PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	September 30, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	$ 155,205	$ 96,791
Accounts receivable, net of allowance for credit losses of $826 and provision for sales returns of $1,212 (December 31, 2019 - $615 and $1,400, respectively)	24,805	36,202
Inventory	89,917	87,861
Prepayments and other current assets	28,154	38,173
Assets held for sale	6,797	—
Total current assets	304,878	259,027
Property and equipment, net	187,630	184,217
Operating lease, right-of-use assets	18,460	17,514
Intangible assets, net	180,853	228,828
Goodwill	159,595	163,251
Equity method investments	8,911	11,448
Other investments	22,710	24,184
Other assets	4,324	7,861
Total assets	$ 887,361	$ 896,330
Liabilities		
Current liabilities		
Accounts payable	26,137	39,125
Accrued expenses and other current liabilities	32,526	50,829
Accrued lease obligations	3,230	2,473
Warrant liability	71,636	—
Total current liabilities	133,529	92,427
Accrued lease obligations	30,075	29,407
Deferred tax liability	48,090	53,363
Convertible notes, net of issuance costs	438,154	430,210
Senior Facility, net of transaction costs	45,944	—
Other liabilities	4,852	5,652
Total liabilities	$ 700,644	$ 611,059
Commitments and contingencies (refer to Note 18)		
Stockholders' equity		
Class 1 common stock ($0.0001 par value, 233,333,333 and 250,000,000 shares authorized, respectively; 0 and 16,666,667 shares issued and outstanding, respectively)	—	2
Class 2 common stock ($0.0001 par value; 500,000,000 shares authorized; 133,289,944 and 86,114,560 shares issued and outstanding, respectively)	13	9
Additional paid-in capital	911,171	705,671
Accumulated other comprehensive income	2,689	9,719
Accumulated deficit	(727,156)	(430,130)
Total stockholders' equity	186,717	285,271
Total liabilities and stockholders' equity	$ 887,361	$ 896,330

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 United States dollars, except for share and per share data, unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenue	$ 51,406	$ 51,101	$ 153,922	$ 120,043
Cost of sales				
Product costs	34,224	35,047	108,616	85,806
Inventory valuation adjustments	13,443	201	36,116	726
Gross profit	3,739	15,853	9,190	33,511
General and administrative expenses	12,665	20,122	49,030	49,618
Sales and marketing expenses	10,000	16,974	40,709	39,161
Research and development expenses	921	2,315	2,831	4,891
Stock-based compensation expenses	8,080	8,644	23,404	22,303
Depreciation and amortization expenses	3,425	3,200	10,353	7,457
Impairment of assets	—	—	58,210	—
Acquisition-related expenses (income), net	—	(13,454)	—	(6,566)
Loss from equity method investments	1,420	1,837	4,495	1,837
Operating loss	(32,772)	(23,785)	(179,842)	(85,190)
Foreign exchange (gain) loss, net	(9,319)	2,585	5,424	1,153
Change in fair value of warrant liability	(31,913)	—	51,275	—
Interest expenses, net	10,437	8,680	30,147	26,005
Finance income from ABG	—	(210)	—	(557)
Other expense (income), net	(38)	(1,116)	4,944	(6,185)
Loss before income taxes	(1,939)	(33,724)	(271,632)	(105,606)
Deferred income tax expenses (recoveries)	134	2,432	(4,013)	(3,987)
Current income tax expenses (benefit)	243	195	505	402
Net loss	$ (2,316)	$ (36,351)	$ (268,124)	$ (102,021)
Net loss per share - basic and diluted	(0.02)	(0.37)	(2.23)	(1.05)
Weighted average shares used in computation of net loss per share - basic and diluted	129,100,909	98,130,507	120,128,856	96,742,626
Net loss	$ (2,316)	$ (36,351)	$ (268,124)	$ (102,021)
Foreign currency translation gain (loss), net	2,265	(4,863)	(7,184)	(2,414)
Unrealized gain on available-for-sale debt securities	193	11	154	80
Other comprehensive income (loss)	2,458	(4,852)	(7,030)	(2,334)
Comprehensive income (loss)	$ 142	$ (41,203)	$ (275,154)	$ (104,355)

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

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

	Common stock		Additional	Accumulated other		Total
	Number of shares	Amount	paid-in capital	comprehensive (loss) income	Accumulated deficit	stockholders' equity (deficit)
Balance as of December 31, 2018	93,170,867	$ 10	$ 302,057	$ 3,763	$ (108,177)	$ 197,653
Cumulative effect adjustment from transition to ASU 2016-01	—	—	—	803	(803)	—
Cumulative effect adjustment from transition to ASC 842	—	—	—	—	19	19
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 Agreement	1,680,214	—	125,097	—	—	125,097
ABG finance receivable, net of finance income of $2,700	—	—	(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 expenses	—	—	5,736	—	—	5,736
Other comprehensive loss	—	—	—	(456)	—	(456)
Net loss	—	—	—	—	(29,369)	(29,369)
Balance as of March 31, 2019	96,798,227	$ 10	$ 516,122	$ 4,110	$ (138,330)	$ 381,912
Shares issued under stock-based compensation plans	530,943	—	3,483	—	—	3,483
Shares issued for investment acquisition	28,361	—	70	—	—	70
Stock-based compensation expenses	—	—	7,923	—	—	7,923
Other comprehensive income	—	—	—	2,974	—	2,974
Net loss	—	—	—	—	(36,301)	(36,301)
Balance at June 30, 2019	97,357,531	$ 10	$ 527,598	$ 7,084	$ (174,631)	$ 360,061
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	—	—	8,644	—	—	8,644
Other comprehensive loss	—	—	—	(4,852)	—	(4,852)
Net loss	—	—	—	—	(36,351)	(36,351)
Balance as of September 30, 2019	100,271,743	$ 10	$ 624,351	$ 2,232	$ (210,982)	$ 415,611
Balance at December 31, 2019	102,781,225	$ 11	$ 705,671	$ 9,719	$ (430,130)	$ 285,271
Proceeds from ABG Profit Participation Arrangement	—	—	1,353	—	—	1,353
Write-off of ABG finance receivable	—	—	28,900	—	(28,900)	—
Escrow shares released from downstream merger	(7,659)	—	(151)	—	—	(151)
Shares issued for common stock at-the-market, net of issuance costs	2,265,115	—	27,027	—	—	27,027
Shares issued for investments	6,934	—	—	—	—	—
Shares issued under stock-based compensation plans	597,868	—	1,079	—	—	1,079
Stock-based compensation expenses	—	—	7,677	—	—	7,677
Shares issued under registered offering, net of issuance costs	7,250,000	1	19,827	—	—	19,828
Shares issued for exercise of pre-funded warrants	11,750,000	1	49,053	—	—	49,054
Other comprehensive loss	—	—	—	(16,707)	—	(16,707)
Net loss	—	—	—	—	(184,123)	(184,123)
Balance at March 31, 2020	124,643,483	$ 13	$ 840,436	$ (6,988)	$ (643,153)	$ 190,308
Escrow shares released from downstream merger	(42,785)	—	(378)	—	—	(378)
Shares issued for common stock at-the-market, net of issuance costs	447,289	—	3,842	—	—	3,842
Shares issued under stock-based compensation plans	883,425	—	4,536	—	—	4,536
Stock-based compensation expenses	—	—	7,647	—	—	7,647
Other comprehensive income	—	—	—	7,219	—	7,219
Net loss	—	—	—	—	(81,687)	(81,687)
Balance at June 30, 2020	125,931,412	13	856,083	231	(724,840)	131,487
Shares issued for common stock at-the-market, net of issuance costs	6,781,090	—	45,230	—	—	45,230
Shares issued under stock-based compensation plans	375,218	—	286	—	—	286
Stock-based compensation expenses	—	—	8,080	—	—	8,080
Shares issued for contract settlement	202,224	—	1,492	—	—	1,492
Other comprehensive income	—	—	—	2,458	—	2,458
Net loss	—	—	—	—	(2,316)	(2,316)
Balance at September 30, 2020	133,289,944	13	911,171	2,689	(727,156)	186,717

