TerrAscend Corp.
Management Discussion & Analysis
December 31, 2017

Introduction

*This Management's Discussion and Analysis ("**MD&A**") relates to the performance, financial condition and future prospects of TerrAscend Corp. ("**TerrAscend**", or the "**Company**") and should be read in conjunction with the Audited Consolidated Financial Statements for the year ended December 31, 2017 and 2016, and Notes thereto. References in this MD&A to TerrAscend or the Company include its subsidiaries, as the context requires. Readers are cautioned that the MD&A contains forward-looking statements and that actual events may vary from management's expectations. The Audited Consolidated Financial Statements and MD&A are presented in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). All amounts are presented in Canadian dollars unless otherwise specified. This discussion addresses matters we consider important for an understanding of our financial condition and results of operations as of April 25, 2018 and for the year ended December 31, 2017. Readers are encouraged to read the Company's public information filings which can be accessed and viewed through a link to the Company's Canadian Securities Commissions filings via the System for Electronic Data Analysis and Retrieval (SEDAR) at* www.sedar.com.

This MD&A was approved by the Board of Directors of TerrAscend on April 25, 2018, and reflects all material events up to that date.

Forward-Looking Statements

This MD&A contains forward-looking statements with respect to expected financial performance, strategy and business conditions. The words "believe", "anticipate", "estimate", "plan", "expect", "intend", "may", "project", "will", "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management.

The forward-looking statements contained herein are based on certain key expectations and assumptions, relating to:

- the ability of the Company to generate cash flow from operations and obtain necessary financing on acceptable terms, and the use of net proceeds from Private Placements;
- the suitability of the production facility;
- expectations with respect to the expansion of the production facility;
- TerrAscend's expectations regarding its consolidated revenue, expenses and operations;
- TerrAscend's intention to develop its business and its operations;
- expectations with respect to future production costs and capacity;
- expectations regarding additional locations of Terra Health Network;
- the general economic, financial market, regulatory and political conditions in which the Company operates;
- consumer interest in the Company's products;
- the timely receipt of any required regulatory approvals, including approvals from Health Canada;
- competition;
- the ability of the Company to obtain qualified staff, equipment and services in a timely and cost-efficient manner; and
- the ability of the Company to conduct operations in a safe, efficient and effective manner.

If any of these risks or uncertainties materialize, or if assumptions underlying the forward-looking statements prove incorrect, actual results might vary materially from those anticipated in those forward-looking statements.

Certain of the forward-looking statements and forward-looking information and other information contained in this MD&A concerning TerrAscend's industry and the markets in which it operates, including general expectations and market position, market opportunities and market share, is based on estimates prepared by TerrAscend using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which TerrAscend believes to be reasonable. While TerrAscend is not aware of any misstatement regarding any industry or government data presented herein, the medical cannabis industry

involves risks and uncertainties that are subject to change based on various factors and TerrAscend has not independently verified such third-party information. See "Risk Factors" in this MD&A. Given these risks, uncertainties and assumptions, you should not place undue reliance on any forward-looking statements or information. Whether actual results, performance or achievements will conform to TerrAscend's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors.

Business Overview

TerrAscend was incorporated under the *Business Corporations Act* (Ontario) as "TerrAscend Corp." 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**"). The Company's registered and head office is located at PO Box 43125, Mississauga, Ontario, L5C 1W2.

Solace 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. THN conducts additional activities, including physician and patient education and support programs. SolaceRx's is a proposed drug preparation facility (the "**DPP**").

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**"). Phase I construction on approximately 18,000 square feet of the Facility has been completed and is in use for cultivation and processing of medicinal cannabis. The current licensed space includes: 2 Flower Rooms, a Mother/Vegetation room, a trimming/drying room, a packaging room, an order fulfillment room, a level 10 vault, and additional supporting areas such as mechanical and electrical rooms.

Solace was granted amendments to its License by Health Canada on February 5th and March 9th, 2018 for production of cannabis oil and sale of dried cannabis respectively. 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.

The market for cannabis (including medical cannabis) in Canada is regulated by the *Controlled Drugs and Substances Act* (Canada) (the "**CDSA**"), the ACMPR, the *Narcotic Control Regulations* (the "**NCR**") and other applicable laws. Health Canada is the primary regulator of the industry as a whole. The ACMPR aims to create a framework to allow access to cannabis for medical purposes by creating conditions for a new commercial industry that is responsible for its production and distribution.

Solace is currently in the process of building out the vacant 41,000 square feet area between the front offices and existing Phase 1 build of the property at the Facility. The buildout is divided into three separate areas:

1. The proposed DPP, which will be licensed under the Ontario College of Pharmacists when completed. (~ 6,500 Sq Ft)
2. An expansion of Cultivation and Support Facilities which will be licensed under the ACMPR when completed. (~22,000 Sq Ft)
3. Good Manufacturing Practices (GMP) Post Cultivation Processing space which will be licensed under the ACMPR when completed. (~12,000 Sq Ft)

The construction of the DPP began in February of 2018 and once completed, the DPP will have 16 GMP compounding stations and will allow the Company to produce medicinal compounds for distribution to health care institutions and practitioners and generate a revenue stream that is completely separate from the Canadian cannabis market.

The expansion of the cultivation area will begin as soon as a permit is granted by the City of Mississauga. The additional space will allow for the cultivation of an estimated 2,000 to 2,500 kilograms of dried cannabis annually.

The GMP processing area is currently under construction and once complete will provide the Company with processing and packaging areas that can be used to produce and package alternative formats of dried cannabis products and derivative products such as oils.

Summary of the ACMPR

In 2001, Canada became the second country in the world to recognize the medicinal benefits of cannabis and to implement a government-run program for medical cannabis access, the *Medical Marihuana Access Regulations* ("**MMAR**"). Health Canada replaced this regulatory framework and issued the *Marihuana for Medical Purposes Regulations* ("**MMPR"**) in June 2013 to replace government supply and home-grown medical cannabis with highly secure and regulated commercial operations capable of producing consistent, quality medicine. The ACMPR replaced the MMPR as the governing regulations in respect of the production, sale and distribution of medical cannabis and related oil extracts. The replacement regulations were implemented as a result of the ruling by the Federal Court of Canada in the case of *Allard v Canada* which found the MMPR unconstitutional in violation of the plaintiffs' rights under Section 7 of the Charter of Rights and Freedoms due to the restrictions placed on a patient's ability to reasonably access medical cannabis.

The ACMPR effectively combines the regulations and requirements of the MMPR, the MMAR and the section 56 exemptions relating to cannabis oil under the CDSA into one set of regulations. In addition, among other things, the ACMPR sets out the process patients are required to follow to obtain authorization from Health Canada to grow cannabis and to acquire seeds or plants from Licensed Producers to grow their own cannabis. Under the ACMPR, patients have three options for obtaining cannabis:

(a) they can continue to access quality-controlled cannabis by registering with Licensed Producers;

(b) they can register with Health Canada to produce a limited amount of cannabis for their own medical purposes; or

(c) they can designate someone else to produce it for them.

