TERRASCEND CORP.

Consolidated Financial Statements

For the years ended December 31, 2017 and 2016
(In Canadian Dollars)

TERRASCEND CORP.
MANAGEMENTS RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements and other financial information in this annual report were prepared by management of TerrAscend Corp., reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the consolidated financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company's consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances. To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These financial statements have been audited by the shareholders' auditors, MNP LLP, and their report is presented herein.

"Michael Nashat"	"Roland Nimmo"
President & Chief Executive Officer	Chief Financial Officer

April 25, 2018

Independent Auditors' Report

To the Shareholders of TerrAscend Corp:

We have audited the accompanying financial statements of TerrAscend Corp, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements, in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TerrAscend Corp as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

MNP LLP

Toronto, Ontario
April 25, 2018

Chartered Professional Accountants
Licensed Public Accountants

MNP

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Notes	As at December 31, 2017	As at December 31, 2016
ASSETS			
Current Assets			
Cash and cash equivalents		**$ 51,816,602**	$ 3,332,698
Other receivable		**412,144**	114,657
Inventory	4	**1,364,198**	-
Prepaid expenses		**99,873**	19,065
		53,692,817	3,466,420
Non-current assets			
Property, plant and equipment	5	**15,036,146**	400,771
Intangible assets	6	**332,603**	-
Total Assets		**$ 69,061,566**	$ 3,867,191
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	7	**$ 1,692,100**	$ 818,343
Due to related parties	10	**-**	967,825
Total Liabilities		**1,692,100**	1,786,168
Shareholders' Equity			
Share capital	9	**50,343,804**	4,046,840
Warrants reserve	9	**23,460,497**	-
Share-based payments reserve	9	**2,336,451**	-
Deficit		**(8,771,286)**	(1,965,817)
Total Shareholders' Equity		**67,369,466**	2,081,023
Total Liabilities and Shareholders' Equity		**$ 69,061,566**	$ 3,867,191
Total number of commons shares outstanding		**94,351,198**	25,672,652

Subsequent events (*note 14*)
The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board

"*Michael Nashat*"
President & Chief Executive Officer

"*Jason Wild*"
Chairman of the Board

TerrAscend Corp.

Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

For the years ended December 31,	Notes		2017		2016
Revenue		**$**	**-**	$	-
Expenses:					
Share-based payments	9		**2,457,569**		-
General and administrative			**2,062,576**		717,728
Consulting & professional fees			**1,601,165**		149,209
Amortization and depreciation	5		**244,083**		-
Loss on disposal of property and equipment	5		**222,135**		-
Shareholder relations			**153,607**		-
Pre-Production costs			**137,239**		-
Finance (income) expense	8		**(36,282)**		244
Total operating expenses			**6,842,092**		867,181
Loss from operations			**(6,842,092)**		(867,181)
Other income			**36,623**		-
Net loss and comprehensive loss		**$**	**(6,805,469)**	$	(867,181)
Net loss per share, basic and diluted					
Net loss per share		**$**	**(0.19)**	$	(0.09)
Weighted average shares outstanding			**37,629,330**		9,491,445

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

TerrAscend Corp.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

	Share Capital	Warrants	Share-based Payments Reserve	Deficit	Total
Balance at December 31, 2015	$ 530,011	$ -	$ -	$ (1,098,636)	$ (568,625)
Shares issued for cash	3,384,079	-	-	-	3,384,079
Shares issued for debt	92,700	-	-	-	92,700
Shares issued for services	40,050	-	-	-	40,050
Net loss for the year	-	-	-	(867,181)	(867,181)
Balance at December 31, 2016	$ 4,046,840	$ -	$ -	$ (1,965,817)	$ 2,081,023
Unit issuances for cash	34,949,908	22,960,997	-	-	57,910,905
Warrants issued for services	-	499,500	-	-	499,500
Shares issued for services	160,125	-	-	-	160,125
Repurchase of shares	(1)	-	-	-	(1)
Conversion of convertible debentures to shares	9,912,353	-	-	-	9,912,353
Settlement of shareholder debt	968,371	-	-	-	968,371
Share-based compensation	-	-	2,457,569	-	2,457,569
Stock options exercised	306,208	-	(121,118)	-	185,090
Net loss for the year	-	-	-	(6,805,469)	(6,805,469)
Balance at December 31, 2017	**$ 50,343,804**	**$ 23,460,497**	**$ 2,336,451**	**$ (8,771,286)**	**$ 67,369,466**

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

TerrAscend Corp.

