TERRASCEND

TERRASCEND CORP.

MANAGEMENT DISCUSSION & ANALYSIS
Amounts in thousands of Canadian dollars, except for per share amounts
For the year ended December 31, 2019

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 years ended December 31, 2019 and 2018 (the "Annual 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 December 31, 2019 and for the year ended December 31, 2019. 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 23, 2020 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.

Certain comparative figures have been reclassified to conform to the current period's presentation.

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 operating facilities;
- TerrAscend's expectations regarding its consolidated sales, expenses and operations;
- TerrAscend's intention to develop its business and its operations;
- expectations with respect to future production costs and capacity;
- 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 and/or other competent authorities;
- 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 information 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 and recreational 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, the reader 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.

SUMMARY OF FINANCIAL PERFORMANCE

The following table summarizes results of operations for the years and three months ended December 31, 2019 and 2018. See "Results From Operations" for additional details.

	For the three months ended		For the year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Sales, net of excise tax	**$ 25,883**	$ 5,031	**$ 84,868**	$ 6,826
Gross profit (loss)	**(2,760)**	(371)	**8,328**	(1,748)
Loss from operations	**(15,453)**	(11,176)	**(59,557)**	(27,094)
Net loss	**(171,805)**	(11,765)	**(218,952)**	(22,144)
Loss per share				
Basic and diluted	**$ (1.31)**	$ (0.13)	**$ (2.17)**	$ (0.23)
Other data: (1)				
EBITDA	**$ (162,938)**	$ (11,179)	**$ (204,199)**	$ (20,934)
Adjusted EBITDA	**$ (5,737)**	$ (4,475)	**$ (26,557)**	$ (16,355)

(1) EBITDA and Adjusted EBITDA are non-IFRS financial measures. See "Non-IFRS Financial Measures" for a description of these measures and a reconciliation to the nearest IFRS measure.

Fourth Quarter 2019 Financial Highlights

- For the three months ended December 31, 2019, TerrAscend generated sales, net of excise tax of $25,883, compared to $26,831 in the third quarter of 2019 and compared to $5,031 for the three months ended December 31, 2018.
- For the year ended December 31, 2019, TerrAscend generated sales, net of excise tax of $84,868, up from $6,826 in the year ended December 31, 2018.
- EBITDA was ($162,938) for the three months ended December 31, 2019, compared with ($11,179) for the three months ended December 31, 2018. Adjusted EBITDA was ($5,737) for the three months ended December 31, 2019, compared with ($4,475) for the three months ended December 31, 2018.
- EBITDA was ($204,199) for the year ended December 31, 2019, compared with ($20,934) for the year ended December 31, 2018. Adjusted EBITDA was ($26,557) for the year ended December 31, 2019, compared with ($16,355) for the year ended December 31, 2018.
- On October 2, 2019, the Company announced its intention to complete a non-brokered private placement offering to raise approximately US$25 million through the issuance of Units of TerrAscend Corp. (the "Enterprise Offering") and TerrAscend Canada (the "Canadian Offering"). The first tranche of the Canadian Offering, a ($13,243) US$10 million lead order from Canopy Rivers, was completed on October 2, 2019. The second tranche of the non-brokered private placement was completed on November 7, 2019, with additional gross proceeds received of $4,763. The third tranche of the non-brokered private placement was completed on November 26, 2019, with additional gross proceeds received of $2,654.
- For the year ended December 31, 2019, the Company recognized impairment losses on intangible assets, property, plant and equipment and goodwill of $4,367, $2,305 and $66,213, respectively (December 31, 2018 -

$188, $nil and $nil). These impairment losses are included in net loss and the calculation of EBITDA, but added back to Adjusted EBITDA.

- For the three months and year ended December 31, 2019, the Company recognized losses on revaluation of contingent consideration of $61,851 (December 31, 2018 - $nil). These revaluation losses are included in net loss and the calculation of EBITDA, but added back to Adjusted EBITDA.

Fourth Quarter 2019 Operating Highlights

- On October 7, 2019, the Company received approval from Health Canada to increase licensed space at its Mississauga Facility from 17,800 sq. ft. to 51,800 sq. ft., which includes additional cultivation capacity, a commercial kitchen, formulation rooms and increased primary and secondary packaging capacity to allow for new product formats and extracts.

- On October 21, 2019, the Company received an additional amendment to the License to allow for sales of cannabis extracts, topicals and edibles.

- On October 23, 2019, the Company announced that it formed a strategic partnership with Kindred Partners Inc. (“Kindred”), a specialty cannabis brokerage and services company, where Kindred will serve as the exclusive broker for TerrAscend’s adult-use cannabis products in Canada.

- On November 4, 2019, the Company announced the appointment of Jason Ackerman to the Board of Directors in the role of Interim CEO, and Executive Chairman.

- On December 2, 2019, the Company announced the extension of the maturity date of its US$75 million credit facility due December 18, 2019 for up to three months and executed a term sheet to convert any amounts outstanding under the credit facility into a two-year term loan with an expected maturity of March 2022.

- On December 10, 2019, the Company announced its intention to complete a non-brokered private placement offering to raise approximately US$20 million through the issuance of units of TerrAscend Corp. The first tranche, 12,968,325 units resulting in proceeds of $31,772, was completed on December 30, 2019.

BUSINESS OVERVIEW

TerrAscend provides quality products, brands, and services to the global cannabinoid market. As the first North American Operator (NAO), with scale operations in both Canada and the US, TerrAscend participates in the medical and legal adult use market across Canada and in several US states where cannabis has been legalized for therapeutic or adult use. TerrAscend is also currently the first cannabis company with sales in Europe as well as the U.S. and Canada as it has received European Union-Good Manufacturing Practices (“EU-GMP”) certification for its manufacturing facility in Mississauga, Ontario, and has begun exports to Germany. TerrAscend operates a number of synergistic businesses, including The Apothecarium, an award-winning cannabis dispensary with several retail locations in California; Arise Bioscience Inc., a manufacturer and distributor of hemp-derived products; Ilera Healthcare, Pennsylvania’s premier medical marijuana cultivator, processor and dispenser; and Valhalla Confections, a manufacturer of premium cannabis-infused edibles. TerrAscend holds a cultivation permit in the State of New Jersey and is pending approval for a vertically integrated medical cannabis operation with the ability to operate up to 3 Alternative Treatment Centers. Additionally, TerrAscend holds a Medical Cannabis Processor License in the State of Utah.

TerrAscend’s portfolio of operating businesses and brands include:

- The Apothecarium (“Apothecarium”), consisting of Architectural Digest award-winning retail dispensaries in San Francisco, and Valhalla Confections, a leading provider of premium edible products;
- Ilera Healthcare (“Ilera”), a vertically integrated cannabis cultivator, processor and dispensary in Pennsylvania;

- TerrAscend NJ LLC ("NJ"), a majority owned subsidiary that was awarded the right to apply for a vertically integrated permit in Phillipsburg, NJ. TerrAscend holds a cultivation permit in the State of New Jersey and is pending approval for a vertically integrated medical cannabis operation with the ability to operate up to 3 Alternative Treatment Centers.
- Arise Bioscience ("Arise"), a manufacturer and distributor of hemp-derived products; and
- TerrAscend Canada, a Licensed Producer (as such term is defined in the *Cannabis Act*) of cannabis, with its current principal business activities including cultivation, processing and sale of medical and recreational cannabis flower and oil in Canada and exports to Europe.

TerrAscend Corp. was incorporated under the Ontario Business Corporations Act on March 7, 2017. The Company's registered office is located at PO Box 43125, Mississauga, Ontario, Canada, L5C 1W2.

<u>TerrAscend Corp.</u>

On October 22, 2018, common shares of the Company began trading on the OTCQX ® Best Market ("OTCQX") under the ticker symbol "TRSSF".

On November 30, 2018, the Company completed the previously announced plan of arrangement under the Business Corporations Act (Ontario) to restructure its capital (the "Arrangement") as follows:

i. the articles of the Company were amended to: (i) authorize the issuance of an unlimited number of a new class of unlisted proportionate voting shares (the "Proportionate Voting Shares"); (ii) authorize the issuance of an unlimited number of a new class of non-participating, non-voting, unlisted exchangeable shares (the "Exchangeable Shares"); (iii) authorize the issuance of an unlimited number of a new class of preferred shares, issuable in series (the "Preferred Shares"); and (iv) specify the rights, privileges, restrictions and conditions attaching to the Proportionate Voting Shares, Common Shares, Exchangeable Shares, and Preferred Shares;
ii. each of Canopy Growth Corporation ("Canopy Growth") and Canopy Rivers Corporation ("Canopy Rivers") exchanged each of their existing warrants to acquire Common Shares ("Warrants") for 0.8548 of a Common Share, based on the difference between the five day volume-weighted average trading price of the Common Shares as of October 5, 2018, being $7.5778, and the warrant exercise price of $1.10 (the "Cashless Warrant Exercise");
iii. each of Canopy Growth and Canopy Rivers then exchanged all of their Common Shares (including those received in the Cashless Warrant Exercise) for Exchangeable Shares, that are non-voting and non-participating and may not be exchanged into Common Shares until: (a) the applicable stock exchange restrictions applicable to Canopy Growth or Canopy Rivers which restrict their ability to have an investment in an entity with cannabis operations in the United States are lifted or cannabis becomes legal under U.S. federal law; and (b) any necessary stock exchange approvals are received, at which point the Exchangeable Shares will become convertible into Common Shares on a one-for-one basis;
iv. entities (the "JW Entities") controlled by Jason Wild, the Chairman of the Company, exchanged their Common Shares for Proportionate Voting Shares on the basis of one Proportionate Voting Share for each 1,000 Common Shares held, which Proportionate Voting Shares carry 1,000 votes per share, are entitled to participate in dividends and in the distribution of proceeds on a wind-up of the Company on a $1,000-to-$1.00 basis relative to the Common Shares and are exchangeable into Common Shares on a basis of 1,000 Common Shares per Proportionate Voting Share;
v. the outstanding Warrants held by the JW Entities were amended such that they are each now exercisable for 0.001 of a Proportionate Voting Share instead of one Common Share; and
vi. the JW Entities, Canopy Growth and Canopy Rivers each waived the negative covenant in their respective subscription agreements entered into with the Company which prevented the Company from conducting business in the United States.

This reorganization paved the way for the Company to explore and pursue growth opportunities in the United States. The reorganization provided a foundation to further build out and scale operations in several US states where cannabis has been legalized for therapeutic or adult use, in an effort to accelerate the Company's US expansion strategy.

TerrAscend USA

The Apothecarium

The Apothecarium is a group of licensed, full-service dispensaries that provide quality cannabis to both medical patients and adult-use customers. The dispensaries are known for emphasizing education and customer service for seniors, first-time dispensary visitors, and patients with serious medical conditions. The focus is on providing guests with in-depth, one-on-one consultations from highly trained cannabis consultants. The Apothecarium also provides free cannabis education events that are open to the public. Guests may purchase their cannabis in the dispensaries or order online for pickup.

The Apothecarium currently operates three dispensaries in San Francisco, California. The flagship dispensary located in the Castro district of San Francisco was named the best-designed dispensary in the country by Architectural Digest. In the first quarter of 2019, The Apothecarium was awarded regulatory approval for a fourth California location in Berkeley, California on high-foot traffic Telegraph Avenue. Construction commenced in October 2019. The Apothecarium has received an additional retail license for an undisclosed location in California.

TerrAscend has agreed to continue licensing The Apothecarium, State Flower and Valhalla names and related intellectual property to Gravitas Nevada Ltd. and its related operations in Nevada. Gravitas Nevada Ltd. is a vertically-integrated business engaged in the cultivation, processing, packaging and dispensing of cannabis and cannabis related products in Nevada.

