships or if this significant customer were to terminate its relationship with us or reduce its purchases, our revenue could decline significantly.

Three customers accounted 20%, 14%, and 10% of our revenue, respectively, for the three months ended September 30, 2019. Two customers accounted for 12% and 11% of our revenue, respectively, for the nine months ended September 30, 2019. One customer accounted for 28% and 29% of the Company's revenue for the three and nine months ended September 30, 2018, respectively. We believe that our operating results for the foreseeable future will continue to depend on sales from a small number of customers. These customers have no purchase commitments and may cancel, change or delay its purchases with little or no notice or penalty. As a result of this customer concentration, our revenue could fluctuate materially and could be materially and disproportionately impacted by purchasing decisions of these customers or any other significant customer. In the future, these customers may decide to purchase less product from us than it has in the past, may alter its purchasing patterns at any time with limited notice, or may decide not to continue to purchase our products at all, any of which could cause our revenue to decline materially and materially harm our financial condition and results of operations. If we are unable to diversify our customer base, we will continue to be susceptible to risks associated with customer concentration.

We may be unable to attract or retain key personnel with sufficient experience in the cannabis industry, and we may be unable to attract, develop and retain additional employees required for our development and future success.

Our success is largely dependent on the performance of our management team and certain employees and our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and we may incur significant costs to attract and retain them. The loss of the services of any key personnel, or an inability to attract other suitably qualified persons when needed, could prevent us from executing on our business plan and strategy, and we may be unable to find adequate replacements on a timely basis, or at all. We do not currently maintain key-person insurance on the lives of any of our key personnel.

Further, each director and officer, as well as certain additional key personnel, of a company that holds a license is subject to the requirement to obtain and maintain a security clearance from Health Canada under the CR. Moreover, under the CR, an individual with security clearance must be physically present on site when other individuals are conducting activities with cannabis. Under the CR and the Cannabis Act, a security clearance is valid for a limited time and must be renewed before the expiry of a current security clearance. There is no assurance that any of our existing personnel who presently or may in the future require a security clearance will be able to obtain or renew such clearances or that new personnel who require a security clearance will be able to obtain one. A failure by an individual in a key operational position to maintain or renew his or her security clearance could result in a reduction or complete suspension of our operations. In addition, if an individual in a key operational position leaves us, and we are unable to find a suitable replacement who is able to obtain a security clearance required by the CR in a timely manner, or at all, we may not be able to conduct our operations at planned production volume levels or at all. In addition, the CR requires us to designate a qualified individual in charge who is responsible for supervising activities relating to the production of study drug for clinical trials, which individual must meet certain educational and security clearance requirements. If our current designated qualified person in charge fails to maintain his security clearance, or if our current designated qualified person in charge leaves us and we are unable to find a suitable replacement who meets these requirements, we may no longer be able to continue our clinical trial activities.

Increased labor costs, potential organization of our workforce, employee strikes and other labor-related disruption may adversely affect our operations.

As of September 30, 2019, none of our workforce was represented by collective bargaining agreements. We cannot assure you that our labor costs going forward will remain competitive because in the future our workforce may organize and labor agreements may be put in place that have significantly higher labor rates and company obligations; at the same time, our competitors may maintain significantly lower labor costs, thereby reducing or eliminating our comparative advantages vis-à-vis one or more of our competitors or the larger industry; additionally, our labor costs may increase in connection with our growth.

Significant interruptions in our access to certain key inputs such as raw materials, electricity, water and other utilities may impair our cannabis growing operations.

Our business is dependent on a number of key inputs and their related costs, including raw materials, supplies and equipment related to our operations, as well as electricity, water and other utilities. Any significant interruption, price increase or negative change in the availability or economics of the supply chain for key inputs and, in particular, rising or volatile energy costs could curtail or preclude our ability to continue production. In addition, our operations would be significantly affected by a prolonged power outage.

Our ability to compete and grow cannabis is dependent on us having access, at a reasonable cost and in a timely manner, to skilled labor, equipment, parts and components. No assurances can be given that we will be successful in maintaining our required supply of labor, equipment, parts and components.

Fluctuations in cannabinoid prices relative to contracted prices with third party suppliers could negatively impact our earnings.

A portion of our results of operations and financial condition, as well as the selling prices for our products, are dependent upon cannabinoid supply contracts. As part of our normal course operations, we periodically enter into large and medium-to-long-term supply contracts with third-party growers. Production and pricing of cannabinoids are determined by constantly changing market forces of supply and demand over which we have limited or no control. The market for cannabis biomass is particularly volatile compared to other commoditized markets due to the relatively nascent maturity of the industry in which we operate. Furthermore, the lack of centralized data and large variations in product quality make it difficult to establish a "spot price" for cannabinoids, and develop an effective price hedging strategy. Accordingly, supply contracts with any term may prove to be costly in the future to the extent cannabinoid prices decrease dramatically or at a faster rate than anticipated. Furthermore, supply contracts typically include minimum purchase requirements which could force us to buy significant quantities of product at non-competitive prices in a rapidly changing market.

If we are unable to price our products competitively as a result of committed supply contracts that do not reflect current or future market prices, then our profitability, financial condition and results of operations could be materially and adversely affected.

We may not be able to transport our cannabis products to consumers in a safe and efficient manner.

Due to our direct-to-consumer shipping model for medical cannabis in Canada, we depend on fast and efficient third-party transportation services to distribute our medical cannabis products. We also use such services to transfer bulk shipments to provinces and territories for further distribution to consumers. Any prolonged disruption of third-party transportation services, such as the ongoing Canada Post labor disruptions, could have a material adverse effect on our sales volumes or satisfaction with our services. Rising costs associated with third-party transportation services used by us to ship our products may also adversely impact our profitability, and more generally our business, financial condition and results of operations.

The security of our products during transportation to and from our facilities is of the utmost concern. A breach of security during transport or delivery could result in the loss of high-value product and forfeiture of import and export approvals, since such approvals are shipment specific. Any failure to take steps necessary to ensure the safekeeping of our cannabis could also have an impact on our ability to continue supplying provinces and territories, to continue operating under our existing licenses, to renew or receive amendments to our existing licenses or to receive required new licenses.

Our cannabis products may be subject to recalls for a variety of reasons, which could require us to expend significant management and capital resources.

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, adulteration, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. Although we have detailed procedures in place for testing finished cannabis products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits, whether frivolous or otherwise. If any of the cannabis products produced by us are recalled due to an alleged product defect or for any other reason, we could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. As a result of any such recall, we may lose a significant amount of sales and may not be able to replace those sales at an acceptable gross profit or at all. In addition, a product recall may require significant management attention or damage our reputation and goodwill or that of our products or brands.

In March 2015, we voluntarily recalled certain lots of our milled House Blend as a result of the microbial level of this product falling outside of acceptable limits during secondary testing. In August 2016, we withdrew cannabis oil capsules supplied to Croatia for pharmacy distribution because certain capsules suffered damage during transport. In April 2019, we commenced a recall of one lot of prerolls supplied to the Canadian adult-use market due to labeling error. In each of these cases, we were able to complete the recall or withdrawal successfully; however, there is no assurance that such incidents will not result in regulatory action or civil lawsuits, whether frivolous or otherwise, or an adverse effect on our reputation or goodwill, or that of our products or brands.

Additionally, product recalls may lead to increased scrutiny of our operations by Health Canada or other regulatory agencies, requiring further management attention, increased compliance costs and potential legal fees, fines, penalties and other expenses. Any product recall affecting the cannabis industry more broadly, whether or not involving us, could also lead consumers to lose confidence in the safety and security of the products sold by Licensed Producers generally, including products sold by us.

We may be subject to product liability claims or regulatory action if our products are alleged to have caused significant loss or injury. This risk is exacerbated by the fact that cannabis use may increase the risk of serious adverse side effects.