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

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

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Operating activities		
Net loss	$ (268,124)	$ (102,021)
Adjusted for the following items:		
Inventory valuation adjustments	36,116	—
Depreciation and amortization expenses	14,232	10,460
Impairment of assets	58,210	—
Stock-based compensation expenses	23,404	22,303
Change in fair value of warrant liability	51,275	—
Loss from equity method investments	4,495	—
Change in fair value of contingent consideration	—	(17,019)
Loss from equity investments measured at fair value	1,272	1,572
Loss from sale of investment	65	—
Interest on debt securities	(601)	—
Deferred taxes	(4,013)	(3,987)
Amortization of discount on convertible notes	7,944	7,616
Amortization of transaction costs on Senior Facility	943	—
Foreign currency loss	5,424	—
Accretion related to obligations under finance leases	394	138
Issuance costs on registered offering recorded to net loss	3,953	—
Credit loss expenses	288	—
Provision for sales returns	(188)	—
Loss on disposal of property and equipment	885	—
Other non-cash items	88	1,755
Changes in non-cash working capital:		
Accounts receivable	11,072	(15,019)
Inventory	(25,476)	(73,758)
Prepayments and other current assets	4,263	(54,607)
Accounts payable	(12,544)	38,773
Accrued expenses and other current liabilities	(17,863)	16,539
Net cash used in operating activities	(104,486)	(167,255)
Investing activities		
Business combinations, net of cash acquired	—	(166,086)
Investment in ABG Profit Participation Arrangement	—	(33,333)
Investment in equity method investees and S&S acquisition	—	(14,302)
Interest receipts on debt securities	146	—
Investment in joint venture with AB InBev	(2,323)	—
Change in deposits and other assets	(3,148)	85
Purchases of short-term and other investments	—	(8,486)
Proceeds from the sale of other investments	437	8,640
Purchases of property and equipment	(39,366)	(50,421)
Proceeds from disposal of property and equipment	2,371	—
Purchases of intangible assets	—	(941)
Net cash used in investing activities	(41,883)	(264,844)
Financing activities		
Proceeds from at-the-market equity offering, net of costs	75,459	37,445
Proceeds from ABG Profit Participation Arrangement	1,353	3,333
Proceeds from issuance of registered offering, net of issuance costs	85,465	—
Payment of ABG finance liability	(1,500)	—
Proceeds from exercise of stock options	6,007	4,885
Payment of obligations under finance lease	(309)	(565)
Payment on the settlement of stock options	(1,144)	—
Proceeds from issuance of Senior Facility, net of transaction costs	46,395	—
Repayment of Senior Facility	(1,605)	—
Net cash provided by financing activities	210,121	45,098
Effect of foreign currency translation on cash and cash equivalents	(5,338)	(95)
Cash and cash equivalents		
Increase (decrease) in cash and cash equivalents	58,414	(387,096)
Cash and cash equivalents, beginning of period	96,791	487,255
Cash and cash equivalents, end of period	$ 155,205	$ 100,159

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

1. Summary of Significant Accounting Policies

Description of the business

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

Basis of presentation and going concern

The accompanying unaudited condensed consolidated financial statements (the "financial statements") reflect the accounts of the Company. The financial statements were prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") for interim financial information. The information included in this Form 10-Q should be read in conjunction with the audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2019 (the "Annual Financial Statements"). These financial statements reflect all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

These financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due.

For the three and nine months ended September 30, 2020, the Company reported a consolidated net loss of $2,316 and $268,124, and a net loss of $36,351 and $102,021 for the three and nine months ending September 30, 2019.

For the nine months ended September 30, 2020, the Company had cash flows used in operating activities of $104,486 and cash flows used in operating activities of $167,255 for the nine months ended September 30, 2019.

As at September 30, 2020 and December 31, 2019 the Company had working capital of $171,349 and $166,600, respectively.

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

On March 17, 2020, the Company received net proceeds of $85,289 ($90,439 of gross proceeds) from its registered equity offering (refer to Note 14). 19,000,000 warrants were issued as part of the offering. All the warrants remain outstanding as of September 30, 2020. The warrants issued contain an anti-dilution provision that was approved by a vote of the Company's stockholders at its Annual Meeting held on May 28, 2020. While the Company has the ability to issue securities under its at-the-market program, because warrants from the equity offering remain outstanding as of September 30, 2020, the Company may only issue up to $20,000 in aggregate gross proceeds under its at-the-market offering program at prices less than the exercise price of the warrants (currently $5.95 per share), and in no event more than $6,000 per quarter at prices below the exercise price of the warrants, without triggering the warrant's anti-dilution price protection feature. During the three months ended September 30, 2020, the Company received gross proceeds of $46,153 from shares sold under its at-the-market offering program. All shares were sold at share prices above $5.95 per share.

On February 28, 2020, the Company completed a debt financing under its Senior Facility with maximum aggregate principal amount of $59,600 and borrowed an aggregate principal amount of $49,700. The Senior Facility provided for an additional draw of $9,900. On June 5, 2020, as a result of COVID-19 related financial markets conditions that affected the lender and not because of any material changes to the business of Tilray or its subsidiaries, the lender requested that Tilray withdraw its then outstanding request for the additional draw of $9,900 and entered into an amendment to its Senior Facility which provides for, among other things, interest-only payments for the remainder of its term with all outstanding principal payments due at February 28, 2022 (refer to Note 13).

As of September 30, 2020, the Company had cash and cash equivalents of $155,205. During the last nine months management has implemented a series of cost reduction strategies including headcount reductions and the closure of certain facilities. Currently, management's forecasts and related assumptions indicate that the Company will remain in compliance with all its debt covenants and, over the next twelve months from the date of issuance of these financial statements, will be able to satisfy all its contractual obligations such as payment of interest on the 5% convertible notes (refer to Note 12 and Note 18), interest-only payments on the Senior Facility (refer to Note 13 and Note 18), non-cancelable minimum purchase commitments for inventory (refer to Note 18), payment of the ABG finance liability (refer to Note 18), payment of the Company's lease commitments (refer to Note 18) and payment of the Company's Portugal construction commitments (refer to Note 18). Due to uncertainties the Company may face in raising additional equity financing in the future, which may be further impacted by the economic downturn and unprecedented conditions due to COVID-19, there remains uncertainty about the impact this may have on management's assumptions used to develop these forecasts. Accordingly, the Company has concluded it is probable that it can implement plans that would effectively mitigate the conditions and events that raise substantial doubt about the entity's ability to continue as a going concern for the next twelve months.

These financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from uncertainty related to the Company's ability to successfully implement its initiatives. Any such adjustments could be material.

Changes in comparative presentation

The Company lost its emerging growth company status effective December 31, 2019 and therefore reported as a large accelerated filer in the Annual Financial Statements. As a result, the Company complies with new and revised accounting standards applicable to public companies. In the fourth quarter of 2019, the Company adopted the following accounting pronouncements issued by FASB: ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"); ASU 2016-02, Leases, codified as ASC 842 ("ASC 842"); ASU 2014-09 Revenue from Contracts with Customers and all subsequent amendments to the ASU, codified as ASC 606 ("ASC 606"); and ASU 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting ("ASU 2018-07"), as described in the Annual Financial Statements, with an effective date of January 1, 2019. The comparative three and nine months ended September 30, 2019 included in the financial statements reflect the new and revised accounting standards and therefore does not mirror the September 30, 2019 interim period condensed consolidated financial statements previously filed. The impact to the statements of net loss and comprehensive loss for the three and nine months ended September 30, 2019 is as follows:

	Three months ended September 30, 2019		Nine months ended September 30, 2019	
	Net loss	Other comprehensive (loss) income	Net (loss) income	Other comprehensive (loss) income
Unadjusted	$ (35,678)	$ (5,164)	$ (101,032)	$ (2,069)
Impact of adoption of accounting standards:				
ASU 2016-01	(312)	312	265	(265)
ASC 842	(32)	—	(157)	—
ASU 2018-07	(329)	—	(1,097)	—
ASC 606	—	—	—	—
Adjusted	$ (36,351)	$ (4,852)	$ (102,021)	$ (2,334)

The statement of net loss and comprehensive loss for the three and nine months ended September 30, 2019 was reclassified to conform to the current period's presentation. In addition, unrelated to the impact of adoption of accounting standards, cost of sales, which was formerly presented as a single line item, is separated between product costs and inventory valuation adjustments. Loss on disposal of property and equipment, formerly presented in other expenses (income) is now presented in general and administrative expenses.

Assets held for sale

In May 2020, the Company announced its decision to close the High Park Gardens facility in response to its anticipated future product needs and the current economic climate. As a result, the Company adopted an accounting policy for assets held for sale. Assets held for sale are accounted for in accordance with applicable accounting guidance provided in ASC Topic 360, Property, Plant and Equipment.

The Company classifies its assets as held for sale if, among other criteria, the carrying amount will be recovered principally through a sale transaction rather than continued use and a sale is considered probable and within one year. Assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell.

An impairment loss is recognized in impairment of assets through the statements of net loss and comprehensive loss for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognized. A gain or loss not previously recognized by the date of the sale of the asset is recognized at the date of derecognition. Assets are not depreciated or amortized while they are classified as held for sale. Interest and other expenses attributable to the liabilities classified as held for sale continue to be recognized.

Assets classified as held for sale are combined and presented separately from the other assets in the balance sheets.

Allowance for credit losses

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This guidance was subsequently amended by ASU 2018-19, Codification Improvements, ASU 2019-

04, Codification Improvements, ASU 2019-05, Targeted Transition Relief, ASU 2019-10, Effective Dates, and ASU 2019-11, Codification Improvements. These ASUs are referred to collectively as the new guidance on current expected credit loss ("CECL"). As a result of the adoption of the new CECL guidance on January 1, 2020, the Company has changed its accounting policy for the allowance for credit losses, as it relates to accounts receivable and available-for-sale debt securities. The adoption of the CECL guidance did not have a material impact on the consolidated financial statements at January 1, 2020.

Accounts receivable – The Company maintains an allowance for credit losses at an amount sufficient to absorb losses inherent in its accounts receivable portfolio as of the reporting dates based on the projection of expected credit losses.

