

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

You should read the following discussion and analysis of our financial condition and results of operations together with the unaudited financial information and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q, and our final prospectuses for our initial public offering, filed pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended, or the Securities Act, with the Securities and Exchange Commission, or SEC, on July 19, 2018 or our Supplemented PREP Prospectus to a Base PREP Prospectus dated July 18, 2018 and filed in each of the Provinces of Canada except Québec on July 19, 2018, or, collectively, our Prospectuses. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business and related financing, includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or "forward-looking information" within the meaning of Canadian securities laws. These statements are often identified by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "will," "would" or the negative or plural of these words or similar expressions or variations. Such forward-looking statements and forward-looking information are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements or forward-looking information. Factors that could cause or contribute to such differences include, but are not limited to, those identified in this Quarterly Report on Form 10-Q and those discussed in the section titled "Risk Factors" set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q and in our other SEC and Canadian public filings. In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Quarterly Report on Form 10-Q and while we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements. You should not rely upon forward-looking statements or forward-looking information as predictions of future events. Furthermore, such forward-looking statements or forward-looking information speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements or forward-looking information to reflect events or circumstances after the date of such statements.

Overview

We are pioneering the future of medical cannabis research, cultivation, processing and distribution globally, and we intend to become a leader in the adult-use cannabis market in Canada.

We aspire to lead, legitimize and define the future of our industry by building the world's most trusted cannabis company.

We produce medical cannabis in Canada and Europe, and we have supplied high-quality cannabis products to tens of thousands of patients in 12 countries spanning five continents through our subsidiaries in Australia, Canada and Germany and through agreements with established pharmaceutical distributors. In Canada, we are also authorized to distribute certain products on a wholesale basis and to sell certain products direct to patients through our e-commerce platform or over the phone.

We are witnessing a global paradigm shift with regard to cannabis, and as a result of this shift, the transformation of a multibillion dollar industry from a state of prohibition to a state of legalization. Medical cannabis is now authorized at the national or federal level in 29 countries. The legal market for medical cannabis is still in its early stages and we believe the number of countries with legalized regimes will continue to increase. We believe that as this transformation occurs, trusted global brands with multinational supply chains will become market leaders by earning the confidence of patients, doctors, governments and adult consumers around the world.

We expect to have a competitive advantage in the Canadian adult-use market. In anticipation of adult-use legalization in Canada, we have negotiated agreements to supply certain provinces and territories with our adult-use products for sale through the distribution systems they are establishing. Adult-use legalization occurred in Canada on October 17, 2018. As a result of adult-use legalization, we expect the adult-use market to represent a higher proportion of our revenues as new consumers participate in, and previously illicit consumers adopt, Canada's framework for the sale of cannabis.

We were formed as a subsidiary of Privateer Holdings, Inc., or Privateer Holdings, one of the first institutionally backed private investment firms to focus exclusively on the cannabis industry. Privateer Holdings' portfolio of brands includes Leafly, Marley Natural and Goodship. We expect that our ongoing relationship with Privateer Holdings will continue to include the provision of certain management services by Privateer Holdings, our licensing of many of their anticipated adult-use brands and products from Privateer Holdings and certain debt obligations owed to Privateer Holdings.

Subsequent Events

Convertible Senior Notes

In October 2018, the Company entered into an indenture relating to the issuance of \$475.0 million aggregate principal amount of 5.00% Convertible Senior Notes due 2023 (the “notes”), which included the sale of \$25.0 million in aggregate principal amount of notes pursuant to the initial purchases’ option to purchase additional notes. Net proceeds from the issuance were approximately \$460.8 million, after deducting the initial purchases’ commissions. The notes will bear interest at a rate of 5.00% per annum. The notes will mature on October 1, 2023, unless earlier repurchased, redeemed or converted.

The notes are convertible, at a holder’s election into cash, shares of the Company’s Class 2 common stock or a combination of cash and shares of Class 2 common stock, at the Company’s election, at the applicable conversion rate at any time prior to the close of business on the business day immediately preceding April 1, 2023.

Convertible Debenture

In October 2018, Natura Naturals Holdings Inc., a corporation incorporated under the laws of the Province of Ontario (“Natura”), issued the Company a \$1.5 million (\$2.0 million CAD) unsecured convertible debenture (the “Natura Note”). The Natura Note will become due and payable on August 22, 2019 unless the Company elects to exercise equity conversion rights at an earlier date, pursuant to the terms thereto. In the event that the Company exercises such equity conversion rights, which the Company intends to do in 2018, Natura will enter into a supply agreement relating to the delivery of 2,000 kg/year of dry flower and trim to the Company. Interest on the outstanding principal amount under the Natura Note is payable at the rate of sixteen percent (16.0%) per annum compounded monthly.