Consolidated Statements of Cash Flow

(Expressed in Canadian Dollars)

For the years ended December 31,		2017		2016
Cash flow from operating activities				
Net comprehensive loss	**$**	**(6,805,469)**	$	(867,181)
Add (deduct) items not involving cash				
Deprecation of property, plant and equipment		**224,007**		-
Amortization of intangible assets		**20,076**		-
Share-based payments		**2,456,567**		-
Issuance of warrants in exchange for services		**499,500**		40,050
Loss on disposal of property, plant and equipment		**222,136**		-
Change in non-cash working capital				
Accounts receivables		**(297,487)**		(27,671)
Inventory		**(1,364,198)**		-
Prepaid expense		**(80,808)**		138,088
Accounts payable and accrued liabilities		**974,427**		294,074
		(4,151,249)		(422,640)
Cash flow from financing activities				
Private placements of shares, net of issuance costs		**57,911,908**		3,438,408
Proceeds from option exercised		**185,090**		-
Proceeds from convertible debentures		**8,916,012**		-
Advances (repayment) to related parties		**-**		222,204
		67,013,010		3,660,612
Cash flow from investing activities				
Investment in property, plant and equipment		**(14,085,178)**		(4,268)
Investment in intangible assets		**(292,679)**		-
		(14,377,857)		(4,268)
Increase in cash		**48,483,904**		3,233,704
Cash, beginning of period		**3,332,698**		98,994
Cash, end of period	**$**	**51,816,602**	$	3,332,698

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

1. Nature of operations

TerrAscend Corp. ("**TerrAscend**" or the "**Company**") was incorporated under the Ontario Business Corporations Act. on March 7, 2017, and has three wholly-owned subsidiaries: Solace Health Inc. ("**Solace**"), Terra Health Network Inc. ("**THN**") and 2627685 Ontario Inc., and one 50%-owned joint venture: Solace RX Inc. ("**SolaceRx**").

On March 8, 2017, the Company issued 26,987,240 common shares of TerrAscend ("**Common Shares**") in exchange for all of the issued and outstanding shares (the "**Transaction**") of Solace Health Inc. ("**Solace**"). For accounting purposes, the Transaction was treated as a reverse acquisition with Solace being the accounting acquirer. Therefore, the Company's historical financial statements reflect those of Solace. Prior to the Transaction, TerrAscend was a shell company with no business operations.

The Company is a Licensed Producer (as such term is defined in the *Access to Cannabis for Medical Purposes Regulations* (Canada) (the "**ACMPR**")) of medical cannabis and its current principal business activities are in development and include cultivation and sale of medical cannabis through Solace upon receipt sales licence. Additional activities include physician and patient education and support programs offered through TerrAscend's wholly-owned subsidiary, Terra Health Network ("**THN**"). Solace applied to Health Canada to become a Licensed Producer under the ACMPR and on July 10, 2017, was granted that license (the "**License**") for its 67,300 square foot Mississauga facility (the "**Facility**"). On February 5, 2018, Solace was granted an amendment to the License by Health Canada to allow for oil production pursuant to the ACMPR. A further amendment to the License was granted on March 9, 2018 to allow for sales of dried cannabis. The License expires on July 10, 2020. The Company is in the development stage and has not yet earned any revenues. The Company's registered office is located at PO Box 43125, Mississauga, Ontario, L5C 1W2.

On April 10, 2017, the Company filed a non-offering prospectus with the British Columbia, Ontario, and Alberta Securities Commissions for the purposes of becoming a reporting issuer pursuant to applicable securities legislation in those provinces. The Company became a reporting issuer in those provinces effective April 11, 2017. TerrAscend's Common Shares are listed under the symbol "TER" on the Canadian Securities Exchange (the "**CSE**") and began trading on May 3, 2017.

2. Basis of presentation

(a) Statement of compliance

The Company's annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

These consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on April 25, 2018

(b) Basis of measurement

These financial statements have been prepared on the going concern basis, under the historical cost convention except for certain financial instruments that are measured at fair value and biological assets that are measured at fair value less costs to sell, as detailed in the Company's accounting policies.

(c) Functional and presentation currency

The Company's functional currency, as determined by management, is the Canadian dollar. These financial statements are presented in Canadian dollars unless otherwise specified.