Valhalla Confections ("Valhalla") is a premier manufacturer of select cannabis-infused artisan edibles that are gluten free, and made with ingredients free of chemically formulated fertilizers, growth stimulants, antibiotics, or pesticides, all while maintaining eco-friendly practices.

On June 6, 2019, a wholly owned subsidiary of TerrAscend, WDB Holdings CA, Inc., acquired 49.9%, which comprises 100% of the common shares, of the following group of entities (collectively referred to as the "California Apothecarium Entities"). The assets included three entities operating the San Francisco locations of The Apothecarium, two additional retail locations, and Valhalla.

- RHMT, LLC, Deep Thought, LLC, and Howard Street Partners, LLC. (collectively the "SF Entities")- 49.9%; and
- BTHHM Berkeley, LLC, PNB Noriega, LLC, and V Products, LLC (collectively the "NoCal Entities")- 100%

As consideration, TerrAscend paid $95,990 (US$71.8 million), comprising $49,281 (US$36.8 million) in cash, $1,399 (US$1.1 million) in the form of a working capital adjustment, contingent consideration of $4,051 (US$3 million) and 6,700 proportionate voting shares of TerrAscend. The fair value of the share consideration as at June 6, 2019 was $41,259 (US$30.9 million). The contingent consideration is the expected consideration payable to acquire the remaining 50.1% of the SF Entities, which comprises 100% of its preferred shares, subject to regulatory approval.

Ilera Healthcare

Ilera is one of the initial five permitted vertically integrated cannabis cultivator, processor, and dispensary operators in the State of Pennsylvania. Ilera operates a retail dispensary in Plymouth Meeting, PA, with future plans to open two additional dispensary sites in the Philadelphia area. The operations include a 67,000 sq. ft. site for cultivation and processing in Waterfall, PA with expansion underway to increase the facility to over 120,000 sq. ft in 2020. In addition to selling its products in its own dispensary, Ilera distributes its dried flower, concentrates, tinctures, and topicals to over 60 dispensaries throughout Pennsylvania.

On September 16, 2019, the Company through a wholly owned subsidiary, WDB Holding PA, Inc. ("WDB PA"), acquired Ilera. The Company acquired the following group of entities (collectively the "Pennsylvania Ilera Entities").

- Ilera Healthcare LLC, Ilera Dispensing LLC, IHC Real Estate GP, LLC, Ilera Security LLC, 235 Main Mercersburg LLC, and Ilera InvestCo I LLC – 100%;
- IHC Real Estate LP – 50%; and
- Guadco LLC and KCR Holdings LLC – 10%

TerrAscend acquired 100% of the equity of Ilera for total consideration between $160,764-$293,244 (US$125-$225 million), paid in a combination of cash and TerrAscend shares. At closing, TerrAscend paid to the sellers $33,120 (US$25 million) in cash, subject to customary closing adjustments, an additional $27,488 (US$25 million) worth of proportionate voting shares in the equity of TerrAscend equivalent to approximately 5,059.102 proportionate voting shares (which are each exchangeable for 1,000 TerrAscend common shares), and $796 (US$0.6 million) in working capital adjustments. Additional cash consideration of $99,360 (US$75 million) to $231,840 (US$175 million) in aggregate may be paid to the sellers based on Ilera achieving certain specified sales and profitability targets, with staged payments being made in 2020 and 2021. The fair value of the contingent consideration at acquisition was $144,312. On December 27, 2019, the Company agreed to pay to the sellers of Ilera an additional amount equal to $2,269 (US$1.75 million), payable in five installments, due every three months beginning April 15, 2020.

New Jersey

In December 2018, NJ was chosen to be awarded a permit by the New Jersey Department of Health for a vertically integrated license to cultivate, process and dispense medical cannabis in the North region of New Jersey. NJ is a majority owned subsidiary of TerrAscend, whose minority partners are BWH NJ, LLC and Blue Marble Ventures, LLC.

NJ has secured a 16-acre site in Boonton Township, located in Morris County. Construction of a 200,000 sq. ft. production facility is underway with the first phase covering approximately 80,000 sq. ft. of cultivation, processing and support space expected to be operational in 2020. Site plans for the second phase have been completed and submitted to the Boonton Township Planning Board for review. Future expansion plans are expected to provide the potential for an additional approximately 120,000 sq. ft.

The Company plans to leverage the strong brand equity of The Apothecarium as its retail banner in New Jersey. The first Apothecarium-branded dispensary slated to open in Phillipsburg in 2020 will be followed by two additional dispensaries upon regulatory approval. The Company's Phillipsburg dispensary will be the state's first in Warren County and one of the first east coast locations of The Apothecarium.

Arise Bioscience

Arise is a wholly owned subsidiary incorporated in the state of Delaware. On January 15, 2019, Arise completed the acquisition of substantially all of the assets from Grander Distribution, LLC ("Grander") and is an industry leader in the production and distribution of innovative hemp-derived wellness products. Arise's whole-plant hemp extract products are made in the United States and are available for sale in retail locations nationwide.

TerrAscend Canada Inc.

Licensing

TerrAscend Canada Inc. is a Licensed Producer (as such term is defined in the *Cannabis Act*) of cannabis in Canada, and its current principal business activities include cultivation, processing and sale of medical and recreational cannabis. The Facility, which is compliant with EU-GMP standards, is focused on serving the Canadian medical and adult-use markets and serving as a platform for the export of cannabis products to Europe and other international jurisdictions.

TerrAscend Canada Inc. was granted a license (the "License") by Health Canada to become a Licensed Producer under the Access to Cannabis for Medical Purposes Regulations ("ACMPR") on July 10, 2017, for its 67,300 square foot facility located in Mississauga, Ontario (the "Facility).

The Company entered into a comprehensive sale and distribution agreement with iuvo Therapeutics GmbH ("iuvo"), a German pharmaceutical wholesaler with cannabis-specific import and distribution licenses. The Company began exporting to Germany in August 2019.

On February 5, 2018, TerrAscend Canada was granted an amendment to the License by Health Canada to allow for cannabis oil production pursuant to the ACMPR. A further amendment to the License was granted on March 9, 2018 and July 8, 2019 to allow for sales of dried cannabis and cannabis oil, respectively.

On May 2, 2019, the Company announced that its manufacturing facility in Mississauga, Ontario, Canada had been issued a GMP certificate in accordance with the rules governing medicinal products in the European Union ("EU"). The EU-GMP certification was awarded by the responsible agency, Arzneimittelbehörde, in North Rhine-Westphalia, Germany.

Additional expansion of the cultivation and processing area was completed and approved by Health Canada on October 7, 2019. The expanded cultivation space will allow for the cultivation of up to 2,500 kilograms of dried cannabis annually. The Company has commenced processing operations and the additional space will provide the Company with processing and packaging areas to produce and package alternative formats of dried cannabis products and derivative products such as oils, vapes, edibles and alternative product formats.

On July 8, 2019, the Company received an amendment to its license from Health Canada to allow it to sell cannabis oils from its facility in Mississauga, Ontario.

On October 22, 2019, the Company received an additional amendment to the License to allow for sales of cannabis extracts, topicals and edibles from its facility in Mississauga, Ontario. The Company submitted 15 SKUs to Health Canada, including edibles, vape pens, and cartridges, to be authorized for launch this year.

Operational Highlights

The Company now has distribution agreements in the provinces of British Columbia, Alberta, Manitoba, Saskatchewan, Ontario, Newfoundland, Nova Scotia and Prince Edward Island. During the fourth quarter, the Company has launched cannabis infused herbal teas, ready to use vapes and vape cartridges.

On April 20, 2018, TerrAscend completed a strategic investment into a private cannabis 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. Each unit is comprised 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 C$1.05 within twenty-four (24) months. During the fourth quarter of 2019 the Company sold its investment in the shares of F&F and currently holds 3,125,000 warrants of F&F.

On April 25, 2018, TerrAscend Canada launched the Solace Health Marketplace ("Solace"), a centralized destination for Canadian cannabis medical patients to access information, quality support and a diverse selection of 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 has issued 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 subsidiary, TerrAscend Canada) provides fulfillment and distribution services on behalf of AHLOT.

On June 6, 2018, TerrAscend formed a strategic joint venture with Cistron Corp. and launched Ascendant Laboratories ("Ascendant"). 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 $1.25 million in return for a combination of shares and warrants. As at December 31, 2019 TerrAscend has contributed $0.625 million representing a 60% ownership interest in Ascendant Laboratories.

On October 15, 2018, TerrAscend Canada entered into a multi-year cultivation agreement with PharmHouse Inc. ("PharmHouse"), a joint venture between Canopy Rivers Inc. and the principals and operators of a leading North American greenhouse produce company. Under the terms of the agreement, PharmHouse will grow and supply cannabis to TerrAscend Canada from an existing 1.3 million square foot greenhouse, located in Leamington, Ontario. Once fully licensed, the production of flower, trim and clones from up to 20% of the dedicated flowering space at the Leamington Greenhouse facility will be made available to TerrAscend Canada.

On January 1, 2019, the Company entered into a comprehensive sales and distribution agreement with iuvo, a German pharmaceutical wholesaler with a cannabis-specific import and distribution license with its initial export in August 2019.

On August 28, 2019, the Company entered into agreements to acquire State Flower, an ultra-premium California cannabis brand that is currently sold through dispensaries in California and Nevada, including at The Apothecarium. State Flower's elite talent and best-in-class cultivation will be great additions to TerrAscend's global portfolio of companies.

Subsequent to year-end the Company has evaluated its Canadian operations and based on current market conditions management has determined that Solace and Ascendant are no longer commercially viable and ceased all further construction and operations. The Company will shift its efforts to the adult use markets.

SELECTED FINANCIAL INFORMATION FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2019

Consolidated	**December 31, 2019**	**December 31, 2018**	**December 31, 2017**
	$	**$**	**$**
Cash and cash equivalents	**11,900**	21,773	51,817
Working capital	**(52,131)**	28,406	52,001
Non-current assets	**370,033**	30,184	15,368
Total assets	**460,766**	88,978	69,061
Current liabilities	**142,864**	30,388	1,692
Non-current liabilities	**242,573**	688	—
Total shareholders' equity	**75,329**	57,902	67,369

Consolidated	**Three months ended**				**Year ended**
	December 31, 2019	**September 30, 2019**	**June 30, 2019**	**March 31, 2019**	**December 31, 2019**
	$	**$**	**$**	**$**	**$**
Sales, net of excise tax	**25,883**	26,831	17,572	14,582	**84,868**
Net loss	**(171,805)**	(17,321)	(19,136)	(10,690)	**(218,952)**
Net loss attributable to non-controlling interest	**(2,307)**	(265)	(432)	(160)	**(3,164)**
Net loss per share	**(1.31)**	(0.16)	(0.22)	(0.14)	**(2.17)**

Canada	**Three months ended**				**Year ended**
	December 31, 2019	**September 30, 2019**	**June 30, 2019**	**March 31, 2019**	**December 31, 2019**
	$	**$**	**$**	**$**	**$**
Sales, net of excise tax	**1,904**	8,879	7,299	8,860	**26,942**
Net loss	**(28,776)**	(12,708)	(9,904)	(7,641)	**(59,029)**
Net loss attributable to non-controlling interest	**(2,194)**	(58)	(214)	(50)	**(2,516)**

