TerrAscend Corp.

Management Discussion & Analysis
Amounts in thousands of Canadian dollars, except for per share amounts
June 30, 2018

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 (the "Annual Financial Statements"), annual MD&A, and the unaudited condensed interim consolidated financial statements for the six months ended June 30, 2018 and 2017 (the "Quarterly Financial Statements"), including the notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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. All amounts are presented in thousands of 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 June 30, 2018 and for the six months ended June 30, 2018. 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 August 24, 2018, and reflects all material events up to that date.

Other than per share amounts, all dollar amounts in this MD&A are in thousands of Canadian dollars unless otherwise stated. All percentages are calculated using the rounded numbers as they appear in the tables.

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 Solace 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 Corp. ("TerrAscend" or the "Company") was incorporated under the Ontario Business Corporations Act. on March 7, 2017 and has three wholly-owned subsidiaries: Solace Health Inc. ("Solace"), Solace Health Network Inc. (formerly "Terra Health Network Inc.", "SHN") and 2627685 Ontario Inc. The Company also has a 50% interest in Solace RX Inc. ("SolaceRx") and 60% interest in Ascendant Laboratories Inc. ("Ascendant Lab"). Solace RX and Ascendant Lab have not commenced business activities as the facilities for both entities are under construction.

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. SHN conducts additional activities, including physician and patient education and support programs. SolaceRx is a proposed drug preparation facility (the "**DPP**"). The numbered Company 2627685 Ontario Inc. acts as a holding company for future partnerships and investments. Ascendant Laboratories is a science and innovation company dedicated to the advancement of cannabinoid expressing plant biology.

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 started sales in April 2018.

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 and approval is obtained from Health Canada. 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 completed 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.

Significant Events

On April 20, 2018, TerrAscend completed a strategic investment into private retailer applicant, Fire & Flower Inc ("F&F"). The Company purchased 3,125,000 units of F&F for an aggregate of $2.5 million or $0.80 per unit, amounting to approximately 5% of the outstanding F&F shares. Each unit comprises of one common share and one common share purchase warrant in F&F. Each common share purchase warrant entitles TerrAscend to purchase one additional common share of F&F at a price of CDN$1.05 within twenty-four (24) months. The Company completed this strategic investment through 2627685 Ontario Inc.

On April 25, 2018, the Company's wholly-owned subsidiary, Solace 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.

On May 1, 2018, TerrAscend made a strategic investment in Think AHLOT Corporation ("AHLOT"), an award-winning cannabis innovation company that creates groundbreaking cannabis products and accessories. The Company will issue convertible notes of up to $1.5 million to AHLOT to be utilized towards increasing sales & marketing, product development, operations and general corporate purposes. Additionally, TerrAscend through its wholly-owned affiliate, Solace Health Inc., will provide fulfillment and distribution services on behalf of AHLOT that will enable AHLOT to commence the development and sale of licensed cannabis products for AHLOT's unique product portfolio.
On June 6, 2018, TerrAscend formed a strategic joint venture with Cistron Corp. with the launch of Ascendant Lab., a science and innovation company dedicated to the advancement of cannabinoid expressing plant biology. Cistron has agreed to grant to Ascendant Laboratories an exclusive license over proprietary intellectual property rights and trade secrets relating to cannabis plant and plant-derived cannabinoid research, and TerrAscend has agreed to contribute cash payments of up to $1,250,000 in return for a combination of shares and warrants, representing approximately 75% of Ascendant Laboratories on a fully-diluted basis.

On August 21, 2018, the Company signed a supply agreement with the Ontario Cannabis Retail Corporation ("OCRC"), to supply the province of Ontario with a variety of premium branded cannabis products for the adult-use cannabis market.

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 construct and license a DPP facility 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 FINANCIAL INFORMATION

The following table sets forth information regarding TerrAscend's Consolidated Financial Statements including revenues, loss from operations and other information for the periods presented, which were prepared in accordance with IFRS and should be read in conjunction with the corresponding unaudited interim condensed consolidated financial statements and related notes.