With respect to (b) and (c), starting materials, such as plants or seeds, must be obtained from Licensed Producers. It is possible that (b) and (c) could significantly reduce the addressable market for the Company's products and could materially and adversely affect the business, financial condition and results of operations of the Company. That said, management of the Company believes that many patients may be deterred from opting to proceed with options (b) or (c) since such steps require applying for and obtaining registration from Health Canada to grow cannabis, as well as the up-front costs of obtaining equipment and materials to produce such cannabis.

Reporting Requirements under the ACMPR

As described under the ACMPR (see Part 1, Division 5 of the ACMPR), Licensed Producers are required to keep records of, among other things, their activities with cannabis, including all transactions (sale, exportation, and importation), all fresh or dried marihuana or cannabis oils returned from clients, and an inventory of cannabis (e.g. seeds, fresh harvested marihuana, dried marihuana, packaged marihuana, packaged cannabis seeds, cannabis oil, cannabis plants destined to be sold or provided). All records have to be kept for a period of at least two years, in a format that will be easily auditable, and will have to be made available to Health Canada upon request. All communications regarding reports for healthcare licensing authorities, including both those sent and received, are also subject to this two year requirement.

A Licensed Producer must provide Health Canada with a case report for each serious adverse reaction to fresh or dried marihuana or cannabis oil within 15 days of the Licensed Producer becoming aware of the reaction. A Licensed Producer must annually prepare and maintain a summary report that contains a concise and critical analysis of all adverse reactions to have occurred during the previous 12 months (the serious adverse reaction reports and the summary reports must be retained by the Licensed Producer for a period of 25 years after the day on which they were made).

Health Canada released an Information Bulletin titled, "Licensed Producers' Reporting Requirements" on December 1, 2016 to provide an overview of the information Licensed Producers must provide to Health Canada on a monthly basis. Licensed Producers must provide the following information to the Office of Controlled Substances for the previous month on or before the 15th day of each month:

(a) With respect to fresh and dried cannabis, cannabis oil, cannabis seeds and cannabis plants, licensed producers must report the amounts produced, as well as the amounts received from another licensed producer as follows:

- total amount produced in the reporting period;
- amount released for sale in the reporting period;
- amount of fresh and dried cannabis produced in the reporting period and intended for extraction activities; and
- amount received from other licensed producers during the reporting period;

(b) With respect to fresh and dried cannabis, cannabis oil, cannabis seeds and cannabis plants, licensed producers must report the total amount sold or transferred to the following during the reporting period:

- registered clients;
- other licensed producers; and
- licensed dealers;

(c) Number of clients registered;

(d) Number of clients registered by province or territory of residence;

(e) Number of refused registrations and refusals to fill order;

(f) With respect to fresh and dried cannabis and cannabis oil, licensed producers must report as of the final day of the reporting period the amounts held in inventory as follows:

- total amount held in inventory;
- amount intended for sale but not yet approved held in inventory;
- amount approved for sale held in inventory;
- amount of samples in inventory; and
- amount of fresh and dried cannabis intended for extraction activities held in inventory;

(g) With respect to cannabis seeds and cannabis plants, licensed producers must report:

- the total number of plants held in inventory;
- the number of plants destined to be sold as starting material held in inventory;
- the total weight of seeds held in inventory; and
- the number and weight of seeds destined to be sold as starting material held in inventory;

(h) Licensed producers must also include in their report the total amounts ready to be destroyed, but still held in inventory on the final day of the reporting period;

(i) Total amount of cannabis imported during the reporting period;

(j) Total amount of cannabis exported during the reporting period;

(k) Total amount of cannabis lost or stolen during the reporting period;

(l) With respect to fresh and dried cannabis, cannabis oil, cannabis seeds and cannabis plants, licensed producers must report the total amount:

- that was destroyed during the reporting period; and
- of waste (e.g., plants, leaves, twigs) destroyed during the reporting period;

(m) With respect to fresh and dried cannabis, cannabis oil, cannabis seeds and cannabis plants, licensed producers must report the total amount returned from clients during the reporting period;

(n) Licensed producers must report the total number of shipments sent to the following during the reporting period:

- registered clients;
- registered clients for interim supply;
- other licensed producers; and
- licensed dealers;

(o) Licensed producers must report the total number of shipments sent to the following in each province and territory:

- registered clients;
- registered clients for interim supply; other licensed producers; and
- licensed dealers;

(p) Average daily amount of marihuana for medical purposes authorized;

(q) Median daily amount of marihuana for medical purposes authorized;

(r) Average shipment size sent to registered clients during the reporting period;

(s) Median shipment size sent to registered clients during the reporting period;

(t) List of ten highest unique daily authorized amounts and the frequency with which they occur;

(u) List of daily authorized amounts in specified increments:

- 0 to 1 grams;
- 1.1 to 2 grams;
- 2.1 to 3 grams;
- 3.1 to 4 grams;
- 4.1 to 5 grams;

- 5 to 10 grams;
- 10 to 15 grams; and
- > 15 grams;

(v) Total number of shipments to registered clients per each 10 gram interval between 0 and 150 grams;

(w) List of all health care practitioners who have completed medical documents for cannabis for medical purposes for registered clients and their location;

(x) List of all nurse practitioners who have completed medical documents for cannabis for medical purposes for registered clients and their location;

(y) Cannabis with which they are conducting research and development activities; and

(z) Activities with respect to cannabis products, other than cannabis or cannabis oil (e.g. cannabis resin).

Recent Developments

On December 13, 2016, the Task Force on Cannabis Legalization and Regulation (the "**Task Force**"), which was established by the Canadian Federal Government to seek input on the design of a new system to legalize, strictly regulate and restrict access to cannabis, completed its review and published its report outlining its recommendations. On April 13, 2017, the Canadian Federal Government released Bill C-45, which proposes the enactment of the *Cannabis Act* (Canada) (the "**Cannabis Act**"), to regulate the production, distribution and sale of cannabis for unqualified adult use, with a target implementation date of no later than July 1, 2018 (or such other date that may be determined by the Canadian Federal Government). The impact of such regulatory changes on TerrAscend's business is unknown, and the proposed regulatory changes may not be implemented at all. See "Risk Factors — Changes in Laws, Regulations and Guidelines Relating to Our Business".

On September 8, 2017, the Ontario government announced its proposed retail and distribution model of legalized recreational cannabis to be modelled on the current Liquor Control Board of Ontario ("**LCBO**") framework. Under Ontario's proposed framework, the LCBO would be solely mandated with overseeing the legal retail business of recreational cannabis in Ontario through new stand-alone cannabis stores and an LCBO-controlled online order and distribution service, which together, would comprise the only channels through which consumers would be able to legally purchase recreational cannabis. The announcement marked an important step forward for the province and a responsible step forward for the cannabis industry, with the introduction of a model that will help restrict access to youth, help protect the health and safety of Ontarians, and help keep profits out of the hands of the black market.

