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

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

Overview

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

We produce medical cannabis in Canada and Europe, and we have supplied high-quality cannabis products to tens of thousands of patients in thirteen countries spanning five continents through our subsidiaries in Australia, Canada, Germany, Latin America and Portugal 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 forty-one countries. The legal market for medical cannabis is still in its early stages and we believe the number of countries with legalized regimes will continue to increase. We believe that as this transformation occurs, trusted global brands with multinational supply chains will become market leaders by earning the confidence of patients, doctors, governments and adult consumers around the world.

We are a leader in the Canadian adult-use market. We have entered into agreements to supply certain provinces and territories with our adult-use products for sale through the distribution systems they have established. Adult-use legalization occurred in Canada on October 17, 2018. 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 continue to develop strategic alliances like our global collaboration with Sandoz AG ("Sandoz AG") to increase the availability of high quality medical cannabis products across the world through: (a) Sandoz's support of the global commercialization of our non-smokable/non-combustible medical cannabis products, (b) co-branding of certain non-smokable/non-combustible products, (c) our supply of non-smokable/non-combustible medical cannabis products and license rights to and from Sandoz in relation to such products, and (d) collaboration to develop new innovative medical cannabis products. Moreover, our partnership with AB InBev, through its subsidiary Labbatt Breweries of Canada, to research non-alcohol beverages containing tetrahydrocannabinol ("THC") and cannabidiol ("CBD") demonstrates our continuing commitment to pioneer the development of a professional, transparent, and well-regulated cannabis industry.

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

Arrangement. As consideration for this arrangement, we paid to date approximately $33 million in cash and 1,680,214 shares of Class 2 common stock. We also agreed to pay approximately $83 million, in a combination of Class 2 common stock and up to $17 million in cash at ABG's election, upon certain triggers relating to the regulatory status of THC in the United States, or receipt of $5 million in participation rights distributions from cannabis products containing THC outside the United States, in accordance with terms outlined in the arrangement.

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

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

On July 11, 2019, we acquired all issued and outstanding shares of Smith & Sinclair Ltd., which crafts edible candies, cocktails and fragrances in the United Kingdom and enables the Company to develop CBD-infused edibles for distribution in Canada, United States and Europe. The purchase consideration includes approximately $2 million in cash paid on closing, 79,289 shares of Class 2 common stock issued on closing, and contingent consideration up to approximately $3 million payable in Class 2 common stock based on revenue as well as the revenue and launch of CBD product in the United States and Europe by milestones in 2019 and 2020. Refer to "Part I, Item 1. Note 19 – Subsequent Event" to our financial statements appearing elsewhere in this Quarterly Report on Form 10-Q for further details.

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 June 30,				Six months ended June 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
Kilograms equivalents sold - cannabis	5,588	1,514	4,074	269%	8,600	2,813	5,787	206%
Kilograms harvested - cannabis	11,474	1,461	10,013	685%	19,868	3,154	16,714	530%
Thousand units sold - food products	3,077	—	N/A	N/A	3,699	—	N/A	N/A
Average net selling price per gram - cannabis	$ 4.61	$ 6.38	$ (1.77)	(28)%	$ 5.02	$ 6.18	$ (1.16)	(19)%
Average cost per gram sold - cannabis	$ 3.86	$ 3.33	$ 0.53	16%	$ 3.92	$ 3.09	$ 0.83	27%
Average gross selling price per unit - food products	$ 6.48	$ —	N/A	N/A	$ 6.90	$ —	N/A	N/A

N/A: Not a meaningful comparison

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

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

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

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

The High Park Farms facility, with 13 acres of greenhouse space, has been steadily increasing production and harvest yields since its first harvest in July 2018. High Park Farms has had consistent harvest yields every month this year and total harvest quantities for this quarter increased by 343% compared to our Q4 2018 output. Similarly, Tilray Portugal has shown steady improvement month over month since its first harvest in Q4 2018.

It is our expectation that harvest quantities will continue to increase in future quarters with the improvement of operational efficiencies as our operational processes mature and capital expansion plans progress. During the quarter, we announced plans to add 203,000 square feet at three of our existing facilities – High Park Farms, High Park Processing Facility and Tilray Canada. This expansion will increase current production and manufacturing footprint by 18% to 1.3 million square feet worldwide.