(d) Principles of consolidation

TerrAscend has three wholly-owned subsidiaries: Solace, THN and 2627685 Ontario Inc. TerrAscend also has one 50%-owned joint arrangement, Solace RX Inc., which has not commenced business activities as the facility is under construction. The Company consolidates its interest in entities which it controls. Control is defined by the power to govern an entity's financial and operating policies so as to be able to obtain benefits from its activities. All intercompany balances and transactions have been eliminated.

3. Significant accounting policies

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

(a) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and highly liquid investments that are readily convertible into known amounts of cash with original maturities of three months or less.

(b) Inventory

Inventory is valued at the lower of cost and net realizable value. The cost of inventories is comprised of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The Company's internally harvested inventory and its biological assets have not been capitalized on these consolidated financial statements, as the Company did not have its license to sell these assets as at December 31, 2017. The capitalization of these biological assets and the inventory on these consolidated financial statements has been deemed to have an immaterial impact on the Company's financial statements.

The inventory on these consolidated financial statements reflect externally purchased inventory.

(c) Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the following terms:

Building and Improvements	30 years
Irrigation & Lighting System	20 years
Security System	5 years
Office Furniture & Equipment	3-5 years

An asset's residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted if appropriate.

Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognized in the statement of loss and comprehensive loss.

Assets in process are transferred to building and improvements when available for use and depreciation of the assets commences at that point.

(d) Intangible assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets are acquired at fair value at the acquisition date. Amortization is provided on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively.

Patient lists are measured at fair value at the time of acquisition and amortized on a straight-line basis over a period of 5 years.

Software is measured at fair value at the time of acquisition and is amortized on a straight-line basis over a period of 3 years.

(e) Impairment of non-financial assets

Intangible assets with a finite useful life are tested for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

(f) Impairment of financial assets carried at amortized cost

At each statement of financial position date, the Company assesses whether there is objective evidence a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the statements of loss and comprehensive loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For practical reasons, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

(g) Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

A derivative is a financial instrument whose value changes in response to a specified variable, requires little or no net investment and is settled at a future date.

At initial recognition, the Company classifies its financial instruments in the following categories:

(i) Financial assets and liabilities at fair value through profit or loss: a financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented in the statements of loss and comprehensive loss within other expense (income) in the period in which they arise.

(ii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iii) Available for sale financial assets: Available for sale assets are non-derivative financial assets that are designated as available for sale and are not categorized into any of the other categories described above. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently recognized at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale, when the cumulative gain or loss is transferred to the statements of loss and comprehensive loss. Interest is determined using the effective interest method, and impairment losses and translation differences on monetary items are recognized in the statements of loss and comprehensive loss. The Company does not have any available for sale assets.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost are composed of accounts payable. Trade payables and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce payables to fair value. Subsequently, accounts payables are measured at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

(h) Loss per common share, basic and diluted

Basic loss per share is calculated by dividing the net loss for the period attributable to equity owners of the Company by the weighted average number of Common Shares outstanding during the period. Contingently issuable shares (including shares held in escrow) are not considered outstanding Common Shares and consequently are not included in the loss per share calculations.

Diluted loss per share is calculated by adjusting the weighted average number of Common Shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method.

For the periods presented, all options and warrants were anti-dilutive.

(i) Share-based compensation

The Company has a stock option plan in place. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company’s estimate of equity instruments that will eventually vest. Fair value is measured using the Black-Scholes option pricing model. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. Any revisions are recognized in the consolidated statements of loss and comprehensive loss such that the cumulative expense reflects the revised estimate.

(j) Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statements of loss and comprehensive loss except to the extent that it relates to items recognized directly in shareholders’ equity, in which case the income tax is also recognized directly in shareholders’ equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non discounted basis using the tax rates and laws that have been enacted or substantively enacted at the statements of financial position dates and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable the assets can be recovered.
Deferred income tax assets and liabilities are presented as non-current.

(k) Provisions

A provision is recognized when the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

(l) Research and development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures that do not meet the above criteria are recognized in the consolidated statements of income and comprehensive income as incurred.