	As at December 31, 2016 $	As at December 31, 2017 $	As at June 30, 2018 $
Total revenue	—	—	**9**
Net gain (loss)	(867)	(6,805)	**(7,545)**
Net gain (loss) per share	(0.09)	(0.19)	**(0.08)**
Cash and cash equivalents	3,333	51,817	**26,120**
Working capital	1,680	52,000	**43,536**
Non-current assets	401	15,369	**20,764**
Total assets	3,867	69,062	**68,221**
Current liabilities	1,786	1,693	**3,921**
Long-term liabilities	—	—	**—**
Total shareholders′ equity	2,081	67,369	**64,300**

SUMMARY OF QUARTERLY RESULTS

The following table sets forth information regarding TerrAscend's Consolidated Financial Statements including revenues, loss from operations and other information for the periods presented, which were prepared in accordance with IFRS and should be read in conjunction with the corresponding unaudited interim condensed consolidated financial statements and related notes.

	Q1 2017 $	Q2 2017 $	Q3 2017 $	Q4 2017 $	Q1 2018 $	Q2 2018 $
Revenue	—	—	—	—	—	9
Cost of goods sold	—	—	—	—	—	7
Impairment of inventory	—	—	—	—	—	623
Production salaries and wages	—	—	—	—	226	224
Production amortization and depreciation	—	—	—	—	81	96
Production supplies and expenses	—	—	—	—	105	84
Gross profit before gain on fair value of biological assets	-	-	-	-	(412)	(1,025)
Unrealized gain on changes in fair value of biological assets	—	—	—	—	577	99
Gross margin	—	—	—	—	**165**	**(926)**
Expenses:						
Share-based payments (recovery)	—	2,705	50	(298)	998	978
General and administrative expense (recovery)	(154)	305	726	1,185	940	2,047
Consulting & professional fees	551	104	305	641	394	776
Research & development	—	—	—	—	—	31
Selling expenses	—	—	—	—	171	547
Amortization and depreciation	—	—	84	160	88	107
Loss on disposal of property and equipment	—	—	—	222	—	—
Shareholder relations	—	36	101	16	72	54
Pre-Production costs	—	—	57	81	—	—
Finance (income) expense	321	406	164	(927)	(101)	(234)
Other income	—	(8)	(6)	(23)	(50)	(34)
Total operating expenses	**718**	**3,548**	**1,481**	**1,057**	**2,512**	**4,272**
Net loss and comprehensive loss	718	3,548	1,481	1,057	(2,347)	(5,198)
Net loss per share, basic and diluted						
Net loss per share – basic	**(0.03)**	**(0.12)**	**(0.04)**	**(0.02)**	**(0.02)**	**(0.05)**

Three Months Ended June 30, 2018 vs. Three Months Ended June 30, 2017

Cost of Sales

Production costs consist of labour, materials, consumables, supplies, overhead, amortization on production equipment, shipping, packaging and other expenses required to produce cannabis products that will be sold in future periods. Production costs related to the transformation of biological assets to the point of harvest are capitalized and included in the fair value measurement of biological assets. Once goods are sold, the associated capitalized costs are recognized as production costs in the statement of operations in the related reporting period.

Biological assets consist of cannabis plants measured at fair value less cost to sell up to the point of harvest and is inclusive of capitalized production costs. Changes in fair value less cost to sell of the biological assets during the reporting period before harvest are recognized in the results of operations in the related reporting period.

Harvested cannabis is transferred from biological assets at their fair value less cost to sell at harvest, which becomes the deemed cost for inventory which, upon sale, the fair value cost adjustment portion is expensed to finished harvest inventory sold and the capitalized cost portion is expensed to production costs. Gross profit before gain on biological assets represents profit earned before the net impact of fair value gains and finished harvest inventory sold cost of sales that result from the transformation of biological assets.