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

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

Available-for-sale debt securities – The Company assesses its available-for-sale debt securities for impairment at each measurement date. When the fair value is less than the amortized cost, the Company assesses whether it intends to sell the security. When it is assessed that the Company will sell the security or the Company will be required to sell before recovery, the difference between the fair value and amortized cost is recorded as an impairment of assets in the statements of net loss and comprehensive loss. When the Company does not intend to sell and it is not more likely than not that the Company will be required to sell before recovery, the Company assesses whether a portion of the unrealized loss is a result of a credit loss. The Company recognizes the portion related to credit loss as credit loss expenses in general and administrative expenses within the statements of net loss and comprehensive loss and the portion of unrealized loss related to factors other than credit losses in other comprehensive loss. The Company determines the best estimate of the present value of cash flows expected to be collected from the available-for-sale debt securities on an individual basis based on past events, current conditions and forecasts relevant to the individual securities.

Disclosure framework - fair value measurement

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"). ASU 2018-13 removes (a) the prior requirement to disclose the amount and reason for transfers between Level 1 and Level 2 of the fair value hierarchy contained in ASC Topic 820, (b) the policy for timing of transfers between levels, and (c) the valuation process used for Level 3 fair value measurements. ASU 2018-13 also adds, among other items, a requirement to disclose the range and weighted average of significant unobservable inputs used in Level 3 fair value measurements. The Company adopted ASU 2018-13 effective January 1, 2020 and such adoption did not have a material effect on its financial statements.

Warrants

In March 2020, the Company closed on a registered offering including Class 2 common stock, warrants, and pre-funded warrants (refer to Note 14). Warrants are accounted for in accordance with applicable accounting guidance provided in ASC Topic 815, Derivatives and Hedging – Contracts in Entity's Own Equity ("ASC 815"), as either liabilities or as equity instruments depending on the specific terms of the warrant agreement. The Company's warrants are classified as liabilities and are recorded at fair value. The warrants are subject to remeasurement at each balance sheet date until settlement and any change in fair value is recognized as a component of change in fair value of warrant liability in the statements of net loss and comprehensive loss. Transaction costs allocated to warrants that are presented as a liability are expensed immediately within other expenses (income) in the statements of net loss and comprehensive loss.

Use of estimates and significant judgements

Assets held for sale – The Company uses a third party real estate agent to assist management in its determination of the fair value of the assets held for sale. The Company estimates the fair value by reviewing market data from recent sales of similar properties and determining an implied sale price per acre of land and greenhouse space.

Allowance for credit losses – The Company's projections of expected credit losses are inherently uncertain, and as a result the Company cannot predict with certainty the amount of such losses. Changes in economic conditions, the risk characteristics and composition of the portfolio, bankruptcy laws, and other factors could impact the actual and projected expected credit losses and the related allowance for credit losses. Actual losses may vary from current estimates. Due to potential COVID-19 disruptions in the marketplace it is possible the Company may experience unforeseen and greater credit losses than anticipated or experienced historically.

Warrant liability – The Company estimates the fair value of the warrant liability using a Monte Carlo pricing model. The Company is required to make assumptions and estimates in determining an appropriate risk-free interest rate, volatility, term, dividend yield and discount due to exercise restrictions and fair value of common stock.

Net loss per share

Basic net loss per share is computed by dividing reported net loss by the weighted average number of common shares outstanding for the reported period. Diluted net loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock of the Company during the reporting period. Diluted net loss per share is computed by dividing net loss by the sum of the weighted average number of common shares and the number of potential dilutive common share equivalents outstanding during the period. Potential dilutive common share equivalents consist of the incremental common shares issuable upon the exercise of vested share options and the incremental shares issuable upon conversion of the convertible notes. Potential additional dilutive common share equivalents consist of warrants, stock options, restricted stock units ("RSUs") and restricted stock awards.

In computing diluted earnings per share, common share equivalents are not considered in periods in which a net loss is reported, as the inclusion of the common share equivalents would be anti-dilutive. As of September 30, 2020, there were 13,141,298 common share equivalents with potential dilutive impact (September 30, 2019 – 8,043,920). Because the Company is in a net loss for all periods presented in these financial statements, there is no difference between the Company's basic and diluted net loss per share for the periods presented.

New accounting pronouncements not yet adopted

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for the Company beginning January 1, 2021. The Company is currently evaluating the effect of adopting this ASU.

In January 2020, the FASB issued ASU 2020-01, Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) ("ASU 2020-01"), which is intended to clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. ASU 2020-01 is effective for the Company beginning January 1, 2021. The Company is currently evaluating the effect of adopting this ASU.

In August 2020, the FASB issued ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity ("ASU 2020-06"), which is intended to address issues identified as a result of the complexity associated with applying generally accepted accounting principles (GAAP) for certain financial instruments with characteristics of liabilities and equity. ASU 2020-06 is effective for the Company beginning January 1, 2022. The Company is currently evaluating the effect of adopting this ASU.

2. Assets held for sale

On May 26, 2020, the Company announced its decision to close its High Park Gardens facility, a wholly-owned subsidiary of the Company based in Leamington, Ontario in response to its anticipated future product needs and the current economic climate. The Company concluded that the assets attributable to High Park Gardens, which are expected to be sold to a third-party within twelve months, met the criteria for classification as assets held for sale as of September 30, 2020.

As a result of the Company's decision to close this facility, the Company recognized impairment charges of $25,051 recorded to impairment of assets within the statements of net loss and comprehensive loss to adjust the fair value, less costs to sell, of the assets classified as held for sale. This included impairment charges of $13,616 relating to land and buildings (refer to Note 8), $10,239 relating to the write-down to nil of its cultivation license (refer to Note 10) and $1,196 relating to foreign currency translation adjustments.

The disposal group is included in the Company's cannabis segment. The carrying amount of major classes of assets comprising the disposal group classified as held for sale are as follows:

		As of September 30, 2020
Assets classified as held for sale		
Land and buildings	$	6,797
Cultivation license		—
Total assets held for sale	$	6,797

The following table provides summary pretax (loss) income for the High Park Gardens facility, which are included in continuing operations for their respective periods:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Pre-tax (loss) income	$ (642)	$ 119	$ (28,335)	$ (396)

Pretax loss for the nine months ended September 30, 2020 includes impairment charges of $25,051.

3. ABG Profit Participation Arrangement

The Company entered into a Profit Participation Arrangement ("ABG Arrangement") with ABG Intermediate Holdings 2, LLC ("ABG") on January 14, 2019 as described in the Annual Financial Statements.

On January 24, 2020, the Company entered into (i) an Amended and Restated Profit Participation Agreement (the "A&R Profit Participation Agreement") with ABG, which amended and restated in its entirety the Profit Participation Agreement, dated January 14, 2019, and (ii) the First Amendment to Payment Agreement with ABG (the "Payment Agreement Amendment"), which amends the Payment Agreement, dated January 14, 2019. The Company and ABG agreed that Tilray no longer has any obligation to pay the additional consideration with an aggregate value of $83,333 in cash or in shares of Class 2 common stock. In addition, the Company is not entitled to any guaranteed minimum participation rights and beginning January 1, 2020 through December 31, 2028, the Company agreed that it is not entitled to any participation rights until such participation rights with respect to each contract year exceeds $10,000, and in the event the participation rights thresholds are achieved, the Company is entitled to the full 49% participation rights.

As a result of entering into the A&R Profit Participation Agreement and the Payment Agreement Amendment, the Company derecognized the ABG finance receivable, $7,011 of which was recorded to impairment of assets through the statements of net loss and comprehensive loss and $28,900 of which was recorded through accumulated deficit in January 2020.

The Company entered into a Trademark License Agreement with ABG on April 1, 2019 for the use of the Prince trademark ("ABG Prince Agreement"). Under the ABG Prince Agreement, the Company pays a royalty on actual product sales in addition to a guaranteed minimum royalty payment ("GMR") of $500 on April 1, 2019, October 1, 2019, January 1, 2020 and July 1, 2020, with subsequent quarterly payments of $375 commencing January 1, 2021 until the maturity date of December 31, 2025.

4. Inventory

Inventory is comprised of the following items:

	September 30, 2020	December 31, 2019
Raw materials	$ 15,338	$ 15,926
Work-in-process	59,863	53,973
Finished goods	14,716	17,962
Total	$ 89,917	$ 87,861

Inventory is written down for any obsolescence, spoilage and excess inventory or when the net realizable value of inventory is less than the carrying value. Inventory valuation adjustments included in cost of sales on the statements of net loss and comprehensive loss is comprised of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Raw materials	$ 173	$ —	$ 384	$ —
Work-in-process	11,164	201	30,656	726
Finished goods	2,106	—	5,076	—
Total	$ 13,443	$ 201	$ 36,116	$ 726

For the three and nine months ended September 30, 2020, cannabis products were written down by $13,318 and $31,626 (2019 – $124 and $610) and hemp products were written down by $125 and $4,490 (2019 – $77 and $116). In the three and nine months ended September 30, 2020, included in inventory valuation adjustments in cost of sales, $5,157 and $10,090 related to termination of a supply agreement; $4,934 relating to a loss on deposit payments for future purchases of inventory to secure supply (refer to Note 5) and $5,157 of additional termination penalties due to the same supplier. Also included in inventory valuation adjustments in cost of sales for the nine months ended September 30, 2020 is $1,800, relating to the destruction of unharvested flower as a result of the closure of the High Park Gardens facility (refer to Note 2).