As a manufacturer and distributor of products which are ingested by humans, we face the risk of exposure to product liability claims, regulatory action and litigation if our products are alleged to have caused loss or injury. We may be subject to these types of claims due to allegations that our products caused or contributed to injury or illness, failed to include adequate instructions for use or failed to include adequate warnings concerning possible side effects or interactions with other substances. This risk is exacerbated by the fact that cannabis use may increase the risk of developing schizophrenia and other psychoses, symptoms for individuals with bipolar disorder, and other side effects. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could also occur. In addition, the manufacture and sale of cannabis products, like the manufacture and sale of any ingested product, involves a risk of injury to consumers due to tampering by unauthorized third parties or product contamination. We have in the past recalled, and may again in the future have to recall, certain of our cannabis products as a result of potential contamination and quality assurance concerns. A product liability claim or regulatory action against us could result in increased costs and could adversely affect our reputation and goodwill with our patients and consumers generally. There can be no assurance that we will be able to maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could result in us becoming subject to significant liabilities that are uninsured and also could adversely affect our commercial arrangements with third parties.

We rely on third-party distributors to distribute our products, and those distributors may not perform their obligations.

We rely on third-party distributors, including pharmaceutical distributors, courier services, and government agencies, and may in the future rely on other third parties, to distribute our products. If these distributors do not successfully carry out their contractual duties, if there is a delay or interruption in the distribution of our products, such as the Canada Post labor disruptions previously experienced, or if these third parties damage our products, it could negatively impact our revenue from product sales. Any damage to our products, such as product spoilage, could expose us to potential product liability, damage our reputation and the reputation of our brands or otherwise harm our business.

We, or the cannabis industry more generally, may receive unfavorable publicity or become subject to negative consumer or investor perception.

We believe that the cannabis industry is highly dependent upon positive consumer and investor perception regarding the benefits, safety, efficacy and quality of the cannabis distributed to consumers. The perception of the cannabis industry and cannabis products, currently and in the future, may be significantly influenced by scientific research or findings, regulatory investigations, litigation, political statements, media attention and other publicity (whether or not accurate or with merit) both in Canada and in other countries relating to the consumption of cannabis products, including unexpected safety or efficacy concerns arising with respect to cannabis products or the activities of industry participants. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis market or any particular cannabis product or will be consistent with earlier publicity. Adverse future scientific research reports, findings and regulatory proceedings that are, or litigation, media attention or other publicity that is, perceived as less favorable than, or that questions, earlier research reports, findings or publicity (whether or not accurate or with merit) could result in a significant reduction in the demand for our cannabis products. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis, or our products specifically, or associating the consumption of cannabis with illness or other negative effects or events, could adversely affect us. This adverse publicity could arise even if the adverse effects associated with cannabis products resulted from consumers' failure to use such products legally, appropriately or as directed.

Certain events or developments in the cannabis industry more generally may impact our reputation.

Damage to our reputation can result from the actual or perceived occurrence of any number of events, including any negative publicity, whether true or not. As a producer and distributor of cannabis, which is a controlled substance in Canada that has previously been commonly associated with various other narcotics, violence and criminal activities, there is a risk that our business might attract negative publicity. There is also a risk that the actions of other Licensed Producers or of other companies and service providers in the cannabis industry may negatively affect the reputation of the industry as a whole and thereby negatively impact our reputation. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share negative opinions and views in regards to our activities and the cannabis industry in general, whether true or not.

We do not ultimately have direct control over how we or the cannabis industry is perceived by others. Reputational issues may result in decreased investor confidence, increased challenges in developing and maintaining community relations and present an impediment to our overall ability to advance our business strategy and realize on our growth prospects.

Licensed Producers are constrained by law in their ability to market their products in Canada.

The development of our business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by Health Canada. The regulatory environment in Canada limits our ability to compete for market share in a manner similar to other industries. All products we distribute into the Canadian adult-use market must comply with requirements under Canadian legislation, including with respect to product formats, product packaging, product composition and marketing activities around such products. As such, our portfolio of brands and products has been specifically adapted, and our marketing activities carefully structured, to enable us to develop our brands in an effective and compliant manner. If we are unable to effectively market our cannabis products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for our cannabis products, then our sales and operating results could be adversely affected.

If we are not able to comply with all safety, health and environmental regulations applicable to our operations and industry, we may be held liable for any breaches of those regulations.

Safety, health and environmental laws and regulations affect nearly all aspects of our operations, including product development, working conditions, waste disposal, emission controls, the maintenance of air and water quality standards and land reclamation, and, with respect to environmental laws and regulations, impose limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Continuing to meet GMP standards, which we follow voluntarily, requires satisfying additional standards for the conduct of our operations and subjects us to ongoing compliance inspections in respect of these standards. Compliance with safety, health and environmental laws and regulations can require significant expenditures, and failure to comply with such safety, health and environmental laws and regulations may result in the imposition of fines and penalties, the temporary or permanent suspension of operations, the imposition of clean-up costs resulting from contaminated properties, the imposition of damages and the loss of or refusal of governmental authorities to issue permits or licenses to us or to certify our compliance with GMP standards. Exposure to these liabilities may arise in connection with our existing operations, our historical operations and operations that we may undertake in the future. We could also be held liable for worker exposure to hazardous substances and for accidents causing injury or death. There can be no assurance that we will at all times be in compliance with all safety, health and environmental laws and regulations notwithstanding our attempts to comply with such laws and regulations.

Changes in applicable safety, health and environmental standards may impose stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. We are not able to determine the specific impact that future changes in safety, health and environmental laws and regulations may have on our industry, operations and/or activities and our resulting financial position; however, we anticipate that capital expenditures and operating expenses will increase in the future as a result of the implementation of new and increasingly stringent safety, health and environmental laws and regulations. Further changes in safety, health and environmental laws and regulations, new information on existing safety, health and environmental conditions or other events, including legal proceedings based upon such conditions or an inability to obtain necessary permits in relation thereto, may require increased compliance expenditures by us.

We may not be able to obtain adequate insurance coverage in respect of the risks our business faces, the premiums for such insurance may not continue to be commercially justifiable or there may be coverage limitations and other exclusions which may result in such insurance not being sufficient to cover potential liabilities that we face.

We currently have insurance coverage, including product liability insurance, protecting many, but not all, of our assets and operations. Our insurance coverage is subject to coverage limits and exclusions and may not be available for the risks and hazards to which we are exposed. In addition, no assurance can be given that such insurance will be adequate to cover our liabilities, including potential product liability claims, or will be generally available in the future or, if available, that premiums will be commercially justifiable. If we were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, we may be exposed to material uninsured liabilities that could impede our liquidity, profitability or solvency.

We may become subject to liability arising from any fraudulent or illegal activity by our employees, contractors, consultants and others.

We are exposed to the risk that our employees, independent contractors, consultants, service providers and licensors may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional undertakings of unauthorized activities, or reckless or negligent undertakings of authorized activities, in each case on our behalf or in our service that violate: (i) government regulations, specifically Health Canada regulations; (ii) manufacturing standards; (iii) Canadian federal and provincial healthcare laws and regulations; (iv) laws that require the true, complete and accurate reporting of financial information or data; (v) U.S. federal laws banning the possession, sale or importation of cannabis into the United States and prohibiting the financing of activities outside the United States that are unlawful under Canadian or other foreign laws or (vi) the terms of our agreements with insurers. In particular, we could be exposed to class action and other litigation, increased Health Canada inspections and related sanctions, the loss of current GMP compliance certifications or the inability to obtain future GMP compliance certifications, lost sales and revenue or reputational damage as a result of prohibited activities that are undertaken in the growing or production process of our products without our knowledge or permission and contrary to our internal policies, procedures and operating requirements.

We cannot always identify and prevent misconduct by our employees and other third parties, including service providers and licensors, and the precautions taken by us to detect and prevent this activity may not be effective in controlling unknown, unanticipated or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from such misconduct. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of civil, criminal or administrative penalties, damages, monetary fines and contractual damages, reputational harm, diminished profits and future earnings or curtailment of our operations.

We may experience breaches of security at our facilities or loss as a result of the theft of our products.

Because of the nature of our products and the limited legal channels for distribution, as well as the concentration of inventory in our facilities, we are subject to the risk of theft of our products and other security breaches. A security breach at Tilray Nanaimo, High Park Farms, High Park Gardens, Tilray Portugal or our High Park Processing Facility, or, once completed, one of our planned facilities could result in a significant loss of available products, expose us to additional liability under applicable regulations and to potentially costly litigation or increase expenses relating to the resolution and future prevention of similar thefts, any of which could have an adverse effect on our business, financial condition and results of operations.

We may be subject to risks related to our information technology systems, including the risk that we may be the subject of a cyber-attack and the risk that we may be in non-compliance with applicable privacy laws.