The fair value changes of the biological assets, inventory expensed, fair value recovery and impairments, and production costs that make up the total cost of sales, for the three months ended June 30, 2018 and three months ended June 30, 2017, is presented in the table below:

Three months ended June 30,	2018 $	2017 $
Cost of goods sold	7	—
Impairment of inventory	623	
Production costs	404	—
Unrealized loss (gain) on changes in fair value of biological assets	(99)	—
Cost of Sales	935	—

Cost of sales for the three months ended June 30, 2018 were $935 representing an increase of $935 compared to the prior year same period cost of sales of nil. This increase in cost of sales is due primarily to an increase in production costs, such as production salaries and wages, depreciation and supplies. In addition, during the three months ended June 30, 2018, the carrying value of inventory exceeded the estimated net realizable value, resulting in an impairment of $623.

Production costs and cost of finished inventory harvest sold were offset by fair value gains on the transformation of biological assets. Fair value gains are sensitive to changes in the Company's average selling price and other changes in the Company's valuation estimates which include, but are not limited to, average selling prices, remaining costs to complete, the allocation rate and method of production costs, the stage of plant growth and cycles and expected yields. Any changes in underlying estimates and assumptions used to determine fair value gains on the transformation of biological assets could have a negative impact on expected gains.

Gain on fair value of biological assets during the three months ended June 30, 2018 was $99 compared to nil for the same period last year.

Net Income (Loss)

The Company incurred a net loss of $5,198 or $0.05 per share for the three months ended June 30, 2018, compared with a net loss of $3,548 or $0.12 per share for the same period last year. The Company continued to ramp up its operations in the second quarter of 2018 after receiving its license to produce cannabis oils and the license to sell dried cannabis.

Share-based Payments

Share-based payments were $1,127 for the three months ended June 30, 2018 compared to $2,705 for the same period last year. The decrease is primarily explained by lower number of options granted in the second quarter of 2018 (2,055,000 stock options) as compared to the second quarter of 2017 (2,630,000 stock options). In addition, $149 have been allocated to production costs in the second quarter 2018 while $nil was allocated to production in the same period of 2017.

General and Administrative Expense

General & Administrative ("G&A") expenses of $2,047 for the three months ended June 30, 2018 increased by $1,742 compared to $305 for the same period last year. The increase in G&A was primarily due to an increase in office expense of $31, an increase in insurance of $230, an increase in salaries and wages of $427, an increase in advertising and promotion of $960. The Company continued to increase headcount in the quarter after receiving its license to sell dried flower on March 9th. Various other expenses such as: rent, R&D expenses, permits and licenses and travel increased by $94.

Consulting & Professional Fees Expense

Consulting and professional fees of $776 for the three months ended June 30, 2018 increased by $672 compared to $104 for the same period last year. The increase mainly refers to the due diligence fees associated with investments and joint venture formation in April-June 2018.

Selling Expense

Selling expense of $547 for the three months ended June 30, 2018 increased by $547 compared to nil for the same period last year. The selling expense consists of salaries for the sales and marketing team, which had not been hired in the previous year's quarter.

Amortization and Depreciation Expense

Amortization and depreciation expense of $107 for the three months ended June 30, 2018 increased by $107 compared to nil for the same period last year. The actual increase in amortization and depreciation for the current quarter was $203; however, $96 was reclassified as production amortization and depreciation expense.

Shareholder relations expense of $54 for the three months ended June 30, 2018 increased by $18 compared to $36 for the same period last year. The expense related to services rendered by investor relation management agents and our transfer agent.

Finance (income) expense

For the three months ended June 30, 2018 finance income totaled $234 while for the same period of 2017 the Company reported $406 of finance expense. The finance income in 2018 is mainly due to interest income. The finance expense in 2017 is associated with the interest and accretion on convertible debenture.

Other income

For the three months ended June 30, 2018, other income totaled $34 as compared to $8 for the three months ended June 30, 2017. Other income was mainly related to $31 of educational fees received by the Company for educating patients of third party licensed producers for the purchase of medical cannabis.