On October 3, 2017, the Parliamentary Standing Committee on Health ("**HESA**") proposed amendments to the Cannabis Act, which if approved would allow for cannabis edibles and concentrates to be available for sale within 12 months of the Cannabis Act coming into force. HESA also proposed among other matters, that the Minister of Health (the "**Minister**") would be required to review the Cannabis Act and its administration and operation three years after it comes into force and would clarify that applications made for (i) a Dealer's License under section 9.2 of the NCR, (ii) a license under section 67 of the NCR to cultivate, gather or produce cannabis for scientific purposes, and (iii) an import or export permit under section 10 of the NCR, will be deemed to be an application made under the Cannabis Act, so that licensing and permit requirements are merged under the same legislation.

Following Ontario's announcement, the other provinces and territories have each released some form of their proposed cannabis framework which have varying degrees of clarity.
On November 21, 2017, Health Canada released a consultation paper entitled "Proposed Approach to the Regulation of Cannabis" (the "**Proposed Regulations**"). The Proposed Regulations, among other things, seek to solicit public input and views on the appropriate regulatory approach to a recreational cannabis market by building upon established regulatory requirements that are currently in place for medical cannabis.

The Proposed Regulations are divided into the several categories including the following:

1. Licenses, Permits and Authorizations;
2. Security Clearances;
3. Cannabis Tracking System;
4. Cannabis Products;
5. Packaging and Labelling;
6. Cannabis for Medical Purposes; and
7. Health Products and Cosmetics Containing Cannabis.

Licenses, Permits and Authorizations

The Proposed Regulations would establish different types of authorizations, based on the activity being undertaken and, in some cases, the scale of the activity. Rules and requirements for different categories of authorized activities are intended to be proportional to the public health and safety risks posed by each category of activity. The types of proposed authorizations include: (i) cultivation; (ii) processing; (iii) sale to the public for medical purposes and non-medical purposes in provinces and territories that have not enacted a retail framework; (iv) analytical testing; (v) import/export; and (vi) research.

Cultivation licenses would allow for both large-scale and small-scale (i.e. micro) growing of cannabis, subject to a stipulated threshold. Industrial hemp and nursery licenses would also be issued as a subset of cultivation licenses. On March 19, 2018, Health Canada released another consultation paper titled "Proposed Approach to the Regulation of Cannabis: Summary of Comments Received During the Public Consultation" (the "**Comment Summary**"), which clarified that the threshold: (i) for micro-cultivators, the cultivation of a plant canopy area of no more than 200 square metres; and (ii) for micro-processers, the processing of no more than 600 kilograms of dried cannabis (or equivalent) per year, or the entire output of a single micro-cultivation licence.

The Proposed Regulations provide that all licenses issued under the Cannabis Act would be valid for a period of no more than five years and that no licensed activity could be conducted in a dwelling-house. The Proposed Regulations would also permit both outdoor and indoor cultivation of cannabis. The Comment Summary reaffirms Health Canada's contemplation of outdoor cultivation and indicates that it is further considering whether additional regulatory requirements should be imposed to ensure the satisfaction of Good Production Practices, among other things. The authorization of outdoor cultivation could be significant as it may reduce start-up capital required for new entrants in the cannabis industry. It may also ultimately lower prices as capital expenditure requirements related to growing outside are typically much lower than those associated with indoor growing.

License

The License, under its current iteration, is valid until July 10, 2020. It allows for the production, sale, possession, shipping, transportation, delivery and destruction of dried cannabis, and the production, possession, and destruction of fresh marihuana, marihuana plants, marihuana seeds and cannabis oil, with conditions on sale, shipping, transportation, and delivery. The reporting obligations of the Company under the License are summarized above under "*Reporting Requirements under the ACMPR*". The ACMPR requires that the Minister, after examining the application and any supplementary information requested, issue a renewed License, unless:

1) the applicant is not an adult who ordinarily resides in Canada or a corporation that has its head office in Canada or operates a branch office in Canada and whose officers and directors are all adults;

2) the requirements regarding notification of local authorities pursuant to the ACMPR have not been met (such notifications would only be required in connection with a renewal if there are changes to the information since the original application);
3) an inspector, who has requested an inspection, has not been given the opportunity by the applicant to conduct an inspection;
4) the Minister has reasonable grounds to believe that false or misleading information or false or falsified documents were submitted in or with the application;
5) information received from a peace officer, a competent authority or the United Nations raises reasonable grounds to believe that the applicant has been involved in the diversion of a controlled substance or precursor to an illicit market or use;
6) the applicant does not have in place the security measures set out in the Security Directive and Subdivision C of the ACMPR in respect of an activity for which the license is sought;
7) the applicant is in contravention of or has contravened in the past 10 years:
    (i) a provision of the CDSA or its regulations or the Food and Drugs Act, or
    (ii) a term or condition of another license or a permit issued to it under any of those regulations;
8) the renewal of the license would likely create a risk to public health, safety or security, including the risk of cannabis being diverted to an illicit market or use;
9) any of the following persons does not hold a security clearance:
    (i) the senior person in charge,
    (ii) the responsible person in charge,
    (iii) if applicable, the alternate responsible person in charge, if the applicant is an individual, that individual, and
    (iv) if the applicant is a corporation, any of its officers or directors;
10) the proposed method of record keeping does not meet the requirements of the ACMPR; or
11) if applicable, any supplemental information requested has not been provided or is insufficient to process the application.

Security Clearances

It is proposed that select personnel (including individuals occupying a "key position", directors, officers, large shareholders and individuals identified by the Minister) associated with certain licenses issued under the Cannabis Act would be obliged to hold a valid security clearance issued by the Minister. The Proposed Regulations would enable the Minister to refuse to grant security clearances to individuals with associations to organized crime or with past convictions for, or an association with, drug trafficking, corruption or violent offences. This is the approach in place today under the ACMPR and other related regulations governing the licensed production of cannabis for medical purposes.

Health Canada acknowledges in the Proposed Regulations and the Comment Summary that there are individuals who may have histories of non-violent, lower-risk criminal activity (for example, simple possession of cannabis, or small-scale cultivation of cannabis plants) who may seek to obtain a security clearance so they can participate in the legal cannabis industry. Under the new set of rules, the Minister would be authorized to grant security clearances to any individual on a case-by-case basis. Health Canada has indicated in the Comment Summary that it is continuing to consider whether individuals with histories of non-violent, lower-risk criminal activity should be able to obtain a security clearance during the development of the final regulations.

Cannabis Tracking System

As currently proposed under the Cannabis Act, the Minister would be authorized to establish and maintain a national cannabis tracking system. The purpose of this system would be to track cannabis throughout the supply chain to help prevent diversion of cannabis into, and out of, the legal market. The Proposed Regulations would provide the Minister with the authority to make a ministerial order that would require certain persons named in such order to report specific information about their authorized activities with cannabis, in the form and manner specified by the Minister.