Acquisitions

In October 2018, the Company acquired all issued and outstanding shares of Alef Biotechnology SpA, (“Alef”), an existing import and distribution partner based in Chile, for approximately \$3.9 million (\$5.0 million CAD). The transaction closed on October 5, 2018, and Alef is being operated as a wholly owned subsidiary of the Company. Given the timing of the transaction, the Company is in process of determining our estimate of fair value and purchase price allocation.

Key Operating Metrics

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

	Three Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	Change	% Change	2018	2017	Change	% Change
Kilograms equivalents sold	1,613	684	929	136%	4,425	2,330	2,095	90%
Kilograms harvested	5,032	1,596	3,436	215%	8,186	5,218	2,968	57%
Average net selling price per gram	\$ 6.21	\$ 7.53	(1.32)	(17)%	\$ 6.19	\$ 6.34	(0.15)	(2)%
Average cost per gram sold	\$ 3.82	\$ 3.13	0.69	22%	\$ 3.36	\$ 2.79	0.57	20%

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

Total kilogram equivalents sold increased for the three and nine months ended September 30, 2018 from the comparable periods in 2017, primarily due to bulk sales to others that have been issued a license to produce cannabis and cannabis oil by Health Canada under the Access to Cannabis for Medical Purposes Regulations, or Licensed Producers, increased patient demand, and growth of our extract products.

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

Total kilograms harvested increased for the three and nine months ended September 30, 2018 from the comparable periods in 2017, primarily due to the additional operational capacity provided by new facilities brought into operations in 2018.

Average net selling price per gram. The average net selling price per gram is an indicator that shows our pricing trends over time on a gram equivalent basis. We deduct revenue associated with accessories and freight sales from revenue to arrive at cannabis-related revenue. We calculate average net selling price per gram by dividing cannabis-related revenue by kilogram equivalents sold. Our dried flower products are sold in Canada on a per gram basis from C\$6.00 to C\$14.00 and our oil drops and capsules are sold for C\$35.00 to C\$400.00. The prices of our products vary according to a number of different factors, the most significant factor of which is potency.

The average net selling price per gram decreased for the three and nine months ended September 30, 2018 from the comparable periods in 2017, due to an increase in bulk sales as a percentage of total revenue compared to the prior quarter. We expect our average selling price to decline as a result of stronger growth in our wholesale channels compared to our direct to patient channels.

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

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

The average cost per gram sold increased for the three and nine months ended September 30, 2018 from the comparable periods in 2017, primarily due to sourcing product from other Licensed Producers to support demand growth.

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

Critical Accounting Policies and Significant Judgments and Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in our Prospectuses, other than those noted in “Part I, Item 1. Note 1 – Summary of Significant Accounting Policies” to our unaudited condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q.

Results of Operations

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

Consolidated Statements of Net Loss Data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	\$ 10,047	\$ 5,406	\$ 27,599	\$ 15,425
Cost of sales	6,979	2,439	16,458	7,001
Gross margin	3,068	2,967	11,141	8,424
Research and development expenses	802	729	2,416	2,431
Sales and marketing expenses	3,493	1,469	9,061	3,912
General and administrative expenses	7,540	2,916	17,530	6,881
Stock-based compensation expense	11,245	35	16,877	104
Operating loss	(20,012)	(2,182)	(34,743)	(4,904)
Foreign exchange loss (gain), net	(1,592)	(838)	913	(1,417)
Interest expense, net	480	432	1,393	1,428
Other income, net	(225)	(9)	(422)	(15)
Income tax expense	24	—	87	—
Net loss	\$ (18,699)	\$ (1,767)	\$ (36,714)	\$ (4,900)
Other Financial Data				
Adjusted EBITDA (1)	\$ (7,363)	\$ (1,700)	\$ (15,314)	\$ (3,398)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<i>(as a percentage of revenue)</i>				
Revenue	100%	100%	100%	100%
Cost of sales	69	45	60	45
Gross margin	31	55	40	55
Research and development expenses	8	13	9	16
Sales and marketing expenses	35	27	33	25
General and administrative expenses	75	54	64	45
Stock-based compensation expense	112	1	61	1
Operating loss	(199)	(40)	(126)	(32)
Foreign exchange loss (gain), net	(16)	(16)	3	(9)
Interest expense, net	5	8	5	9
Other income, net	(2)	(0)	(2)	(0)
Income tax expense	0	—	0	—
Net loss	(186)%	(33)%	(133)%	(32)%
Other Financial Data				
Adjusted EBITDA (1)	(73)%	(31)%	(55)%	(22)%

