TERRASCEND CORP.

Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2020 and March 31, 2019
(In Thousands of Canadian Dollars)

TerrAscend Corp.

Unaudited Condensed Interim Consolidated Statements of Financial Position

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

	Notes	As at March 31, 2020	As at December 31, 2019
Assets			
Current Assets			
Cash and cash equivalents		**$ 15,772**	$ 11,900
Restricted cash	22	**15,626**	—
Receivables, net of sales returns and allowances	4, 17	**7,951**	7,623
Share subscriptions receivable	15	—	31,772
Note receivable	5	—	5,986
Investments	6	—	465
Biological assets	8	**10,336**	5,484
Inventory	9	**28,800**	20,422
Prepaid expenses and other assets		**6,447**	7,081
		84,932	90,733
Non-Current Assets			
Investment in associate		**1,419**	1,299
Property, plant and equipment	10	**135,145**	112,650
Intangible assets and goodwill	11	**287,818**	241,148
Indemnification asset	18	**16,315**	14,936
		440,697	370,033
Total Assets		**$ 525,629**	$ 460,766
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 27,463**	$ 25,002
Deferred revenue		**893**	1,179
Loans payable	12	**6,287**	63,068
Contingent consideration payable	7	**214,528**	31,182
Lease liability	13	**1,479**	1,157
Corporate income tax payable	18	**29,827**	21,276
		280,477	142,864
Non-Current Liabilities			
Loan payable	12	**68,834**	6,298
Contingent consideration payable	7	—	175,848
Lease liability	13	**24,791**	19,572
Convertible debentures	14	**4,910**	13,874
Deferred income tax liability	18	**32,235**	26,981
		130,770	242,573
Total Liabilities		**$ 411,247**	$ 385,437
Shareholders' Equity			
Share capital	15	**277,565**	259,892
Contributed surplus	15	**82,195**	54,777
Cumulative translation adjustment		**3,715**	(1,992)
Deficit		**(256,669)**	(245,998)
Non-controlling interest	16	**7,576**	8,650
Total Shareholders' Equity		**114,382**	75,329
Total Liabilities and Shareholders' Equity		**$ 525,629**	$ 460,766
Total Number of Common and Proportionate Voting Shares Outstanding	15	**148,919,809**	41,147,636

Subsequent events (note 25)

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

On behalf of the Board

"*Jason Ackerman*" — Chief Executive Officer

"*Jason Wild*" — Chairman of the Board

TerrAscend Corp.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Income (Loss)

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

	Notes	For the three months ended March 31, 2020	March 31, 2019
Sales, gross		**$ 37,849**	$ 14,965
Excise taxes		**(3,051)**	(383)
Sales, net		**34,798**	**14,582**
Cost of sales	9	**19,252**	13,075
Gross profit before gain on fair value of biological assets		**15,546**	1,507
Unrealized gain on changes in fair value of biological assets	8	**14,889**	444
Realized fair value amounts included in inventory sold		**(6,244)**	(17)
Gross profit		**24,191**	1,934
Operating expenses:			
General and administrative	19	**14,600**	8,821
Share-based payments	15	**2,817**	1,907
Amortization and depreciation	10, 11	**1,637**	752
Research and development		**207**	124
Total operating expenses		**19,261**	11,604
Income (loss) from operations		**4,930**	(9,670)
Revaluation of contingent consideration	7	**5,575**	—
Finance and other expenses		**3,304**	732
Transaction and restructuring costs		**576**	—
Unrealized loss on investments	6	**465**	618
Impairment of intangible assets	11	**462**	—
Foreign exchange loss		**54**	40
Loss before income taxes		**(5,506)**	(11,060)
Current income tax expense	18	**5,865**	—
Deferred income tax expense (recovery)	18	**2,493**	(370)
Net loss		**$ (13,864)**	$ (10,690)
Currency translation adjustment		**(5,707)**	510
Comprehensive loss		**$ (8,157)**	$ (11,200)
Net loss attributable to:			
Shareholders of the Company		**(13,206)**	(10,530)
Non-controlling interests	16	**(658)**	(160)
Comprehensive loss attributable to:			
Shareholders of the Company		**(7,499)**	(11,040)
Non-controlling interests	16	**(658)**	(160)
Net loss per share, basic and diluted			
Net loss per share – basic and diluted		**$ (0.09)**	$ (0.14)
Weighted average number of outstanding common and proportionate voting shares		**146,469,201**	77,332,357