We have entered into agreements with third parties for hardware, software, telecommunications and other information technology, or IT, services in connection with our operations. Our operations depend, in part, on how well we and our vendors protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism, theft, malware, ransomware and phishing attacks. Any of these and other events could result in IT system failures, delays or increases in capital expenses. Our operations also depend on the timely maintenance, upgrade and replacement of networks, equipment and IT systems and software, as well as preemptive expenses to mitigate the risks of failures. The failure of IT systems or a component of IT systems could, depending on the nature of any such failure, adversely impact our reputation and results of operations.

There are a number of laws protecting the confidentiality of certain patient health information and other personal information, including patient records, and restricting the use and disclosure of that protected information. In particular, the privacy rules under the Personal Information Protection and Electronics Documents Act (Canada), or the PIPEDA, the European Unions’ General Data Protection Regulation (“GDPR”), and similar laws in other jurisdictions, protect medical records and other personal health information by limiting their use and disclosure to the minimum level reasonably necessary to accomplish the intended purpose. We collect and store personal information about our consumers and are responsible for protecting that information from privacy breaches. A privacy breach may occur through a procedural or process failure, an IT malfunction or deliberate unauthorized intrusions. Theft of data for competitive purposes, particularly patient lists and preferences, is an ongoing risk whether perpetrated through employee collusion or negligence or through deliberate cyber-attack. Moreover, if we are found to be in violation of the privacy or security rules under PIPEDA or other laws protecting the confidentiality of patient health information, including as a result of data theft and privacy breaches, we could be subject to sanctions and civil or criminal penalties, which could increase our liabilities and harm our reputation.

As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. While we have implemented security resources to protect our data security and information technology systems, such measures may not prevent such events. Significant disruption to our information technology system or breaches of data security could have a material adverse effect on our business financial condition and results of operations.

We may be unable to sustain our revenue growth and development.

Our revenue has grown in recent years. Our ability to sustain this growth will depend on a number of factors, many of which are beyond our control, including, but not limited to, the availability of sufficient capital on suitable terms, changes in laws and regulations respecting the production of cannabis products, competition from other Licensed Producers, the size of the black market and the adult-use market, and our ability to produce sufficient volumes of our cannabis-based products to meet demand. Regulatory changes in the United States and Canada may continue to attract market entrants, therefore diluting our potential opportunity and early-mover advantage. In addition, we are subject to a variety of business risks generally associated with developing companies. Future development and expansion could place significant strain on our management personnel and likely will require us to recruit additional management personnel, and there is no assurance that we will be able to do so.

We may be unable to expand our operations quickly enough to meet demand or manage our operations beyond their current scale.

There can be no assurance that we will be able to manage our expanding operations, including any acquisitions, effectively, that we will be able to sustain or accelerate our growth or that such growth, if achieved, will result in profitable operations, that we will be able to attract and retain sufficient management personnel necessary for continued growth or that we will be able to successfully make strategic investments or acquisitions.

Demand for cannabis-based products is dependent on a number of social, political and economic factors that are beyond our control. There is no assurance that an increase in existing demand will occur, that we will benefit from any such demand increase or that our business will remain profitable even in the event of such an increase in demand. If we are unable to achieve or sustain profitability, the value of our Class 2 common stock and the notes may significantly decrease.

We may not be able to secure adequate or reliable sources of funding required to operate our business or increase our production to meet consumer demand for our products.

The continued development of our business will require additional financing, and there is no assurance that we will obtain the financing necessary to be able to achieve our business objectives. Our ability to obtain additional financing will depend on investor demand, our performance and reputation, market conditions and other factors. Our inability to raise such capital could result in the delay or indefinite postponement of our current business objectives or in our inability to continue to carry on our business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to us.

In addition, from time to time, we may enter into transactions to acquire assets or the capital stock or other equity interests of other entities. Our continued growth may be financed, wholly or partially, with debt, which may increase our debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. Debt financings may also contain provisions that, if breached, may entitle lenders or their agents to accelerate the repayment of loans or realize upon security over our assets, and there is no assurance that we would be able to repay such loans in such an event or prevent the enforcement of security granted pursuant to any such debt financing.

Servicing our debt will require a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our current and future indebtedness, including the Convertible Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our current and future indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

We incur increased costs as a result of operating as a public company and our management is required to devote substantial time to new compliance initiatives.

Prior to our IPO, we operated as a private company. As a public company, we have incurred and will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and rules implemented by the SEC and the Nasdaq Global Select Market, impose various requirements on public companies, including requirements to file annual, quarterly and event-driven reports with respect to our business and financial condition and operations and establish and maintain effective disclosure and financial controls and corporate governance practices. We expect these costs, difficulties and demands to increase after we are no longer an "emerging growth company" starting with the fiscal year beginning January 1, 2020. Our management and other personnel have limited experience operating a public company, which may result in operational inefficiencies or errors, or a failure to improve or maintain effective ICFR and DCP necessary to ensure timely and accurate reporting of operational and financial results. Our existing management team will need to devote a substantial amount of time to these compliance initiatives, and we may need to hire additional personnel to assist us with complying with these requirements. Moreover, these rules and regulations have increased and will continue to increase our legal and financial compliance costs and will make some activities more time consuming and costly.

Pursuant to Section 404 of the Sarbanes-Oxley Act, or Section 404, we will be required to furnish a report by our management on our ICFR, which, after we are no longer an emerging growth company, must be accompanied by an attestation report on ICFR issued by our independent registered public accounting firm. We will cease to be an "emerging growth company" at the end of 2019, as we will be deemed to be a "large accelerated filer" as defined in the Exchange Act. To achieve compliance with Section 404 within the prescribed period, we will document and evaluate our ICFR, which is both costly and challenging. In this regard, we will need to continue to dedicate internal resources, potentially engage outside consultants and adopt a detailed work plan to assess and document the adequacy of our ICFR, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for ICFR. Despite our efforts, there is a risk that we will not be able to conclude within the prescribed timeframe that our ICFR is effective as required by Section 404. This could result one or more material weaknesses in our ICFR, which could cause an adverse reaction in the financial markets due to a loss of confidence in the reliability of our consolidated financial statements (the "financial statements").

Management may not be able to successfully implement adequate internal controls over financial reporting.

Proper systems of ICFR and disclosure are critical to the operation of a public company. However, we do not expect that our DCP or ICFR will prevent all errors and all fraud. For example, we previously reported a material weakness in our internal control over financial reporting as described in our annual report on Form 10-K for the year ended December 31, 2018. A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness identified related to inventory costing and the financial close process. Specifically, our processes are manual in nature such that a timely, sufficiently precise and detailed review to mitigate the risk of material misstatement is not currently feasible due to the complexity of the spreadsheet-based models used in inventory cost calculations and the financial close. We have developed a plan to remediate the material weakness and begun implementing the remediation plan, including increasing the depth and experience within our accounting and finance organization, as well as designing and implementing improved processes and internal controls with the intent of increasing the use of system-based processes to limit manual calculations and adjustments in the costing and financial closing processes. However, our efforts to remediate this material weakness may not be effective or prevent future material weaknesses or significant deficiencies in our internal control over financial reporting. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of such controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results could be materially and adversely affected, which could cause investors to lose confidence in us and our reported financial information, which in turn could result in a reduction in the value of our Class 2 common stock.

We are an emerging growth company and intend to take advantage of reduced disclosure requirements applicable to emerging growth companies, which could make our securities less attractive to investors.

We are currently an "emerging growth company" as defined in the JOBS Act. For so long as we remain an emerging growth company, we are permitted to and intend to rely upon exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include:

- not being required to comply with the auditor attestation requirements of Section 404;

- not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis);

- Reduced “Management’s Discussion and Analysis of Financial Condition and Results of Operations”;
- reduced disclosure about executive compensation arrangements;
- exemptions from the requirements to obtain a non-binding advisory vote on executive compensation and stockholder approval of any golden parachute arrangements not previously approved; and
- an extended transition period for complying with new or revised accounting standards, which we have elected to take advantage of.

We have taken advantage of some, but not all, of the available exemptions described above. We will cease to be an “emerging growth company” at the end of 2019, as we will be deemed to be a “large accelerated filer” as defined in the Exchange Act. During such time that we remain an “emerging growth company,” we cannot predict whether investors will find our securities less attractive if we rely on these exemptions. If some investors find our securities less attractive as a result, there may be a less active trading market for our securities and the price of our securities may be more volatile.