5. Prepayments and Other Current Assets

Prepayments and other current assets are comprised of the following items:

	September 30, 2020	December 31, 2019
Deposits	$ 15,325	$ 25,490
Prepayments	6,854	5,847
Taxes receivable	5,975	6,165
ABG finance receivable - current	—	671
Total	$ 28,154	$ 38,173

Deposits include advance payments on future purchases of inventory to secure supply. During the nine months ended September 30, 2020, the Company reached agreement with certain suppliers to terminate supply agreements. As a result, deposits have been written down by $4,934 in the Cannabis segment and were recorded in inventory valuation adjustments in the statements of net loss and comprehensive loss (refer to Note 4).

6. Investments

Other investments

Long-term investments are comprised of the following items:

	September 30, 2020	December 31, 2019
Equity investments at fair value	$ 2,207	$ 4,183
Equity investments under measurement alternative	14,738	14,954
Debt securities classified under available-for-sale method	5,765	5,047
Total other investments	$ 22,710	$ 24,184

Unrealized gains and losses recognized in other expense (income) during the three and nine months ended September 30, 2020 on equity investments still held at September 30, 2020 are losses of $506 and $1,272 (2019 – loss of $274 and gain of $264). There were no impairments or adjustments to equity investments under the measurement alternative for the three and nine months ended September 30, 2020 and September 30, 2019.

The Company's debt securities accounted for under the available-for-sale method consist of convertible debt instruments with contractual maturities in 2022. Total unrealized loss of $148 in accumulated other comprehensive income at September 30, 2020 (December 31, 2019 - $302) relates to the long-term available-for-sale debt securities. The Company's allowance for credit losses on debt securities classified as available-for-sale is $0 at September 30, 2020 (December 31, 2019 – $0) and no related credit loss expenses were recorded during the three and nine months ended September 30, 2020 (2019 – $0 and $0).

Equity method investments

Equity method investments are comprised of the Company's joint venture with Anheuser-Busch InBev ("AB InBev") in Plain Vanilla Research Limited Partnership ("Fluent") and the Company's joint venture with Cannfections Group Inc. ("Cannfections"). As of September 30, 2020, there are no changes to the status of the Company's assessment of its joint ventures.

During the nine months ended September 30, 2020, the Company contributed $2,323 to Fluent (2019 - $10,090). The Company provides production support services to Fluent on a cost recovery basis. For the nine months ended September 30, 2020, total fees charged were $3,109 (2019 - $0). Total amounts included in accounts payable is $441 at September 30, 2020 (December 31, 2019 – accounts receivable of $388). At September 30, 2020, the maximum exposure to loss is limited to the Company's equity investment in Fluent.

During the nine months ended September 30, 2020, the Company made no capital contributions to Cannfections (2019 - $3,600). At September 30, 2020, the maximum exposure to loss is limited to the Company's equity investment in Cannfections.

The Company's ownership interests in its equity method investments as of September 30, 2020 and December 31, 2019 and (loss) gain from equity method investments for the nine months ended September 30, 2020 were as follows:

	Approximate ownership %	Carrying value September 30, 2020	(Loss) gain from equity method investments for the nine months ended September 30, 2020
Investment in Fluent	50%	$ 5,147	$ (4,725)
Investment in Cannfections	50%	3,764	230
Total equity method investments		$ 8,911	$ (4,495)

	Approximate ownership %	Carrying value December 31, 2019	(Loss) gain from equity method investments for the nine months ended September 30, 2019
Investment in Fluent	50%	$ 7,836	$ (1,837)
Investment in Cannfections	50%	3,612	—
Total equity method investments		$ 11,448	$ (1,837)

Summary financial information for the Company's equity method investments on an aggregate basis is as follows:

	September 30, 2020	December 31, 2019
Current assets	$ 12,346	$ 13,942
Noncurrent assets	$ 5,205	$ 4,987
Current liabilities	$ 4,965	$ 1,561
Noncurrent liabilities	$ —	$ —

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Revenue	$ 4,854	$ —
Gross profit	$ 2,032	$ —
Net loss	$ (8,991)	$ (3,160)

7. Allowance for Credit Losses

Accounts receivable

The Company maintains an allowance for credit losses at an amount sufficient to absorb losses inherent in the existing accounts receivable portfolio as of the reporting dates based on the estimate of expected net credit losses. The following table provides activity in the allowance for credit losses for the nine months ended September 30, 2020:

Allowance for credit losses, January 1, 2020	$ 615
Provision for expected credit losses (1)	288
Write-offs charged against allowance	(74)
Recoveries of amounts previously written off	—
Foreign currency translation adjustment	(3)
Allowance for credit losses, September 30, 2020	$ 826
Accounts receivable balance before allowance for credit losses and provision for sales returns, September 30, 2020	$ 26,843

(1) The provision for expected credit losses is recorded in general and administrative expenses.

Available-for-sale debt securities

The Company holds investments in two available-for-sale debt securities, one of which is in an unrealized loss position. The unrealized loss relates to an investment in the convertible debentures of a recreational cannabis company. This investment is deemed not to have a credit loss. The unrealized loss primarily reflects an extended period of general volatility in the cannabis industry, as well as the more recent volatility in the overall economy due to COVID-19. The Company expects to recover the entire amortized cost basis of the security. The Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis. The following table provides the fair value and unrealized loss of the investment at September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
Fair value	$ 1,124	$ 945
Unrealized loss	$ 148	$ 302

8. Property and Equipment, Net

Property and equipment, net consists of the following:

	September 30, 2020	December 31, 2019
Land	$ 6,488	$ 6,417
Buildings and leasehold improvements	108,021	109,172
Laboratory and manufacturing equipment	34,500	31,173
Office and computer equipment	1,779	2,659
Right-of-use assets under finance lease	14,415	14,753
Construction-in-process, not yet available for use	46,551	37,160
	211,754	201,334
Less: accumulated depreciation	(24,124)	(17,117)
Total	$ 187,630	$ 184,217

In connection with the Company's closure of its High Park Gardens facility, the Company determined that the fair value of the land and buildings at the High Park Gardens facility (Level 2) was below its carrying value. The decline in fair value of the land and buildings at the High Park Gardens facility is primarily due to recent sales of similar properties resulting in a lower implied sale price per acre of land and greenhouse space. As a result, the Company incurred non-cash impairment charges of $13,616 presented in impairment of assets in the statements of net loss and comprehensive loss (refer to Note 2).

Refer to Note 18 for contractual commitments related to construction-in-process.

9. Goodwill

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

	Hemp	Cannabis	Total
Balance as of December 31, 2019	$ 133,314	$ 29,937	$ 163,251
Foreign currency translation adjustment	(2,971)	(685)	(3,656)
Balance as of September 30, 2020	$ 130,343	$ 29,252	$ 159,595

Goodwill is tested for impairment annually, or more frequently when events or circumstances indicate that impairment may have occurred. At the end of the first quarter of 2020, the Company determined the hemp reporting unit, representing $130,343 of the $159,595 total goodwill, was at risk of having a carrying value exceeding the fair value. As a result, a quantitative test was performed to determine if impairment exists. In performing the Company's impairment analysis, the fair value of the hemp reporting unit was determined primarily by discounting estimated future cash flows, which were determined based on revenue and expense growth assumptions ranging from 9% to 38%, at a weighted average cost of capital (discount rate) ranging from 10% to 12%. The discounted future cash flow model also made the key assumption that Cannabidiol ("CBD") revenue will commence to build in the third quarter of 2021. The fair value of the hemp reporting unit was determined to exceed the carrying value by $76,998, or 26%, and no impairment was recorded. No triggers have been identified in subsequent quarters to perform additional quantitative tests.

A relatively small change in the underlying assumptions, including a 1% change in the weighted average cost of capital, continued lack of clarity from the Food and Drug Administration regarding approval of CBD, or the financial performance of the reporting unit in future years, may cause a change in the results of the impairment assessment in future periods and, as such, could result in an impairment of goodwill.

10. Intangible Assets

Intangible assets are comprised of the following items:

	September 30, 2020				December 31, 2019			
	Cost	Accumulated Amortization	Impairment	Net	Cost	Accumulated Amortization	Impairment	Net
Definite-lived intangible assets:								
Patent	$ 669	$ 131	$ 538	$ —	$ 716	$ 99	$ —	$ 617
Customer relationships	132,837	13,241	—	119,596	135,953	7,132	—	128,821
Developed technology	6,912	1,094	—	5,818	7,074	590	—	6,484
Websites	5,126	3,921	—	1,205	5,157	3,331	—	1,826
Trademarks and licenses	9,052	1,293	7,650	109	9,135	925	—	8,210
Total	154,596	19,680	8,188	126,728	158,035	12,077	—	145,958
Indefinite-lived intangible assets:								
Cultivation license	10,239	—	10,239	—	10,689	—	—	10,689
Alef license	—	—	—	—	4,086	—	4,086	—
Trademarks	54,125	—	—	54,125	55,416	—	—	55,416
Rights under ABG Profit Participation Arrangement	16,765	—	16,765	—	119,366	—	102,601	16,765
Total	81,129	—	27,004	54,125	189,557	—	106,687	82,870
Total intangible assets	235,725	19,680	35,192	180,853	$ 347,592	$ 12,077	$ 106,687	$ 228,828

In connection with the Company's closure of its High Park Gardens facility, the Company determined that the fair value of the indefinite-lived cultivation license was below carrying value. As a result, the Company incurred non-cash impairment charges of $10,239, representing the full net book value of the cultivation license, presented in impairment of assets in the statements of net loss and comprehensive loss (refer to Note 2).