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

TerrAscend Corp.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

For the three months ended March 31, 2020	**Notes**	**Share capital**	**Contributed surplus**	**Cumulative translation adjustment**	**Deficit**	**Non-controlling Interest**	**Total**
Balance at January 1, 2020		**$ 259,892**	**$ 54,777**	**$ (1,992)**	**$ (245,998)**	**$ 8,650**	**$ 75,329**
Private placement net of share issuance costs	15	**12,782**	**—**	**—**	**—**	**—**	**12,782**
Issuance of warrants	15	**—**	**26,844**	**—**	**—**	**—**	**26,844**
Options expired/forfeited	15	**—**	**(2,535)**	**—**	**2,535**	**—**	**—**
Share-based compensation	15	**4,891**	**3,109**	**—**	**—**	**—**	**8,000**
Return of capital	16	**—**	**—**	**—**	**—**	**(322)**	**(322)**
Unrealized foreign exchange on translation of NCI	16	**—**	**—**	**—**	**—**	**(94)**	**(94)**
Net income (loss) for the year		**—**	**—**	**5,707**	**(13,206)**	**(658)**	**(8,157)**
Balance at March 31, 2020		**$ 277,565**	**$ 82,195**	**$ 3,715**	**$ (256,669)**	**$ 7,576**	**$ 114,382**

For the three months ended March 31, 2019	**Notes**	**Share Capital**	**Contributed surplus**	**Cumulative translation adjustment**	**Deficit**	**Non-controlling Interest**	**Total**
Balance at January 1, 2019		$ 64,883	$ 22,184	$ —	$ (30,596)	$ 1,431	$ 57,902
Shares issued - warrant exercises	15	103	(15)	—	—	—	88
Shares issued - stock option exercises	15	15	(6)	—	—	—	9
Shares issued - acquisition of Grander	15	7,372	—	—	—	—	7,372
Warrants issued for services	15	—	234	—	—	—	234
Share-based compensation	15	—	2,332	—	—	—	2,332
Net loss for the year		—	—	(510)	(10,530)	(160)	(11,200)
Balance at March 31, 2019		$ 72,373	$ 24,729	$ (510)	$ (41,126)	$ 1,271	$ 56,737

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

Unaudited Condensed Interim Consolidated Statements of Cash Flow

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

	Notes	For the three months ended March 31, 2020	March 31, 2019
Operating activities			
Net loss		**$ (13,864)**	$ (10,690)
Add (deduct) items not involving cash			
Unrealized gain on changes in fair value of biological assets	8	**(14,889)**	(444)
Realized fair value amounts included in inventory sold		**6,244**	17
Non-cash write downs of inventory	9	**1,833**	307
Accretion and accrued interest		**3,036**	732
Depreciation of property, plant and equipment	10	**1,882**	290
Amortization of intangible assets	11	**2,018**	565
Share-based payments	15	**3,109**	2,566
Current income tax expense	18	**5,865**	—
Deferred income tax expense (recovery)	18	**2,493**	(372)
Unrealized loss on investments	6	**465**	617
Revaluation of contingent consideration	7	**5,575**	—
Impairment of intangible assets and goodwill	12	**462**	—
Changes in non-cash working capital items	21	**(5,491)**	(7,479)
Cash outflow from operating activities		**(1,262)**	(13,891)
Financing activities			
Proceeds from warrants exercised	15	**—**	88
Proceeds from options exercised	15	**—**	9
Proceeds from loan including interest accrued	12	**82,090**	31,815
Return of capital to non-controlling interests	16	**(322)**	—
Loan principal and interest paid	12	**(64,750)**	(313)
Loan origination fee paid	12	**—**	(266)
Proceeds from private placement, net of share issuance costs	15	**44,554**	—
Lease payments	13	**(833)**	(77)
Cash inflow from financing activities		**60,739**	31,256
Investing activities			
Investment in property, plant and equipment	10	**(11,790)**	(11,283)
Investment in intangible assets	11	**(282)**	(619)
Investment in notes receivable	5	**—**	(8,017)
Principal and interest payments received on lease receivable	13	**38**	—
Investment in joint venture		**—**	(475)
Advances to joint venture partner		**—**	(420)
Payments of contingent consideration	7	**(26,481)**	—
Cash portion of consideration paid in acquisition of Grander, net of cash acquired	7	**—**	(9,187)
Cash received on acquisition of State Flower	7	**971**	—
Cash outflow from investing activities		**(37,544)**	(30,001)
Increase (decrease) in cash, cash equivalents and restricted cash during the period		**21,933**	(12,636)
Net effects of foreign exchange		**(2,435)**	(510)
Cash, cash equivalents and restricted cash, beginning of period		**11,900**	21,773
Cash, cash equivalents and restricted cash, end of period		**$ 31,398**	$ 8,627

Supplemental cash flow information (note 21)