United States

	Three months ended				Year ended
	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2019
	$	$	$	$	$
Sales, net of excise tax	**23,979**	17,952	10,273	5,722	**57,926**
Net loss	**(143,029)**	(4,613)	(9,232)	(3,049)	**(159,923)**
Net loss attributable to non-controlling interest	**(113)**	(207)	(218)	(110)	**(648)**

RESULTS FROM OPERATIONS

Three months ended December 31, 2019 as compared to the three months ended December 31, 2018

	December 31, 2019	December 31, 2018
	$	$
Sales, net of excise tax	**25,883**	5,031
Cost of sales	**30,126**	4,150
Gross profit (loss) before gain on fair value of biological assets	**(4,243)**	881
Unrealized gain on changes in fair value of biological assets	**1,744**	(1,189)
Realized loss on changes in fair value of biological assets	**(261)**	(63)
Gross loss	**(2,760)**	(371)
Operating expenses:		
General and administrative expense	**12,273**	8,083
Share-based payments (recovery)	**11**	2,492
Amortization and depreciation	**194**	190
Research & development	**215**	40
Total operating expenses	**12,693**	10,805
Loss from operations	**(15,453)**	(11,176)
Impairment of goodwill	**66,213**	—
Revaluation of contingent consideration	**61,851**	—
Transaction and restructuring costs	**11,146**	—
Finance and other expense (income)	**1,507**	(13)
Unrealized loss (gain) on investments	**2,724**	(98)
Impairment of intangible assets	**4,309**	188
Unrealized loss on note receivable	**1,775**	—
Realized gain on investments	**(1,400)**	—
Impairment of property, plant and equipment	**2,305**	—
Foreign exchange loss (gain)	**279**	(192)
Loss before income taxes	**(166,162)**	(11,061)
Current income tax expense	**4,848**	16
Deferred income tax (recovery) expense	**795**	688
Net loss	**(171,805)**	(11,765)
Currency translation adjustment	**(902)**	—
Comprehensive loss	**(170,903)**	(11,765)
Net loss attributable to:		
Shareholders of the Company	**(169,498)**	(11,649)
Non-controlling interests	**(2,307)**	(116)
Comprehensive loss attributable to:		
Shareholders of the Company	**(168,482)**	(11,649)
Non-controlling interests	**(2,421)**	(116)
Net loss per share – basic and diluted	**(1.31)**	(0.13)
Weighted average shares outstanding	**129,088,071**	90,210,775

Sales, net of excise tax

For the three months ended December 31, 2019, the Company generated sales, net of excise tax of $25,883 compared to $5,031 for the three months ended December 31, 2018. For the three months ended December 31, 2019, sales, net of excise tax in Canada were $1,904 and sales, net of excise tax in the United States were $23,979. In Canada, the Company obtained a license to sell cannabis in March 2018 and commenced medical cannabis sales in the second quarter of 2018 and adult-use cannabis sales to provinces in the third quarter of 2018. In the United States, the Company commenced selling activities in 2019 with its acquisition of Arise in the first quarter of 2019, followed by The Apothecarium in the second quarter and Ilera in the third quarter.

Cost of Sales

Biological assets are measured at fair value less costs to sell until harvest. Changes in fair value less costs to sell of the biological assets during the reporting period before harvest are recognized in the results of operations in the related reporting period.

All direct and indirect costs of biological assets are capitalized as they are incurred, and they are all subsequently recorded within the line item ‘cost of goods sold’ on the statement of loss in the period that the related product is sold. Direct and indirect 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. 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.

Harvested cannabis is transferred from biological assets at their fair value less cost to sell at harvest, which becomes the deemed cost for inventory. 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 loss before gain on fair value of biological assets represents loss before the net impact of unrealized gain on biological transformation and realized fair value amounts from inventory sold during the period.

The fair value changes of biological assets, inventory expensed, fair value recovery and impairments that make up the total cost of sales, for the three months ended December 31, 2019 and three months ended December 31, 2018 are presented in the tables below:

Three months ended December 31, 2019	**Canada** **$**	**United States** **$**	**Total** **$**
Cost of goods sold	8,446	14,240	**22,686**
Impairment of inventory	7,413	27	**7,440**
Cost of sales	15,859	14,267	**30,126**
Unrealized loss (gain) on changes in fair value of biological assets	2,156	(3,900)	**(1,744)**
Realized loss on changes in fair value of biological assets	261	—	**261**
Cost of sales after changes in biological assets	**18,276**	**10,367**	**28,643**

Three months ended December 31, 2018	**Canada** **$**	**United States** **$**	**Total** **$**
Cost of goods sold	3,369	—	**3,369**
Impairment of inventory	781	—	**781**
Cost of sales	4,150	—	**4,150**
Unrealized gain on changes in fair value of biological assets	1,189	—	**1,189**
Realized loss on changes in fair value of biological assets	63	—	**63**
Cost of sales after changes in biological assets	**5,402**	**—**	**5,402**

Cost of sales after changes in biological assets for the three months ended December 31, 2019 were $28,643 compared to $5,402 for the prior year comparative period. For the three months ended December 31, 2019, the cost of sales in Canada was $18,276 (2018- $5,402) and cost of sales in the United States was $10,367 (2018- $nil). The Company obtained a license to sell cannabis in Canada in March 2018 and commenced medical cannabis sales in the second quarter of 2018 and recreational cannabis sales to provinces in the third quarter of 2018. The increase in cost of sales for the United States was due to the addition of costs associated with the Arise, Apothecarium and Ilera entities. Direct and indirect 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. The impairment charges of $7,440 for the three months ended December 31, 2019 were due to the carrying value of inventory exceeding the estimated net realizable value. In addition, during the three months ended December 31, 2019 management wrote off $4,427 of inventory that it deemed unsaleable or spoiled. The Company did not incur any crop failures in 2019 or 2018.

Production costs of finished inventory harvest were offset by unrealized 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, 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 positive impact on expected gains.

Comprehensive Loss Attributable to Controlling Interest

The Company incurred a comprehensive loss attributable to controlling interest of $168,482 or $1.31 per share for the three months ended December 31, 2019, compared to a comprehensive loss attributable to controlling interest of $11,649 or $0.13 per share for the same period last year.

For the three months ended December 31, 2019, the Company incurred a comprehensive loss attributable to controlling interest in Canada of $26,522 compared to a comprehensive loss attributable to controlling interest of $10,304 for the same period last year. The Company received its license to sell dried cannabis in the first quarter of 2018 and license to produce cannabis oils in the second quarter of 2018. The increase in net loss was due to the Company incurring additional general and administrative and consulting and professional expenditures as the Company continued to ramp up operations and strategic investments.

For the three months ended December 31, 2019, the Company incurred a comprehensive loss attributable to controlling interest in the United States of $141,960 compared to a comprehensive loss attributable to controlling interest of $1,345 for the same period last year. The increase in comprehensive loss for the United States was due to impairment charges and losses on revaluation of contingent consideration.

Share-based Payments

Share-based payments expense in Canada was $11 for the three months ended December 31, 2019 compared an to expense of $2,492 for the same period last year. The decrease was primarily driven by option forfeiture rates applied in during the fourth quarter of 2019.

Share-based payments expense in the United States were $nil for the three months ended December 31, 2019 and 2018, respectively.

General and Administrative Expense

General & Administrative ("G&A") expenses of $12,273 for the three months ended December 31, 2019 increased by $4,190 compared to $8,083 for the same period last year. G&A expenses in Canada for the three months ended December 31, 2019 were $3,778 compared to $6,680 for the same period last year. G&A expenses in the United States for the three months ended December 31, 2019 were $8,495 compared to $1,403 for the same period last year.

In Canada, the decrease in G&A was primarily due to decreases in professional fees associated with Canadian operations. The United States comparative is not applicable as operations commenced in the fourth quarter of 2018.

Amortization and Depreciation Expense

Amortization and depreciation expense of $194 for the three months ended December 31, 2019 decreased by $4 compared to $190 for the same period last year. Amortization and depreciation expense in Canada for the three months ended December 31, 2019 was $478 compared to $190 for the same period last year. Amortization and depreciation expense in the United States for the three months ended December 31, 2019 was $(284) compared to $nil for the same period last year. The increase in amortization and depreciation expense was due to increased capital investment in Canada and an adjustment of the useful lives of the assets acquired in the acquisition of Ilera in the United States during the third quarter of 2019.

Impairment

The Company recorded impairment losses for the three months ended December 31, 2019 totalling $4,309, $2,305 and $66,213 for intangible assets, property, plant and equipment and goodwill, respectively (December 31, 2018 - $188, $nil and $nil) related to the Company's Canadian Pharmaceutical CGU and California CGU. Impairment losses were recognized as part of the Company's annual impairment testing due to changes in overall industry/market conditions, a change in management's forecasted sales and profitability outlook and a realignment and refocus of strategic plans to meet market demand.

Finance Expense (Income)

For the three months ended December 31, 2019, finance expense totaled $1,507 versus $13 of finance income for the comparable period in 2018. Finance expense in Canada for the three months ended December 31, 2019 was $157 compared to finance income of $75 for the same period last year. Finance expense in the United States for the three months ended December 31, 2019 was $1,350 compared to $62 for the same period last year.

The finance income in Canada for 2019 was primarily due to the interest income from the Think AHLOT note receivable whereas the finance income in 2018 was associated with the interest income on term deposits. The finance expense in the United States was primarily due to the borrowings on the US$75 million credit facility with JW Asset Management LLC. As at December 31, 2019, US$45.5 million was drawn on this credit facility. The Company capitalized $290 of borrowing costs for the three months ended December 31, 2019.

Unrealized Loss (Gain) on Investments

For the three months ended December 31, 2019, the Company recorded unrealized loss on investments of $2,724 compared to a gain of $98 in the same period for 2018. The unrealized loss on investments is all realized in Canada and relates to the decrease in fair value of the Company's investment in F&F shares and warrants. The fair value of the investment was based on Level 3 of the fair value hierarchy.

Unrealized Foreign Exchange Loss (Gain)

For the three months ended December 31, 2019, the Company recorded unrealized foreign exchange loss of $279 compared to a gain of $192 in 2018. The foreign exchange loss related to the translation of the parent Company's US denominated monetary assets and liabilities to the Canadian functional currency.

Effects of movements on foreign exchange on translation of US entity amounts into Canadian reporting currency is recorded in the statement of financial position as other comprehensive income.

Year ended December 31, 2019 as compared to the year ended December 31, 2018

	December 31, 2019 $	December 31, 2018 $
Sales, net of excise tax	**84,868**	6,826
Cost of goods sold	**81,295**	8,846
Gross profit (loss) before gain on fair value of biological assets	**3,573**	(2,020)
Unrealized gain on changes in fair value of biological assets	**5,480**	404
Realized loss on changes in fair value of biological assets	**(725)**	(132)
Gross profit (loss)	**8,328**	(1,748)
Operating expenses:		
General and administrative expense	**50,073**	18,114
Share-based payments	**11,604**	6,558
Amortization and depreciation	**5,499**	533
Research & development	**709**	141
Total operating expenses	**67,885**	25,346
Loss from operations	**(59,557)**	(27,094)
Impairment of goodwill	**66,213**	—
Revaluation of contingent consideration	**61,851**	—
Transaction and restructuring costs	**11,146**	—
Finance and other expense (income)	**5,675**	(641)
Unrealized loss (gain) on investments	**5,546**	(5,177)
Impairment of intangible assets	**4,367**	188
Unrealized loss on note receivable	**1,655**	—
Realized gain on investments	**(1,400)**	—
Impairment of property, plant and equipment	**2,305**	—
Foreign exchange loss (gain)	**413**	(24)
Loss before income taxes	**(217,328)**	(21,440)
Current income tax expense	**3,959**	16
Deferred income tax (recovery) expense	**(2,335)**	688
Net loss	**(218,952)**	(22,144)
Currency translation adjustment	**1,992**	—
Comprehensive loss	**(220,944)**	(22,144)
Net loss attributable to:		
Shareholders of the Company	**(215,788)**	(22,028)
Non-controlling interests	**(3,164)**	(116)
Comprehensive loss attributable to:		
Shareholders of the Company	**(217,666)**	(22,028)
Non-controlling interests	**(3,278)**	(116)
Net loss per share – basic and diluted	**(2.17)**	(0.23)
Weighted average shares outstanding	**99,592,007**	93,955,914

Sales, net of excise tax

For the year ended December 31, 2019, the Company generated sales, net of excise tax of $84,868 compared to $6,826 for the year ended December 31, 2018. For the year ended December 31, 2019, sales, net of excise tax in Canada were $26,942 and sales, net of excise tax in the United States were $57,926. Sales in the United States were driven by the addition of Arise and Apothecarium in the first half of the year and Ilera in the third quarter of 2019. In Canada, the Company obtained a license to sell cannabis in March 2018 and commenced medical cannabis sales in the second quarter of 2018 and recreational cannabis sales to provinces in the third quarter of 2018.