In connection with the decreased demand projections of CBD products in the United States resulting in a reduced estimate of future cash flows, during the first quarter of 2020 the Company determined that the fair value of indefinite-lived rights under the ABG Profit Participation Arrangement and definite-lived trademarks under the Trademark and License Agreement with ABG for the use of the Prince trademark ("ABG Prince Agreement") were below the carrying value. As a result, the Company incurred non-cash impairment charges of $16,765 and $6,063 representing the full net book values of the intangible assets relating to the ABG Profit Participation Agreement and ABG Prince Agreement respectively, presented in impairment of assets in the statements of net loss and comprehensive loss (refer to Note 3). In June 2020, the Company completed the separation from Smith & Sinclair and recognized additional non-cash impairment charges of $3,320 presented in impairment of assets in the statement of net loss and comprehensive loss, of which $2,126 related to other CBD trademarks and patents.

Amortization expenses for intangibles was $2,765 and $7,603 for the three and nine months ended September 30, 2020 (2019 – $2,529 and $6,131). Expected future amortization expenses for intangible assets as at September 30, 2020 are as follows:

Year ending December 31,		Amortization
2020 (remaining three months)	$	2,522
2021		9,801
2022		9,306
2023		9,078
2024		9,078
Thereafter		86,943
Total	$	126,728

11. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities are comprised of the following items:

	September 30, 2020		December 31, 2019	
Accrued interest on convertible notes	$	11,875	$	5,938
Accrued payroll and employment related withholding taxes		10,709		24,765
Other accrued expenses and current liabilities		8,031		17,032
ABG finance liability - current		1,125		1,500
Accrued interest on Senior Facility		422		—
Accrued legal and professional fees		364		1,174
Contingent consideration for acquisitions		—		420
Total accrued expenses and other current liabilities	$	32,526	$	50,829

During the nine months ended September 30, 2020, the Company reduced its employee headcount in portions of its global organization to meet the needs of the current industry environment. During the three and nine months ended September 30, 2020, the Company incurred $239 and $3,576, respectively (2019 – $0 and $0), in severance costs, of which $133 and $3,128 is included in salaries within general and administrative expenses and $106 and $448 is included in cost of sales. During the three and nine months ended September 30, 2020, severance costs of $239 and $2,432 are allocated to the cannabis reportable segment and $0 and $1,144 are allocated to the hemp reportable segment. Management continues to evaluate its cost structure and may take further actions in the future and incur additional related costs. The following table shows the reconciliation of the severance costs included within the accrued payroll and employment related withholding taxes balance above, relating to scheduled benefit payments which were communicated to employees prior to September 30, 2020:

Opening Balance as of January 1, 2020	$	—
Additional charges		3,575
Less payments made to employees		(3,393)
Closing Balance as of September 30, 2020	$	182

12. Convertible Notes

The Company has convertible senior notes with a face value of $475,000. As of September 30, 2020, the convertible notes are not yet convertible and the Company is in compliance with all covenants.

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

	September 30, 2020		December 31, 2019	
5.00% Convertible Notes	$	475,000	$	475,000
Unamortized discount		(28,133)		(34,219)
Unamortized transaction costs		(8,713)		(10,571)
Net carrying amount	$	438,154	$	430,210

The following table sets forth total interest expense recognized related to the convertible notes:

	Three months ended September 30,				Nine months ended September 30,			
	2020		2019		2020		2019	
Contractual coupon interest	$	5,938	$	5,938	$	17,813	$	17,813
Amortization of discount		2,059		1,969		6,087		5,790
Amortization of transaction costs		641		614		1,857		1,826
Total	$	8,638	$	8,521	$	25,757	$	25,429

13. Senior Facility

On February 28, 2020, High Park Holdings Ltd., a wholly owned subsidiary of the Company (the "Borrower") entered into a credit agreement, denominated in Canadian dollars ("C$"), for a senior secured credit facility in a maximum aggregate principal amount of $59,600 (C$79,800) (the "Senior Facility"). An aggregate principal amount equal to $49,700 (C$66,500) was drawn on February 28, 2020 (the "Closing Date Draw") and the Company submitted an irrevocable 30 day notice on May 4, 2020 to draw an additional $9,900 (C$13,300) (the "Additional Draw").

On June 5, 2020, as a result of COVID-19 related financial markets conditions that affected the lender of the Senior Facility, and not because of any material changes to the business of Tilray or its subsidiaries, the lender requested that Tilray withdraw its outstanding request for the Additional Draw of $9,900 (C$13,300) under the Senior Facility. In exchange for the Company's accommodation of the lender's request to withdraw its funding request, the lender agreed to enter into the First Amendment of the Senior Facility (the "Amendment"). The Amendment provides for interest-only payments for the remainder of its term with all outstanding principal payments due at February 28, 2022. This will result in an aggregate balance of $47,355 (C$64,283) due at February 28, 2022. Additionally, and at such time as the lender's business may allow, the lender may make the additional proceeds of $9,900 (C$13,300) available, at its sole discretion.

Concurrently, with the Amendment, the lender also approved the Company's ability to sell the High Park Gardens facility, which is classified as assets held for sale (refer to Note 2), if and when Tilray so desires. As part of any sale of the High Park Gardens facility, the lender has agreed that the Company may retain 60% of any sales proceeds (net of all expenses, fees and taxes), and that the lender will receive 40% of all sales proceeds (net of all expenses, fees and taxes). All sales proceeds to the lender will be applied as a repayment of principal on the Senior Facility without any prepayment penalties or fees. The sale of the High Park Gardens facility is expected to be completed within the next twelve months. The Amendment did not meet the accounting criteria for debt extinguishment.

The Senior Facility bears interest on the outstanding principal balance at an annual rate equal to the Canadian prime rate plus 8.05%, calculated based on the daily outstanding balance of the Senior Facility calculated and compounded monthly in arrears and with no deemed reinvestment of monthly payments. Interest is due monthly throughout the term. The Company has the option to voluntarily prepay, without penalty, the outstanding amounts, in full or in part, at any time starting 6 months from the closing date subsequent to providing 75 days' notice.

Transaction costs incurred on the Closing Date Draw were $3,306 (C$4,425). There were no fees incurred associated with the Amendment. Transaction costs are deferred and amortized as a component of interest expense over the estimated term using the effective interest rate method. On June 29, 2020, the lender notified the Company that it had exercised its unilateral right to syndicate $19,153 (C$26,000) of the Company's Senior Facility in the aggregate principal amount of $59,600 (C$79,800). The Senior Facility's terms otherwise remain unchanged.

The Senior Facility has first priority claims on all North American assets of the Company and contains certain affirmative and negative covenants. The operational covenant includes a minimum unrestricted cash threshold of $29,466 (C$40,000) in order for the Company to make additional capital expenditures and investments. The Senior Facility is collateralized against all real and personal property owned, leased and operated by the Company in North America, and any and all other property of the Company now existing and acquired in North America after the closing date. As of September 30, 2020, the Company was in compliance with all covenants set forth under the Senior Facility.

The following table sets forth the net carrying amount of the Senior Facility:

	September 30, 2020
Senior Facility	$ 48,299
Unamortized transaction costs	(2,355)
Net carrying amount	$ 45,944
Less: current portion of Senior Facility	—
Total noncurrent portion of Senior Facility	$ 45,944

The following table sets forth total interest expense recognized related to the Senior Facility:

	Three months ended September 30, 2020	Nine months ended September 30, 2020
Contractual interest at Canadian prime plus 8.05%	$ 1,260	$ 2,970
Amortization of transaction costs	407	943
Total	$ 1,667	$ 3,913

14. Registered Offering and Warrants

On March 17, 2020, the Company closed a registered offering of 7,250,000 shares of the Company's Class 2 common stock for $4.76 per share with an equal number of accompanying warrants and 11,750,000 pre-funded warrants for $4.7599 (the "pre-funded warrants") with an equal number of accompanying warrants. The pre-funded warrants had an exercise price per share of Class 2 common stock of $0.0001 and were exercisable at any time after their original issuance and expire on the fifth anniversary date of issuance. As of September 30, 2020, all pre-funded warrants have been exercised. The 19,000,000 total accompanying warrants (the "warrants") allow the holders to purchase an aggregate of 19,000,000 shares of the Company's Class 2 common stock. The warrants have an exercise price per share of Class 2 common stock of $5.95 and are exercisable at any time after the first trading day following the six-month anniversary of the issuance and will expire on the fifth anniversary date from the date they become exercisable. As of September 30, 2020, the warrants remain outstanding.

The total gross proceeds of the registered offering were $90,439, of which $21,025 was allocated to the Class 2 common stock at the offering close and $69,414 was allocated to the warrant liability. Issuance costs incurred on the registered offering were $5,150, of which $3,953 was recorded to other expenses (income) in the statements of net loss and comprehensive loss and $1,197 was allocated to the Class 2 common stock and recorded net against the allocated gross proceeds in additional paid-in-capital.