Health Canada also indicated in the Comment Summary that additional consideration is being given to what, changes are required to the proposed requirements to the Cannabis Tracking System to help it achieve its objective of

preventing the diversion of cannabis. In implementing the proposed system, consideration will be given to minimizing the burden on those required to report, particularly micro-scale licensees and industrial hemp producers.

Cannabis Products

The Proposed Regulations would permit the sale to the public of dried cannabis, cannabis oil, fresh cannabis, cannabis plants, and cannabis seeds. It is proposed that the sale of edible cannabis products and concentrates (such as hashish, wax and oil-based vaping products) will be permitted within one year following the coming into force of the Cannabis Act.

The Proposed Regulations acknowledge that a range of product forms should be enabled to help the legal industry displace the illegal market. Additional product forms that are mentioned under the Proposed Regulations include "pre-rolled" cannabis and vaporization cartridges manufactured with dried cannabis. Specific details related to these new products are to be set out in a subsequent regulatory proposal.

Packaging and Labelling

The Proposed Regulations and the Comment Summary set out requirements pertaining to the packaging and labelling of cannabis products. Such requirements would promote informed consumer choice and allow for the safe handling and transportation of cannabis. Consistent with the requirements under the ACMPR, the Proposed Regulations would require all cannabis products to be packaged in a manner that is tamper-evident and child-resistant among other things.

While minor allowances for branding would be permitted, Health Canada is proposing strict limits on the use of colours, graphics, and other special characteristics of packaging to curtail the appeal of such products to youth. To ensure that consumers make informed decisions and to avoid misuse, products would be required to be labelled with specific information about the product, contain mandatory health warnings similar to tobacco products, and be marked with a clearly recognizable standardized cannabis symbol. The Comment Summary also provides specific guidance on packaging including:

1. only one other brand element (in addition to the brand name) can be displayed. This element could include, for example, a slogan or logo. If it is a text element, the font must be no larger than the font of the health warning message, and must be a single, uniform colour. If the brand element is a graphic, image or logo, it would be required to be no larger than the standardized cannabis symbol;

2. it will be prohibited to display any other image or graphic;

3. label and package backgrounds would need to be a single, uniform colour (inside and outside);

4. it will be prohibited to use any fluorescent or metallic colours;

5. colours must contrast with the colours of the standardized cannabis symbol and the background of the health warning messages;

6. labels and packaging can not have any coating (e.g. could not be glossy), embossing (raised or recessed relief images), texture, foil, cut-outs or peel-away labels;

7. any over-wrap must be clear; and

8. it will be prohibited to include any insert in a package.

Cannabis for Medical Purposes

The proposed medical access regulatory framework would remain substantively the same as currently exists under the ACMPR, with proposed adjustments to create consistency with rules for non-medical use, improve patient access, and reduce the risk of abuse within the medical access system.

Health Products and Cosmetics Containing Cannabis

Health Canada is proposing a scientific, evidenced-based approach for the oversight of health products with cannabis that are approved with health claims, including prescription and non-prescription drugs, natural health products, veterinary drugs and veterinary health products, and medical devices. It was further proposed that: (a) market access would be maintained for previously-approved health products with cannabis, including prescription drugs that have been approved for the treatment of serious conditions; (b) certain provisions of the proposed Cannabis Act and its regulations would not apply to health products containing cannabis; and (c) Health Canada will work with provincial and territorial governments and the National Association of Pharmacy Regulatory Authorities on options to control the sale and display of any potential health products containing cannabis that may not require the oversight of a healthcare practitioner. Under the Proposed Regulations, the use of cannabis-derived ingredients in cosmetics, which is currently prohibited, is proposed to be permitted and subject to provisions of the Cannabis Act.

The Comment Summary indicates that the existing authorizations for health products containing cannabis established by the Food and Drugs Act and its regulations will be maintained during the implementation of the Cannabis Act. This means that currently-authorized health products will continue to be marketed and remain available as they are now. Health Canada would also continue to accept new applications through the current approval process for prescription drugs containing cannabis, medical devices used for consuming cannabis for medical/therapeutic purposes and Natural Health Products (NHPs) and Veterinary Health Products (VHPs) that contain permitted cannabis parts of no more than 10 ppm THC.

The Comment Summary also indicates that Health Canada is giving additional consideration to promotional controls for prescription drugs under the proposed Cannabis Act. For packaging and labelling, it is currently proposed that prescription drugs with cannabis only be subject to the requirements of the Food and Drugs Act and its regulations.

Health Canada has indicated that further consultation will take place on the proposed approach for any potential new non-prescription drugs and NHPs containing cannabis. Until the consultations are complete and the regulations are finalized, new applications for health products with cannabis will be limited to prescription drugs, medical devices, or NHPs/VHPs with permitted cannabis parts of no more than 10 ppm THC.

As proposed in the Proposed Regulations, medical devices used for consuming cannabis for medical purposes would be subject to certain prohibitions for cannabis accessories under the proposed Cannabis Act, including requiring the support of a healthcare practitioner for their sale to young persons.

Recreational Cannabis

On November 27, 2017 the House of Commons passed Bill C-45, which proposes the enactment of the Cannabis Act, to regulate the production, distribution and sale of cannabis for unqualified adult use, with a target implementation date of no later than July 1, 2018 (or such other date that may be determined by the Canadian Federal Government).

On December 12, 2017, the Ontario government passed the *Cannabis Act, 2017* (Ontario) (the "**Ontario Cannabis Act**") that will regulate the lawful use, sale and distribution of recreational cannabis by the federal government's July 2018 legalization deadline. The Ontario Cannabis Act will, among other matters:

- create a new provincial retailer, overseen by the LCBO, to ensure safe and socially responsible distribution of recreational cannabis through stand-alone stores and an online order service. Under Ontario's approach, approximately 150 stand-alone stores will open by 2020, including 40 stores by July 2018, rising to 80 by July 2019. Online distribution will service all regions of the province by July 2018;

- set a minimum age of 19 to use, buy, possess and cultivate cannabis in Ontario; and

- ban the use of cannabis in public places, workplaces and motor vehicles, as is the similar case with alcohol.

Other details of Ontario's approach will be set out in regulations to the Ontario Cannabis Act developed over winter 2018 for public comment.

On December 20, 2017, the Prime Minister communicated that the Canadian Federal Government intends to legalize cannabis in the summer of 2018, despite previous reports of a July 1, 2018 deadline.

On February 6, 2018, Public Safety Minister, Ralph Goodale, announced that, while Bill C-45 was still on schedule to receive royal assent in July 2018, implementation of various aspects of the regime, including preparing markets for retail sales. The Senate has agreed to hold its final vote on the Cannabis Act on June 7, 2018. As a result, the full implementation of the Cannabis Act could take at least another eight to twelve weeks if approved. The impact of such regulatory changes on TerrAscend's business is unknown, and the proposed regulatory changes may not be implemented at all. See "Risk Factors – Changes in Laws, Regulations and Guidelines".