(m) Borrowing costs

Borrowing costs, if any, directly attributable to the acquisition or construction of a qualifying asset are capitalized. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use. The capitalized borrowing cost is calculated by applying the weighted average borrowing rate, giving consideration first to any project specific borrowings or any directly attributable general borrowings, to the accumulated average costs for the period, until the assets are substantially ready for their intended use. All other borrowing costs are recognized in finance costs in the consolidated statements of loss and comprehensive loss.

(n) Compound Financial Instruments

Compound financial instruments issued by the Company are comprised of convertible debentures that can be converted into Common Shares. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the computed financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or upon expiration, when the carrying value of the equity portion is transferred to common shares or contributed surplus

(o) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Significant assumptions relate to, but are not limited to, the following:

(i) In calculating the share-based compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price, the vesting period of the option and the risk-free interest rate are used.
(ii) In calculating the value of the warrants, the Company includes key estimates such as the volatility of the Company's stock price, the value of the Common Share, and the risk-free interest rate
(iii) Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any

impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

(p) New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations have been issued but have not yet been applied in preparing these financial statements, as set out below:

- IFRS 9, Financial Instruments, was issued by the IASB in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("**FVTPL**") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. The standard is effective for accounting periods beginning on or after January 1, 2018 and earlier adoption is permitted. The Company does not expect this standard to have a significant impact on the Company's financial statements at this time.

- IFRS 15, Revenue from Contracts with Customers, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of goods or services and thus has the ability to direct the use and obtain the benefits from the goods or services. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier adoption is permitted. The Company does not expect this standard to have a significant impact on the Company's financial statements at this time.

- In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low value assets; however, this exemption can only be applied by lessees. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application if IFRS 15 is also applied. The Company has yet to assess the impact of this standard.

4. Inventory

The Company did not record the fair value of its biological assets, as it did not have a sales licence. The Company's purchased inventory was comprised of the following items:

	December 31, 2017 **$**	December 31, 2016 $
Balances, beginning of the year	**-**	-
Dry Cannabis		
Packaged goods	**95,547**	-
Dry Bud	**1,226,910**	-
Supplies and consumables	**41,741**	-
Balance, end of year	**1,364,198**	-

5. Property, plant and equipment

	Land $	Assets in Process $	Building and Improvements $	Irrigation & Lighting Systems $	Security System $	Office Furniture & Equipment $	Total $
Cost							
Balance at January 1, 2017	-	400,771	-	-	-	-	400,771
Additions	993,991	370,944	6,628,957	-	-	261,487	8,255,379
Completion of construction	-	(400,771)	6,368,719	706,536	151,654	-	6,826,138
Disposals	-	-	(224,002)	-	-	-	(224,002)
Balance at December 31, 2017	**993,991**	**370,944**	**12,773,674**	**706,536**	**151,654**	**261,487**	**15,258,286**
Accumulated Depreciation							
Balance at January 1, 2017	-	-	-	-	-	-	-
Depreciation	-	-	193,070	10,758	1,410	18,769	224,007
Disposals	-	-	(1,867)	-	-	-	(1,867)
Balance at December 31, 2017	**-**	**-**	**191,203**	**10,758**	**1,410**	**18,769**	**222,140**
Net book value at December 31, 2017	**993,991**	**370,944**	**12,582,471**	**695,778**	**150,244**	**242,718**	**15,036,146**

	Land $	Assets in Process $	Building and Improvements $	Irrigation & Lighting Systems $	Security System $	Office Furniture & Equipment $	Total $
Cost							
Balance at January 1, 2016	-	141,680	-	-	-	-	141,680
Addition	-	259,091	-	-	-	-	259,091
Completion of construction	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Balance at December 31, 2016	**-**	**400,771**	**-**	**-**	**-**	**-**	**400,771**
Accumulated Depreciation							
Balance at January 1, 2016	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Balance at December 31, 2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net book value at December 31, 2016	**-**	**400,771**	**-**	**-**	**-**	**-**	**400,771**

In January 2017, TerrAscend purchased the premises that it was previously leasing from a corporation controlled by a director of the Company, for $6,899,900 in total consideration, plus $190,587 of closing costs. Of the total cost of $7,090,487, $993,991 was allocated to land, with the remainder being allocated to building. In addition, interest and accretion costs of $996,341, related to the convertible debenture (*note* 8) were capitalized as a part of building and improvements.

During the year ended December 31, 2017, improvements on Phase 1 (cultivation facility) were completed. $400,711 of assets in process were transferred to building and improvements upon completion of the Phase 1 improvements. $6,368,719 in completion of construction costs also related to improvements made on Phase 1.