Cost of Sales

Biological assets are measured at fair value less cost to sell until harvest. 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.

All direct and indirect costs of biological assets are capitalized as they are incurred, and they are all subsequently recorded within the line item 'cost of goods sold' on the statement of loss in the period that the related product is sold. Direct and indirect 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.

Harvested cannabis is transferred from biological assets at their fair value less cost to sell at harvest, which becomes the deemed cost for inventory. 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 loss before gain on fair value of biological assets represents loss before the net impact of unrealized gain on biological transformation and realized fair value amounts from inventory sold during the period.

The fair value changes of the biological assets, inventory expensed, fair value recovery and impairments that make up the total cost of sales, for the year ended December 31, 2019, and year ended December 31, 2018 is presented in the tables below:

Year ended December 31, 2019	**Canada $**	**United States $**	**Total $**
Cost of goods sold	35,753	36,358	**72,111**
Impairment of inventory	8,714	470	**9,184**
Cost of sales	44,467	36,828	**81,295**
Unrealized gain on changes in fair value of biological assets	(611)	(4,869)	**(5,480)**
Realized loss on changes in fair value of biological assets	725	—	**725**
Cost of sales after changes in biological assets	**44,581**	**31,959**	**76,540**

Year ended December 31, 2018	**Canada $**	**United States $**	**Total $**
Cost of goods sold	6,361	—	**6,361**
Impairment of inventory	2,485	—	**2,485**
Cost of sales	8,846	—	**8,846**
Unrealized gain on changes in fair value of biological assets	(404)	—	**(404)**
Realized loss on changes in fair value of biological assets	132	—	**132**
Cost of sales after changes in biological assets	**8,574**	**—**	**8,574**

Cost of sales after changes in biological assets for the year ended December 31, 2019 were $76,540 compared to the prior year same period $8,574. For the year ended December 31, 2019, the cost of sales in Canada was $44,581 (2018- $8,574) and cost of sales in United States was $31,959 (2018- $nil). In Canada, the Company obtained a license to sell cannabis in Canada in March 2018 and commenced medical cannabis sales in the second quarter of 2018 and recreational cannabis sales to provinces in the third quarter of 2018. The increase in cost of sales for the United States was due to the Company acquiring Grander in the first quarter of 2019, Apothecarium in the second quarter of 2019, and Ilera in the third quarter of 2019. Direct and indirect costs include production salaries and wages, depreciation and supplies. The impairment charges of $9,184 for the year ended December 31, 2019 were due to the carrying value of inventory exceeding the estimated net realizable value. In addition, during the year ended December 31, 2019, management wrote off $5,078 of inventory that it deemed unsaleable or spoiled. The Company did not incur any crop failures in 2019 or 2018.

Production costs of finished inventory harvest were offset by unrealized 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, 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 positive impact on expected gains.

Comprehensive Loss Attributable to Controlling Interest

The Company incurred a comprehensive loss attributable to controlling interest of $217,666 or $2.17 per share for the year ended December 31, 2019, compared with a comprehensive loss attributable to controlling interest of $22,028 or $0.23 per share for the same period last year.

For the year ended December 31, 2019, the Company incurred a comprehensive loss attributable to controlling interest in Canada of $56,513 compared to a comprehensive loss attributable to controlling interest of $20,683 for the same period last year, in Canada. The Company received its license to sell dried cannabis in the first quarter of 2018 and license to produce cannabis oils in the second quarter of 2018. The increase in net loss and comprehensive loss attributable to controlling interest was due to the Company incurring additional G&A and consulting and professional expenditures as the Company continued to ramp up operations and strategic investments.

For the year ended December 31, 2019, the Company incurred a comprehensive loss attributable to controlling interest in the United States of $161,153 compared to a comprehensive loss attributable to controlling interest of $1,345 for the same period last year. The increase in loss for the United States was due to the Company incurring impairment charges and losses on revaluation of contingent consideration.

Share-based Payments

Share-based payments in Canada were $11,604 for the year ended December 31, 2019 compared to $6,558 for the same period last year. The increase was primarily driven by higher number of options granted as well as higher number of unvested options outstanding in the first quarter of 2019 as compared to the first quarter of 2018.

Share-based payments in the United States were $nil for the year ended December 31, 2019 and 2018.

General and Administrative Expense

General & Administrative ("G&A") expenses of $50,073 for the year ended December 31, 2019 increased by $31,959 compared to $18,114 for the same period last year. G&A expenses in Canada for the year ended December 31, 2019 were $17,338 compared to $16,711 for the same period last year. G&A expenses in the United States for the year ended December 31, 2019 were $32,735 compared to $1,403 for the same period last year.

In Canada, the increase in G&A of $627 was primarily due to increases in salaries and wages, consulting and professional fees, and insurance as overall operations increased. The United States comparative is not applicable as US operations commenced in late 2018.

Amortization and Depreciation Expense

Amortization and depreciation expense of $5,499 for the year ended December 31, 2019, increased by $4,966 compared to $533 for the same period last year. Amortization and depreciation expense in Canada for the year ended December 31, 2019 was $1,381 compared to $533 for the same period last year. Amortization and depreciation expense in the United States for the year ended December 31, 2019 was $4,118 compared to $nil for the same period last year. The increase in amortization and depreciation expense was due to increased capital investment in Canada and the asset acquisition of Grander in the first quarter of 2019, the acquisition of Apothecarium in the second quarter of 2019, and the acquisition of Ilera in the third quarter of 2019.

Impairment

The Company recorded impairment losses for the year ended December 31, 2019 totalling $4,367 , $2,305 and $66,213 for intangible assets, property, plant and equipment and goodwill, respectively (December 31, 2018 - $188, $nil and $nil) related to the Company's Canadian Pharmaceutical CGU and California CGU. Impairment losses were recognized as part of the Company's annual impairment testing due to changes in overall industry/market conditions, a change in management's forecasted sales and profitability outlook and a realignment and refocus of strategic plans to meet market demand.

Finance Expense (Income)

For the year ended December 31, 2019, finance expense totaled $5,675 versus $641 of finance income for the comparable period in 2018. Finance income in Canada for the year ended December 31, 2019 was $116 compared to $703 for the same period last year. Finance expense in the United States for the year ended December 31, 2019 was $5,791 compared to $62 for the same period last year.

The finance income in Canada for 2019 was primarily due to the interest income from the Company's notes receivable whereas the finance income in 2018 was associated with the interest income on term deposits. The finance expense in the United States was primarily due to borrowings on the US$75 million credit facility with JW Asset Management LLC. As at December 31, 2019, US$45.5 million was drawn on this credit facility. The Company capitalized $836 of borrowing costs for the year ended December 31, 2019.

Unrealized Loss (Gain) on Investments

For the year ended December 31, 2019, the Company recorded unrealized loss on investments of $5,546 compared to a gain of $5,177 in 2018. The unrealized loss on investments is all realized in Canada and relates to the decrease in fair value of the Company's investment in Fire and Flower Inc. shares and warrants. The fair value of the investment was based on Level 3 of the fair value hierarchy.

Unrealized Foreign Exchange Loss (Gain)

For the year ended December 31, 2019, the Company recorded unrealized foreign exchange loss of $413 compared to $24 in 2018. The foreign exchange loss related to the translation of the parent Company's US denominated monetary assets and liabilities to the Canadian functional currency.

Unrealized foreign exchange impact on translation of US entity amounts into Canadian reporting currency is recorded in the statement of financial position as cumulative translation adjustments.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth information regarding TerrAscend's Consolidated Financial Statements including sales, net of excise tax, 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 audited annual consolidated financial statements and related notes.

	Q4 2019 $	Q3 2019 $	Q2 2019 $	Q1 2019 $	Q4 2018 $	Q3 2018 $	Q2 2018 $	Q1 2018 $
Sales, net of excise tax	25,883	26,831	17,572	14,582	5,031	1,786	9	—
Cost of sales	30,126	22,031	16,063	13,075	4,150	3,250	1,034	412
Gross profit (loss) before gain on fair value of biological assets	(4,243)	4,800	1,509	1,507	881	(1,464)	(1,025)	(412)
Unrealized gain (loss) on changes in fair value of biological assets	1,744	2,283	1,009	444	(1,189)	917	99	577
Realized loss on changes in fair value of biological assets	(261)	(87)	(360)	(17)	(63)	(69)	—	—
Gross profit (loss)	**(2,760)**	**6,996**	**2,158**	**1,934**	**(371)**	**(616)**	**(926)**	**165**
Operating expenses:								
General and administrative expense	12,273	14,606	14,373	8,821	8,083	5,029	3,424	1,578
Share-based payments	11	7,227	2,459	1,907	2,492	2,090	978	998
Amortization and depreciation	194	3,312	1,241	752	190	149	107	87
Research & development	215	197	173	124	40	70	31	—
Total operating expenses	**12,693**	**25,342**	**18,246**	**11,604**	**10,805**	**7,338**	**4,540**	**2,663**
Loss from operations	**(15,453)**	**(18,346)**	**(16,088)**	**(9,670)**	**(11,176)**	**(7,954)**	**(5,466)**	**(2,498)**
Impairment of goodwill	66,213	—	—	—	—	—	—	—
Revaluation of contingent consideration	61,851	—	—	—	—	—	—	—
Transaction and restructuring costs	11,146	—	—	—	—	—	—	—
Finance and other expense (income)	1,507	2,099	1,337	732	(13)	(209)	(268)	(151)
Unrealized loss (gain) on investments	2,724	236	1,968	618	(98)	(5,079)	—	—
Impairment of intangible assets	4,309	—	58	—	188	—	—	—
Unrealized loss (gain) on note receivable	1,775	(120)	—	—	—	—	—	—
Realized gain on investments	(1,400)	—	—	—	—	—	—	—
Impairment of property, plant and equipment	2,305	—	—	—	—	—	—	—
Foreign exchange (gain) loss	279	32	62	40	(192)	168	—	—
Loss before income taxes	**(166,162)**	**(20,593)**	**(19,513)**	**(11,060)**	**(11,061)**	**(2,834)**	**(5,198)**	**(2,347)**
Current income tax (recovery) expense	4,848	(928)	39	—	16	—	—	—
Deferred income tax (recovery) expense	795	(2,344)	(416)	(370)	688	—	—	—
Net loss	**(171,805)**	**(17,321)**	**(19,136)**	**(10,690)**	**(11,765)**	**(2,834)** -	**(5,198)**	**(2,347)**
Currency translation adjustment	(902)	(12)	2,396	510	—	—	—	—
Comprehensive loss	**(170,903)**	**(17,309)**	**(21,532)**	**(11,200)**	**(11,765)**	**(2,834)**	**(5,198)**	**(2,347)**
Net loss attributable to:								
Shareholders of the Company	(169,498)	(17,056)	(18,704)	(10,530)	(11,649)	(2,834)	(5,198)	(2,347)
Non-controlling interests	(2,307)	(265)	(432)	(160)	(116)	-	—	—
Comprehensive loss attributable to:								
Shareholders of the Company	(168,482)	(17,044)	(21,100)	(11,040)	(11,649)	(2,834)	(5,198)	(2,347)
Non-controlling interests	(2,421)	(265)	(432)	(160)	(116)	-	—	—
Net loss per share – basic and diluted	**(1.31)**	**(0.16)**	**(0.22)**	**(0.14)**	**(0.13)**	**(0.03)**	**(0.05)**	**(0.02)**

During the fourth quarter of 2018, the Company completed a plan of arrangement whereby Canopy Rivers and Canopy Growth exchanged an aggregate 38,890,571 common shares into exchangeable shares and JW Entities exchanged 35,021,529 common shares into proportionate voting shares. The above two noted transactions resulted in a reduction in issued and outstanding common shares and an increase in the basic and diluted net loss per share.