Results of Operations

On January 31, 2017, concurrent with a debt financing of $9,400,000 (See "*Liquidity*"), TerrAscend purchased the Facility, which 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 were capitalized as a part of building and improvements. Currently, Phase I construction on approximately 18,000 square feet of the Facility has been completed and is in use for cultivation and processing of medicinal cannabis. Phase II construction has begun for the expansion of distribution activities, development of THN, and to build the DPP for non-cannabis drug formulations.

On March 8, 2017, subsequent to the date of incorporation, 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. 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.

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 publicly on May 3, 2017.

On May 16, 2017, the Company established and launched THN. THN operates on two separate platforms: (1) THN works with existing medical clinic owners to provide their resident doctors and healthcare practitioners with educational materials and resources to facilitate the prescription process for medical cannabis, and to provide resources to assist their patients in locating coverage for medical cannabis through existing benefit plans; and (2) THN operates locations that serve as dedicated education, training and support centres. THN's first clinic was launched in May 2017 in Mississauga, Ontario.

On July 10, 2017 Health Canada granted Solace a conditional cultivation license. Since that time, Solace has completed two successful cultivation cycles. Solace also applied to Health Canada for a sales license to sell and distribute medical cannabis from the Facility and received an amendment to the License for the sale and distribution of medical cannabis on March 9, 2018.

On July 18, 2017, the Company announced the creation of a new subsidiary, Solace Rx. The Company commenced construction in February 2018 and will apply for a licence for the DPP upon completion of the construction of the facility. Subject to receipt of required approvals and licenses, the business of Solace Rx will be comprised of the reconstitution, dilution, preparation and/or combination of drug preparations for health care practitioners and institutions.

On August 29, 2017, the Company announced that Solace commenced cultivation activities at its headquarters in Mississauga, Ontario.

On October 13, 2017, the Company acquired assets from Canna Relief Consulting Canada Inc. ("**Canna Relief**") related to the operation of Canna Relief's education and patient navigation services. TerrAscend agreed to pay over

time $190,000 in cash and has issued 62,500 shares with an aggregate value of $60,000, which are subject to a four month hold period. As of the date of this report, a total of $105,000 in cash has been paid to Canna Relief.

On November 14, 2017, Mr. Roland Nimmo replaced Ms. Rebecca Hudson in the capacity as interim Chief Financial Officer.

On November 15, 2017, the Company entered into subscription agreements with funds advised by JW Asset Management LLC ("**JW Funds**"), Canopy Growth Corporation ("**Canopy Growth**") and Canopy Rivers Corporation ("**Canopy Rivers**") pursuant to which the investors will acquire from the Company, on a non-brokered private placement basis, 47,727,273 units at $1.10 per unit (the "**Units**") for gross proceeds of approximately $52,500,000. Each Unit sold in the private placement consisted of one Common Share and one Common Share purchase warrant of the Company, with each warrant entitling the holder to purchase an additional Common Share for a period of 36 months from closing of the private placement at an exercise price of $1.10. The private placement closed on December 11, 2017.

Outlook

TerrAscend's wholly owned subsidiary Solace is a licensed medical cannabis company. The Company has a growth plan in place to ramp up production, processing and distribution of medicinal cannabis.

The location of the Facility allows the Company to offer same-day, third-party processing and distribution services to patients of other licensed producers that are located outside of the Greater Toronto Area and out-of-Province. Such third-party distribution services are subject to approval by Health Canada, and to the Licensed Producer obtaining a license to sell its product from the Facility.

In addition to medical cannabis cultivation, processing and distribution, the Company is also focused on developing diversified revenue streams from non-cannabis sources. Through a 50%-owned joint venture arrangement with Solace Rx, TerrAscend has entered into a joint venture agreement to commence construction and licensing of the DPP for non-cannabis drug formulations, subject to compliance with all regulatory and licensing requirements. The DPP will be in the business of the reconstitution, dilution, preparation and/or combination of non-cannabis drug preparations for health care practitioners and institutions. The DPP will be operated by TerrAscend's joint venture partner, an experienced DPP owner and operator.

Selected Annual Information

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
	$	$	$
Revenues	**-**	-	-
Net loss and comprehensive loss	**(6,085,469)**	(867,181)	(761,600)
Basic and diluted loss per share	**(0.19)**	(0.09)	(0.13)
Working capital (deficit)	**52,000,717**	1,680,252	(710,305)
Non-current assets	**15,368,749**	400,771	-
Total assets	**69,061,566**	3,867,191	539,142
Long-term liabilities	**-**	-	-
Total shareholders' equity (deficiency)	**$67,369,466**	$2,081,023	(568,625)
Dividends	-	-	-

RESULTS OF OPERATIONS - Year ended 2017 vs. 2016

Net Loss

The Company incurred a net loss of $6,085,469 or $0.19 per share for the year ended December 31, 2017, compared with a net loss of $867,181 or $0.09 per share for the year ended December 31, 2016. The Company ramped up operations in 2017 in anticipation of becoming a Licensed Producer, which resulted in an increase in salaries and wages as a result of employee headcount, consulting and professional fees compared to the prior year.

Share-based Payments

Share-based payments of $2,457,569 relates to 4,063,334 options which were granted as compensation to directors, officers, employees and consultants of the Company during the period.

General and Administrative Expense

Other general and administrative expenses, such as office, travel, salaries and wages, advertising, and other office overhead charges relate to a ramp up in activities as the Company progressed through the Health Canada licensing process and began cannabis cultivation in the Facility.

Consulting & Professional Fees Expense

Consulting and professional fees of $1,601,165 related to the Company preparing its corporate books and records for raising debt and equity financing and listing its securities on the CSE, preparation and review of various contracts and operational agreements and fees paid to architects and other consultants for design and construction services at the Facility.

Shareholder Relations Expense

Shareholder relations expense of $153,607 was incurred during the year. Of the total cost of $153,607, $93,642 relates to services rendered by investor relation management agents, and $27,694 relates to services rendered by our transfer agent. The remaining $32,271 relates to hosting investor events.

Pre-Production Expense

Pre-production expenses of $137,239 relate to direct material and manufacturing overhead required for cultivation. The entire amount will be reclassified as inventory upon issuance of TerrAscend sales license.

Other income

For the year ended December 31, 2017, other income totaled $36,623 as compared to nil in 2016. Other income was related to $19,276 of educational fees received by the Company for educating patients of third party licensed producers for the purchase of medical cannabis and $17,347 of rental income which pertained to the space used for solar panels on the Company's facility.

Selected Quarterly Financial Information

The Company did not prepare financial statements for those quarters prior to fiscal 2017 as it only became a public company in 2017 and prior to this had only start up activities.

Liquidity and Capital Resources

As at December 31, 2017, TerrAscend had cash of $51,816,602, and a working capital surplus of $52,000,717.

The Company's objective with respect to its capital management is to ensure it has sufficient cash resources to maintain its ongoing operations and finance its research and development activities, corporate and administration expenses, working capital and overall capital expenditures. Since inception, the Company has primarily financed its liquidity needs through issuance of shares.