During the year ended December 31, 2017, the assets in process additions were $370,944 of which $239,950 related to building a cultivation facility (phase 2). The remaining $130,994 was mainly for the build out of a drug preparation premises.

6. Intangible Assets

	Software $	Patient List $	Total $
Cost			
Balance at January 1, 2017	**-**	**-**	**-**
Additions	**102,679**	**250,000**	**352,679**
Balance at December 31, 2017	**102,679**	**250,000**	**352,679**
Accumulated Depreciation			
Balance at January 1, 2017	**-**	**-**	**-**
Depreciation	**7,577**	**12,499**	**20,076**
Balance at December 31, 2017	**7,577**	**12,499**	**20,076**
Net book value at December 31, 2017	**95,102**	**237,501**	**332,603**

During the year ended December 31, 2017, software additions were $102,679 of which $82,000 related to customer relation management software. The remaining $20,679 was for a Cannabis software solution.

During the year ended December 31, 2017, patient lists were acquired from Canna Relief Consulting Canada Inc for $250,000.

7. Accounts payable and accrued liabilities

	2017 **$**	2016 $
Trade payables and accrued liabilities	**1,692,100**	536,668
Deferred rent	**-**	281,675
Balance	**1,692,100**	818,343

8. Convertible debenture

On January 31, 2017, the Company issued a senior, secured convertible debenture for gross proceeds of $9,400,000. The convertible debenture bears interest at 12% per annum during the first 12 months and 18% per annum during the period after the initial 12 months. The interest rate was reduced to 6% per annum on the date of a liquidity event which, pursuant to the Agreement, was the date that the shares of the Company were listed on the CSE. The convertible debenture matures 18 months from the date of closing.

The convertible debenture agreement allowed for two conversion prices depending on whether the Company received its license to cultivate from Health Canada before July 31, 2017 (convert at $0.75 per share) or after July 31, 2017 (convert at $0.59 per share). The Company was granted its license to cultivate from Health Canada on July 10, 2017 and, as such, the debenture is convertible at $0.75 per share.

The Company initially recognized $7,793,510 as the fair value of the convertible debenture, and $1,122,502 was initially recognized in contributed surplus with respect to the value of the conversion feature.

On August 4, 2017, the principal amount of $500,000 of the convertible debenture was converted into 666,667 Common Shares. Accrued interest from the quarter ended June 30, 2017 to August 4, 2017 was added to the balance of the outstanding debenture.

On September 1, 2017, the remaining outstanding balance of the debenture of $9,369,447 was converted into 12,492,596 Common Shares.

During the year, the Company capitalized $996,341 of interest and accretion cost related to the convertible debenture. (*note* 5)

9. Share Capital and Reserves

Authorized share capital

The authorized share capital of the Company consists of an unlimited number of common shares.

Outstanding share capital

	Class A Shares	**Class B Shares**	**Common Shares**	**Amount $**
Outstanding, December 31, 2015	300	8,640,000	-	530,012
Shares issued for cash	-	7,672,352	-	3,384,078
Shares issued for debt	-	9,270,000	-	92,700
Shares issued for services	-	90,000	-	40,050
Outstanding, December 31, 2016	300	25,672,352	-	4,046,840
Shares issued for cash	-	1,089,888	53,944,819	57,910,905
Shares issued – stock options	-	-	197,376	185,090
Shares issued – convertible debentures	-	-	13,159,263	9,912,353
Shares issued for services	-	225,000	62,500	160,125
Reallocation from share-based payments reserve	-	-	-	121,118
Reallocation to warrants reserve	-	-	-	(22,960,997)
Reallocation of related party debt	(300)	-	-	968,371
Repurchase of shares	-	-	-	(1)
Exchange of shares	-	(26,987,240)	26,987,240	-
Outstanding, December 31, 2017	**-**	**-**	**94,351,198**	**50,343,804**

The current year's share capital activity is set out below and does not reflect the opening balance of Class A and Class B shares.

On January 11, 2017, the Company issued 1,314,888 Class B shares for gross proceeds of $585,125. The Company repurchased and cancelled all issued and outstanding Class A shares for nominal proceeds, and renamed its Class B shares as "common shares" of the Company. On March 8, 2017, the Company exchanged its Common Shares for all of the issued and outstanding common shares of Solace on a one-for-one basis.