Six Months Ended June 30, 2018 vs. Six Months Ended June 30, 2017

Six months ended June 30,	2017 $	2018 $
Revenue	—	9
Cost of goods sold	—	7
Impairment of inventory	—	623
Production salaries and wages	—	450
Production amortization and depreciation	—	177
Production supplies and expenses	—	189
Gross profit before gain on fair value of biological assets	—	(1,437)
Unrealized gain on changes in fair value of biological assets	—	676
Gross margin	—	(761)
Expenses:		
Share-based payments (recovery)	2,705	1,976
General and administrative expense (recovery)	151	2,987
Consulting & professional fees	655	1,170
Research & development	—	31
Selling expenses	—	718
Amortization and depreciation	—	195
Loss on disposal of property and equipment	—	—
Shareholder relations	36	126
Pre-Production costs	—	—
Finance (income) expense	727	(335)
Other income	(8)	(84)
Total operating expenses	**4,266**	**6,784**
Net loss and comprehensive loss	(4,266)	(7,545)
Net loss per share, basic and diluted		
Net loss per share – basic	**(0.15)**	**(0.08)**

Cost of Sales

The fair value changes of the biological assets, inventory expensed, fair value recovery and impairments, and production costs that make up the total cost of sales, for the six months ended June 30, 2018 and six months ended June 30, 2017, is presented in the table below:

Six months ended June 30,	2018 $	2017 $
Cost of goods sold	7	—
Impairment of inventory	623	
Production costs	816	—
Unrealized loss (gain) on changes in fair value of biological assets	(676)	—
Cost of Sales	770	—

Cost of sales for the six months ended June 30, 2018 were $770 representing an increase of $770 compared to the prior year same period cost of sales of nil. This increase in cost of sales is due primarily to an increase in fair value gains on changes in biological assets and production costs such as production depreciation, production salaries and wages and production supplies and expenses. In addition, during the six months ended June 30, 2018, the carrying value of inventory exceeded the estimated net realizable value, resulting in an impairment of $623.

Production costs and cost of finished inventory harvest sold were offset by fair value gains on the transformation of biological assets. Fair value gains are sensitive to changes in the Company's average selling price and other changes in the Company's valuation estimates which include, but are not limited to, average selling prices, remaining costs to complete, the allocation rate and method of production costs, the stage of plant growth and cycles and expected yields. Any changes in underlying estimates and assumptions used to determine fair value gains on the transformation of biological assets could have a negative impact on expected gains.

Gain on fair value of biological assets during the six months ended June 30, 2018 was $676 compared to nil for the same period last year. The increase in fair value gain was primarily due to the first-time valuation of biological assets growing at the Mississauga Facility.

Net Income (Loss)

The Company incurred a net loss of $7,545 or $0.08 per share for the six months ended June 30, 2018, compared with a net loss of $4,266 or $0.15 per share for the same period last year. The Company continued to ramp up its operations in the first half of 2018 after receiving its license to produce cannabis oils and the license to sell dried cannabis.

Share-based Payments

Share-based payments were $1,976 for the six months ended June 30, 2018 compared to $2,705 for the same period last year. The decrease is primarily explained by lower number of options granted during the six months ended June 30, 2018 (2,630,000 stock options) as compared to the six months ended June 30, 2017 (2,670,000 stock options). In addition, $311 have been allocated to production and selling costs during the six months ended June 30, 2018 while $nil was allocated to production in the same period of 2017.

General and Administrative Expense

General & Administrative ("G&A") expenses of $2,987 for the six months ended June 30, 2018 increased by $2,836 compared to recovery of $151 for the same period last year. The increase in G&A was primarily due to an increase in office expense of $229, an increase in travel of $135, an increase in salaries and wages of $719, an increase in advertising and promotion of $1,185, an increase in insurance of $232.There was no gain on lease termination in the current period compared to $283 in the same period last year which resulted in an increase in G&A. Various other expenses such as: rent, permits and licenses, R&D expenses increased by $53.

Consulting & Professional Fees Expense

Consulting and professional fees of $1,170 for the six months ended June 30, 2018 increased by $515 compared to $655 for the same period last year. The increase mainly refers to the due diligence fees associated with investments and joint venture formation in April-June 2018 while in the same period of 2017 the Company was just commencing its operations and relied on consultants significantly.