Operating Activities

During the year ended December 31, 2017, the Company's cash flows from operating activities were ($4,151,249) (2016 – ($422,640)). The principal use of operating cash flow is to fund the Company's operating expenditures at the Facility as the Company continues to progress through the ACMPR licensing process.

Financing activities

i) 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 twelve months and 18% per annum during the period after the initial twelve 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 eighteen months from the date of closing.

The convertible debenture agreement allowed for two conversion prices depending on whether Solace received the License 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 the License 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, $500,000 in principal 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.

ii) Common 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. In March 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 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 Common Share for a period of two years from the date of closing of the financing.

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 was $4,165,923.

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 were subject to a statutory four-month and one day hold period. Proceeds from this financing were 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 August 4, 2017, $500,000 in principal of the convertible debenture was converted into 666,667 Common Shares.

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 Units 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 entitling 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 Share are subject to a statutory four-month and one day hold period.

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 $968,370 was forgiven and reclassified to share capital.

Investing activities

Cash used in investing activities during the year totaled $14,377,857 and relate primarily to the purchase of property and equipment.

Off-Balance Sheet Arrangements

TerrAscend does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of TerrAscend, including, and without limitation, such considerations as liquidity and capital resources.

Financial Instruments

The Company has classified its cash as fair value through profit and loss, 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 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.

Transactions with 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.

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

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

(c) During the year ended December 31, 2017, the Company paid for licensing, development and maintenance fees related to THN in the amount of $69,495 (December 31, 2016 - $nil) to RX Infinity Inc., located in Mississauga, Ontario, 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.

Commitments

TerrAscend does not have any commitments other than in the normal course of business which are current in nature and do not have a material effect on its financial activities.

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 amendment to the License by Health Canada to allow for oil production pursuant to the ACMPR.

(c) License to Sell Dried Cannabis

On March 9, 2018, Solace was granted an amendment to the 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) 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.

Accounting Changes

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 been adopted in preparing these financial statements, as set out below:

- IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities

designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after January 1, 2018 and earlier adoption is permitted.

- 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.
- 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 5 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 these standards, however they are not expected to have a significant impact on the Company's financial statements at this time as the Company does not generate any revenue at this time. Other accounting standards or amendments to existing accounting standards that have been issued, but have future effective dates, are either not applicable or are not expected to have a significant impact on the Company's financial statements.

Critical accounting estimates

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.

Outstanding Share Data

As at December 31, 2017, TerrAscend had 94,351,198 common shares outstanding.

As at the date of this MD&A, fully diluted share capital outstanding was as follows:

	# Outstanding	Weighted average exercise price
Common shares	95,301,380	N/A
Warrants	51,521,773	$1.09
Options	4,541,338	$2.03
Fully diluted shares outstanding	151,364,491	

Risk Factors

The following section describes specific and general risks that could affect the Company. These risks and uncertainties are not the only ones the Company is facing. Additional risks and uncertainties not presently known to the Company, or that it currently deems immaterial, may also impair its operations. If any such risks actually occur, the business, financial condition, liquidity and results of the Company's operations could be materially adversely affected. The risk factors described below should be carefully considered by readers.

An investment in securities of the Company should only be made by persons who can afford a significant or total loss of their investment.

Reliance on Licenses

The Company's ability to grow, store and sell medical cannabis and cannabis oil in Canada is dependent on Solace maintaining the License for both oil and dried cannabis production and the sale of dried cannabis with Health Canada. Failure to comply with the requirements of the License or any failure to maintain the License would have a material adverse impact on the business, financial condition and operating results of the Company.

The License expires on July 10, 2020. There can be no guarantees that Health Canada will extend or renew the License or, if they were extended or renewed, that the License would be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the License or should it renew the License on different terms, the business, financial condition and results of the operations of the company would be materially adversely affected.

In addition, the Company and its subsidiaries, as applicable, will apply for, as the need arises, all necessary licenses and permits to carry on the activities it expects to conduct in the future. However, the ability of the Company or its subsidiaries to obtain, sustain or renew any such licenses and permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions.

Obtaining a DPP License

In February, 2018**,** the Company's subsidiary, Solace Rx began construction of a proposed DPP location (the "**DPP License**") which will apply for a license from the Ontario College of Pharmacists. The DPP will allow for the reconstitution, dilution preparation and/or combination of non-cannabis drug formulations for health care practitioners and institutions. Solace Rx has not yet received the DPP License and there is no assurance this license will be granted, or if granted, when it will be granted. Furthermore, the timing and success of Solace Rx at the various steps in the licensing process is beyond its control and the sole discretion thereof lies with the Ontario College of Pharmacists. Should the Ontario College of Pharmacists not grant the DPP License, the business, financial condition and operating results of the Company could be materially adversely affected and the completion of the DPP may be halted or delayed.

Expansion of Facilities

Phase II construction for the expansion of growing and distribution activities, the development of the DPP is currently underway at the Facility. There is no guarantee that Health Canada and the Ontario College of Pharmacists will approve the contemplated expansions of the Facility in a timely fashion, nor is there any guarantee that the expansion will be completed in its currently proposed form, if at all. The failure of the Company to successfully execute its expansion strategy (including receiving the expected Health Canada and Ontario College of Pharmacists approvals in a timely fashion) could adversely affect the business, financial condition and results of operations of the Company and may result in the Company not meeting anticipated or future demand when it arises.

The expansions of the Facility could be adversely affected by a variety of factors, including: delays in obtaining, or conditions imposed by, regulatory approvals; plant design errors; environmental pollution issues; non-performance by third party contractors; increases in materials or labour costs; construction performance falling below expected levels of output or efficiency; breakdown, aging or failure of equipment or processes; contractor or operator errors; labour disputes, disruptions or declines in productivity; inability to attract sufficient numbers of qualified workers; disruption in the supply of energy and utilities; and major incidents and/or catastrophic events, such as fires, explosions, earthquakes or storms.

Reliance on a Single Production Facility

The Facility is currently the Company's only licensed facility under the ACMPR and the License is specific to the Facility. Adverse changes or developments affecting the Facility, including but not limited to a breach of security, could have a material and adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures and other facility requirements, including any failure to comply with recommendations or requirements arising from inspections by Health Canada or the Ontario College of Pharmacists also have an impact on the Company's ability to continue operating under the License, the prospect of renewing the License or of obtaining the DPP License.

The Facility continues to operate with routine maintenance, however the building does have components that require replacement or repair. The Company will bear many of the costs of maintenance and upkeep at the Facility. The Company’s operations and financial performance may be adversely affected if it is unable to keep up with maintenance requirements.

Certain contemplated site expansions and renovations may require Health Canada or Ontario College of Pharmacists approval in order to continue. There is no guarantee that any contemplated expansion and/or renovation will be approved, which could adversely affect the business, financial condition and results of operations of the Company.