On April 20, 2017, TerrAscend closed a non-brokered private placement offering of 2,250,000 Common Shares at $0.60 per share for gross proceeds of $1,350,000 (the "**April 2017 Offering**"). In connection with the April 2017 Offering, the Company paid a finder's fee of $108,000 and incurred additional costs of issuance, such as legal and filing fees, of $242,801.

On July 31, 2017, the Company closed the first tranche of a non-brokered private placement offering of 3,037,976 units at $1.05 per unit (the "**Units**") for gross proceeds of $3,189,875 (the "**July 2017 Offering**"). Each Unit is comprised of one Common Share and one half of one Common Share purchase warrant. Each whole warrant entitles the holder to purchase one Common Share for $1.75 per share for a period of two years from the date of closing of the financing.

On August 4, 2017, $500,000 in principal of the convertible debenture was converted into 666,667 Common Shares.

On August 16, 2017, the Company closed the second tranche of the July 2017 Offering and announced the issuance of an additional 929,570 Units for gross proceeds of $976,049. Total gross proceeds raised were $4,165,924.

In connection with the offers, the Company paid total finders' fees of $38,413 and incurred additional costs of issuance, such as legal and filing fees, of $57,683. The Common Shares issued under the July 2017 Offering are subject to a statutory four-month and one day hold period. Proceeds from this financing will be used to build out additional space at the Facility, commence construction of the DPP, further develop its subsidiary THN, and for other working capital needs.

On September 1, 2017, the remaining outstanding balance of the debenture of $9,369,447 was converted into 12,492,596 Common Shares.

On October 13, 2017, 62,500 Common Shares were issued for the purchase of assets from Canna Relief Consulting Canada Inc. The shares are subject to a statutory four-month and one day hold period.

On December 8, 2017, the Company closed a non-brokered private placement offering of 47,727,273 Common Shares at $1.10 per share for gross proceeds of $52,500,000 (the "**December 2017 Offering**"). Each Unit is comprised of one Common Share and one Common Share purchase warrant which entitles the holder to purchase one Common Share for $1.10 per share for a period of 36 months from the date of closing of the financing. In connection with the December 2017 Offering, the Company incurred additional costs of issuance, such as legal and filing fees, of $66,372. The Common Shares issued under the December 2017 Offering are subject to a statutory four-month and one day hold period. Related subscription receipts of $52,424,983 which had been held in escrow were released to the Company on December 8, 2017.

During the year ended December 31, 2017, 197,376 stock options were exercised ranging in price from $0.81 to $1.21 for gross proceeds of $185,090.

During the period related party debt of $968,371 was forgiven and reclassified to share capital.

Warrants reserve

The fair value of warrants outstanding as at December 31, 2017 and December 31, 2016 was estimated on their respective grant dates using the Black-Scholes valuation model based on the following assumptions:

Issue date	January 31, 2017	July 31, 2017	August 16, 2017	December 8, 2017	2016
Volatility	100%	100%	100%	100%	n/a
Risk-free interest rate	0.76%	1.31%	1.23%	1.54%	n/a
Expected life (years)	1.75	2.00	2.00	2.00	n/a
Dividend yield	Nil	Nil	Nil	Nil	n/a
Forfeieture rate	0%	0%	0%	0%	n/a
# of Warrants issued	2,173,913	1,518,988	464,785	47,727,273	n/a
Share price	$ 0.45	$ 1.05	$ 1.05	$ 1.10	n/a
Value	$ 499,500	$ 545,583	$ 141,725	$ 22,273,689	n/a

On January 31, 2017, the Company issued 2,173,913 Common Share purchase warrants in payment for financial advisory services rendered. Each warrant is exercisable at $0.46 per share and expires on January 31, 2019.

On July 31, 2017 and August 16, 2017, the Company issued 1,518,988 and 464,785 Common Share purchase warrants, respectively, as a part of a non-brokered private placement offering (see above, *Outstanding share capital*). Each warrant is exercisable at $1.75 per share and expires at 24 months from the respective closing dates.

On December 8, 2017, the Company issued 47,727,273 Common Share purchase warrants as a part of a non-brokered private placement offering (see above, *Outstanding share capital*). Each warrant is exercisable at $1.10 per share and expires at 36 months from the respective closing date.