NON-IFRS FINANCIAL MEASURES

The Company's "Adjusted EBITDA" is a non-IFRS measure used by management that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management uses Adjusted EBITDA to evaluate the performance of the Company's business as it reflects its ongoing profitability. The Company believes that certain investors and analysts use Adjusted EBITDA to measure a company's ability to service debt and to meet other payment obligations or as a common measurement to value companies in the biopharmaceutical industry. Adjusted EBITDA has no direct comparable IFRS financial measure. Such information is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The Company measures Adjusted EBITDA as EBITDA less unrealized gain on changes in fair value of biological assets and other income plus fair value changes in biological assets included in inventory sold, impairments, restructuring costs, purchase accounting adjustments, transaction costs, share based compensation and unrealized loss on investments. The Company believes that this definition is suited to measure the Company's ability to service debt and to meet other payment obligations.

Certain comparative figures have been reclassified to conform to the current period's presentation.

The table below reconciles net loss to EBITDA and Adjusted EBITDA for the three months ended December 31, 2019.

Three months ended December 31, 2019	Notes	Canada	US	Total
Net loss		(28,776)	(143,029)	**(171,805)**
Add (deduct) the impact of:				
Current income tax expense		24	4,824	**4,848**
Deferred income tax expense (recovery)		(1,866)	2,661	**795**
Finance expense		189	1,437	**1,626**
Depreciation of property, plant and equipment		509	1,066	**1,575**
Amortization of intangible assets		101	(78)	**23**
EBITDA	(a)	**(29,819)**	**(133,119)**	**(162,938)**
Add (deduct) the impact of:				
Impairment of goodwill	(b)	2,407	63,806	**66,213**
Revaluation of contingent consideration	(c)	—	61,851	**61,851**
Non-cash write downs of inventory	(d)	13,792	470	**14,262**
Transaction costs	(e)	201	4,561	**4,762**
Impairment of intangible assets	(b)	444	3,865	**4,309**
Unrealized loss on investments	(f)	2,724	—	**2,724**
Impairment of property, plant and equipment		2,305	—	**2,305**
Unrealized loss on note receivable		1,775	—	**1,775**
Unrealized (gain) loss on changes in fair value of biological assets	(g)	2,157	(3,901)	**(1,744)**
Realized gain on investments		(1,400)	—	**(1,400)**
Relief of fair value of inventory upon acquisition	(h)	—	1,032	**1,032**
Share-based payments	(i)	691	—	**691**
Realized loss on changes in fair value of biological assets	(j)	261	—	**261**
Restructuring costs	(k)	160	—	**160**
Adjusted EBITDA	(l)	**(4,302)**	**(1,435)**	**(5,737)**

The table below reconciles net loss to EBITDA and Adjusted EBITDA for the year ended December 31, 2019.

Year ended December 31, 2019	Notes	Canada	US	Total
Net loss		(59,029)	(159,923)	**(218,952)**
Add (deduct) the impact of:				
Current income tax expense		24	3,935	**3,959**
Deferred income tax recovery		(1,866)	(469)	**(2,335)**
Finance expense (income)		(134)	5,947	**5,813**
Depreciation of property, plant and equipment		1,393	1,583	**2,976**
Amortization of intangible assets		434	3,906	**4,340**
EBITDA	(a)	**(59,178)**	**(145,021)**	**(204,199)**
Add (deduct) the impact of:				
Impairment of goodwill	(b)	2,407	63,806	**66,213**
Revaluation of contingent consideration	(c)	—	61,851	**61,851**
Non-cash write downs of inventory	(d)	13,792	470	**14,262**
Share-based payments	(i)	12,804	—	**12,804**
Transaction costs	(e)	842	10,144	**10,986**
Unrealized loss on investments	(f)	5,546	—	**5,546**
Unrealized gain on changes in fair value of biological assets	(g)	(611)	(4,869)	**(5,480)**
Impairment of intangible assets	(b)	502	3,865	**4,367**
Relief of fair value of inventory upon acquisition	(h)	—	3,648	**3,648**
Impairment of property, plant and equipment		2,305	—	**2,305**
Unrealized loss on note receivable		1,655	—	**1,655**
Realized gain on investments		(1,400)	—	**(1,400)**
Realized loss on changes in fair value of biological assets	(j)	725	—	**725**
Restructuring costs	(k)	160	—	**160**
Adjusted EBITDA	(l)	**(20,451)**	**(6,106)**	**(26,557)**

(a) EBITDA is a non-IFRS measure and is calculated as earnings before interest, tax, depreciation and amortization.
(b) Represents impairment charges taken on the Company's goodwill and intangible assets, per year-end impairment testing.
(c) Represents the loss on period end revaluation of the Company's contingent consideration liabilities.
(d) Represents inventory write downs to net realizable value.
(e) In connection with the Company's acquisitions, the Company incurred expenses related to professional fees, consulting, legal and accounting that would otherwise not have been incurred. These fees are not indicative of the Company's ongoing costs and are expected to be incurred only as additional acquisitions are completed. Transaction costs include US$3 million termination fee on Gravitas transaction.
(f) Represents unrealized loss on fair value changes on strategic investments held.
(g) Represents fair value changes of biological assets based on the average stage of growth of plants compared to expected growth period of plants from planting to harvesting.
(h) In connection with the Company's acquisitions, inventory was acquired at fair value, which included a markup for profit. Recording inventory at fair value in purchase accounting had the effect of increasing inventory and thereby increasing the cost of sales in subsequent periods as compared to the amounts the Company would have recognized if the inventory was sold through at cost. The write-up of acquired inventory represents the incremental cost of sales that were recognized as a result of purchase accounting. It is anticipated that the remainder of this inventory will be sold in fiscal 2020 and will impact net income in that period.
(i) Represents non-cash share-based compensation expense.
(j) Represents the portion of inventory harvested and sold in the period that is related to the changes in fair value of biological assets.
(k) Represents costs associated with severance and winding down of business units.

(l) Adjusted EBITDA is a non-IFRS measure and is calculated as EBITDA before realized and unrealized fair value changes in biological assets, acquisition related adjustments and transactions costs, share-based payments and fair value changes in investments.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2019, TerrAscend had cash and cash equivalents of $11,900 and a working capital deficiency of $52,131.

On March 10, 2020, TerrAscend Canada Inc. entered into a loan financing agreement with Canopy Growth in the amount of $80,500 pursuant to a secured debenture. The secured debenture bears interest at a rate of 6.10% per annum and matures on March 10, 2030. The debenture is secured by the assets of TerrAscend Canada, is not convertible and is not guaranteed by the Company. A portion of the proceeds received from Canopy Growth was used to fully pay off the outstanding principal and interest amounts of $64,800 under a credit facility with JW Asset Management that bore an interest rate of 12.50% per annum at the time of repayment.

Additionally, the Company has access to the following sources of capital:

i) Market offering – the Company has the ability to offer equity in the market for significant potential proceeds to a large investor base, as evidenced by oversubscriptions on previous recent private placements;
ii) Sale leaseback – the Company has the ability to sell and lease back its capital properties.

See "Access to Capital and Funding" section under "Risks Related to the Common Shares" for further information.

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 the issuance of shares and utilization of the Credit Facility.

CASH FLOWS

Cash flows from operating activities

For the year ended December 31, 2019, the Company's cash outflows from operating activities were $47,913 compared to $25,058 for year ended December 31, 2018. The increase is primarily due to a $32,463 increase in loss from operations excluding non-cash amounts partially offset by a $2,547 increase in changes in working capital items and an increase in share-based payments of $5,277.

Cash flows from financing activities

Cash inflow provided by financing activities for the year ended December 31, 2019 was $176,984. During the year ended December 31, 2019, 959,772 common share warrants and 28,636 proportionate share warrants were exercised for total gross proceeds of $33,179 and 1,117,936 stock options were exercised at a weighted average exercise price of $2.45 per unit for gross proceeds of $2,620. The Company received loans including accrued interest in the amount of $50,383 from JW Partners L.P., JW Opportunities Master Fund Ltd., and management of Ilera. Total private placement net of shares issuance proceeds amounted to $66,636, proceeds from convertible debt amounted to $20,343 and proceeds from mortgage assumed on the Canadian facility was $6,500.

For the year ended December 31, 2018, 3,193,138 warrants were exercised for total gross proceeds of $2,784 and 1,225,613 stock options were exercised at a weighted average exercise price of $0.63 for gross proceeds of $800.

Cash flows from investing activities

Cash outflow from investing activities during the year ended December 31, 2019 totaled $138,219, resulting primarily from the cash consideration paid for the acquisition of the equity of Apothecarium and Ilera, and the asset acquisition completed by Arise, totaling $89,956 and from investments in property, plant and equipment of $43,341.

In comparison, the cash outflow from investing activities during the year ended December 31, 2018 amounted to $22,319. This was primarily due to the start of construction on the Mississauga facility.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements at December 31, 2019 and 2018.

FINANCIAL INSTRUMENTS

The Company has classified its cash and cash equivalents, notes receivable, lease receivable, investments, and contingent consideration payable as fair value through profit and loss ("FVTPL"), and receivables (excluding sales tax receivable), accounts payable and accrued liabilities, income tax payable, loans payable, and convertible debentures as amortized cost.

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

The carrying values of cash and cash equivalents, note receivable, lease receivable, receivables, F&F warrants, accounts payable and accrued liabilities, income tax payable, convertible debentures, contingent consideration payable and loan payable approximate their fair values due to their short periods to maturity. The fair value of the F&F warrants and contingent consideration have been determined based on Level 3 of the fair value hierarchy. See Note 6 and Note 8, respectively, of the consolidated financial statements for significant assumptions and techniques used in determining the fair value of these financial instruments.

FINANCIAL RISK FACTORS

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

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, other receivables and notes receivable. The Company's cash and cash equivalents are held at a major Canadian bank. The Company assesses the credit risk of trade receivables by evaluating the aging of trade receivables based on the invoice date. The carrying amounts of trade receivables is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of loss and comprehensive loss. When a trade receivable balance is considered uncollectible, it is written off against the allowance for expected credit losses. Management has reviewed the items comprising the accounts receivable balance and determined that the majority of accounts are collectible; accordingly, allowance for doubtful accounts of $607 (December 31, 2018 – $nil) have been recorded. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of loss and comprehensive loss. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss. The Company has no customers whose balance is greater than 10% of total trade receivables as at December 31, 2019 and 2018.