The warrants contain anti-dilution price protection features, which adjust the exercise price of the warrants if the Company subsequently issues Class 2 common stock at a price lower than the exercise price of the warrants. In the event additional warrants or convertible debt are issued with a lower and/or variable exercise price, the exercise price of the warrants will be adjusted accordingly. There were no triggering events during the three and nine months ended September 30, 2020. The Company received stockholder approval of the anti-dilution price protection feature at the Company's Annual Meeting on May 28, 2020.

The Company's warrants are classified as liabilities as they are to be settled in registered shares, and the registration statement is required to be active, unless such shares may be subject to an applicable exemption from registration requirements. The holders, at their sole discretion, may elect to effect a cashless exercise, and be issued exempt securities in accordance with Section 3(a)(9) of the 1933 Act. In the event the Company does not maintain an effective registration statement, the Company may be required to pay a daily cash penalty equal to 1% of the number of shares of Class 2 common stock due to be issued multiplied by any trading price of the Class 2 common stock between the exercise date and the share delivery date, as selected by the holder. Alternatively, the Company may deliver registered Class 2 common stock purchased by the Company in the open market. The Company may also be required to pay cash if it does not have sufficient authorized shares to deliver to the holders upon exercise.

Pre-funded warrants and warrants outstanding at September 30, 2020, and related activity for the nine months ended September 30, 2020 is as follows (reflects the number of shares of Class 2 common stock as if the warrants were converted to Class 2 common stock):

Description	Classification	Exercise price	Expiration date	Balance December 31, 2019	Issued	Exercised	Balance September 30, 2020
Pre-Funded Warrants	Liability	$ 0.0001	March 17, 2025	—	11,750,000	(11,750,000)	—
Warrants	Liability	$ 5.95	March 17, 2025	—	19,000,000	—	19,000,000
			Total	—	30,750,000	(11,750,000)	19,000,000

The Company estimated the fair value of the Warrant liability at September 30, 2020 at $3.76 per warrant using the Monte Carlo pricing model (Level 3) with the following weighted-average assumptions:

Risk-free interest rate	0.35%
Expected volatility	100%
Expected term	5 years
Expected dividend yield	0%
Strike price	$ 5.95
Fair value of common stock	$ 4.85

Expected volatility is based on the historical volatility of the Company's common stock since its initial public offering in 2018.

15. Stockholders' Equity

Common and 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, 2020. 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 the Company's earnings and losses.

	Par Value	Authorized	Voting Rights
Class 1 common stock	$ 0.0001	233,333,333	10 votes for each share
Class 2 common stock	$ 0.0001	500,000,000	1 vote for each share
Preferred stock	$ 0.0001	10,000,000	N/A

On March 17, 2020, the Company closed the registered offering, issuing 7,250,000 shares of the Company's Class 2 common stock along with pre-funded warrants and warrants (refer to Note 14). During the period from the close of the registered offering and March 31, 2020, all pre-funded warrants were exercised at a price per share of $0.0001 and the Company issued 11,750,000 shares of Class 2 common stock (refer to Note 14).

During the three and nine months ended September 30, 2020, the Company issued 6,781,090 and 9,493,494 shares of Class 2 common stock for gross proceeds of $46,153 and $76,999, respectively, under the at-the-market equity offering. Transaction costs of $1,540 were recorded net against the allocated gross proceeds in additional paid-in-capital. The warrants' anti-dilution price protection features allow, for the period the warrants are outstanding, the Company to only issue up to $20,000 in aggregate gross proceeds under the Company's at-the-market offering program at prices less than the exercise price of the warrants, and in no event more than $6,000 per quarter, at prices below the exercise price of the warrants, without triggering the warrant's anti-dilution price protection features.

The Company's future ability to pay cash dividends on Class 2 common stock is limited by the terms of the Senior Facility and cannot be paid without the consent of the lender.

On September 30, 2020, 13,159,762 shares of Class 1 common stock, constituting all of the shares of Class 1 common stock that were issued and outstanding, were automatically converted into shares of Class 2 common stock, as the Class 1 common stock ceased to represent at least 10% of the outstanding common stock. Prior to the conversion, the Company had authorized 250,000,000 shares of Class 1 common stock. Upon conversion, 16,666,667 were retired, leaving 233,333,333 shares authorized, par value $0.0001 per share. There are no shares of Class 1 common stock outstanding as of September 30, 2020.

16. Stock-based Compensation

Original Stock Option Plan

Certain employees of the Company participated in the equity-based compensation plan of Privateer Holdings, Inc. (the "Original Plan") under the terms and valuation method detailed in the Company's annual financial statements. For the three and nine months ended September 30, 2020, the total stock-based compensation expense associated with the Original Plan was $114 and $410 (2019 – $143 and $411). As of September 30, 2020, the total remaining unrecognized stock-based compensation expense related to non-vested stock options under the Original Plan amounted to $375 which will be recognized over the weighted-average remaining requisite service period of approximately 0.8 years.

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, 2019	3,014,004	$ 3.04	5.8	$ 44,108
Exercised	(528,261)	1.15		
Forfeited	(62,153)	4.44		
Cancelled	(125,999)	3.30		
Balance September 30, 2020	2,297,591	$ 3.38	3.8	$ 32,717
Vested and expected to vest, September 30, 2020	2,299,283	$ 3.37	3.8	$ 32,742
Vested and exercisable, September 30, 2020	2,198,632	$ 3.22	3.7	$ 31,750

No stock options were granted under the Original Plan during the nine months ended September 30, 2020 and September 30, 2019. The total fair value of stock options vested as of September 30, 2020 was $118 (December 31, 2019 – $2,789).

New Stock Option and Restricted Stock Unit Plan

The number of shares of Class 2 common stock reserved for issuance under the 2018 Equity Incentive Plan (the "2018 EIP") automatically increases on January 1 of each calendar year, for a period of not more than ten years, starting on January 1, 2019 and ending on and including January 1, 2027, in an amount equal to 4% of the total number of shares of the Company's common stock outstanding on December 31 of the prior calendar year, or a lesser number of shares determined by the Company's Board of Directors. The shares reserved include only the outstanding shares related to stock options and RSUs and excludes stock options outstanding under the Original Plan. The number of shares reserved for issuance under the 2018 EIP is 17,037,421, effective as of January 1, 2020 (December 31, 2019 – 12,926,172). For the three and nine months ended September 30, 2020, total stock-based compensation expense associated with the 2018 EIP was $7,966 and $22,994 (2019 - $8,501 and $21,892). As of September 30, 2020, the total remaining unrecognized stock-based compensation expense related to non-vested stock options and restricted stock units ("RSUs") under the 2018 EIP amounted to $40,805 which will be recognized over the weighted average remaining requisite service period of approximately 1.03 years.

Stock option and RSU activity under the 2018 EIP 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, 2019	5,307,130	$ 14.04	8.4	$ 44,297
Granted	—	—		
Exercised	(286,948)	7.76		
Forfeited	(245,222)	13.93		
Cancelled	(193,127)	13.11		
Balance September 30, 2020	4,581,833	$ 14.48	7.6	$ —
Vested and expected to vest, September 30, 2020	4,511,481	$ 14.32	7.5	$ —
Vested and exercisable, September 30, 2020	3,276,183	$ 12.47	7.6	$ —

During the nine months ended September 30, 2020, no time-based stock options were granted under the 2018 EIP (2019 – 10,000). The weighted-average fair values of stock options granted during the nine months ended September 30, 2020 was $0 per share (2019 – $12.01). The total fair value of stock options vested as of September 30, 2020 was $31,299 (December 31, 2019 – $16,708).

Performance-based stock option activity

	Stock options	Weighted-average exercise price	Weighted-average remaining contractual term (years)	Aggregate intrinsic value
Balance December 31, 2019	520,000	$ 7.76	8.4	$ 4,872
Granted	—	—		—
Exercised	(320,000)	7.76		
Forfeited	—	—		—
Cancelled	—	—		—
Balance September 30, 2020	200,000	$ 7.76	7.6	$ —
Vested and expected to vest, September 30, 2020	200,000	$ 7.76	7.6	$ —
Vested and exercisable, September 30, 2020	200,000	$ 7.76	7.6	$ —

No performance-based stock options were granted under the 2018 EIP during the nine months ended September 30, 2020 and September 30, 2019. The total fair value of stock options vested as of September 30, 2020 was $0 (December 31, 2019– $1,246).

Time-based RSU activity

	Time-based RSUs	Weighted-average grant-date fair value per share
Non-vested December 31, 2019	1,423,392	$ 42.05
Granted	2,024,334	8.67
Vested	(396,051)	45.32
Forfeited	(785,641)	27.88
Cancelled	(17,711)	31.31
Non-vested September 30, 2020	2,248,323	$ 16.46

During the nine months ended September 30, 2020, 2,024,334 (2019 – 944,616) time-based RSUs were granted. During the nine months ended September 30, 2020, 396,051 (2019 – 54,635) time-based RSUs vested.

Performance-based RSUs activity

	Performance-based RSUs	Weighted-average grant-date fair value per share
Non-vested December 31, 2019	265,625	$ 7.76
Granted	448,230	7.05
Vested	(159,375)	7.76
Non-vested September 30, 2020	554,480	$ 7.19

448,230 performance-based RSUs were granted during the nine months ended September 30, 2020 (2019 – none). During the nine months ended September 30, 2020, 159,375 (2019 – 731,250) performance-based RSUs vested.