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

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

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

The average net selling price per gram decreased for the three and six months ended June 30, 2019 from the comparable periods in 2018 due to a shift in distribution channels. Since legalization, adult-use products increased to 33% of total revenue. Adult-use products are sold directly to wholesalers, which have a lower sales price per gram and higher sales volumes. We expect our average selling price to continue to decline over time as a result of a higher mix of products sold through Canadian adult-use wholesale channels compared to Canadian medical, which is direct-to-patient.

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

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

The average cost per gram sold increased for the three and six months ended June 30, 2019 from the comparable periods in 2018 primarily as a result of sourcing product from third-party Licensed Producers and launching new cultivation facilities. High Park Farms manufactured adult-use products until High Park Processing Facility received its license. As this was a temporary operation, manufacturing costs were higher and output was lower than our established manufacturing facilities. High Park Processing Facility received its license in the first quarter of 2019 and we transitioned operations to the processing facility during this quarter. We expect costs to decrease at this facility in future periods when this facility is operating at capacity. During the quarter, we improved our production costs, as demonstrated by a 5% decrease in our average cost per gram from $4.06 per gram in Q1 2019. We expect that this will continue to decrease in future quarters.

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

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

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

Critical Accounting Policies and Significant Judgments and Estimates

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

Business combinations, including acquired intangibles and goodwill

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

Results of Operations

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

Condensed Consolidated Statements of Net Loss Data

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue	$ 45,904	$ 9,744	$ 68,942	$ 17,552
Cost of sales	33,631	5,567	51,284	9,479
Gross profit	12,273	4,177	17,658	8,073
General and administrative expenses	16,465	5,342	29,262	9,487
Sales and marketing expenses	14,366	3,305	22,187	5,568
Depreciation and amortization expense	2,385	281	4,248	503
Stock-based compensation expense	7,585	5,601	12,891	5,632
Research and development expenses	1,528	639	2,576	1,614
Acquisition and integration expenses	2,464	—	6,888	—
Operating loss	(32,520)	(10,991)	(60,394)	(14,731)
Foreign exchange (gain) loss, net	(1,611)	1,358	(1,432)	2,504
Interest expense, net	8,586	497	17,331	913
Finance income from ABG Profit Participation Arrangement	(212)	—	(347)	—
Other income, net	(2,035)	(76)	(4,380)	(197)
Deferred income tax recovery	(2,642)	—	(6,419)	—
Current income tax expense	447	63	207	63
Net loss	$ (35,053)	$ (12,833)	$ (65,354)	$ (18,014)
Other Financial Data				
Adjusted EBITDA (1)	$ (17,914)	$ (4,719)	$ (32,472)	$ (7,951)

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
(as a percentage of revenue)				
Revenue	100%	100%	100%	100%
Cost of sales	73	57	74	54
Gross profit	27	43	26	46
General and administrative expenses	36	55	42	54
Sales and marketing expenses	31	34	32	32
Depreciation and amortization expense	5	3	6	3
Stock-based compensation expense	17	57	19	32
Research and development expenses	3	7	4	9
Acquisition and integration expenses	5	—	10	—
Operating loss	(71)	(113)	(88)	(84)
Foreign exchange (gain) loss, net	(4)	14	(2)	14
Interest expense, net	19	5	25	5
Finance income from ABG Profit Participation Arrangement	N/A	—	(1)	—
Other income, net	(4)	(1)	(6)	(1)
Deferred income tax recovery	(6)	—	(9)	—
Current income tax expense	1	1	N/A	N/A
Net loss	(76)%	(132)%	(95)%	(103)%
Other Financial Data				
Adjusted EBITDA (1)	(39)%	(48)%	(47)%	(45)%

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

N/A: Not a meaningful percentage

Revenue

	Three months ended June 30,				Six months ended June 30,			
	2019	2018	$ Change	% Change	2019	2018	$ Change	% Change
Adult-use	$ 15,041	$ —	$ 15,041	N/A	$ 22,922	$ —	$ 22,922	N/A
ACMPR (direct to patient & bulk)	9,078	9,267	(189)	(2)%	16,841	16,645	196	1%
Food products	19,935	—	19,935	N/A	25,517	—	25,517	N/A
International - medical	1,850	477	1,373	288	3,662	907	2,755	304
Total revenue	$ 45,904	$ 9,744	$ 36,160	371%	$ 68,942	$ 17,552	$ 51,390	293%
Excise tax included in revenue	$ 3,862	$ —	3,862	N/A	$ 5,776	$ —	5,776	N/A