(1) For information on how we define and calculate Adjusted EBITDA, and a reconciliation of net loss to Adjusted EBITDA, see “Net Loss and Adjusted EBITDA.”

Revenue

	Three Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
Revenue	\$ 10,047	\$ 5,406	\$ 4,641	86%	\$ 27,599	\$ 15,425	\$ 12,174	79%

Revenue was \$10.0 million and \$27.6 million (\$13.0 CAD and \$35.5 CAD) for the three and nine months ended September 30, 2018, respectively, and \$5.4 million and \$15.4 million (\$6.8 CAD and \$20.1 CAD) for the same periods in 2017, respectively. Growth was driven by increased patient demand, bulk sales to other Licensed Producers and wholesale distribution in export markets. In January 2018, we launched high CBD oil drops, which helped drive extract sales in Canada. Our extract products revenue was \$5.2 million and \$12.7 million (\$6.7 million CAD and \$16.4 million CAD) for three and nine months ended September 30, 2018, respectively, and \$0.9 million and \$2.8 million (\$1.2 million CAD and \$3.7 million CAD) for the same periods in 2017, respectively. On a percentage of revenue basis, extract products accounted for 46% of revenue for the nine months ended September 30, 2018 and 18% of revenue for the same period in 2017.

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

For the three and nine months ended September 30, 2018, total kilogram equivalents sold increased by 929 and 2,095, or 136% and 90%, respectively, as compared with the same periods in 2017, respectively. The average net selling price per gram decreased to \$6.21 and \$6.19 from \$7.53 and \$6.34 for the three and nine months ended September 30, 2018 and 2017, respectively. The positive factors that contributed to this growth were higher potency dried flower and extract sales offset by our revenue generated through the wholesale channel.

Cost of sales and gross margin

	Three Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
Cost of sales	\$ 6,979	\$ 2,439	\$ 4,540	186%	\$ 16,458	\$ 7,001	\$ 9,457	135%
Gross margin	3,068	2,967	101	3	11,141	8,424	2,717	32
Gross margin percentage	31%	55%			40%	55%		

Cost of sales increased for the three and nine months ended September 30, 2018 from the comparable periods in 2017 primarily due to increase in sales volumes and a shift towards a mix of high THC and high CBD cultivars that have lower yields along with procurement of third-party supply. Gross margin percentage decreased for the three and nine months ended September 30, 2018 from the comparable period in 2017 primarily due to our post-harvest costs per gram increasing due to procurement of third-party supply and a larger portion of our revenue being attributable to wholesale channels which has a lower sales price than AM CPR products.

Operating Expenses

	Three Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	Change	% Change	2018	2017	Change	% Change
Research and development expenses	\$ 802	\$ 729	\$ 73	10%	\$ 2,416	\$ 2,431	\$ (15)	(1)%
Sales and marketing expenses	3,493	1,469	2,024	138	9,061	3,912	5,149	132
General and administrative expenses	7,540	2,916	4,624	159	17,530	6,881	10,649	155
Stock-based compensation expense	11,245	35	11,210	N/A	16,877	104	16,773	N/A
Total operating expenses	<u>\$ 23,080</u>	<u>\$ 5,149</u>	<u>\$ 17,931</u>	<u>348%</u>	<u>\$ 45,884</u>	<u>\$ 13,328</u>	<u>\$ 32,556</u>	<u>244%</u>
(as a percentage of revenue)								
Research and development expenses	8%	13%			9%	16%		
Sales and marketing expenses	35	27			33	25		
General and administrative expenses	75	54			64	45		
Stock-based compensation expense	112	1			61	1		
Total operating expenses	<u>230%</u>	<u>95%</u>			<u>166%</u>	<u>86%</u>		

N/A: Not a meaningful comparison

Research and development expenses increased for the three months ended September 30, 2018 from the comparable periods in 2017 primarily due to increased new product initiatives. Expenses decreased for the nine months ended September 30, 2018 from the comparable periods in 2017 due increase in employees in 2018 replacing expensive third-party resources.