	Number of Warrants	**Issue Date**	**Expiry Date**	**Weigthed Average Exercise Price $**	**Weighted Average Remaining Life (years)**
Outstanding, December 31, 2016	-				
Issued in payment for financial advisory services	2,173,913	31/01/2017	31/01/2019	0.46	1.08
Issued during private placement	1,518,988	31/07/2017	31/07/2019	1.75	1.58
Issued during private placement	464,785	16/08/2017	16/08/2019	1.75	1.62
Issued during private placement	47,727,273	08/12/2017	08/12/2020	1.10	2.94
Outstanding, December 31, 2017	**51,884,959**			**1.10**	**2.81**

Options

The Company's Stock Option Plan (the "**Plan**") provides for the granting of stock options to directors, officers, employees and consultants of the Company. Share options are granted for a term not to exceed ten years at an exercise price which is the greater of the closing market price of the shares on the CSE on the trading day immediately preceding the date the options are granted and on the same day of the option grant, in accordance with CSE policy. The options are not transferrable. The Plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual (not to exceed 5% of issued and outstanding shares to any one individual) and the vesting period. The maximum number of shares of the Company that are issuable pursuant to the Plan is limited to 10% of the issued and outstanding shares of the Company as at the date of the grant of options.

The fair value of the various stock options was estimated using the Black-Scholes option pricing model with the following assumptions: Stock price volatility – 100%; Risk-free interest rate – 0.67% to 1.81%; Dividend yield – 0%; and Expected lives – 1 to 10 years.

The following is a summary of the changes in the Company's options during the year

	Options Issued	Average Exercise Price $
Balance Outstanding at December 31, 2016	-	-
Options Granted	4,518,749	1.36
Options Exercised	(197,379)	0.94
Options Forefeited/Cancelled	(258,036)	0.95
Balance Outstanding at December 31, 2017	4,063,334	1.41

The following is a summary of the outstanding stock options as at December 31, 2017.

Number Outstanding at December 31, 2017	Exercise Price $	Weighted Average Remaining Contractual Life (years)	Number Exercisable at December 31, 2017
1,450,000	0.60	7.27	1,150,000
25,000	0.81	4.74	4,167
266,251	0.85	4.66	41,251
45,000	0.89	4.84	1,666
307,083	0.90	4.84	18,333
650,000	1.21	3.89	213,334
300,000	1.40	1.96	300,000
20,000	1.95	4.93	1,667
1,000,000	3.05	9.96	100,000
4,063,334	**1.41**	**6.59**	**1,830,418**

At December 31, 2017, the weighted average exercise price of options outstanding and options exercisable was $1.41 and $0.84, respectively.

10. Related parties

(a) In January 2017, the Company purchased the property it was leasing from a corporation controlled by a director of the Company for $6,899,900 in total consideration, plus $190,587 of closing costs (note 5). Terms were market value.

(b) Key management includes directors and officers of the Company. Total compensation, comprised of salaries and share-based payments, awarded to key management for the years ended December 31, 2016 and December 31, 2017 respectively were as follows:

	December 31, 2017 **$**	December 31, 2016 $
Salaries	**468,076**	-
Share-based payments	**1,227,466**	-
Total	**1,695,542**	-

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

(c) During the year ended December 31, 2017, the Company paid for licensing, development and maintenance fees related to TerrAscend's wholly-owned subsidiary, Terra Health Network, in the amount of $69,495 (December

31, 2016 - $nil) to RX Infinity Inc., of which Dr. Michael Nashat is a director and managing partner and, together with a family member, owns 33%.

(d) During the period related party debt of $968,371 was forgiven and reclassified to share capital (see note 9).

11. Income Taxes

The reconciliation of the combined Canadian federal and provincial corporate income taxes at statutory rates 26.5% to the Company's effective income tax expenses is as follows:

	2017	2016
	$	$
Loss before income taxes	**(6,805,469)**	(867,181)
Statutory rate	**26.50%**	26.50%
Expected income tax recovery	**1,803,449**	229,803
Effect on income taxes of deductible & (Non-deductible) adjustments		
Debt forgiveness and other adjustments	**(394,552)**	-
Share issuance cost booked through equity	**292,618**	-
Non-deductible expenses	**(783,623)**	(542)
Change in tax benefits not recognized	**(917,892)**	(229,261)
Income tax recovery	**-**	**-**

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities.