17. Accumulated Other Comprehensive Income (Loss) ("AOCI")

The components of AOCI, net of tax, were as follows:

	Foreign Currency Translation Adjustments	Unrealized (loss) gain on available-for-sale debt securities	Total
Balance as at December 31, 2019	$ 10,021	$ (302)	$ 9,719
Other comprehensive loss:			
Change in foreign currency translation	(16,633)	—	(16,633)
Change in unrealized (losses)/ gains on available-for-sale debt securities	—	(74)	(74)
Balance as at March 31, 2020	$ (6,612)	$ (376)	$ (6,988)
Other comprehensive loss:			
Change in foreign currency translation	7,184	—	7,184
Change in unrealized gains on available-for-sale debt securities	—	35	35
Balance as at June 30, 2020	$ 572	$ (341)	$ 231
Other comprehensive loss:			
Change in foreign currency translation	2,265	—	2,265
Change in unrealized gains on available-for-sale debt securities	—	193	193
Balance as at September 30, 2020	$ 2,837	$ (148)	$ 2,689

18. Commitments and Contingencies

Legal proceedings

In the normal course of business, the Company may become involved in legal disputes regarding various litigation matters. The Company records a loss contingency if the information available indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. As of September 30, 2020, in the opinion of management, no claims meet the criteria to record a loss contingency.

Lease commitments

The Company leases various facilities, under non-cancelable finance and operating leases, which expire at various dates through September 2027.

Maturities of lease liabilities:

Year ending December 31,	Operating Leases	Finance Leases
2020 (remaining three months)	$ 941	$ 235
2021	3,576	950
2022	3,019	5,389
2023	2,911	11,128
2024	2,489	—
Thereafter	8,049	—
Total lease payments	$ 20,985	$ 17,702
Imputed interest	2,175	3,207
Obligations recognized	$ 18,810	$ 14,495

Purchase commitments

The following table reflects the Company's future non-cancellable minimum purchase commitments for inventory as of September 30, 2020:

	Total	2020 (remaining three months)	2021	2022	2023	2024	Thereafter
Purchase commitments	$ 99,993	$ 69,732	$ 30,185	$ 38	$ 38	$ —	$ —
Total	$ 99,993	$ 69,732	$ 30,185	$ 38	$ 38	$ —	$ —

In 2018, the Company signed an agreement with Rose Lifescience Inc. ("Rose") for distribution and marketing of product in Quebec in exchange for a minimum fee of $384 per annum for an initial term of five years, and agreed to purchase the lesser of 2,000 Kg per year or 40% of the production of Cannabis at a rate of 115% of cost of goods sold from the Rose facility. In September 2020, the Company signed an amendment to this agreement and the estimated compensation fee is approximately $10,350 through 2023. As there is no firm commision fee commitment, it is excluded from the above schedule. Compensation fee expense is recorded as incurred.

In 2018, the Company entered into a Product and Trademark License Agreement with Docklight LLC, a related party (refer to Note 22), to use certain intellectual property rights in exchange for payment of royalty depending upon specified percentage of licensed product net sales. As the purchase commitment is an undeterminable variable amount, it is excluded from the above schedule.

Other commitments

The Company has payments on the ABG finance liability (refer to Note 11), convertible notes (refer to Note 12) and the Senior Facility (refer to Note 13) as follows:

	Total	2020 (remaining three months)	2021	2022	2023	2024	Thereafter
ABG finance liability	$ 7,500	$ —	$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500
Convertible notes, principal and interest	546,251	5,938	23,750	23,750	492,813	—	—
Senior Facility, principal and interest	55,483	1,268	5,071	49,144	—	—	—
Portugal construction commitments	4,927	4,927					
Total	$ 614,161	$ 12,133	$ 30,321	$ 74,394	$ 494,313	$ 1,500	$ 1,500

19. Revenue from Contracts with Customers

The Company reports two segments: cannabis and hemp, in accordance with ASC 280 Segment Reporting. The Company generates revenues from the cannabis and hemp segments through contracts with customers, each with a single performance obligation, being the sale of products. The Company determines that revenue information disclosed in business segment information in Note 25 disaggregates revenue into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

For certain long-term arrangements, the Company has performance obligations for goods it has not yet delivered. For these arrangements, the Company does not have a right to bill for the undelivered goods. The Company has determined that any unbilled consideration relates entirely to the value of undelivered goods. Accordingly, the Company has not recognized revenue, and has elected not to disclose amounts, related to these undelivered goods. As of September 30, 2020 and December 31, 2019, other than accounts receivable, net of allowance for credit losses and provision for sales returns, the Company has no contract balances in the balance sheets.

20. General and Administrative Expenses

General and administrative expenses are comprised of the following items:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Salaries	$ 8,323	$ 8,637	$ 24,365	$ 22,289
Other expenses	2,367	4,261	12,803	10,651
Professional fees	1,407	6,051	9,750	12,716
Loss on disposal of property and equipment	457	—	885	112
Travel expenses	132	1,448	939	3,330
Credit loss (recovery) expenses	(21)	(275)	288	520
Total	$ 12,665	$ 20,122	$ 49,030	$ 49,618

21. Supplemental Cash Flow Information

	Nine months ended September 30,	
	2020	2019
Cash paid for interest	$ 10,367	$ 17,613
Cash paid for income taxes	$ 272	$ —
Non-cash investing		
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

	Nine months ended September 30,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 2,672	$ 1,524
Operating cash flows from finance leases	$ 445	$ —
Financing cash flows from finance leases	$ 309	$ —
Non-cash additions to Right-of-use assets and lease liabilities		
Operating leases	$ 423	$ 14,897
Finance leases	$ —	$ —

22. Related Party Transactions

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

Leafly Holdings, Inc. ("Leafly")

The Company has an agreement with Leafly providing for data licensing activities. During the three and nine months ended September 30, 2020, operational expenses of $5 and $134 was recorded within general and administrative expenses in the statements of net loss and comprehensive loss (2019 - $130 and $149).

Docklight LLC ("Docklight")

The Company pays Docklight a royalty fee pursuant to a brand licensing agreement which provides the Company with exclusive rights in Canada for the use of certain adult-use brands. During the three and nine months ended September 30, 2020, royalty fees of $331 and $748 were recorded within general and administrative expenses in the statements of net loss and comprehensive loss (2019 - $44 and $176). Refer to Note 18 for purchase commitments with Docklight.

Ten Eleven Management LLC ("Ten Eleven")

In January 2020, the Company entered into a corporate services agreement with Ten Eleven Management LLC ("Ten Eleven"), pursuant to which Ten Eleven provides the Company with certain general administrative and corporate services for a service fee. This agreement was terminated in April 2020. In August 2020, the Company entered into a corporate services agreement with Ten Eleven pursuant to which Ten Eleven provides the Company with certain accounting services for a service fee. This agreement was terminated in October 2020. During the three and nine months ended September 30, 2020, management services of $- and $71 was recorded within general and administrative expenses in the statements of net loss and comprehensive loss (2019 - $75 and $200).

The Company sub-leases a portion of certain office space to Ten Eleven. Ten Eleven's lease payments are based on the pro-rata share of space that they occupy, with annual lease payments of $470. The sub-lease was terminated in May 2020. For the three and nine months ended September 30, 2020, $- and $196 of sublease income is recorded in other income, net (2019 - $115 and $192).

Fluent and Cannfections

The Company has joint venture arrangements with a 50% ownership and voting interest in each of Fluent and Cannfections. Refer to Note 6 for details over transactions with these entities for the nine months ended September 30, 2020.

Aircraft Time Share Reimbursement

The Company had entered into an aircraft time-share agreement and a lease consent and subordination agreement with Brendan Kennedy, our Chief Executive Officer, whereby the Company had access to and use of an aircraft owned by Mr. Kennedy on an as-needed basis for business purposes. Pursuant to this arrangement, the Company reimbursed Mr. Kennedy for certain related aircraft expenses. During the three and nine months ended September 30, 2020, the Company incurred $0 and $261 of fees which is included in general and administrative expenses (2019 – $0 and $0).

Accounts payable due to related parties

At September 30, 2020, the Company has accounts payable due to related parties of $141 (December 31, 2019 - $68).

23. 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 and accounts receivable.

The Company's cash and cash equivalents are deposited in major financial institutions in Canada, Australia, Portugal, Germany 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 credit losses as necessary (refer to Note 7).

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

Foreign currency risk

The Company conducts its business in several countries and in a variety of currencies, the most significant of which are the Canadian dollar and Euro. Consequently, the Company is exposed to foreign currency risk. A significant portion of the Company's assets, liabilities, 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 $23,578 as of September 30, 2020, with a corresponding impact to accumulated other comprehensive income (loss). The Company is also exposed to risk related to changes in the value of the Euro due to its construction commitment in Portugal.

Interest rate risk

The Company's exposure to changes in interest rates relates primarily to the Company's outsanding debt. The Company is exposed to changes to the Canadian prime rate as the Senior Facility bears interest based on the Canadian prime rate plus 8.05%. The convertible notes bear interest at a fixed rate of 5% and are not publicly traded and, therefore, are not affected by changes in the market interest rates. A 1% change in the Canadian prime rate would have an impact of $127 and $295 to the statements of net loss and comprehensive loss for the three and nine months ended September 30, 2020.