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

1. Nature of operations

TerrAscend Corp. ("TerrAscend" or the "Company") was incorporated under the Ontario Business Corporations Act. on March 7, 2017. The Company's wholly owned subsidiary, TerrAscend Canada Inc. is a Licensed Producer of medical and adult use cannabis (as such term is defined in the *Cannabis Act*) and its current principal business activities include cultivation, processing, and sale of cannabis. TerrAscend Canada Inc. applied to Health Canada to become a Licensed Producer under the *Access to Cannabis for Medical Purposes Regulations* (the "ACMPR") and on July 10, 2017, was granted that license (the "License") for its 67,300 square foot Mississauga facility (the "Facility"). On February 5, 2018, TerrAscend Canada Inc. 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. The License expires on July 10, 2020. The Company has applied with Health Canada for renewal of the license, which is pending approval. The Company expects the license to be renewed before the expiry date. A further amendment to the License was granted on October 22, 2019 to allow for sales of cannabis extracts, topicals and edibles. Effective October 17, 2018, ACMPR was transitioned to The Cannabis Act.

On January 15, 2019, the Company purchased Arise Bioscience Inc. ("Arise") (previously known as Grander Distribution), a Florida-based producer and distributor of hemp-derived wellness products to retail locations nationwide. On June 6, 2019, the Company acquired the California operations of a retail dispensary brand known as "The Apothecarium" and Valhalla Confections ("Valhalla"), a premier manufacturer of cannabis infused artisan edibles. On September 16, 2019, the Company acquired Ilera Healthcare Inc. ("Ilera"), a vertically integrated cannabis cultivator, processor, and dispensary operator in Pennsylvania. On January 16, 2020, the Company's majority owned subsidiary, TerrAscend NJ, LLC ("NJ") was awarded a permit in Boonton Township, New Jersey, to cultivate, process and dispense medical marijuana in the state of New Jersey. On January 22, 2020, the Company acquired ABI SF LLC ("State Flower"), which operates a cannabis cultivation facility and distributes the State Flower brand in California. These entities comprise the Company's U.S. operations.

The Company is listed on the Canadian Stock Exchange, having the ticker symbol TER and effective October 22, 2018, the Company began trading on OTCQX under the ticker symbol TRSSF. The Company's registered office is located at PO Box 43125, Mississauga, Ontario, L5C 1W2.

2. Basis of presentation

(a) Statement of compliance

These condensed interim consolidated financial statements for the three months ended March 31, 2020 and March 31, 2019 of the Company were prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Certain information and footnote disclosures normally included in the audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. These condensed interim consolidated financial statements should be read in conjunction with the Company's December 31, 2019 audited annual consolidated financial statements and were authorized for issue by the Board of Directors on May 28, 2020.

(b) Basis of measurement

These condensed interim consolidated financial statements have been prepared on the going concern basis which assumes that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. In accordance with the going concern basis, these condensed interim consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments that are measured at fair value and biological assets that are measured at fair value less costs to sell, as detailed in the Company's accounting policies.

2. Basis of presentation (continued)

(c) Functional and presentation currency

The Company's functional currency, as determined by management, is the Canadian dollar. Management has determined that the functional currency of its Canadian subsidiaries is the Canadian dollar and the functional currency of its US subsidiaries is the US dollar. These condensed interim consolidated financial statements are presented in Canadian dollars unless otherwise specified.

(d) Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the condensed interim consolidated financial statements from the date that control commences until the date that control ceases.

Intragroup balances, and any unrealized gains and losses or income and expenses arising from transactions with jointly controlled entities are eliminated to the extent of the Company's interest in the entity. Unrealized losses are eliminated to the extent of the gains, but only to the extent that there is no evidence of impairment.

(e) Use of significant estimates and judgments

The preparation of condensed interim consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. 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.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2019.

(f) COVID-19 Estimation Uncertainty

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, did not materially disrupt the Company's operations during the first quarter of 2020. The production and sale of cannabis have been recognized as essential services across Canada and the United States and the Company has not experienced production delays or prolonged retail closures as a result. As at March 31, 2020, we have not observed any material impairments of our assets or a significant change in the fair value of assets due to the COVID-19 pandemic.

Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on our business, financial position, and operating results in the future. In addition, it is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. An impairment test has not been performed as at March 31, 2020 for the Company's goodwill and indefinite life intangibles. Management is closely monitoring the impact of the pandemic on all aspects of its business.

3. Significant accounting policies

The same accounting policies are applied in these unaudited condensed interim consolidated financial statements as those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2019, except as described below.

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

3. Significant accounting policies (continued)

New standards, amendments and interpretations adopted

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. The Company has adopted this standard effective January 1, 2020.