Conflicts of interest may arise between us and our directors and officers as a result of other business activities undertaken by such individuals, including continuing involvement by these individuals in Privateer Holdings.

We may be subject to various potential conflicts of interest because some of our directors and executive officers may be engaged in a range of business activities. In addition, our directors and executive officers are permitted under their applicable agreements with us to devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to us and subject to any contractual restrictions restricting such activities. These business interests could require the investment of significant time and attention by our executive officers and directors. In some cases, our executive officers and directors, including our Chief Executive Officer and President, Brendan Kennedy and board member, Michael Auerbach, may have fiduciary obligations associated with business interests that interfere with their ability to devote time to our business and affairs, such as business obligations related to the employment or involvement of these persons with Privateer Holdings, which could adversely affect our operations. Please refer to “Part I, Item 1. Note 17 – Related-Party Transactions” to our financial statements appearing elsewhere in this Quarterly Report on Form 10-Q for further details.

On September 9, 2019, we signed an Agreement and Plan of Merger and Reorganization with Privateer Holdings to affect the downstream merger of Privateer Holdings, with and into a wholly-owned subsidiary of Tilray (the “Downstream Merger”). As a result of the potential conflict associated with the Downstream Merger, Tilray’s special committee of independent directors evaluated the Downstream Merger and represent the interests of Tilray. Despite these efforts, there is no guarantee that all potential conflicts of interest are adequately resolved or new potential conflicts of interest will not arise.

Third parties with whom we do business may perceive themselves as being exposed to reputational risk as a result of their relationship with us.

The parties with whom we do business, or would like to do business, may perceive that they are exposed to reputational risk as a result of our business activities relating to cannabis, which could hinder our ability to establish or maintain business relationships. These perceptions relating to the cannabis industry may interfere with our relationship with service providers in Canada and other countries, particularly in the financial services industry.

Tax and accounting requirements may change in ways that are unforeseen to us and we may face difficulty or be unable to implement or comply with any such changes.

We are subject to numerous tax and accounting requirements, and changes in existing accounting or taxation rules or practices, or varying interpretations of current rules or practices, could have a significant adverse effect on our financial results, the manner in which we conduct our business or the marketability of any of our products. We currently have international operations and plan to expand such operations in the future. These operations, and any expansion thereto, will require us to comply with the tax laws and regulations of multiple jurisdictions, which may vary substantially. Complying with the tax laws of these jurisdictions can be time consuming and expensive and could potentially subject us to penalties and fees in the future if we were to fail to comply.

Because a significant portion of our sales are generated in Canada, fluctuations in foreign currency exchange rates could harm our results of operations.

The reporting currency for our financial statements is the U.S. dollar. We derive a significant portion of our revenue and incur a significant portion of our operating costs in Canada, and changes in exchange rates between the Canadian dollar and the U.S. dollar may have a significant, and potentially adverse, effect on our results of operations. Our primary risk of loss regarding foreign currency exchange rate risk is caused by fluctuations in the exchange rates between the U.S. dollar and the Canadian dollar, although as we expand internationally we will be subject to additional foreign currency exchange risks. Because we recognize revenue in Canada in Canadian dollars, if the Canadian dollar weakens against the U.S. dollar it would have a negative impact on our Canadian operating results upon the translation of those results into U.S. dollars for the purposes of consolidation. In addition, a weakening of the Canadian dollar against the U.S. dollar would make it more difficult for us to meet our obligations under the Convertible Notes. We have not historically engaged in hedging transactions and do not currently contemplate engaging in hedging transactions to mitigate foreign exchange risks. As we continue to recognize gains and losses in foreign currency transactions, depending upon changes in future currency rates, such gains or losses could have a significant, and potentially adverse, effect on our results of operations.

We may have exposure to greater than anticipated tax liabilities, which could seriously harm our business.

Our income tax obligations are based on our corporate operating structure and third-party and intercompany arrangements, including the manner in which we develop, value and use our intellectual property and the valuations of our intercompany transactions. The tax laws applicable to our international business activities, including the laws of the United States, Canada and other jurisdictions, are subject to change and uncertain interpretation. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology, intercompany arrangements or transfer pricing, which could increase our worldwide effective tax rate and the amount of taxes that we pay and seriously harm our business. Taxing authorities may also determine that the manner in which we operate our business is not consistent with how we report our income, which could increase our effective tax rate and the amount of taxes that we pay and could seriously harm our business. In addition, our future income taxes could fluctuate because of earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities or by changes in tax laws, regulations or accounting principles. We are subject to regular review and audit by U.S. federal and state and foreign tax authorities. Any adverse outcome from a review or audit could seriously harm our business. In addition, determining our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are many transactions where the ultimate tax determination is uncertain. Although we believe that the amounts recorded in our financial statements are reasonable, the ultimate tax outcome relating to such amounts may differ for such period or periods and may seriously harm our business.

The long-term effect of U.S. tax reform could adversely affect our business and financial condition.

On December 22, 2017, the legislation commonly referred to as the Tax Cuts and Jobs Act was enacted, which contains significant changes to U.S. tax law, including, but not limited to, a reduction in the corporate tax rate, limitation of the tax deduction for interest expense (with certain exceptions), limitation of the deduction for net operating losses arising after 2017 to 80% of current year taxable income and elimination of carryback of such net operating losses, one-time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, immediate deductions for certain new investments instead of deductions for depreciation expense over time, modifying or repealing many business deductions and credits, deemed repatriation of certain intangible related income and a transition to a new quasi-territorial system of taxation. Notwithstanding the reduction in the corporate income tax rate, our business and financial condition could be adversely affected in future periods by the overall impact of the Tax Act. In addition, the Tax Act could be amended or subject to technical correction, possibly with retroactive effect, which could change the financial impacts that were recorded at September 30, 2019, or are expected to be recorded in future periods. Additionally, further guidance may be forthcoming from the Financial Accounting Standards Board and SEC, as well as regulations, interpretations and rulings from federal and state tax agencies, which could result in additional impacts, possibly with retroactive effect. Any such changes or potential additional impacts could adversely affect our business and financial condition. We will continue to examine and assess the impact this tax reform legislation may have on our business.

As a result of an investment in our securities, you could be prevented from entering the United States or become subject to a lifetime ban on entry into the United States.

U.S. Customs and Border Protection ("CBP") has confirmed that border agents may seek to permanently ban any foreign visitor who admits to working or investing in the cannabis industry, or admits to having used cannabis, even though adult-use cannabis is now legal in Canada. CBP confirmed that investing even in publicly-traded cannabis companies is considered facilitation of illicit drug trade under CBP policy. This policy is limited to citizens of foreign countries and not citizens of the United States. Therefore, as a result of an investment in our securities, if you are not a citizen of the United States, you could be prevented from entering the United States or could become subject to a lifetime ban on entry into the United States.

Risks Related to our Intellectual Property

We may be subject to risks related to the protection and enforcement of our intellectual property rights, or intellectual property we license from others, and may become subject to allegations that we or our licensors are in violation of intellectual property rights of third parties.

The ownership, licensing and protection of trademarks, patents and intellectual property rights are significant aspects of our future success. Unauthorized parties may attempt to replicate or otherwise obtain and use our products and technology. Policing the unauthorized use of our current or future trademarks, patents or other intellectual property rights now or in the future could be difficult, expensive, time consuming and unpredictable, as may be enforcing these rights against the unauthorized use by others. Identifying the unauthorized use of intellectual property rights is difficult as we may be unable to effectively monitor and evaluate the products being distributed by our competitors, including parties such as unlicensed dispensaries and black-market participants, and the processes used to produce such products. In addition, in any infringement proceeding, some or all of our trademarks, patents or other intellectual property rights or other proprietary know-how, and that which we license from others, or arrangements or agreements seeking to protect the same for our benefit, may be found invalid, unenforceable, anti-competitive or not infringed or may be interpreted narrowly and such proceeding could put existing intellectual property applications at risk of not being issued.

In addition, other parties may claim that our products, or those that we license from others, infringe on their proprietary or patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources and legal fees, result in injunctions or temporary restraining orders or require the payment of damages. As well, we may need to obtain licenses from third parties who allege that we have infringed on their lawful rights. Such licenses may not be available on terms acceptable to us, or at all. In addition, we may not be able to obtain or utilize on terms that are favorable to us, or at all, licenses or other rights with respect to intellectual property that we do not own.