N/A: Not a meaningful percentage

Revenue increased 371% to $45.9 million ($60.9 million CAD) and 293% to $68.9 million ($91.5 million CAD) for the three and six months ended June 30, 2019, respectively, compared to revenue of $9.7 million and $17.6 million ($13.7 million CAD and $23.6 million CAD) for the same periods in 2018, respectively. Growth was driven by the acquisition of Manitoba Harvest during the first quarter of 2019, the Canadian adult-use markets due to the legislation on October 17, 2018, and international medical sales. We expect continued growth in these markets for the remainder of 2019.

On February 28, 2019 we welcomed Manitoba Harvest in our portfolio of companies. Manitoba Harvest is the world's largest hemp food manufacturer and a leader in the natural foods industry. It produces, manufactures, markets and distributes a broad-based portfolio of hemp-based (cannabis) consumer products, which are sold in over 16,000 stores at major retailers across the United States and Canada.

International medical sales also contributed to sales growth during the quarter, with revenue almost quadruple that of the prior year period. During the quarter, Tilray exported for the first-time cannabis oils to Ireland and bulk supply of cannabis oils to the United Kingdom. Increasing our presence in the international markets is a strategic priority for the Company. We established an EU Campus in Portugal, which is a GMP certified, multi-faceted production facility that includes indoor, outdoor and greenhouse cultivation sites. This facility will start exporting cannabis products to our European markets in the second half of 2019. We believe we are well positioned to serve the European market from Portugal as more countries legalize medical cannabis.

Our cannabis extract products revenue was $3.9 million and $10.4 million ($5.2 million CAD and $13.7 million CAD), for the three and six months ended June 30, 2019, respectively, compared to $4.4 million and $7.5 million ($5.7 million CAD and $9.6 million CAD) for the same periods in 2018, respectively. On a percentage of revenue basis, extract products accounted for 15% and 24% of revenue from non-food products for the three and six months ended June 30, 2019, respectively, and 46% and 43% for the comparable periods in 2018. The launch of the adult-use market in Canada and contributed $15.0 million ($20.0 million CAD) and $22.9 ($30.4 million CAD) to our revenue, representing 33% and 33% of revenue for the three and six months ended June 30, 2019, respectively.

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

Cost of Sales and Gross Profit

	Three months ended June 30,				Six months ended June 30,			
	2019	2018	$ Change	% Change	2019	2018	$ Change	% Change
Cost of sales	$ 33,631	$ 5,567	$ 28,064	504%	$ 51,284	$ 9,479	$ 41,805	441%
Gross profit	12,273	4,177	8,096	194%	17,658	8,073	9,585	119%
Gross profit percentage	27%	43%			26%	46%		

Cost of sales increased for the three and six months ended June 30, 2019 from the comparable periods in 2018 primarily due to increased sales, the addition of our acquisitions of Manitoba Harvest and Natura, the start-up of High Park Farms, a shift towards a mix of high THC and high CBD cultivars that have lower yields, along with procurement of third-party supply.

Gross profit percentage decreased for the three and six months ended June 30, 2019 from the comparable periods in 2018 primarily due to increased post-harvest costs per gram as a result of procuring third-party supply, low yields, low throughput during the scaling of new facilities, and excise taxes on medical products. We do not believe our medical patients in Canada should be subject to the excise taxes. As a result, it has negatively impacted our gross profit by not increasing our prices to pass through the costs to our patients. Additionally, gross profit on food products was impacted by approximately a non-cash charge due to purchase accounting step-up in inventory value in the amount of $0.7 million and $1.4 million during the first and second quarters of 2019, respectively. During 2019, throughput has improved and a reduction in startup inefficiencies from our new facilities was observed. As a result, our gross profit percentage has improved sequentially from the first quarter of 2019, from 23% to 27%. We expect continued improvement in gross profit throughout the remainder of the year as we scale our new cultivation facilities.