Regulatory Risks

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the impact of the compliance regime Health Canada, the Ontario College of Pharmacists and other applicable regulatory bodies are implementing that effect the business of the company.. Similarly, the Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. The impact of governmental compliance regimes, any delays in obtaining, or failure to obtain regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions on the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities,

which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Changes in Laws, Regulations and Guidelines

Several recommendations made by the Task Force reflected in the Cannabis Act could materially and adversely affect the business, financial condition and results of operations of the Company. These recommendations include, but are not limited to, permitting home cultivation, potentially easing barriers to entry into a Canadian recreational cannabis market and restrictions on advertising and branding. Their advice will be considered by the Government of Canada as a new framework for recreational cannabis is developed and it remains possible that such developments could significantly and adversely affect the business, financial condition and results of operations of the Company.

While the production of cannabis will be under the regulatory oversight of the Government of Canada, the distribution of adult-use recreational cannabis will be the responsibility of the provincial and territorial governments. On December 12, 2017, the Government of Ontario announced the passage of the Cannabis Act, which included the creation of a new provincial retailer, overseen by the LCBO, for the distribution of recreational cannabis through stand-alone stores and an online order service. The impact of this legislative regime, and of any such new legislation passed in other provinces, on the medical cannabis industry and the Company's business plans and operations is uncertain. There is no guarantee that provincial legislation regulating the distribution and sale of cannabis for recreational purposes will be enacted according to the terms announced by such provinces, or at all, or that any such legislation, if enacted, will create the growth opportunities that the Company currently anticipates.

On March 22, 2018, Bill C-45 passed a second reading of the Senate.

On January 4, 2018, United States Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the United States, including the August 2013 memorandum authored by then Deputy Attorney General James Cole (the "**Cole Memorandum**") indicating that the U.S. Department of Justice would not prioritize the prosecution of cannabis-related violations of U.S. federal law in jurisdictions that had enacted laws legalizing cannabis in some form and that had also implemented strong and effective regulatory and enforcement systems. With the Cole Memorandum rescinded, U.S. federal prosecutors can exercise their discretion in determining whether to prosecute cannabis-related violations of U.S. federal law. While the Company does not engage in any U.S. cannabis-related activities, the market price of the Company's common shares may be affected by regulatory changes and developments that affect the cannabis industry generally.

Environmental and Employee Health and Safety Regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. Changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Product Recalls

The Company's products may be subject to recall or return for a variety of reasons, including product defects such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection therewith. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the products produced by the Company were subject to

recall, the image of that product and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada and other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Product Liability Claims

As a manufacturer of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacturing and sale of cannabis and other products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products produced by the Company caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances.

A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and financial condition of the Company.

History of Net Losses

The Company has not yet earned any revenue and historically has had negative cash flow from operating activities. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable.

Continued losses may have the following consequences:

- increasing the Company’s vulnerability to general adverse economic and industry conditions;
- limiting the Company’s ability to obtain additional financing to fund future working capital, capital expenditures, operating costs and other general corporate requirements; and
- limiting the Company’s flexibility in planning for, or reacting to, changes in its business and the industry.

Production Capacity and Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Limited Operating History

The Company has a limited operating history and, accordingly, potential investors will have a limited basis on which to evaluate its ability to achieve its business objectives. The future success of the Company is dependent on management's ability to implement its strategy and there is no certainty that anticipated outcomes and sustainable revenue streams will be achieved and there is no certainty that the Company will successfully produce commercial medical cannabis, establish a market for and sell its product, maintain the License or obtain other necessary licenses and/or approvals.

The Company faces risks frequently encountered by early-stage companies. In particular, its future growth and prospects will depend on its ability to expand its operation and gain additional revenue streams while at the same time maintaining effective cost controls. Any failure to expand is likely to have a material adverse effect on the Company's business, financial condition and results. As such, there is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

Early Stage of the Medical Cannabis Industry

As a Licensed Producer under the ACMPR, the Company is operating its business in a relatively new medical cannabis industry and market. Competitive conditions, consumer preferences, patient requirements and spending patterns in this new industry and market are relatively unknown and may have unique circumstances that differ from existing industries and markets.

In addition, the ACMPR also permits patients to produce a limited amount of cannabis for their own medical purposes or to designate a person to produce a limited amount of cannabis on their behalf. This could potentially significantly reduce the market for the Company's products, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Accordingly, there are no assurances that this industry and market will continue to exist or grow as currently estimated or anticipated, or function and evolve in a manner consistent with management's expectations and assumptions. Any event or circumstance that affects the medical cannabis industry and market could have a material adverse effect on the Company's business, financial condition and results of operations.

Competition

The Cannabis Act and the introduction of a recreational model for cannabis production and distribution may impact the medical cannabis market. The impact of this potential development may be negative for the Company, and could result in increased levels of competition in its existing medical market and/or the entry of new competitors in the overall cannabis market in which the Company operates.

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

The government has only issued to date a limited number of licenses under the ACMPR to produce and sell medical cannabis. According to Health Canada, as of April 20, 2018, there are currently 101 licensed producers under the ACMPR. There are, however, several hundred applicants for licenses. The number of licenses granted could have an impact on the operations of the Company. Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. The Company also faces competition from illegal cannabis dispensaries that are selling cannabis to individuals despite not having a valid license under the ACMPR.

If the number of users of medical cannabis in Canada increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis, which could materially and adversely affect the business, financial condition and results of operations of the Company.

As well, the legal landscape for medical and recreational cannabis is changing internationally. More countries have passed laws that allow for the production and distribution of medical cannabis in some form or another. Increased international competition might lower the demand for the Company's products on a global scale.

Inherent Risks Associated with the Agricultural Business

The Company's business involves the growing of medical cannabis, an agricultural product. Such business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although such growing is completed indoors under climate controlled conditions, and while all growing conditions are carefully monitored with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

Vulnerability to Rising Energy Costs

The Company's medical cannabis growing operations consume considerable energy, which make the Company vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

Client Acquisitions

The Company's success depends on its ability to attract and retain clients. There are many factors which could impact the Company's ability to attract and retain clients, including but not limited to the Company's ability to continually produce desirable and effective product, the successful implementation of a client-acquisition plan and the continued growth in the aggregate number of patients selecting medical cannabis as a treatment option. The Company's failure to acquire and retain clients would have a material adverse effect on the Company's business, operating results and financial condition.

Dependence on Suppliers and Skilled Labour

The ability of the Company to compete and grow will be dependent on having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the expansion of the Facility contemplated by the Company may be significantly greater than anticipated by the Company's management and/or may cost more than the funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its expansion plan. This could have a material adverse effect on the financial condition and results of operations of the Company.

Transportation Risks

The Company business model contemplates offering same-day, third-party processing and distribution services to patients of other Licensed Producers that are located outside of the Greater Toronto Area and out-of-Province. As such, the Company will depend on fast and efficient courier services to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Company. Rising costs associated with the courier services used by The Company to ship its products may also adversely impact the business of the Company and its ability to operate profitably. Due to the nature of the Company's products, security of the product during transportation to and from the Facility is of the utmost concern. A breach of security during transport or delivery could have a material and adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures during transport or delivery, including any failure to comply with recommendations or requirements of Health Canada, could also have an impact on the Company's ability to continue operating under the License or the prospect of renewing the License or obtaining additional licenses and/or approvals.