We also rely on certain trade secrets, technical know-how and proprietary information that are not protected by patents to maintain our competitive position. Our trade secrets, technical know-how and proprietary information, which are not protected by patents, may become known to or be independently developed by competitors, which could adversely affect us.

We license some intellectual property rights, and the failure of the owner of such intellectual property to properly maintain or enforce the intellectual property underlying such licenses could have a material adverse effect on our business, financial condition and performance.

We are party to a number of licenses, including with entities formerly affiliated with Privateer Holdings, that give us rights to use third-party intellectual property that is necessary or useful to our business. Our success will depend, in part, on the ability of the licensor to maintain and enforce its licensed intellectual property, in particular, those intellectual property rights to which we have secured exclusive rights. Without protection for the intellectual property we have licensed, other companies might be able to offer substantially similar products for sale or utilize substantially similar processes, which could have a material adverse effect on us.

Any of our licensors may allege that we have breached our license agreement, whether with or without merit, and accordingly seek to terminate our license. If successful, this could result in our loss of the right to use the licensed intellectual property, which could adversely affect our ability to commercialize our products or services, as well as have a material adverse effect on us.

We may not realize the full benefit of the clinical trials or studies that we participate in because the terms of some of our agreements to participate do not give us full rights to the resulting intellectual property, the ability to acquire full rights to that intellectual property on commercially reasonable terms or the ability to prevent other parties from using that intellectual property.

Although we have participated in several clinical trials, we are not the sponsor of many of these trials and, as such, do not have full control over the design, conduct and terms of the trials. In some cases, for instance, we are only the provider of a cannabis study drug for a trial that is designed and initiated by an independent investigator within an academic institution. In such cases, we are often not able to acquire rights to all the intellectual property generated by the trials. Although the terms of all clinical trial agreements entered into by us provide us with, at a minimum, ownership of intellectual property relating directly to the study drug being trialed (*e.g.* intellectual property relating to use of the study drug), and ownership of intellectual property that does not relate directly to the study drug is often retained by the institution. As such, we are vulnerable to any dispute among the investigator, the institution and us with respect to classification and therefore ownership of any particular piece of intellectual property generated during the trial. Such a dispute may affect our ability to make full use of intellectual property generated by a clinical trial.

Where intellectual property generated by a trial is owned by the institution, we are often granted a right of first negotiation to obtain an exclusive license to such intellectual property. If we exercise such a right, there is a risk that the parties will fail to come to an agreement on the license, in which case such intellectual property may be licensed to other parties or commercialized by the institution.

We may not realize the full benefit of our licenses if the licensed material has less market appeal than expected, or if restrictions on packaging and marketing hinder our ability to realize value from our licenses, and our licenses may not be profitable to us.

An integral part of our Canadian adult-use cannabis business strategy involves obtaining territorially exclusive licenses to produce products using various brands and images. As a licensee of brand-based properties, we have no assurance that a particular brand or property will translate into a successful adult-use cannabis product. Additionally, a successful brand may not continue to be successful or maintain a high level of sales. As well, the popularity of licensed properties may not result in popular products or the success of the properties with the public. Promotion, packaging and labelling of adult-use cannabis is strictly regulated. These restrictions may further hinder our ability to benefit from our licenses. Acquiring or renewing licenses may require the payment of minimum guaranteed royalties that we consider to be too high to be profitable, which may result in losing licenses we currently hold when they become renewable under their terms or missing business opportunities for new licenses. If we are unable to acquire or maintain successful licenses on advantageous terms, or to derive sufficient revenue from sales of licensed products, our adult-use business may not be successful.

Risks Relating to our Relationship with Privateer Holdings

Failure to consummate the Privateer Holdings Downstream Merger within the expected timeframe, or at all, could have a material adverse impact to our business, financial condition and results of operations.

On September 10, 2019, we announced the signing of a definitive agreement to effect the Downstream Merger, and on October 11, 2019, we filed registration statement with the SEC to register shares of Tilray Class 2 common stock for issuance in connection with the Downstream Merger. There can be no assurance that the Downstream Merger will occur. Consummation of the Downstream Merger is subject to certain conditions, including an effective registration statement, and there can be no assurance that these conditions will be satisfied in a timely manner or at all. The Downstream Merger Agreement also contains termination rights for both us and Privateer Holdings. In addition, if the Downstream Merger is not completed, and a suitable alternative is not available to us on terms mutually acceptable, the share price of Tilray's Class 2 common stock will likely decline to the extent that the current market price of our common stock reflects an assumption that the Downstream Merger will be completed. Also, we will continue to incur significant costs, expenses and fees for professional services and other transaction costs in connection with the Downstream Merger for which we will have received little or no benefit if the Downstream Merger is not completed. Many of the fees will be payable by us even if the Downstream Merger is not completed and may relate to activities that we would have not undertaken other than to complete the Downstream Merger. Further, a failed transaction may result in negative publicity and a negative impression of us in the investment community. Finally, any disruption to our business resulting from the announcement and pendency of the Downstream Merger, including any adverse changes in our relationships with our employees, shareholders, customers and payors, could continue or accelerate in the event of a failed transaction.

The Downstream Merger is subject to approval of the merger agreement by our stockholders and Privateer Holding's stockholders. Failure to obtain these approvals would prevent the closing of the Downstream Merger.

Before the Downstream Merger can be completed, the stockholders of each of Tilray and Privateer Holdings must approve the merger agreement. Failure to obtain the required stockholder approvals may result in a material delay in, or the abandonment of, the Downstream Merger. Any delay in completing the Downstream Merger may materially adversely affect the timing and benefits that are expected to be achieved from the Downstream Merger.

The Downstream Merger may be completed even though certain events occur prior to the closing that materially and adversely affect Privateer Holdings.

The merger agreement provides that we may refuse to complete the Downstream Merger if there is any effect, change, event, circumstance, or development that is or would reasonably be expected to be materially adverse to the business, assets, or liabilities of Privateer Holdings and its subsidiaries, taken as a whole (including any effect, change, event, circumstance or development that is or would reasonably be expected to be materially adverse to the business, assets, or liabilities of Privateer Holdings or its subsidiaries taken as a whole but excluding the ownership of our capital stock).

If changes occur that are adverse to us or Privateer Holdings, and we still complete the Downstream Merger, the market price of the combined organization's common stock may suffer. This in turn may reduce the benefits of the Downstream Merger to our stockholders.

Some of our officers and directors have interests in the Downstream Merger that are different from our stockholders and that may influence them to support or approve the Downstream Merger without regard to the interests of our stockholders.

Certain our officers and directors participate in arrangements that provide them with interests in the Downstream Merger that are different from the interests of our stockholders, including, among others, the continued service as an officer and/or director of the combined organization, continued indemnification, the potential ability to sell an increased number of shares of common stock of the combined organization in accordance with Rule 144 under the Securities Act, and the opportunity to sell a portion of his or her shares of our common stock received in the Downstream Merger after the closing of the Downstream Merger. For example, Mr. Kennedy, an executive officer and member of our board of directors, is also the Executive Chairman, member of the board of directors of Privateer Holdings and largest stockholder of Privateer Holdings, although Mr. Kennedy does not have voting or investment power with respect to the shares of our common stock held by Privateer Holdings. In addition, Mr. Auerbach, a member of our board of directors, is also a member of the board of directors of Privateer Holdings and a stockholder of Privateer Holdings, although Mr. Auerbach does not have voting or investment power with respect to the shares of our common stock held by Privateer Holdings. Each of Mr. Kennedy and Mr. Auerbach will receive shares of our common stock in the Downstream Merger.

These interests, among others, may influence our executive officers and directors to support or approve the Downstream Merger.

Certain provisions of the merger agreement may discourage third parties from submitting alternative takeover proposals, including proposals that may be superior to the arrangements contemplated by the merger agreement.

Prior to obtaining stockholder approval for the transactions contemplated by the merger agreement, we may terminate the merger agreement in order to accept an unsolicited bona fide written acquisition proposal that is on terms and conditions that our board of directors, as applicable, determines to be in good faith, based on such matters that it deems relevant (including the likelihood of consummation thereof), as well as any written offer by Privateer Holdings to amend the terms of the merger agreement, and following consultation with its outside legal counsel and outside financial advisors, if any, are deemed more favorable, from a financial point of view, to our stockholders than the terms of the transactions contemplated by the merger agreement, which we refer to as a superior offer. In connection with a superior offer, our board of directors may also modify or withdraw its recommendation that our stockholders vote to approve the transactions contemplated by the merger agreement.