Sales and marketing expenses increased for the three and nine months ended September 30, 2018 from the comparable periods in 2017 primarily due to increases in headcount related expenses and sales and promotional expenses related to our subsidiaries Tilray Canada, Ltd. and Tilray Deutschland GmbH.

General and administrative expenses increased for the three and nine months ended September 30, 2018 from the comparable periods in 2017 primarily due to increases in professional fees related to legal, audit and human resources, IT services to support our growth and expansion plans and fees incurred for the startup of the operations of our subsidiaries High Park Farms, Ltd., High Park Holdings, Ltd. and Tilray Portugal Unipessoal, Lda.

Stock-based compensation expenses increased for the three months ended September 30, 2018 from the comparable periods in 2017 primarily related to stock options, restricted stock units and certain IPO contingency triggers related to performance-based awards granted under the New Plan.

Foreign exchange gains and losses

Foreign exchange gain increased for the three months ended September 30, 2018 from the comparable periods in 2017 primarily due to foreign currency transactions on the payment of funds for our Privateer Holdings debt facilities whereas nine months ended September 30, 2018 foreign exchange loss (gain) decreased from comparable periods in 2017 primarily due to foreign currency transactions on the advancement of funding from Privateer Holdings.

Net loss and Adjusted EBITDA

	Three Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	Change	% Change	2018	2017	Change	% Change
Net loss	\$ (18,699)	\$ (1,767)	\$ (16,932)	N/A	\$ (36,714)	\$ (4,900)	\$ (31,814)	N/A
Adjusted EBITDA	\$ (7,363)	\$ (1,700)	\$ (5,663)	N/A	\$ (15,314)	\$ (3,398)	\$ (11,916)	N/A

N/A: Not a meaningful comparison

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Adjusted EBITDA reconciliation:				
Net loss	\$ (18,699)	\$ (1,767)	\$ (36,714)	\$ (4,900)
Interest expense, net	480	432	1,393	1,428
Other income, net	(225)	(9)	(422)	(15)
Income tax expense	24	—	87	—
Foreign exchange loss (gain), net	(1,592)	(838)	913	(1,417)
Depreciation and amortization	1,404	447	2,552	1,402
Stock-based compensation expense	11,245	35	16,877	104
Adjusted EBITDA	\$ (7,363)	\$ (1,700)	\$ (15,314)	\$ (3,398)

Net loss and Adjusted EBITDA loss increased for the three and nine months ended September 30, 2018 from the comparable periods in 2017 primarily due to an increase in operating expenses related to continued growth, the expansion of our international teams, and costs related to our Series A preferred stock financing and our IPO.

To supplement our consolidated financial statements, which are prepared and presented in accordance with U.S. generally accepted accounting principles, or GAAP, we use Adjusted EBITDA, as described below, to understand and evaluate our operating performance. Adjusted EBITDA, which may be different than similarly titled measures used by other companies, is presented to help investors' overall understanding of our financial performance and should not be considered a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. We use the non-GAAP financial measure of Adjusted EBITDA, which is defined as net earnings or loss, excluding interest expense, net; other income, net; tax expense, foreign exchange loss (gain), net; depreciation and amortization; and stock-based compensation expense.

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

- Adjusted EBITDA excludes certain recurring, non-cash charges such as depreciation and amortization and, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future;
- Adjusted EBITDA excludes foreign exchange gains or losses, which accounts for the effect of both realized and unrealized foreign exchange transactions. Unrealized gains or losses represent foreign exchange revaluation of foreign denominated monetary assets and liabilities;
- Adjusted EBITDA excludes stock-based compensation expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and an important part of our compensation strategy;
- Adjusted EBITDA does not reflect interest expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and reduces cash available to us;
- Adjusted EBITDA does not reflect tax expense, which could be a significant recurring expense in our business in the future and reduces cash available to us.

Liquidity and Capital Resources

As of September 30, 2018, we had cash and cash equivalents of \$104,245 and short-term investments totaling \$14,712, which were held for working capital purposes. Our cash, cash equivalents, and short-term investments consist primarily of cash, money market funds, treasury bills, corporate bonds and certificates of deposits.

In February and March 2018, we issued 7,794,042 shares of Series A preferred stock at \$7.10 per share (\$8.8727 per share CAD) per share in exchange for cash proceeds of approximately \$55.0 million (\$69.1 million CAD) from third-party institutional investors.