Selling Expense

Selling expense of $718 for the six months ended June 30, 2018 increased by $718 compared to nil for the same period last year. The selling expense consists of salaries for the sales and marketing team, which had not been hired in the previous year's period.

Amortization and Depreciation Expense

Amortization and depreciation expense of $195 for the six months ended June 30, 2018 increased by $195 compared to nil for the same period last year. The actual increase in amortization and depreciation for the current quarter was $372; however, $177 was reclassified as production amortization and depreciation expense.

Shareholder Relations Expense

Shareholder relations expense of $126 for the six months ended June 30, 2018 increased by $90 compared to $36 for the same period last year. The expense related to services rendered by investor relation management agents and our transfer agent.

Finance (income) expense

For the six months ended June 30, 2018 finance income totaled $335 while for the same period of 2017 the Company reported $727 of finance expense. The finance income in 2018 is mainly due to interest income. The finance expense in 2017 is associated with the interest and accretion on convertible debenture.

Other income

For the six months ended June 30, 2018, other income totaled $84 as compared to $8 for the six months ended June 30, 2017. Other income was related to $60 of educational fees received by the Company for educating patients of third party licensed producers for the purchase of medical cannabis, $15 of storage fee for storing inventory on behalf of other Licensed Producers and $9 of rental income which pertained to the space used for solar panels on the Company's facility.

Liquidity and Capital Resources

As at June 30, 2018, TerrAscend had cash of $26,120 and a working capital surplus of $43,536.

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

For the six months ended June 30, 2018, the Company's cash flows from operating activities were $ 18,103 (six months ended June 30, 2017–$ 161). The principal use of operating cash flow is to ramp up the operations after receiving its license to produce cannabis oils and the license to sell dried cannabis.

Financing activities

During the six months ended June 30, 2018, 620,756 warrants were exercised for $1.75 per unit for total gross proceeds of $1,086 and 792,016 stock options were exercised ranging in price from $0.60 to $3.20 for gross proceeds of $686.

In the comparative period of last year, the cash provided by financing activities mainly resulted from private placement of shares $1,584 and proceeds from convertible debentures $8,986.

Investing activities

Cash used in investing activities during the six months ended June 30, 2018 totaled $9,366 and related primarily to the construction of the second phase of the Mississauga facility ($5,204), investments to Fire & Flower ($2,500) and to Think AHLOT ($1,516).

In comparison, the cash used in investing activities during the six months ended June 30, 2017 amounted to $12,533 was due to purchase of land and building and start of construction of Mississauga facility.

Off-Balance Sheet Arrangements

The Company holds dry bud inventory at cost of $1,575 on behalf of another licensed producer, which is not included in the inventory of the Company.

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 June 30, 2018, the Company had cash and receivables balance of $29,951 (December 31, 2017 - $52,229) to settle current liabilities of $3,921 (December 31, 2017 - $1,693). 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.

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

Subsequent to June 30, 2018, the Company granted 525,000 options to contractors and 395,000 options to employees of the Company. The options have a weighted average exercise price of $4.23.

Subsequent to June 30, 2018, the Company granted 70,000 warrants to a contractor of the Company. The warrants have an exercise price of $4.25.

Subsequent to June 30, 2018, 25,000 warrants were exercised at an exercise price of $1.75 for gross proceeds of $44 and 1,666 stock options were exercised at an exercise price of $1.95 for gross proceeds of $3.

Subsequent to June 30, 2018, 348,336 unvested options were forfeited.

On August 21, 2018, the Company signed supply agreements with the provinces of Ontario, British Columbia and Prince Edward Island to provide a variety of premium branded cannabis products for the adult-use cannabis market.

Accounting Changes

New standards, amendments and interpretations not yet adopted

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

- In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low value assets; however, this exemption can only be applied by lessees. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application if IFRS 15 is also applied. The Company currently has no leases therefore there is no impact from this standard.

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.