Operating Costs and Expenses

	Three months ended June 30,				Six months ended June 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
General and administrative expenses	$ 16,465	$ 5,342	$ 11,123	208%	$ 29,262	$ 9,487	$ 19,775	208%
Sales and marketing expenses	14,366	3,305	11,061	335	22,187	5,568	16,619	298
Depreciation and amortization expense	2,385	281	2,104	749	4,248	503	3,745	745
Stock-based compensation expense	7,585	5,601	1,984	35	12,891	5,632	7,259	129
Research and development expenses	1,528	639	889	139	2,576	1,614	962	60
Acquisition and integration expenses	2,464	—	2,464	N/A	6,888	—	6,888	N/A
Total operating expenses	$ 44,793	$ 15,168	$ 29,625	195%	$ 78,052	$ 22,804	$ 55,248	242%
(as a percentage of revenue)								
General and administrative expenses	36%	55%			42%	54%		
Sales and marketing expenses	31	34			32	32		
Depreciation and amortization expense	5	3			6	3		
Stock-based compensation expense	17	57			19	32		
Research and development expenses	3	7			4	9		
Acquisition and integration expenses	5	—			10	—		
Total operating expenses	98%	156%			113%	130%		

N/A: Not a meaningful percentage

General and administrative expenses increased for the three and six months ended June 30, 2019 from the comparable periods in 2018 primarily due to higher employee costs to support a larger business from the acquisition of Manitoba Harvest, increases in professional fees related to legal, audit and human resources, IT services to support our growth, and public company costs.

Sales and marketing expenses increased for the three and six months ended June 30, 2019 from the comparable periods in 2018 primarily due to the acquisition of Manitoba Harvest, development of our Canadian adult-use sales and marketing team, and the development of our European leadership team with five senior appointments this quarter as we expand our international presence.

Depreciation and amortization expense increased for the three and six months ended June 30, 2019 from the comparable periods in 2018 primarily due to the acquisitions of Manitoba Harvest and Natura in 2019, contributing $1.6 million and $3.2 million of the increase for the three and six months ended June 30, 2019, respectively.

Stock-based compensation expense increased for the three and six months ended June 30, 2019 from the comparable periods in 2018 primarily due to the issuance of stock options and restricted stock units granted under the New Plan.

Research and development expenses increased for the three and six months ended June 30, 2019 from the comparable periods in 2018 primarily due to our continued support in advancing cannabinoid-based science to further understand the potential benefits of medical cannabis as a treatment. During the quarter, we supported two new clinical research studies: (1) the Murdoch Children's Research Institute (MCRI) in Melbourne, to evaluate the feasibility and acceptability of a larger randomized placebo-controlled trial of cannabis extract as a form of treatment for reducing Severe Behavioral Problems (SBP) in pediatric patients with Intellectual Disabilities (ID) and (2) McGill University Health Centre's Division of Infectious Diseases and Chronic Viral Illness, to examine the effectiveness of medical cannabis on immune activation in People Living with HIV. We expect our research and development expenses to increase as we pursue more clinical trial opportunities and continue to invest in developing non-combustible delivery formats and formulations.

Acquisition and integration expenses increased for the three and six months ended June 30, 2019 from the comparable periods in 2018 primarily due to costs incurred to close and integrate the acquisitions of Manitoba Harvest and Natura.

Foreign Exchange (Gain) Loss, Net

The impact of foreign exchange for the three and six months ended June 30, 2019 was a gain of $1.6 million and $1.4 million, respectively, compared to a loss of $1.4 million and $2.5 million for the comparable periods in 2018. As we hold a significant portion of balances in Canadian dollars, the fluctuation in foreign exchange rates between Canadian dollars and U.S. dollars drove the foreign exchange loss in both periods.

Interest Expense

Interest expense for the three and six months ended June 30, 2019 was $8.6 million and $17.3 million, respectively, compared to $0.5 million and $0.9 million for the comparable periods in 2018. The increase was primarily attributable to the issuance of $475.0 million in Convertible Notes in October 2018. We expect an increase in interest expense in 2019 to reflect a full year of expense related to the Convertible Notes.