In July 2018, we completed our IPO, whereby 10,350,000 shares of our Class 2 common stock were sold at a price of \$17.00 per share (\$22.45 per share CAD), which included 1,350,000 shares sold pursuant to the underwriters' option to purchase additional shares. We received net proceeds of \$163.7 million after deducting the underwriting discount.

In October 2018, we entered into an indenture relating to the issuance of \$475.0 million aggregate principal amount of 5.00% Convertible Senior Notes due 2023, which included \$25.0 million pursuant to the underwriters' option to purchase an additional aggregate principal amount. Net proceeds from the issuance were approximately \$460.8 million, after deducting the initial purchases' commissions.

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

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

	Nine Months Ended September 30,	
	2018	2017
Net cash used in operating activities	\$ (26,440)	\$ (6,899)
Net cash used in investing activities	(53,544)	(3,382)
Net cash provided by financing activities	179,667	4,872
Effect of foreign currency translation	2,239	413
Increase (decrease) in cash and cash equivalents	\$ 101,922	\$ (4,996)

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

The change in net cash used in investing activities primarily was related to purchases of property, plant and equipment related to our expansion projects in Canada and Portugal and to the purchase and sale of short term investments.

The change in net cash provided by financing activities included net proceeds from the Series A preferred stock financing, net proceeds from our IPO and repayment of debt facility.

The table below sets out the cash and cash equivalents, inventory and contractual obligations and commitments:

	As of September 30,	As of December 31,
	2018	2017
Cash and cash equivalents	\$ 104,245	\$ 2,323
Inventory	12,107	7,421
Privateer Holdings debt facilities	—	32,826
Current portion of long-term debt	9,348	9,432

We primarily have financed our operations through the issuance of common stock, revenue generating activities, advances under the Privateer Holdings credit facility and recently through our sale of the notes. We believe that our existing cash will be sufficient to meet our working capital requirements.

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

Contractual Obligations and Commitments

Our future minimum contractual obligations were reported in our Prospectuses for the fiscal year ended December 31, 2017. There have been no material changes to our contractual commitments during the nine months ended September 30, 2018.

Contingencies

In the normal course of business, we may receive inquiries or become involved in legal disputes regarding various litigation matters. In the opinion of management, any potential liabilities resulting from such claims would not have a material adverse effect on our interim consolidated financial statements.

Segment and Geographic Information

For segment and geographic information refer to “Part I, Item 1. Note 14 – Segment Information” to our unaudited condensed consolidated financial statements.

Emerging Growth Company Status

We are an “emerging growth company” as defined in Section 2(a) of the Exchange Act, as modified by the Jumpstart Our Business Start-ups Act of 2012, or the JOBS Act. The JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 13(a) of the Exchange Act for complying with new or revised accounting standards applicable to public companies. We have elected to take advantage of this extended transition period and as a result of this election, our financial statements may not be comparable to companies that comply with public company effective dates. We may take advantage of these exemptions up until the last day of the fiscal year following the fifth anniversary of our IPO or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company if we have more than \$1.07 billion in annual revenue, have more than \$700 million in market value of our stock held by non-affiliates (and we have been a public company for at least 12 months, and have filed one annual report on Form 10-K), or we issue more than \$1.0 billion of non-convertible debt securities over a three-year period.

Off-Balance Sheet Arrangements

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

Recently Issued Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our condensed consolidated financial statements are expressed in U.S. dollars, but the majority of our net assets and liabilities are denominated in Canadian dollars through our operations in Canada. As a result, we are exposed to foreign currency translation gains and losses. Revenue and expenses of all Canadian operations are translated into U.S. dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are recognized. Appreciating foreign currencies relative to the U.S. dollar, including the Canadian dollar, will adversely impact operating income and net earnings, while depreciating foreign currencies relative to the U.S. dollar will have a positive impact. In addition, our obligations under our credit facilities with Privateer Holdings, are denominated in U.S. dollars. A weakening of the Canadian dollar against the U.S. dollar would make it more difficult for us to meet our obligations under our credit facilities with Privateer Holdings. We have not historically engaged in hedging transactions and do not currently contemplate engaging in hedging transactions to mitigate foreign exchange risks. As we continue to recognize gains and losses in foreign currency transactions, depending upon changes in future currency rates, such gains or losses could have a significant, and potentially adverse, effect on our results of operations.