Deferred tax assets have not been recognized in respect of the following temporary differences:

	2017	2016
	$	$
Non-capital loss carried forward	**4,304,549**	1,665,435
Deferred rent	**-**	281,675
Deductible share issuance costs	**901,370**	24,000
Property, plant and equipment	**218,934**	-

The Company's non-capital losses expires as follows:

2035	**$**	**695,519**
2036		**3,609,549**
Total	**$**	**4,304,549**

12. Capital management

The Company's objective in managing capital is to ensure a sufficient liquidity position to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to achieve this objective, the Company prepares capital requirements to manage its capital structure. The Company defines capital as borrowings as detailed and equity and borrowings, comprised of issued share capital, share-based payments, accumulated deficit, as well as due to related parties.

Since inception, the Company has primarily financed its liquidity needs through the issuance of Common Shares and funding received from related parties.

There have been no changes to the Company's objectives and what it manages as capital as at December 31, 2017 and December 31, 2016, or during the year ended December 31, 2017. The Company is not subject to externally-imposed capital requirements.

13. Financial instruments and risk management

Financial instruments

The Company has classified its cash as fair value through profit and loss ("**FVTPL**"), receivables as loans and receivables, and accounts payable and accrued liabilities, due to related parties and convertible debentures as other financial liabilities.

The carrying values of cash, receivables, due to related parties, and accounts payable and accrued liabilities approximate their fair values due to their short periods to maturity.

Fair value hierarchy

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

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

Financial risk factors

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash. The Company's cash is held at a major Canadian bank. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

(b) Liquidity risk

The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The Company monitors and manages its cash flows to assess the liquidity necessary to fund operations. As at December 31, 2017, the Company had cash and receivables balance of $52,228,746 (December 31, 2016 - $3,447,355) to settle current liabilities of $1,692,100 (December 31, 2016 - $1,786,168). As such, liquidity risk for the Company should be considered very low. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(c) Interest rate risk

The Company is not subject to any significant interest rate risk from its liabilities. All other financial liabilities are non-interest-bearing instruments.

14. Subsequent events

(a) Change in Management

On January 10, 2018, Michael Nashat was appointed the President and CEO of TerrAscend.

(b) License to Produce Cannabis Oils

On February 5, 2018, Solace was granted an oil production license by Health Canada pursuant to the Access to Cannabis for Medical Purposes Regulations.

(c) License to sell dried cannabis

On March 9, 2018, Solace was granted a license by Health Canada to sell dried cannabis.

(d) Incorporation of New Subsidiary

On March 27, 2018, the Company incorporated 2627685 Ontario Inc., a wholly owned subsidiary of TerrAscend to act as a holding company for future partnerships and investments.

(e) Incentive Stock Options

On January 12, 2018, the Company granted 150,000 options to employees of the Company. The options have a weighted average exercise price of $3.20.

On February 1, 2018, the Company granted 110,000 options to employees of the Company. The options have a weighted average exercise price of $2.95.

On February 28, 2018, the Company granted 295,000 options to employees of the Company. The options have a weighted average exercise price of $3.14.

On April 9, 2018, the Company granted 355,000 options to employees of the Company. The options have a weighted average exercise price of $4.35.

On April 16, 2018, the Company granted 175,000 options to employees of the Company. The options have a weighted average exercise price of $3.85.

Subsequent to December 31, 2017, 586,996 stock options were exercised ranging in price from $0.89 to $3.20 for gross proceeds of $442,545 and 363,186 warrants were exercised from the $1.75 issuance for gross proceeds of $635,576.

(f) Fire & Flower Investment

On April 20, 2018, the Company purchased 3,125,000 units of Fire & Flower, a proposed private retailer for adult use cannabis sales in select provinces for an aggregate of $2,500,000 or $0.80 per unit, amounting to approximately 5% of the outstanding Fire & Flower shares. Each unit is comprised of one common share and one common share purchase warrant in Fire & Flower. Each common share purchase warrant entitles TerrAscend to purchase one additional common share of Fire & Flower at a price of CDN$1.05 within twenty-four (24) months. The Company completed this strategic investment through a wholly-owned entity of TerrAscend.

(g) Solace Health Marketplace

On April 25, 2018, the Company’s wholly-owned subsidiary, Solace Health Inc. launched the Solace Health Marketplace, a centralized destination for Canadian cannabis patients to access information, quality support and a diverse selection of dried cannabis products to support patient wellness.