Prior to obtaining stockholder approval for the transactions contemplated by the merger agreement, in connection with certain material developments or events, our board of directors may modify or withdraw its recommendation that our stockholders vote to approve the transactions contemplated by the merger agreement if our board of directors determines in good faith, taking into account any written offer by Privateer Holdings to amend the terms of the merger agreement, after having consulted with its outside legal counsel, that, in light of the intervening event, a failure to modify or withdraw its recommendation could reasonably be expected to be inconsistent with the fiduciary duties of our board of directors to our stockholders under applicable law.

The merger agreement does not permit Privateer Holdings to terminate the merger agreement in order to accept an offer from a third party to acquire Privateer Holdings or in connection with an intervening event. However, Privateer Holdings may terminate the merger agreement if at any time prior to the approval of our stockholders is obtained, the recommendation of our board of directors is withdrawn or modified (or proposed to be withdrawn or modified) in a manner adverse to Privateer Holdings.

If the conditions to the Downstream Merger are not met, the Downstream Merger will not occur.

Even if the Downstream Merger is approved by the stockholders of Tilray and Privateer Holdings, specified conditions must be satisfied or waived to complete the Downstream Merger. We cannot provide assurances that all of the conditions will be satisfied or waived. If the conditions are not satisfied or waived, the Downstream Merger will not occur or will be delayed, and we may lose some or all of the intended benefits of the Downstream Merger.

The Downstream Merger will involve substantial costs.

We have incurred and expect to continue to incur substantial costs and expenses relating directly to the Downstream Merger, including fees and expenses payable to financial advisors, other professional fees and expenses, insurance premium costs, fees and costs relating to regulatory filings and notices, SEC filing fees, printing and mailing costs and other transaction-related costs, fees and expenses. If the merger is not completed, we will have incurred substantial expenses for which no ultimate benefit will have been received.

Litigation relating to the Downstream Merger could require us to incur significant costs and suffer management distraction, and could delay or enjoin the Downstream Merger.

We have been subject to demands and may become subject to litigation related to the Downstream Merger, whether or not the Downstream Merger is consummated. Such actions may create uncertainty relating to the Downstream Merger, or delay or enjoin the Downstream Merger, and responding to such actions could divert management's attention away from our business operations.

We are currently a "controlled company" within the meaning of the listing rules of the Nasdaq Global Select Stock Market and, as a result, qualify for exemptions from certain corporate governance requirements. As we currently rely on some of these exemptions, you do not have the same protections afforded to stockholders of companies that are subject to such requirements.

Privateer Holdings currently owns a majority of the voting power of all outstanding shares of our capital stock. As a result, we are a "controlled company" within the meaning of the listing rules of the Nasdaq Global Select Market. However, Tilray will cease to be a "controlled company" following the closing of the Downstream Merger. Although we have executed a definitive agreement to effect the Downstream Merger, which would result in us losing "controlled company" status, there is no guarantee the Downstream Merger will close on a timely basis, if at all. Please see "*Failure to consummate the Privateer Holdings Downstream Merger within the expected timeframe, or at all, could have a material adverse impact to our business, financial condition and results of operations*."

Under the "controlled company" rules, a company of which more than 50% of the voting power for the election of directors is held by an individual, group or another company is a "controlled company" and may elect not to comply with certain corporate governance requirements, including the following:

- that a majority of the board of directors consist of independent directors;
- that we conduct an annual performance evaluation of the nominating and corporate governance and compensation committees;
- that we have a nominating and corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and
- that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibility.

We may use some of these exemptions for the foreseeable future. As a result, you will not have the same protections afforded to stockholders of companies that are subject to all of the Nasdaq Global Select Market listing rules.

In addition, the Nasdaq Global Select Market has developed listing standards regarding compensation committee independence requirements and the role and disclosure of compensation consultants and other advisers to the compensation committee that, among other things, require:

- compensation committees be composed of independent directors, as determined pursuant to new independence requirements;
- compensation committees be explicitly charged with hiring and overseeing compensation consultants, legal counsel and other committee advisors; and
- compensation committees be required to consider, when engaging compensation consultants, legal counsel or other advisors, independence factors, including factors that examine the relationship between the consultant's or advisor's employer and us.

As a controlled company, we are not subject to these compensation committee independence requirements.

We are exposed to risks arising from Privateer Holdings' stockholdings, and its participation in our management and conflicts of interest associated therewith.

Privateer Holdings beneficially owns or controls an approximate 75% equity interest in us through ownership or control of 16,666,667 shares of our Class 1 common stock and 58,333,333 shares of our Class 2 common stock, representing approximately 90% of the voting power of our capital stock. In addition, because our Class 1 common stock, which is held entirely by Privateer Holdings, has 10 votes per share, Privateer Holdings will continue to own a majority of the voting power of all outstanding shares of our capital stock and control all matters submitted to our stockholders for approval as long as it holds at least approximately 10.01% of all outstanding shares of our capital stock.

As a result of provisions in our amended and restated certificate of incorporation and the terms of agreements we have entered, our relationship with Privateer Holdings, as our majority stockholder, does not impose any contractual duty on Privateer Holdings or its affiliates to act in our best interests and, other than as set out in the agreements entered into between us and Privateer Holdings or its affiliates, Privateer Holdings is not prohibited from engaging in other business activities that may compete with us. In certain instances, the interests of Privateer Holdings may differ from our interests and the interests of our other stockholders, including with respect to future acquisitions or strategic decisions. It is possible that conflicts of interest may arise between Privateer Holdings and us and that such conflicts may not be resolved in a manner that is in our best interests or the best interests of our other stockholders. Additionally, Privateer Holdings and its affiliates will have access to our material confidential information.

Generally, a transfer by Privateer Holdings of the Class 1 common stock it holds would cause a conversion of such shares into Class 2 common stock. However, a transfer by Privateer Holdings to the three founders of Privateer Holdings, or certain entities controlled by them, such as estate planning entities, would not result in a conversion and these individuals would continue to hold Class 1 common stock the superior voting rights of 10 votes per share. These three founders are Brendan Kennedy (our Chief Executive Officer and President as well as one of our directors), Michael Blue and Christian Groh, and such founders collectively hold 45% of the shares of Privateer Holdings.

For so long as Privateer Holdings, either directly or indirectly, owns a significant interest in and holds voting power over our capital stock, Privateer Holdings will have the ability to exercise substantial influence with respect to our affairs and significantly affect the outcome of stockholder votes and may have the ability to cause or prevent certain fundamental transactions. Additionally, Privateer Holdings' significant voting power may discourage transactions involving a change of control of us, including transactions in which an investor might otherwise receive a premium for our Class 2 common stock over the then-current market price. Although we previously announced the Downstream Merger, which would result in Privateer Holdings no longer holding voting power over our capital, there is no guarantee the Downstream Merger will close on a timely basis, if at all. Please see "Failure to consummate the Privateer Holdings Downstream Merger within the expected timeframe, or at all, could have a material adverse impact to our business, financial condition and results of operations."

Future sales or distributions of our securities by Privateer Holdings or by Privateer Holdings stockholders who receive shares of our common stock in the Downstream Merger could cause the market price for our Class 2 common stock to fall.

Sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales or distributions by Privateer Holdings or other stockholders, or the market perception that the holders of a large number of shares of our Class 2 common stock, or shares of our Class 1 common stock which are convertible into Class 2 common stock on a one-for-one basis, intend to sell our Class 2 common stock, could significantly reduce the market price of our Class 2 common stock. We cannot predict the effect, if any, that future public sales of these securities or the availability of these securities for sale will have on the market price of our Class 2 common stock. If the market price of our Class 2 common stock were to drop as a result, this might impede our ability to raise additional capital and might cause our remaining stockholders to lose all or part of their investment. However, Tilray and Privateer Holdings have entered a lock-up agreement, which provides that if the Downstream Merger is terminated by either Tilray or Privateer because Privateer has not obtained the requisite written consent from Privateer's stockholders within 15 business days of the registration statement filed in connection with the Downstream Merger becoming effective and the written consent is also not obtained before the termination date, then Privateer shall not transfer its Tilray common stock for 135 days from the termination date. In addition, pursuant to the Downstream Merger, Privateer Holdings stockholders who will receive shares of our common stock in the Downstream Merger have agreed to an extended lock-up, but there is no guarantee the Downstream Merger will close on a timely basis, if at all. Please see "*Failure to consummate the Privateer Holdings Downstream Merger within the expected timeframe, or at all, could have a material adverse impact to our business, financial condition and results of operations*."