The following tables set forth details of trade receivables, including aging of trade receivables that are not overdue, as well as an analysis of overdue amounts and related allowance for doubtful accounts and sales return provisions:

	December 31, 2019	**December 31, 2018**
Trade receivables	**7,994**	5,441
Less: allowance for expected credit losses	**(607)**	—
Less: sales return provisions	**(2,010)**	—
Total trade receivables, net	**5,377**	5,441
Of which		
Current	**6,506**	5,441
31-90 days	**880**	—
Over 90 days	**608**	—
Less: allowance for expected credit losses	**(607)**	—
Less: sales return provisions	**(2,010)**	—
Total trade receivables, net	**5,377**	5,441

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. 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, 2019, the Company had cash and cash equivalents and receivables balance of $57,281 (December 31, 2018 - $32,975) to settle current liabilities of $142,864 (December 31, 2018 - $30,388). All of the Company's financial current liabilities have contractual maturities of less than one year with trade accounts payable being due within 30 days on average. The loan payable has a maturity of one year. Contingent consideration arising from acquisitions are due as specified and as per conditions in the various acquisition agreements. The Company manages liquidity risk through access to public capital markets.

As noted above, subsequent to year end, on March 10, 2020, the Company used part of the proceeds from a loan financing agreement with Canopy Growth to fully pay off the Credit Facility with JW Asset Management.

(c) Market risk

The significant market risks exposures to which the Company is exposed are foreign currency risk, interest rate risk and other price risk.

i) Foreign currency risk:

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and United States dollar and other foreign currencies will affect the Company's operations and financial results.

The Company and its subsidiaries do not hold significant monetary assets or liabilities in currencies other than their functional currency and as a result the Company is not exposed to significant currency risk. Therefore, the Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

ii) Interest rate risk:
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. In respect of financial assets, the Company's policy is to invest excess cash at floating rates of interest in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return. Fluctuations in interest rates impact on the value of cash equivalents. The Company’s investments in guaranteed investment certificates bear a fixed rate and are cashable at any time prior to maturity date. The company does not have significant cash equivalents at period-end. The Company’s notes receivable bear interest at fixed rates of 6%-12% per annum.

In respect of financial liabilities, the Company’s loans payable have fixed interest rates of 12% to 12.5% per annum. The mortgage payable bears interest at a fixed rate of 5.5% per annum. All other financial liabilities are non-interest-bearing instruments.

iii) Other price risk:
Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Company’s other price risk includes equity price risk, whereby investment in F&F and Think AHLOT are measured at fair value through profit or loss and as a result are subject to fluctuations in quoted market prices. There is no separately quoted market value for the Company’s investments in the shares of certain strategic investments. As certain of the Company’s investments are carried at market value and are directly affected by fluctuations in value of the underlying securities, the Company considers its financial performance and cash flows could be materially affected by such changes in the future value of the Company’s investments. Based upon the net exposure as at December 31, 2019 and assuming all other variables remain constant, a net increase or decrease of 20% (2018 - 20%) in the market prices of the underlying securities would increase or decrease respectively net (loss) income by $321 and $207 (2018 - $nil).

COMMITMENTS AND CONTINGENCIES

On October 15, 2018, the Company’s wholly owned subsidiary TerrAscend Canada entered into a multi-year cultivation agreement with PharmHouse Inc. (“PharmHouse”), a joint venture between Canopy Rivers Inc. and the principals and operators of a leading North American greenhouse produce company. Under the terms of the agreement, PharmHouse will grow and supply cannabis to TerrAscend Canada from an existing 1.3 million square foot greenhouse located in Leamington, Ontario. Once fully licensed, the production of flower, trim and clones from up to 20% of the dedicated flowering space at the greenhouse will be made available to TerrAscend Canada.

On October 20, 2018, Investments International Inc. (“Investments”) signed a lease agreement with the Company and its wholly owned subsidiaries, 2627685 Ontario Inc. and 2151924 Alberta Inc. On February 8, 2019, Investments filed a statement of claim under the Court of Alberta against the Company and its wholly owned subsidiaries, for breach of the lease agreement. The amount claimed is $2,700 plus interest from and after the termination date of an unexecuted lease. The Company has paid initial lease deposits in addition to submitting a statement of defense. The Company does not expect the claim to have a material adverse impact on the Company.

Subsequent to year end on March 31, 2020, the Company’s subsidiary, TerrAscend Canada Inc., signed an agreement with MediPharm Labs Inc. whereby TerrAscend Canada Inc. agreed to purchase from MediPharm Labs Inc. certain quantities of cannabis crude oil and/or distillate. The total purchase commitments under this agreement are $4,800.

OUTSTANDING SHARE DATA

As at December 31, 2019, TerrAscend had 141,980,314 common shares outstanding. As at the date of this MD&A, fully diluted share capital outstanding was as follows:

	Number outstanding on a basic unconverted basis	Number outstanding on a basic converted basis	Weighted average exercise price $
Common shares	73,502,809	73,502,809	N/A
Exchangeable shares	38,890,570	38,890,570	N/A
Proportionate voting shares	75,417	75,416,992	N/A
Warrants for common shares		39,227,430	3.84
Warrants for proportionate voting shares		8,590,908	7.21
Options		12,601,370	4.73
Total outstanding as at date of this MD&A	112,468,796	248,230,079	

RELATED PARTY TRANSACTIONS

(a) Key management includes directors and officers of the Company. Total compensation, comprised of salaries and share-based payments, awarded to key management for the years ended December 31, 2019 and December 31, 2018 respectively were as follows:

		December 31, 2019		December 31, 2018
Salaries and wages	**$**	**1,688**	$	901
Share-based payments		**5,472**		3,491
Total	**$**	**7,160**	$	4,392

(b) On August 26, 2019, the Company issued 8,590,908 Proportionate Voting Share purchase warrants as incentive compensation to entities controlled by certain key management of the Company. Each warrant is exercisable at $7.21 per 0.001 share and expires at 36 months from the respective closing date. These warrants resulted in a reduction in share capital of $29,820.

(c) During the year ended December 31, 2019, the Company purchased dried flower inventory in the amount of $827 from State Flower.

(d) During the year ended December 31, 2019, the Company had sales of $6,732 (December 31, 2018 - $199) to Canopy Growth and other income of $6 (December 31, 2018 - $23) related to patient referral fees. There are no amounts payable or receivable to or from Canopy Growth at December 31, 2019 or 2018.

(e) On December 14, 2018, the Company agreed to terms on a US$75 million credit facility with certain funds managed by JW Asset Management LLC, where Jason Wild, Chairman of the Board of TerrAscend, is the President and Chief Investment Officer.

(f) The Company received loan proceeds of $1,299 (US$1 million), $1,299 (US$1 million), and $649 (US$0.5 million) on November 6, 2019, November 12, 2019, and December 16, 2019, respectively, from key management of the Company's subsidiary. The loans collectively bear interest at a rate of 12% per annum, payable monthly, and have a balance due date of June 30, 2020.

SUBSEQUENT EVENTS

i) On January 10, 2020, the Company closed the second tranche of the non-brokered private placement announced on December 30, 2019, issuing 3,450,127 units at an issue price of $2.45 per unit, resulting in proceeds of $8,453. Each unit consists of one common share and one common share purchase warrant, exercisable into one common share prior to January 14, 2022 at an exercise price of $3.25.

ii) On January 15, 2020, the Company made the first earnout payment to the former owners of Ilera in the amount of US$19.35 million, with an additional US$12.5 million deferred until the final earnout payment is due in March 15, 2021, payable over five installments every three months beginning January 15, 2020. The full amount earned of US$31.85 million is included in accounts payable and accrued liabilities as at December 31, 2019.

iii) On January 16, 2020, NJ was issued a permit to cultivate medical marijuana by the New Jersey Department of Health.

iv) On January 23, 2020, the Company elected to convert all principal and accrued interest under the convertible note in 4,880.44 Class B Units in State Flower (Note 5).

v) On January 27, 2020, the Company announced the termination of the Securities Purchase Agreement, pursuant to which the Company would have acquired all of the issued and outstanding equity interest of Gravitas Nevada. The Company paid a US$3 million termination fee to the sellers, which was released from escrow.

vi) On January 27, 2020, the Company closed the third tranche of the non-brokered private placement announced on December 30, 2019, issuing 1,863,659 units at an issue price of $2.45 per unit, resulting in proceeds of $4,566. Each unit consists of one common share and one common share purchase warrant, exercisable into one common share prior to January 14, 2022 at an exercise price of $3.25.

vii) On January 28, 2020, the Company announced the appointment of Jason Ackerman, Executive Chairman of the Company, to the role of interim CEO.

viii) On January 29, 2020, TerrAscend Utah, LLC was issued a medical cannabis processor license by the Utah Department of Agriculture and Food.

ix) In January 2020, the Company received loan proceeds of US$1.5 million from key management of the Company's subsidiary. The loan bears interest at a rate of 12% per annum, payable monthly, and has a balance due date of June 30, 2020.

x) On February 5, 2020, the Company amended the terms of its previously announced US$10 convertible debenture issuance to Canopy Rivers. Pursuant to the amended terms, the debentures have been converted into a $13,243 loan agreement entered into between Canopy Rivers and the Company. Interest on the principal amount outstanding will accrue at a rate of 6% per annum and all interest payments are payable in cash. The principal amount matures on October 2, 2024. The Company has also issued 2,225,714 common share purchase warrants, exercisable at $5.95 and expiring on October 2, 2024.

xi) On March 10, 2020, TerrAscend Canada Inc. entered into a loan financing agreement with Canopy Growth in the amount of $80,500 pursuant to a secured debenture. In connection with the funding of the loan, the Company has issued 17,808,975 common share purchase warrants to Canopy Growth.

The secured debenture bears interest at a rate of 6.10% per annum and matures on March 10, 2030. The debenture is secured by the assets of TerrAscend Canada, is not convertible and is not guaranteed by the Company. The warrants are comprised of 15,656,242 common share purchase warrants entitling Canopy Growth to acquire one common share of TerrAscend at an exercise price of $5.14 per share, expiring on March 10, 2030, and 2,152,733 common share purchase warrants entitling Canopy Growth to acquire one common share of TerrAscend at an exercise price of $3.74 per share, expiring on March 10, 2031. The Warrants will be exercisable by Canopy Growth following changes in U.S. federal laws permitting the cultivation, distribution and possession of marijuana or to remove the regulation of such activities from the federal laws of the United States.

A portion of the proceeds received from Canopy Growth were used to fully pay off the outstanding principal and interest amounts under the Credit Facility with JW Asset Management.

xii) On March 12, 2020, the World Health Organization ("WHO") declared a global pandemic known as COVID-19. The impacts on global commerce are expected to be far reaching. This will likely impact demand for the Company's products in the near term and will also likely impact our supply chains. It may also impact expected credit losses on our trade receivables and may cause staff shortages and increased government regulations or interventions, which may negatively impact the financial condition or results of the Company. At this time, management cannot reliably measure the impact of these developments.

xiii) On March 25, 2020, the Company issued 1,625,701 common shares to Regulatory Consulting Group Inc., an entity controlled by the minority shareholders of NJ, pursuant to a success fee surrounding the granting of certain licenses in the state of New Jersey to NJ.

xiv) On March 31, 2020, the Company's subsidiary, TerrAscend Canada Inc., signed an agreement with MediPharm Labs Inc. whereby TerrAscend Canada Inc. agreed to purchase from MediPharm Labs Inc. certain quantities of cannabis crude oil and/or distillate. The total purchase commitments under this agreement are $4,800.

xv) On April 14, 2020, Jason Ackerman was appointed to the role of Chief Executive Officer and Adam Kozak resigned from his role as Chief Financial Officer.

xvi) Subsequent to December 31, 2019, the Company granted 3,500,000 options to employees, consultants and directors of the Company. The options have a weighted average exercise price of $2.49. Additionally, subsequent to December 31, 2019, the Company awarded 950,000 options to employees, consultants and directors of the Company pursuant to employment agreements and such awarded options will be granted in the second quarter of 2020.