Management has applied significant estimates and assumptions related to the following:

i) *Biological assets and inventory*

Management is required to make a number of estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stage of growth of the cannabis, harvesting costs, sales price and expected yields.

ii) *Stock based compensation*

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.

iii) *Warrants*

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.

iv) *Depreciation and amortization of property, plant and equipment and intangible assets*

Depreciation and amortization rates 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 consider factors such as economic and market conditions and the useful lives of assets.

v) *Going concern*

The assumption that the Company will be able to continue as a going concern is subject to critical judgements of management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investment and financing activities and management's strategic planning. Should those judgements prove to be inaccurate, management's continued use of the going concern assumptions would be inappropriate.

vi) *Impairment of intangible assets*

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value in use and fair value less costs to sell. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. For the six months ended June 30, 2018, management has determined that there were no indicators of impairment for its intangible assets.

Significant accounting policies

Inventory

Inventories of harvested finished goods and packing materials are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost method. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value.

Biological assets

The Company measures biological assets consisting of medical cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the results of operations of the related period.

The Company does not recognize the mother plants used for cloning the production medical cannabis plants on the consolidated statement of financial position, since such plants are in the scope of IAS 16 – Bearer plants, but only have a useful life of less than one year.

Any costs related to the production of biological assets are treated as periodic expense and are included in the consolidated statement of income (loss) for the related period.

Property, plant and equipment

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

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

As asset's residual value, useful life and depreciation method are reviewed at each reporting period and adjusted if appropriate.

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

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

Intangible assets

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

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

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

IFRS 9 - Financial instruments

Effective January 1, 2018, the Company adopted IFRS 9.

IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also amends the requirements around hedge accounting, and introduces a single, forward-looking expected loss impairment model.

The Company has elected to apply the limited exemption in IFRS 9 paragraph 7.2.15 relating to transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. The adoption of IFRS 9 had no impact on the Company's consolidated financial statements on the date of initial application. There was no change in the carrying amounts on the basis of allocation from original measurement categories under IAS 39 Financial Instruments: Recognition and Measurement to the new measurement categories under IFRS 9.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories i) those to be measured subsequently at fair value through profit or loss (FVTPL); ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI); and iii) those to be measured at amortized cost. The

classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Financial assets at fair value through comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

Summary of the Company's classification and measurements of financial assets and liabilities

	IFRS 9		IAS 39	
	Classification	**Measurement**	**Classification**	**Measurement**
Cash and cash equivalents	FVTPL	Fair value	Loans and receivables	Fair Value
Receivables	Amortized cost	Amortized cost	Loans and receivables	Amortized cost
Note receivable	FVTPL	Fair value	Loans and receivables	Amortized cost
Investments	FVTPL	Fair value	Held for trading	Fair value
Accounts payable and accrued liabilities	Amortized cost	Amortized cost	Other liabilities	Amortized cost

Share capital

Common shares

Common shares are classified as equity. Transaction costs directly attributable to the issuance of common shares and share options are recognized as a deduction from equity.

Equity units

Proceeds received on the issuance of units, comprised of common shares and warrants are allocated to common shares and warrants based on the relative fair value method.

Share-based compensation

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

Upon exercise of stock options and warrants any historical fair value in the warrants and share-based payment reserve are allocated to share capital. Upon cancellation or forfeitures of stock options and warrants any historical fair value in the warrants and share-based payment reserve are adjusted to the consolidated statements of loss and comprehensive loss. Upon expiry of stock options and warrants, any historical fair value in the warrants and share-based payment reserve are allocated to deficit.

Outstanding Share Data

As at June 30, 2018, TerrAscend had 95,763,970 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	95,790,636	N/A
Warrants	51,629,200	$ 1.11
Options	6,465,064	$ 2.80
Fully diluted shares outstanding	153,884,900	

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, and 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 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.

On June 19, 2018 Canada's Senate voted to pass Bill C-45.

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 started sales in April 2018 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 July 17, 2018, there are currently 113 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 cost of 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 23 trademark applications for brand and product names. 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 36.6% 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.

August 24, 2018
"Michael Nashat"
President and CEO