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, 2020, the most significant financial liabilities are accounts payable, accrued expenses and other current liabilities, convertible notes and the Senior Facility.

24. 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 tables present information about the Company's assets that are measured at fair value on a recurring basis as of September 30, 2020 and December 31, 2019 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
As of September 30, 2020				
Investments				
Equity investments measured at fair value	$ 2,207	$ —	$ —	$ 2,207
Debt securities classified as available-for-sale	844	—	4,921	5,765
Warrant liability	—	—	(71,636)	(71,636)
Total recurring fair value measurements	$ 3,051	$ —	$ (66,715)	$ (63,664)

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
As of December 31, 2019				
Investments				
Equity investments measured at fair value	$ 4,183	$ —	$ —	$ 4,183
Debt securities classified as available-for-sale	727	—	4,320	5,047
Acquisition-related contingent consideration	—	—	(420)	(420)
Total recurring fair value measurements	$ 4,910	$ —	$ 3,900	$ 8,810

Items measured at fair value on a recurring basis

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

Debt securities classified as available-for-sale and equity investments recorded at fair value: The estimated fair value is determined using quoted market prices, broker or dealer quotations or discounted cash flows.

Warrant liability: The warrants associated with the warrant liability are classified as Level 3 derivatives. Consequently, the estimated fair value of the warrant liability is determined using the Monte Carlo pricing model (refer to Note 14). Until the warrants are exercised, expire, or other facts and circumstances lead the warrant liability to be reclassified to stockholders’ equity, the warrant liability (which relates to warrants to purchase shares of Class 2 common stock) is marked-to-market each reporting period with the change in fair value recorded in change in fair value of warrant liability,. Any significant adjustments to the unobservable inputs disclosed in the table below would have a direct impact on the fair value of the warrant liability.

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

	Debt securities classified as available-for-sale	Warrant liability
Opening balance as at December 31, 2019	$ 4,320	$ —
Additions and settlements		
Additions	—	(69,414)
Exercise	—	49,053
Total gains or losses for the period:	—	—
Included in net loss	—	—
Interest expenses, net	601	—
Change in fair value of warrant liability	—	(51,275)
Impairment of assets	—	—
Foreign currency translation loss, net	—	—
Closing balance as at September 30, 2020	$ 4,921	$ (71,636)

	Quantitative information about Level 3 fair value measurements			
	Fair value at September 30, 2020	Valuation technique	Unobservable input	Range (weighted average)
Debt securities classified as available-for-sale	$ 4,921	Discounted cash flow	Discount rate Probability of conversion/ prepayment Probability of default	16.5% nil nil
Warrant liability	$ (71,636)	Monte Carlo	Volatility Expected life	100% 0.2 years to 5 years (2.4 years)

Items measured at fair value on a non-recurring basis

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

Land and buildings (held for sale): The Company used a third-party real estate agent to assist management in its determination of the fair value of the assets held for sale at the High Park Gardens facility. Management, in its determination of the fair value of the assets held for sale reviewed market data from recent sales of similar properties to determine an implied sale price per acre of land and greenhouse space and wrote-down the carrying value of the land and greenhouse space held for sale to the estimated fair value less selling costs.

In connection with an evaluation of such assets during the nine months ended September 30, 2020, the carrying values of the land and buildings at the High Park Gardens facility (Level 2), ABG finance receivable and certain intangible assets (Level 3) were concluded to exceed their fair values. As a result, the Company recorded impairment charges that incorporates fair value measurements based on Level 2 (refer to Note 2) and Level 3 inputs (refer to Note 3, Note 8 and Note 10).

The estimated fair value of cash and cash equivalents, accounts receivable, net, accounts payable, accrued expenses and other current liabilities, convertible notes and Senior Facility at September 30, 2020 (December 31, 2019 – the fair value of all aforementioned, except the Senior Facility which was entered into in 2020) approximate their carrying value.

25. Business Segment Information

The Company has two operating segments based on major product categories: cannabis and hemp. These operating segments are also the Company's reportable segments.

The cannabis segment cultivates, processes and distributes medical and adult-use cannabis products in a variety of formats, as well as related accessories, on a global basis. The hemp segment processes and distributes a diverse portfolio of hemp-based natural and organic food and wellness products on a global basis.

The results of each segment are regularly reviewed by the Company's Chief Executive Officer, who is the Company's chief operating decision maker, to assess the performance of the segment and make decisions regarding the allocation of resources. The Company's chief operating decision maker uses revenue and gross profit as the measure of segment profit or loss. The accounting policies of each segment are the same as those set out under the summary of significant accounting policies in Note 1. There are no intersegment sales or transfers.

The comparative three and nine months ended September 30, 2019 have been recast to reflect to the current segment structure.

	Three months ended September 30,				Nine months ended September 30,			
	2020		2019		2020		2019	
	Revenue	Gross profit / (loss)	Revenue	Gross profit	Revenue	Gross profit / (loss)	Revenue	Gross profit
Cannabis	$ 31,426	$ (4,717)	$ 35,451	$ 9,225	$ 92,373	$ (13,863)	$ 78,876	$ 16,213
Hemp	$ 19,980	$ 8,456	$ 15,650	$ 6,628	$ 61,549	$ 23,053	$ 41,167	$ 17,298
Total	$ 51,406	$ 3,739	$ 51,101	$ 15,853	$ 153,922	$ 9,190	$ 120,043	$ 33,511

No asset information is provided for the segments because the Company's chief operating decision maker does not review this information by segment on a regular basis.

Total revenue and gross profit for the reportable segments is equal to the Company's consolidated revenue and gross profit.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Gross profit for the segments	$ 3,739	$ 15,853	$ 9,190	$ 33,511
General and administrative expenses	12,665	20,122	49,030	49,618
Sales and marketing expenses	10,000	16,974	40,709	39,161
Research and development expenses	921	2,315	2,831	4,891
Depreciation and amortization expenses	3,425	3,200	10,353	7,457
Stock-based compensation expenses	8,080	8,644	23,404	22,303
Impairment of assets	—	—	58,210	—
Acquisition-related expenses (income), net	—	(13,454)	—	(6,566)
Loss from equity method investments	1,420	1,837	4,495	1,837
Foreign exchange (gain) loss, net	(9,319)	2,585	5,424	1,153
Change in fair value of warrant liability	(31,913)	—	51,275	—
Interest expenses, net	10,437	8,680	30,147	26,005
Finance income from ABG	—	(210)	—	(557)
Other expense (income), net	(38)	(1,116)	4,944	(6,185)
Loss before income taxes	$ (1,939)	$ (33,724)	$ (271,632)	$ (105,606)

Sources of revenue were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Dried cannabis	$ 21,079	$ 29,412	$ 61,339	$ 62,214
Cannabis extracts	10,239	5,819	30,246	16,172
Hemp products	19,980	15,650	61,549	41,167
Accessories and other	108	220	788	490
Total	$ 51,406	$ 51,101	$ 153,922	$ 120,043

Channels of revenue were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Cannabis				
Adult-use	$ 19,926	$ 15,835	$ 58,466	$ 38,758
Canada - medical	3,399	3,898	11,285	9,222
International - medical	8,101	5,708	22,220	9,370
Bulk	—	10,010	402	21,526
Total Cannabis revenue	$ 31,426	$ 35,451	$ 92,373	$ 78,876
Hemp	19,980	15,650	61,549	41,167
Total	$ 51,406	$ 51,101	$ 153,922	$ 120,043

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,	
	2020	2019	2020	2019
Canada	$ 29,475	$ 33,585	$ 86,807	$ 81,138
United States	13,340	10,836	43,851	28,407
Other countries	8,591	6,680	23,264	10,498
Total	$ 51,406	$ 51,101	$ 153,922	$ 120,043

Revenue includes excise duties of $4,213 and $13,325 for the three and nine months ended September 30, 2020 (2019: $2,931 and $8,707).

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, 2020	December 31, 2019
Canada	$ 115,711	$ 144,065
Portugal	67,198	36,908
United States	4,659	3,171
Other countries	62	73
Total	$ 187,630	$ 184,217

Two customers accounted for 21% and 19% of revenue, respectively, for the three months ended September 30, 2020. Three customers accounted for 20%, 18% and 11% of revenue, respectively, for the nine months ended September 30, 2020. Three customers accounted for 20%, 14%, and 10% of revenue, respectively, for the three months ended September 30, 2019. Two customers accounted for 12% and 11%, of revenue, respectively, for the nine months ended September 30, 2019.

Two customers accounted for 20% and 11%, respectively, of the Company's accounts receivable balance, as of September 30, 2020. Two customers accounted for 20% and 10%, respectively, of the Company's accounts receivable balance as of December 31, 2019.

26. Subsequent Events

As of September 30, 2020, Tilray holds 8,532,243 shares of stock in Kiaro Brands Inc. (Kiaro) at a balance of $3,600 within Other Investments. Effective October 13, 2020, Kiaro went public as Kiaro Holdings Corp. (Ticker: KO) on the TSX Venture Exchange at a price of CAD $0.17 per share. The completion of this transaction will impact the manner the Company assesses the fair value reporting of its investment, which will continue to be presented within Other Investments.