Subsequent to December 31, 2019, the Company issued 25,348,475 warrants within non-brokered private placement offerings. The warrants have a weighted average exercise price of $4.70.

Subsequent to December 31, 2019, 861,090 unvested options were forfeited and 530,555 vested options expired.

USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and sales 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) *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.

Management has assessed and concluded that the going concern assumption is appropriate for a period of at least twelve months following the end of the reporting period. Management applied significant judgment and considered several factors to support this conclusion including:

- Subsequent financing – the Company has subsequently entered into a loan financing agreement with Canopy Growth Corporation ("Canopy Growth") in the amount of $80,500 pursuant to a secured debenture (see Note 26 of the consolidated financial statements);

- Market offering – the Company has the ability to offer equity in the market for significant potential proceeds to a large investor base, as evidenced by oversubscriptions on previous recent private placements;

- Sale leaseback – the Company has the ability to sell and lease back its capital properties.

ii) *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, pre-harvest and post-harvest costs, sales price and expected yields.

Inventories of harvested finished goods and packaging materials are valued at the lower of cost and net realizable value. Management determines net realizable value which is 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. The Company estimates the net realizable value of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be effected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and impact gross profit.

iii) *Share-based payments*

In calculating 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.

iv) *Warrants*

In calculating the fair value of warrants issued, 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.

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

Depreciation and amortization rates are dependent upon estimates of useful lives, which are determine 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.

vi) *Income taxes*

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Company generating future taxable income against which the deferred tax assets can be utilized. In addition, significant judgment is required in classifying transactions and assessing probable outcomes of tax positions taken, and in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

vii) *Impairment of intangible assets and goodwill*

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 year ended December 31, 2019, management has determined that there were indicators of impairment and as a result recorded an impairment of intangible assets of $5,263 (December 31, 2018 – $188) and impairment of goodwill of $65,934 (December 31, 2018 – $nil).

viii) *Acquisitions*

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

ix) *Contingent Consideration*

Contingent consideration payable as the result of a business combination is recorded at the date of acquisition at fair value. The fair value of contingent consideration is subject to significant judgement and estimates. Subsequent changes to the fair value of contingent consideration are measured at each reporting date, with changes recognized through profit or loss.

x) *Incremental borrowing rates*

In determining the appropriate measurement of our lease liabilities and the fair value of convertible debentures, estimates are required with respect to the discount rate applied. The discount rate applied reflects the interest rate that we would have to pay to borrow a similar amount at a similar term and with a similar security.

xi) *Sales returns and price adjustments*

In Canada, government customers typically have a right of product return, and in some cases, the right to pricing adjustments for products that are subsequently discounted or sold for a lower price in another jurisdiction. The estimation of potential future returns and pricing adjustments includes the use of management estimates and assumptions that may not be certain given the evolving nature of the industry.

xvii) *Control, joint control or level of influence*

When determining the appropriate basis of accounting for the Company's interests in affiliates, the Company makes judgments about the degree of influence that it exerts directly or through an arrangement over the investees' relevant activities. Information about these judgments is included in Note 7 and Note 8.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 3 to the audited consolidated financial statements.

New standards, amendments and interpretations adopted

On January 1, 2019, the Company adopted IFRS 16 Leases and elected to not restate comparative figures in accordance with the transitional provisions in the standard. 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. As a result of the adoption of IFRS 16, the Company recognized right-of-use assets of $240 and lease liabilities of $234 as of January 1, 2019. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019, the weighted average of which is 8.75%.

New standards, amendments and interpretations not yet adopted

The IASB has issued the following standards, amendments and interpretations which have not been early adopted in these consolidated financial statements.

IFRS 3 – "Business Combinations (Amendment)", the amendments clarify the definition of a business, permitting a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Earlier application is permitted. These standards are not expected to have material impact on the Company in the current or future reporting periods.

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.

Investment Risk

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 and adult-use cannabis and cannabis oil in Canada and certain US states is dependent on TerrAscend maintaining Licenses with applicable regulators 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 it 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, maintain 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.

Reliance on a Single Production Facility in Canada

The Facility is currently the Company's only licensed facility under the Cannabis Act in Canada 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 may 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 in Canada.

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, the applicable regulatory bodies in the United States, or any 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, result in 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.

The cannabis industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Company and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company’s earnings and could make future capital investments or the Company’s operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

U.S.-Specific Regulatory Risk

The Company engages in the manufacture, possession and sale of hemp derived CBD products in the United States.

While some states in the United States have authorized the use and sale of cannabis in some form, it remains illegal under U.S. federal law. On January 4, 2018, United States Attorney General Jeff Sessions issued a memorandum to United States Attorneys which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the United States, including the Cole Memorandum, which stated 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 medical cannabis in some form and had implemented strong and effective regulatory and enforcement systems. With the Cole Memorandum rescinded, U.S. federal prosecutors have greater discretion in determining whether to prosecute medical cannabis-related violations of U.S. federal law; there was never such a policy statement in relation to United States state and territories with adult use cannabis programs. Because the Company engages in cannabis-related activities in the United States, an increase in federal enforcement efforts with respect to current U.S. federal laws applicable to cannabis could cause financial damage to the Company. In addition, the Company is at risk of being prosecuted under U.S. federal law and having its assets seized.

Enforcement of the U.S. federal law is a significant risk.

Violations of any United States federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the United States federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities, civil forfeiture or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of cannabis under the Cannabis Act, investors are cautioned that in the United States, cannabis is largely regulated at the state level. Notwithstanding the permissive regulatory environment of cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substance Act (CSA) in the United States and as such, is in violation of federal law in the United States.

Further, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that will make it extremely difficult or impossible to transact business in the cannabis industry.

As stated above, the United States Congress has passed appropriations bills each of the last four years to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The 2018 Consolidated Appropriations Act was passed by Congress on March 23, 2018 and included the re-authorization of the protective amendments. It has subsequently been reauthorized and continues in effect until September 30, 2019.

One United States federal appellate court construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws, vacated numerous convictions and sent the cases back to the trial courts for further determination. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the RBA in the 2019 budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the five-year statute of limitations applicable to non-capital CSA violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provide no protection against businesses operating in compliance with a state’s recreational cannabis laws.

Although the 2018 Farm Bill, among other things, generally removes hemp from the controlled substances list under the CSA, it does not legalize CBD generally. In particular, the 2018 Farm Bill preserves the FDA's authority to regulate products containing cannabis or cannabis-derived compounds. Pursuant to a statement released December 20, 2018, an FAQ on the FDA's website, and numerous public statements, the FDA has taken the position that all CBD is a drug ingredient and therefore illegal to add to food or health products without its approval or further action by the FDA. The FDA considers products containing CBD or other cannabis-derived compounds the same as any other FDA-regulated products and takes the position that they are subject to the same authorities and requirements as similarly regulated products, including but not limited to required approvals for food ingredients and dietary supplements based on safety standards. Importantly, the FDA has taken the position that it is unlawful under the FDCA to introduce food containing added CBD into interstate commerce, or to market CBD products as, or in, food or dietary supplements, regardless of whether the substances are hemp derived. The FDA has however indicated that it will work towards providing ways for companies to seek approval from the FDA to market CBD products. Further, many state criminal laws and food and drug laws prohibit or restrict the production and/or sale of hemp-derived CBD products. The Company's U.S. hemp operations will be subject to FDA oversight. There is no guarantee that the Company will be able to obtain necessary approval from regulatory authorities for its products in the U.S.

The Company's activities and operations in the U.S. are, and will continue to be, subject to evolving regulation by governmental authorities. The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined. The USDA will promulgate additional rules governing the production of hemp in the US, with many states in the process of amending state laws to regulate hemp production and the sale of hemp-derived products within their borders. In addition, the FDA is expected to make determinations as to how CBD products will be regulated and is expected to issue a substantial change in its regulation of dietary supplements generally. Accordingly, there are significant changes in both federal and state law that may materially impact the Company's operations.

Changes in Laws, Regulations and Guidelines

The Cannabis Act came into force in Canada on October 17, 2018 along with various related regulations. The cultivation, processing, distribution and sale of cannabis, among other things, remains subject to extensive regulatory oversight under the Cannabis Act, as it was prior to its implementation. It is possible that these statutory requirements, including any new regulations that are subsequently issued, could significantly and adversely affect the business, financial condition and results of operations of the Company.

While the foregoing activities in respect of cannabis are under the regulatory oversight of the Government of Canada, the distribution of recreational use cannabis is the responsibility of the respective provincial and territorial governments. These jurisdictions have chosen varying retail frameworks with private, public and hybrid models being implemented. There is no guarantee that provincial and territorial legislation regulating the distribution and sale of cannabis for recreational purposes will be continued according to their current terms, that they will not be materially amended or that such regimes will create the growth opportunities that the Company currently anticipates.

In the United States, the operations of the Company and its subsidiaries are subject to a variety of laws, including, among other things, state and local regulations and guidelines relating to the cultivation, manufacture, management, transportation, distribution, sale, storage and disposal of cannabis. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's business, financial condition and result of operations. Local, state and federal laws and regulations governing marijuana for medicinal and recreational purposes are broad in scope and are subject to evolving interpretations, which could require the Company to incur substantial costs associated with bringing the Company's operations into compliance. In addition, violations of these laws, or allegations of such violations, could disrupt the Company's operations and result in a material adverse effect on its financial performance. It is beyond the Company's scope to predict the nature of any future change to the existing laws, regulations, policies, interpretations or applications, nor can the Company determine what effect such changes, when and if promulgated, could have on the Company's business.

In addition, government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical or recreational cannabis in Canada, the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, a shift could cause state and local jurisdictions to abandon initiatives or proposals to legalize medical or recreational cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

Regulatory Approval and Permits

The Company may be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions where its products are manufactured and/or sold. There can be no assurance that the Company will be able to obtain or maintain any necessary licenses, permits or approvals. Any material delay or inability to receive these items is likely to delay and/or inhibit the Company's ability to conduct its business, and would have an adverse effect on its business, financial condition and results of operations.

U.S. State Cannabis Laws and Enforcement are not Uniform from State to State and can, and do, Change Constantly

State cannabis laws are inconsistent with each other and federal laws and are constantly changing. Similarly, local cannabis laws are also constantly changing. The changing and inconsistent nature of the laws may create conflict and the inability for the Company to conduct business in a particular state or across state lines. Interstate cannabis activities are currently prohibited by the CSA. With respect to hemp, local law enforcement officials in Oklahoma and Idaho seized shipments of hemp that were traveling through those states on the grounds that the products qualified as marijuana and were illegal under the states' controlled substances laws. Criminal charges were filed along with product seizure, and an argument was made that the transportation provision of the 2018 Farm Bill has not yet taken effect. Despite the intent of the 2018 Farm Bill to allow transportation of hemp products through states without hemp programs, the novelty of the 2018 Farm Bill hemp provision, and conflicts among state laws and applicable federal laws remains an area of confusion and the cause of differing interpretations for many local authorities. Accordingly, there remains risk of enforcement even when activity is lawful under federal and state law.