Risks Related to Ownership of Our Securities

Holders of Class 2 common stock have limited voting rights as compared to holders of Class 1 common stock. We cannot predict the impact that our capital structure and concentrated control by Privateer Holdings may have on the market price of our Class 2 common stock.

Privateer Holdings beneficially owns or controls 16,666,667 shares of our Class 1 common stock and 58,333,333 shares of our Class 2 common stock, representing 90% of the voting power of our capital stock. Class 1 common stock, held entirely by Privateer Holdings, has 10 votes per share, resulting in Privateer Holdings control of a majority of the voting power of all outstanding shares of our capital stock and control of all matters that may be submitted to our stockholders for approval as long as it holds at least approximately 10.01% of all outstanding shares of our capital stock. Following the Downstream Merger, if consummated, Brendan Kennedy (our Chief Executive Officer and President as well as one of our directors), Michael Blue and Christian Groh will continue to collectively hold the majority of the voting power of our capital stock. This concentrated control reduces other stockholders' ability to influence corporate matters and, as a result, we may take actions that our stockholders other than Privateer Holdings, or Messrs. Kennedy, Blue and Groh after the Downstream Merger, if consummated, do not view as beneficial. Further, the concentration of the ownership of our Class 1 common stock may prevent or delay the consummation of change of control transactions that stockholders other than Privateer Holdings, or Messrs. Kennedy, Blue and Groh after the Downstream Merger, if consummated, may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. Future issuances of Class 1 common stock with Privateer Holdings may also be dilutive to the holders of Class 2 common stock. As a result, the market price of our Class 2 common stock could be adversely affected.

Additionally, while other companies listed on U.S. stock exchanges have publicly traded classes of stock with limited voting rights, we cannot predict whether this structure, combined with concentrated control by Privateer Holdings, or Messrs. Kennedy, Blue and Groh after the Downstream Merger, if consummated, will result in a lower trading price or greater fluctuations in the trading price of our Class 2 common stock as compared to the market price were we to have a single class of common stock, or will result in adverse publicity or other adverse consequences. Please see "*Failure to consummate the Privateer Holdings Downstream Merger within the expected timeframe, or at all, could have a material adverse impact to our business, financial condition and results of operations*."

The price of our Class 2 common stock in public markets has experienced and may experience significant fluctuations.

The market price for our Class 2 common stock, and the market price of stock of other companies operating in the cannabis industry, has been extremely volatile. For example, during the nine months ended September 30, 2019, the trading price of our Class 2 common stock has fluctuated between a low sales price of $24.32 and a high sales price of $106.00 per share, demonstrating an unusual degree of volatility even relative to other cannabis companies during the same time period. The market price of our Class 2 common stock may continue to be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond our control, including the following: (i) actual or anticipated fluctuations in our quarterly results of operations; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other issuers that investors deem comparable to us; (iv) the addition or departure of our executive officers or other key personnel; (v) the release or expiration of lock-up or other transfer restrictions on our common stock; (vi) sales or perceived sales, or the expectation of future sales, of our common stock; (vii) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors; (viii) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in our industry or target markets; and (ix) the impact of the Downstream Merger, or failure to consummate the Downstream Merger.

Financial markets have recently experienced significant price and volume fluctuations which have affected the market prices of the equity securities of public entities. In many cases, these fluctuations, and the effect that they have on market prices, have been unrelated to the operating performance, underlying asset values or prospects of such entities. Accordingly, the market price of our Class 2 common stock may decline even if our operating results or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed not to be temporary, which may result in impairment losses to us. Furthermore, certain investors may base their investment decisions on considerations of our environmental, governance and social practices or our industry as a whole, and our performance in these areas against such investors' respective investment guidelines and criteria. The failure to satisfy such criteria may result in limited or no investment in our Class 2 common stock by those investors, which could materially and adversely affect the trading price of our Class 2 common stock.

There can be no assurance that continuing fluctuations in the price and volume of equity securities in public markets will not occur. If such increased levels of volatility and market turmoil continue for a protracted period of time, there could be a material adverse effect on the trading price of our Class 2 common stock.

If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, our stock price and trading volume could decline.

The trading market for our Class 2 common stock depends, in part, on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the securities or industry analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. In addition, if our operating results fail to meet the forecast of analysts, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

We may not have the ability to raise the funds necessary to settle conversions of the Convertible Notes in cash or to repurchase the Convertible Notes upon a fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the Convertible Notes.

Holders of the Convertible Notes have the right to require us to repurchase their Convertible Notes upon the occurrence of a fundamental change at a fundamental change repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion of the Convertible Notes, unless we elect to deliver solely shares of our Class 2 common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Convertible Notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Convertible Notes surrendered therefor or Convertible Notes being converted. In addition, our ability to repurchase the Convertible Notes or to pay cash upon conversions of the Convertible Notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase Convertible Notes at a time when the repurchase is required by the indenture or to pay any cash payable on future conversions of the Convertible Notes as required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our existing or future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Convertible Notes or make cash payments upon conversions thereof.

The conditional conversion feature of the Convertible Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the Convertible Notes is triggered, holders of Convertible Notes will be entitled to convert the Convertible Notes at any time during specified periods at their option. If one or more holders elect to convert their Convertible Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our Class 2 common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders of Convertible Notes do not elect to convert their Convertible Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Convertible Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

Holders of our Class 2 common stock may be subject to dilution resulting from future offerings of common stock by us.

We may raise additional funds in the future by issuing common stock or equity-linked securities. Holders of our securities have no preemptive rights in connection with such further issuances. Our board of directors has the discretion to determine if an issuance of our capital stock is warranted, the price at which such issuance is to be effected and the other terms of any future issuance of capital stock. In addition, additional common stock will be issued by us in connection with the exercise of options or grant of other equity awards granted by us. Such additional equity issuances could, depending on the price at which such securities are issued, substantially dilute the interests of the holders of our existing securities.

Conversion of the Convertible Notes may dilute the ownership interest of our stockholders or may otherwise depress the price of our Class 2 common stock.

The conversion of some or all of the Convertible Notes may dilute the ownership interests of our stockholders. Upon conversion of the Convertible Notes, we have the option to pay or deliver, as the case may be, cash, shares of our Class 2 common stock, or a combination of cash and shares of our Class 2 common stock. If we elect to settle our conversion obligation in shares of our Class 2 common stock or a combination of cash and shares of our Class 2 common stock, any sales in the public market of our Class 2 common stock issuable upon such conversion could adversely affect prevailing market prices of our Class 2 common stock. In addition, the existence of the Convertible Notes may encourage short selling by market participants because the conversion of the Convertible Notes could be used to satisfy short positions, or anticipated conversion of the Convertible Notes into shares of our Class 2 common stock could depress the price of our Class 2 common stock.

It is not anticipated that any dividends will be paid to holders of our Class 2 common stock for the foreseeable future, if any.

No dividends on our Class 2 common stock have been paid to date. We anticipate that, for the foreseeable future, we will retain future earnings and other cash resources for the operation and development of our business. The payment of any future dividends will be at the discretion of our board of directors after taking into account many factors, including our earnings, operating results, financial condition and current and anticipated cash needs.

Provisions in our corporate charter documents could make an acquisition of us more difficult and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our corporate charter and our bylaws may discourage, delay or prevent a merger, acquisition or other change in control of us that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. These provisions could also limit the price that investors might be willing to pay in the future for shares of our Class 2 common stock, thereby depressing the market price of our Class 2 common stock. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Because our board of directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt by our stockholders to replace current members of our management team. Among others, these provisions include the following:

- our board of directors is divided into three classes with staggered three-year terms which may delay or prevent a change of our management or a change in control;
- our board of directors has the right to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- our stockholders may not act by written consent or call special stockholders' meetings; as a result, a holder, or holders, controlling a majority of our capital stock would not be able to take certain actions other than at annual stockholders' meetings or special stockholders' meetings called by the board of directors, the chairman of the board or our chief executive officer;
- our certificate of incorporation prohibits cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- stockholders must provide advance notice and additional disclosures in order to nominate individuals for election to the board of directors or to propose matters that can be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company; and
- our board of directors may issue, without stockholder approval, shares of undesignated preferred stock; the ability to issue undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

Certain jurisdictions may take positions adverse to investments in, or investors themselves, in cannabis companies.