Research and Development and Product Obsolescence

The introduction of new products embodying new technologies, including new manufacturing processes, and the emergence of new industry standards may render The Company's products obsolete, less competitive or less marketable. The process of developing the Company's products is complex and requires significant continuing costs, development efforts and third party commitments. The Company's failure to develop new technologies and products and the obsolescence of existing technologies could adversely affect the business, financial condition and operating

results of the Company. The Company may be unable to anticipate changes in its potential customer requirements that could make the Company's existing technology obsolete.

The development of the Company's proprietary technology entails significant technical and business risks. The Company may not be successful in using its new technologies or exploiting its niche markets effectively or adapting its businesses to evolving customer or medical requirements or preferences or emerging industry standards.

Privacy and Cyber Security

A security breach at the Facility could expose The Company to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company's products. In addition, The Company collects and stores personal information about its patients and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions.

The Company has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("**IT**") services in connection with its operations. The Company's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation and results of operations.

Theft of data for competitive purposes is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on the Company's business, financial condition and results of operations. In addition, there are a number of federal and provincial laws protecting the confidentiality of certain patient health information, including patient records, and restricting the use and disclosure of that protected information. In particular, the privacy rules under the Personal Information Protection and Electronics Documents Act (Canada) ("**PIPEDA**"), protect medical records and other personal health information by limiting their use and disclosure of health information to the minimum level reasonably necessary to accomplish the intended purpose. If the Company was found to be in violation of the privacy or security rules under PIPEDA or other laws protecting the confidentiality of patient health information, it could be subject to sanctions and civil or criminal penalties, which could increase its liabilities, harm its reputation and have a material adverse effect on the business, results of operations and financial condition of the Company.

Intellectual Property

The ownership and protection of trademarks, patents, trade secrets and intellectual property rights, and the protection thereof, are significant aspects of the Company's future success. The Company has no patented technology or trademarked business methods at this time nor has it registered any patents. In Canada and the United States, the Company has filed trademark applications for "TERRASCEND", in addition to trademark applications for "SOLACE" and "TERRA HEALTH NETWORK" in Canada. Even if the Company moves to protect its technology with trademarks, patents, copyrights or by other means, the Company is not assured that competitors will not develop similar technology, business methods or that the Company will be able to exercise its legal rights. Other countries may not protect intellectual property rights to the same standards as does Canada or the United States. Actions taken to protect or preserve intellectual property rights may require significant financial and other resources such that said actions have a meaningful impact on the Company's ability to successfully grow the business.

In addition, other parties may claim that the Company's products infringe on their proprietary and perhaps patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders and/or require the payment of damages.

Insurance Coverage and Uninsured Risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance does not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for the Common Shares. Even if the Company is involved in litigation and wins, litigation can redirect significant resources.

Reliance on and Retention of Qualified Personnel

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management (collectively, "**Key Personnel**"). Moreover, The Company's future success depends on its continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and the Company may incur significant costs to attract and retain them. The loss of the services of a Key Person, or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on The Company's ability to execute on its business plan and strategy, and the Company may be unable to find adequate replacements on a timely basis, or at all. While employment agreements are customarily used as a primary method of retaining the services of Key Personnel, these agreements cannot assure the continued services of such employees.

Further, as a Licensed Producer, each Key Person is subject to a security clearance by Health Canada. Under the ACMPR, a security clearance cannot be valid for more than five years and must be renewed before the expiry of a current security clearance. There is no assurance that any of the Company's existing personnel who presently or may in the future require a security clearance will be able to obtain or renew such clearances or that new personnel who require a security clearance will be able to obtain one. A failure by a Key Person to maintain or renew his or her security clearance would result in a material adverse effect on the Company's business, financial condition and results of operations. In addition, if a Key Person leaves the Company, and the Company is unable to find a suitable replacement that has a security clearance required by the ACMPR in a timely manner, or at all, it could have a material adverse effect on the Company's business, financial condition and results of operations.

Conflicts of Interest

Certain of the directors and officers of The Company are also directors and officers of other companies or are engaged and will continue to be engaged in activities that may put them in conflict with the business strategy of the Company. Consequently, there exists the possibility for such directors and officers to be in a position of conflict.

In particular, the Company may also become involved in other transactions which conflict with the interests of its directors and officers, who may from time to time deal with persons, firms, institutions or companies with which the Company may be dealing, or which may be seeking investments similar to those desired by it. All decisions to be made by directors and officers of the Company are required to be made in accordance with their duties and obligations to act honestly and in good faith with a view to the best interests of the Company. In addition, the directors and officers

are required to declare their interests in, and such directors are required to refrain from voting on, any matter in which they may have a material conflict of interest.

The Company's Chairman of the Board, Jason Wild, who is active and has other interests in the Canadian cannabis industry, has indirect and direct control or direction over approximately 34.5% of the outstanding Common Shares through JW Asset Management, LLC. and may exercise a significant degree of control over the business, future transactions and the composition of the Board and management.

Unfavorable Publicity or Consumer Perception

The Company believes the medical cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical cannabis distributed to such consumers. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical cannabis market or any particular product, or consistent with earlier publicity.

Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition of the Company. In particular, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical cannabis in general, or the Company's products specifically, or associating the consumption of medical cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Although the Company believes that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its business, thereby having a material adverse impact on the financial condition and results of operations of the Company.

Reputational Risk to Third Parties

The parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's medical cannabis business activities. Failure to establish or maintain business relationships could have a material adverse effect on the Company.

Limited Market for Securities

The Common Shares are listed on the Canadian Securities Exchange, however, there can be no assurance that an active and liquid market for the Common Shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

Share Price Volatility

The market price of the Common Shares may be subject to wide price fluctuations. Price fluctuations may be in response to many factors, including variations in the operating results of the Company and its subsidiaries, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company and its subsidiaries, general economic conditions, legislative changes, community support for the medical cannabis industry and other events and factors outside of the Company's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Common Shares.

Risks Related to Dilution

The Company may issue additional Common Shares in the future, which may dilute a shareholder's holdings in the Company. The Company's articles permit the issuance of an unlimited number of Common Shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of the Company have discretion to determine the price and the terms of issue of further issuances. Moreover, additional Common Shares will be issued by the Company on the exercise of options under the Company's stock option plan and upon the exercise of outstanding warrants.

Access to Capital and Funding

The building and operation of the Company's business, including the Facility, are capital intensive. In order to execute the anticipated growth strategy, the Company may require additional equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to support on-going operations or to fund capital expenditures or acquisitions could limit the Company's growth and may have a material adverse effect upon future profitability.

The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

April 25, 2018

"Michael Nashat"
President and CEO