Net Loss and Adjusted EBITDA

	Three months ended June 30,				Six months ended June 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
Net loss	$ (35,053)	$ (12,833)	$ (22,220)	173%	$ (65,354)	$ (18,014)	$ (47,340)	263%
Adjusted EBITDA	$ (17,914)	$ (4,719)	$ (13,195)	280%	$ (32,472)	$ (7,951)	$ (24,521)	308%

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Adjusted EBITDA reconciliation:				
Net loss	$ (35,053)	$ (12,833)	$ (65,354)	$ (18,014)
Depreciation and amortization expense	2,985	671	5,755	1,148
Stock-based compensation expense	7,585	5,601	12,891	5,632
Acquisition and integration expenses	2,464	—	6,888	—
Foreign exchange (gain) loss, net	(1,611)	1,358	(1,432)	2,504
Interest expense, net	8,586	497	17,331	913
Other income, net	(2,035)	(76)	(4,380)	(197)
Amortization of inventory step-up	1,360	—	2,041	—
Deferred income tax recovery	(2,642)	—	(6,419)	—
Current income tax expense	447	63	207	63
Adjusted EBITDA	$ (17,914)	$ (4,719)	$ (32,472)	$ (7,951)

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

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

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

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

- Adjusted EBITDA excludes certain recurring, non-cash charges such as depreciation and amortization expense and, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future;

- Adjusted EBITDA excludes stock-based compensation expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and an important part of our compensation strategy;

- Adjusted EBITDA excludes third-party acquisition and integration expenses which are considered non-recurring, to reflect normal business activity;

- Adjusted EBITDA excludes foreign exchange gains or losses, which account for the effect of both realized and unrealized foreign exchange transactions. Unrealized gains or losses represent foreign exchange revaluation of foreign denominated monetary assets and liabilities;

- Adjusted EBITDA excludes interest expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense in our business and reduces cash available to us;

- Adjusted EBITDA excludes the non-recurring, non-cash impact of the amortization of purchase accounting step-up in inventory value, to reflect normal business activity; and
- Adjusted EBITDA excludes current and deferred income tax expense and recovery, which could be a significant recurring expense or recovery in our business in the future and reduce or increase cash available to us.

Liquidity and Capital Resources

As of June 30, 2019, we had cash and cash equivalents of $184.6 million and short-term investments totaling $36.3 million 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 commercial papers.

In February and March 2018, we issued 7,794,042 shares of Series A preferred stock at $7.10 per share ($8.90 CAD per share) in exchange for cash proceeds of approximately $55.0 million ($69.1 million CAD) from third-party institutional investors. Upon the closing of the initial public offering ("IPO"), all shares of the outstanding Series A preferred stock automatically converted into 7,794,042 shares of Class 2 common stock on a one-for-one basis.

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

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

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

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

	Six months ended June 30, 2019	Six months ended June 30, 2018
Net cash used in operating activities	$ (110,227)	$ (2,905)
Net cash used in investing activities	(198,577)	(28,953)
Net cash provided by financing activities	5,704	56,028
Effect of foreign currency translation on cash and cash equivalents	396	(1,162)
(Decrease) increase in cash and cash equivalents	$ (302,704)	$ 23,008

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 acquisitions of Manitoba Harvest and Natura, investment in the ABG Profit Participation Arrangement, and purchase of property and equipment related to our expansion projects in Canada and Portugal.

The change in net cash provided by financing activities included proceeds from exercise of stock options and capital lease payments.

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

	June 30, 2019	December 31, 2018
Cash and cash equivalents	$ 184,551	$ 487,255
Short-term investments	36,323	30,335
Inventory	75,317	16,211

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

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

Contractual Obligations

With the acquisitions of Manitoba Harvest and Natura during the first quarter of fiscal 2019, additions to our operating leases included three properties from the Manitoba Harvest acquisition and certain assets from the Natura acquisition with the effect of increasing annual contractual operating lease obligations by approximately $0.3 million. The Company also has contractual commitments relating to the acquisitions of Manitoba Harvest and Natura to fund the acquisitions as well as the ABG Profit Participation Arrangement subject to certain regulatory or commercial triggers. Refer to "Part I, Item 1. Note 15 – Business Combinations" and "Part I, Item 1. Note 14 – ABG Profit Participation Arrangement" to our financial statements appearing elsewhere in this Quarterly Report on Form 10-Q for further details.

Emerging Growth Company Status

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

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

Off-Balance Sheet Arrangements

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

Recently Issued Accounting Pronouncements

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