Certain jurisdictions may prohibit or restrict its citizens or residents from investing in or transacting with companies involved in the cannabis industry, even if such companies only conduct business in jurisdictions where cannabis is legal. For example, if an investor in the United Kingdom profits from an investment in a cannabis producer or supplier, such investment may technically violate the United Kingdom Proceeds of Crime Act 2002. Similar prohibitions or restrictions may apply in other jurisdictions where cannabis has not been legalized. In addition, such prohibitions and restriction may limit your ability to receive dividends if such dividends were to be declared in the future. However, no dividends on our Class 2 common stock have been paid to date and we do not anticipate that, for the foreseeable future, we will pay dividends on our Class 2 common stock.

Certain provisions in the indenture governing the Convertible Notes may delay or prevent an otherwise beneficial takeover attempt of us.

Certain provisions in the indenture governing the Convertible Notes may make it more difficult or expensive for a third party to acquire us. For example, the indenture governing the Convertible Notes requires us to repurchase the Convertible Notes for cash upon the occurrence of a fundamental change and, in certain circumstances, to increase the relevant conversion rate for a holder that converts its Convertible Notes in connection with a make-whole fundamental change. A takeover of us may trigger the requirement that we repurchase the Convertible Notes and/or increase the conversion rate, which could make it more costly for a potential acquirer to engage in such takeover. Such additional costs may have the effect of delaying or preventing a takeover of us that would otherwise be beneficial to investors.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware and the federal district courts of the United States of America will be the exclusive forums for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for:

- any derivative action or proceeding brought on our behalf;
- any action asserting a breach of fiduciary duty;
- any action asserting a claim against us arising under the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws; and
- any action asserting a claim against us that is governed by the internal-affairs doctrine.

Our amended and restated certificate of incorporation further provides that the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. This exclusive forum provision would not apply to suits brought to enforce any liability or duty created by the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction. To the extent that any such claims may be based upon federal law claims, Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. Furthermore, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. Investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder.

Our restated certificate of incorporation also provides that any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock will be deemed to have notice of and to have consented to this choice of forum provision. It is possible that a court of law could rule that the choice of forum provision contained in our restated certificate of incorporation is inapplicable or unenforceable if it is challenged in a proceeding or otherwise.

These exclusive-forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage lawsuits against us and our directors, officers and other employees. If a court were to find the exclusive-forum provision in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could seriously harm our business.

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

Recent Sales of Unregistered Equity Securities

On July 12, 2019, the Company issued 79,289 shares of Class 2 Common Stock in connection with the acquisition of Smith & Sinclair Ltd., which crafts edible candies, cocktails and fragrances in the United Kingdom and enables the Company to develop CBD-infused edibles for distribution in Canada, the United States and Europe.

On September 13, 2019, the Company issued 128,670 shares of Class 2 Common Stock in exchange for a minority investment in a Canadian cannabis retailer that provides for collaboration between the two companies in the sale and distribution of the Company's High Park portfolio of branded cannabis products.

On September 19, 2019, the Company issued 63,747 shares of Class 2 Common Stock as a portion of the purchase consideration for a 50% equity interest in a cannabis edibles manufacturer, pursuant to which the Company and such manufacturer will develop and manufacture cannabis products for phase two of adult-use legalization in Canada.

On September 20, 2019, the Company issued 161,632 shares of Class 2 Common Stock in exchange for a convertible note issued by a specialized equipment company.

Each issuance of common stock described above was exempt from registration under Section 4(2) of the Securities Act 1933 in transactions by an issuer not involving a public offering.

On August 28, 2019, the Company issued 899,306 shares of Class 2 Common Stock to FHF Holdings Ltd. as a portion of the purchase price consideration in connection with the previously disclosed acquisition of Manitoba Harvest. These securities were issued as exempt securities under Section 3(a)(10) of the Securities Act of 1933.

Item 6. Exhibits.

			Incorporated by Reference			
Exhibit No.	Description of Document	Schedule Form	File Number	Exhibit	Filing Date	Filed Herewith
2.1*	Arrangement Agreement among Tilray, Inc. and High Park Gardens Inc. and Natura Naturals Holdings Inc. dated January 21, 2019.	8-K	001-38594	2.1	1/25/2019	
2.2*	Arrangement Agreement among 1197879 B.C. LTD. and FHF Holdings LTD. and Tilray, Inc. and others dated February 19, 2019.	8-K	001-38594	2.1	2/25/2019	
2.3*	Amending Agreement by and among Tilray, Inc. 1197879 B.C. Ltd., FHF Holdings Ltd. and Compass Group Diversified Holdings, LLC dated February 27, 2019.	8-K	001-38594	2.3	3/4/2019	
2.4*	Agreement and Plan of Merger and Reorganization, among Tilray, Inc., Down River Merger Sub, LLC, Privateer Holdings, Inc. and Michael Blue as the Stockholder Representative, dated September 9, 2019.	8-K	001-38594	2.1	9/10/2019	
2.5	Form of Support Agreement by and between Tilray, Privateer and each of the parties named in each agreement therein.	8-K	001-38594	2.2	9/10/2019	
2.6	Form of Stockholder Lock-Up Agreement.	8-K	001-38594	2.3	9/10/2019	
2.7	Lock-Up Agreement by Privateer, dated September 9, 2019.	8-K	001-38594	2.4	9/10/2019	
3.1	Certificate of Incorporation, as currently in effect.	8-K	001-38594	3.1	7/24/2018	
3.2	Amended and Restated Bylaws, as currently in effect.	S-1	333-225741	3.4	7/9/2018	
4.1	Indenture, dated October 10, 2018, between Tilray, Inc. and GLAS Trust Company LLC.	8-K	001-38594	4.1	10/10/2018	
4.2	Form of 5.00% Convertible Senior Note due 2023 (included in Exhibit 4.1).	8-K	001-38594	4.2	10/10/2018	
10.1	Sales Agreement, by and between Tilray, Inc. and Cowen and Company, LLC, dated September 10, 2019.	8-K	001-38594	1.1	9/10/2019	
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

* Schedules have been omitted pursuant to Item 601(b)(2) of Regulations S-K. The registrant will furnish copies of any such schedules to the Securities and Exchange Commission upon request.

** Document has been furnished, is not deemed filed and is not to be incorporated by reference into any of the Company's filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, irrespective of any general incorporation language contained in any such filing.

SIGNATURES

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

		Tilray, Inc.
Date: November 13, 2019	By:	/s/ Brendan Kennedy **Brendan Kennedy** President and Chief Executive Officer
Date: November 13, 2019	By:	/s/ Mark Castaneda **Mark Castaneda** Chief Financial Officer and Treasurer

Exhibit 31.1

CERTIFICATION

I, Brendan Kennedy, certify that:

1. I have reviewed this Form 10-Q of Tilray, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2019

/s/ Brendan Kennedy
Brendan Kennedy
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Mark Castaneda, certify that:

1. I have reviewed this Form 10-Q of Tilray, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 13, 2019

/s/ Mark Castaneda
Mark Castaneda
Chief Financial Officer and Treasurer

Exhibit 32.1

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Brendan Kennedy, President and Chief Executive Officer of Tilray, Inc. (the “Company”), hereby certifies that, to the best of his knowledge:

1. The Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2019 to which this Certification is attached as Exhibit 32.1 (the “Periodic Report”), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned has set its hand hereto as of the 13th day of November, 2019.

/s/Brendan Kennedy
Brendan Kennedy
President and Chief Executive Officer

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Tilray, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Mark Castaneda, Chief Financial Officer and Treasurer of Tilray, Inc. (the "Company"), hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended September 30, 2019 to which this Certification is attached as Exhibit 32.2 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned has set its hand hereto as of the 13th day of November, 2019.

/s/ Mark Castaneda
Mark Castaneda
Chief Financial Officer and Treasurer

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Tilray, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.