Risks associated with the change in U.S. Administrations

As a result of the 2016 U.S. presidential election and the related change in political agenda, there continues to be uncertainty as to the position the United States will take with respect to world affairs and events. This uncertainty may include issues such as enforcement of the U.S. federal laws. Implementation by the U.S. of new legislative or regulatory regimes could impose additional costs on the Company, decrease U.S. demand for the Company's services or otherwise negatively impact the Company, which may have a material adverse effect on the Company's business, financial condition and operations.

Risk of Heightened Scrutiny by Regulatory Authorities in Canada

The Company's future investments, joint ventures and operations in the United States may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction, in addition to those described herein.

Although a Memorandum of Understanding signed by CDS and the Canadian recognized exchanges (Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange and the TSX Venture Exchange) dated February 8, 2018, confirms that CDS relies on the exchanges to review the conduct of listed issuers, and therefore there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as and until an alternative was implemented, investors would have no ability to affect a trade of Common Shares through the facilities of a stock exchange.

International Regulatory Risks

If the Company intends to expand internationally or engage in the international sale of hemp-derived products, it will become subject to the laws and regulations of the foreign jurisdictions in which it operates, or in which it imports or exports products or materials, including but not limited to customs regulations in the importing and exporting countries. The laws governing hemp and CBD differ in various jurisdictions and are subject to change. Under the 1961 United Nation Single Convention, all extracts of the cannabis plant are considered Schedule I substances. The varying laws and rapidly changing regulations may impact the Company's operations, including but not limited to the Company's ability to ensure compliance. In addition, the Company may avail itself of proposed legislative changes in certain jurisdictions to expand its product portfolio, which expansion may include business and regulatory compliance risks as yet undetermined. Failure by the Company to comply with the evolving regulatory framework in any jurisdiction could have a material adverse effect on the Company's business, financial condition and results of operations.

Risks Concerning Banking and Anti-Money Laundering Laws and Regulations

The U.S. federal prohibitions on the sale of marijuana may result in the Company and its partners being restricted from accessing the U.S. banking system and they may be unable to deposit funds in federally insured and licensed banking institutions. Banking restrictions could be imposed due to the Company's banking institutions not accepting payments and deposits. The Company is at risk that any bank accounts it has could be closed at any time. Such risks increase costs to the Company.

The Company's activities in the U.S., and any proceeds thereof, may be considered proceeds of crime due to the fact that cannabis remains federally illegal in the U.S. This may restrict the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends on its common shares in the foreseeable future, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

The guidance provided in the FinCEN Memorandum as described above may change depended on the position of the U.S. government administration at any given time and is subject to revision or retraction in the future, which may restrict the Company's access to banking services.

U.S. Border Officials Could Deny Entry into the U.S. to Management, Employees and/or Investors in Companies with Cannabis Operations in the U.S.

Because cannabis remains illegal under U.S. federal law, those employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry or lifetime bans from the U.S. for their business associations with U.S. cannabis businesses. Entry happens at the sole discretion of the U.S. Customs and Border Protection officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a foreign national. The government of Canada has started warning travelers on its website that previous use of cannabis, or any substance prohibited by U.S. federal laws, could mean denial of entry to the U.S. Business or financial involvement in the legal cannabis industry in Canada or in the U.S. could also be reason enough for U.S. border guards to deny entry**.**

Constraints on Marketing Products

The development of the Company's business and results of operations may be hindered by applicable regulatory restrictions on sales and marketing activities. For example, the regulatory environment in Canada limits our ability to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for the Company's products, our sales and results of operations could be adversely affected. See "*Description of the Business - Regulatory Framework in Canada – Recent Regulatory Developments – Federal Developments – Packaging and Labelling*".

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.

Consumer-Protection Liability

The Company’s products may be considered misbranded or adulterated, or otherwise unlawful under federal and state food and drug laws and could subject the company to local, federal, or state enforcement or private litigation. Some states permit advertising, labeling laws, false and deceptive trade practices, and other consumer-protection laws to be enforced by state attorney generals, who may seek relief for consumers, class action certifications, class wide damages and product recalls of products sold by the Company. Private litigations may also seek relief for consumers, class action certifications, class wide damages and product recalls of products sold by the Company. Any actions against the Company by governmental authorities or private litigants could have a material adverse effect on the Company’s business, financial condition and results of operations.

History of Net Losses

The Company 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 sales 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, 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 Cannabis Industry

As a Licensed Producer under the Cannabis Act, the Company is operating its business in a relatively new 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 Cannabis Act 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.

Early Stage of the Hemp Industry

The Company, as a result of its indirect acquisition of substantially all of the assets of Grander, operates a hemp manufacturing, processing and distribution business, which business is in a relatively new industry and market. In addition to being subject to general business risks, the Company must continue to build brand awareness in this industry and market through significant investments in its strategy, its production capacity, quality assurance and compliance with regulations. In addition, there is no assurance that the industry and market will continue to exist and grow as currently estimated or anticipated or function and evolve in the manner consistent with management's expectations and assumptions. Any event or circumstance that adversely affects the hemp industry and market could have a material adverse effect on the Company's business, financial conditions and results of operations.

Risks Associated with Joint Venture Investments

The Company currently operates parts of its business through joint ventures with other companies, and it may enter into additional joint ventures and strategic alliances in the future. Joint venture investments may involve risks not otherwise present for investments made solely by the Company, including: (i) we may not control the joint ventures; (ii) our joint venture partners may not agree to distributions that we believe are appropriate; (iii) where we do not have substantial decision-making authority, we may experience impasses or disputes with our joint venture partners on certain decisions, which could require us to expend additional resources to resolve such impasses or disputes, including litigation or arbitration; (iv) our joint venture partners may become insolvent or bankrupt, fail to fund their share of required capital contributions or fail to fulfil their obligations as a joint venture partner; (v) the arrangements governing our joint ventures may contain certain conditions or milestone events that may never be satisfied or achieved; (vi) our joint venture partners may have business or economic interests that are inconsistent with ours and may take actions contrary to our interests; (vii) we may suffer losses as a result of actions taken by our joint venture partners with respect to our joint venture investments; and (viii) it may be difficult for us to exit a joint venture if an impasse arises or if we desire to sell our interest for any reason. Any of the foregoing risks could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the Company may, in certain circumstances, be liable for the actions of its joint venture partners.

Risks Associated with Strategic Alliances

The Company currently has, and may in the future, enter into strategic alliances with third parties that we believe will complement or augment our existing business. Our ability to complete strategic alliances is dependent upon, and may be limited by, the availability of suitable candidates and capital. In addition, strategic alliances could present unforeseen integration obstacles or costs, may not enhance our business, and may involve risks that could adversely affect us, including significant amounts of management time that may be diverted from operations in order to pursue and complete such transactions or maintain such strategic alliances. Future strategic alliances could result in the incurrence of additional debt, costs and contingent liabilities, and there can be no assurance that future strategic alliances will achieve, or that our existing strategic alliances will continue to achieve, the expected benefits to our business or that we will be able to consummate future strategic alliances on satisfactory terms, or at all. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

Competition in the Cannabis Industry

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 Cannabis Act to produce and sell cannabis. According to Health Canada, as of the date hereof, there are currently 171 licensed producers under the Cannabis Act. 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 Cannabis Act.

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.

Competition in the Hemp Industry

The market for CBD-based hemp products is highly competitive and evolving. In particular, the Company faces strong competition from both existing and emerging companies that offer similar products to the Company. Competition consists of publicly and privately-owned companies, which tend to be highly fragmented in terms of both geographic market coverage and products offered. Some of the Company’s current and potential competitors may have longer operating histories, greater financial, marketing and other resources and larger customer bases. The Company’s competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements. Changes in regulations and the passing of the 2018 Farm Bill are likely to dramatically increase competition. Increased competition could impede the Company’s ability to sell additional products and services on terms favorable to it. The Company’s current and potential competitors may develop and market new technologies that render the Company’s existing or future products obsolete, unmarketable, or less competitive. The Company’s current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with other providers, thereby increasing the availability of their services to address the needs of our current and prospective customers. The Company may not be able to compete successfully against its current and future competitors, and competitive pressures that we encounter may seriously harm the business. The Company’s success will depend on its ability to keep pace with any changes in the marketplace. The Company’s success will depend on its ability to respond to, among other things, changes in the economy, market conditions and competitive pressures. Any failure to anticipate or respond adequately to such changes could have a material adverse effect on the Company’s financial condition, operating results, liquidity, cash flow and operational performance.

Inherent Risks Associated with Relying on Hemp as an Active Pharmaceutical Ingredient in CBD Products

The Company's business involves the manufacturing and processing of innovative hemp-derived CBD products. The Company’s operations rely on a consistent supply of hemp from independent third-party producers. Hemp is an agricultural product and its cultivation is therefore subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although hemp is grown 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 hemp, which could have a material impact on the business and operations of the Company given the Company’s reliance on hemp as the active pharmaceutical ingredient in certain of its CBD 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 products, 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 other Licensed Producers for delivery to their patients 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.

Canadian Market Development

The Company's success in Canada is dependent on the market building out direct to consumer channels including but not limited to retail outlets. There are many factors which could impact the Company's ability to gain market share and distribute its products, including but not limited to the continued growth and expansion of retail outlets in the Canadian adult use market which may have a material adverse effect on the Company's business, operating results and financial condition.

Our ability to continue to grow, process, store and sell medical cannabis and participate in the adult-use cannabis markets is dependent on the maintenance and validity of our licenses from Health Canada.

The cannabis industry and markets are relatively new in Canada and in other jurisdictions, and this industry and market may not continue to exist or grow as anticipated or we may ultimately be unable to succeed in this industry and market.

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. The Company has filed trademark applications in Canada and the United States. 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 Key Personnel, 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, certain Key Personnel are subject to a security clearance by Health Canada. Under the Cannabis Act, 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 Key Personnel to maintain or renew their 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 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 63,657.89 Proportionate Voting Shares and 8,590,908 warrants, each exercisable for 0.01 of a Proportionate Voting Share and on a fully diluted basis representing 86% of the issued and outstanding Proportionate Voting 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 cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the 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. For instance, the vape crisis that began in the summer of 2019 was ultimately linked to cutting agents almost exclusively found in the illicit market. Regardless, several states moved to ban the sale of vape products in legal markets, severely impacting entire revenue streams.

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 cannabis business activities. Failure to establish or maintain business relationships could have a material adverse effect on the Company.

Enforcement of Legal Rights

In the event of a dispute arising from the Company's U.S. operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of courts in Canada. Similarly, to the extent that the Company's assets are located outside of Canada, investors may have difficulty collecting from the Company any judgments obtained in the Canadian courts and predicated on the civil liability provisions of securities provisions. The Company may also be hindered or prevented from enforcing its rights with respect to a governmental entity or instrumentality because of the doctrine of sovereign immunity.

COVID-19

On March 12, 2020, the World Health Organization ("WHO") declared a global pandemic known as COVID-19. The impacts on global commerce are expected to be far reaching. This will likely impact demand for the Company's products in the near term and will also likely impact our supply chains. It may also impact expected credit losses on our trade receivables and may cause staff shortages and increased government regulations or interventions, which may negatively impact the financial condition or results of the Company. At this time, management cannot reliably measure the impact of these developments.

Risks Related to the Common Shares

Limited Market for Securities

The Common Shares are listed on the CSE and also trade over the counter in the United States on the OTCQX Best Market, 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 23, 2020
"Jason Ackerman"
Executive Chairman and Chief Executive Officer