4. Sales and receivables, net of expected credit losses

	March 31, 2020	December 31, 2019
Trade receivables	**$ 8,402**	$ 7,994
Sales tax receivables	**1,367**	1,158
Other receivables	**102**	1,088
Provision for sales returns and allowances	**(1,920)**	(2,617)
Receivables, net of sales returns and allowances	**$ 7,951**	**$ 7,623**

Sales tax receivables represents input tax credits arising from sales tax levied on the supply of goods purchased or services received in Canada. Other receivables at March 31, 2020 are related to advances to employees. Other receivables at December 31, 2019 are related to amounts due from the sellers of the Apothecarium (Note 7) which were forgiven during the first quarter of 2020. The loss on forgiveness of $1,126 (US$0.8 million) is included in general and administrative expenses on the consolidated statement of loss.

Expected credit losses have been recorded in the amount of $511 (December 31, 2019 – $607) and are included in trade receivables on the condensed interim consolidated statements of financial position and in general and administrative operating expenses on the condensed interim consolidated statements of loss.

5. Note receivable

The reconciliation of the Company's note receivable is as follows:

	Think AHLOT	F&F	Howard Street	RHMT	State Flower	Total
Carrying amount, December 31, 2018	$ 1,561	$ —	$ —	$ —	$ —	$ 1,561
Issuance of note receivable	—	4,188	6,381	1,595	5,766	17,930
Unrealized loss	(1,655)	—	—	—	—	(1,655)
Interest accrued	94	—	106	25	276	501
Principal and interest payments	—	—	(6,528)	(1,631)	—	(8,159)
Conversion of note receivable to common shares	—	(4,188)	—	—	—	(4,188)
Foreign exchange impact	—	—	41	11	(56)	(4)
Carrying amount, December 31, 2019	—	—	—	—	5,986	5,986
Interest accrued	**—**	**—**	**—**	**—**	**120**	**120**
Conversion of note receivable on acquisition of State Flower	**—**	**—**	**—**	**—**	**(6,679)**	**(6,679)**
Foreign exchange impact	**—**	**—**	**—**	**—**	**573**	**573**
Carrying amount, March 31, 2020	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

5. Note receivable (continued)

State Flower

On July 18, 2019, the Company provided US$2.85 million in cash and received a secured convertible note receivable from ABI SF LLC ("State Flower"), which operates a California cannabis cultivation facility and the State Flower brand. Interest on the note was 12% per annum compounded annually with a maturity date of July 15, 2023 or earlier based on certain conditions. On August 28, 2019, the Company announced the signing of a definitive agreement to acquire 49.9% of the equity of State Flower for total consideration of US$2.85 million from conversion of the note. The Company also agreed to purchase the remaining 50.1% equity of State Flower under a Securities Purchase Agreement at a future date to be determined for total consideration based on future sales over a predetermined period, which is subject to regulatory approvals by various local and state authorities. The Company also extended to State Flower a separate line of credit of up to US$3.75 million for cultivation facility improvements to expand its production capacity, with $2,694 (US$2.05 million) drawn on the line of credit as of January 22, 2020.

On January 23, 2020, the Company completed the conversion of the note principal and accrued interest into 4,880.44 Class B units of State Flower representing a 49.9% equity interest. The Company has consolidated State Flower into its financial statements beginning on the date it obtained control, which was the conversion date (Note 7).

6. Investments

During the year ended December 31, 2019, the Company sold its shares of F&F for aggregate proceeds of $3,204, less $31 in brokerage commission charges. As at March 31, 2020, the investment in F&F warrants has been recorded at fair value of $nil (December 31, 2019- $465). Subsequent to quarter-end on April 20, 2020, the warrants expired.

	Number of Shares	Number of Warrants	$
Fair value, December 31, 2018	3,125,000	3,125,000	7,690
Units converted to notes receivable	(3,125,000)	—	(4,188)
Units converted from notes receivable	3,125,000	—	3,594
Shares sold	(3,125,000)	—	(3,204)
Realized gain on sale of F&F shares	—	—	1,400
Unrealized loss	—	—	(4,827)
Fair value, December 31, 2019	—	3,125,000	465
Unrealized loss	**—**	**—**	**(465)**
Fair value, March 31, 2020	**—**	**3,125,000**	**—**

The fair value of F&F warrants outstanding as at March 31, 2020 was estimated using the Black-Scholes valuation model based on the following weighted average assumptions:

	Weighted Average Assumptions			
		March 31, 2020		December 31, 2019
Volatility		**100%**		100%
Risk-free interest rate		**0.46%**		1.71%
Expected life (years)		**0.05**		0.31
Dividend yield		**Nil**		Nil
Number of F&F warrants valued		**3,125,000**		3,125,000
F&F estimated share price	**$**	**0.42**	$	0.90
Value per F&F warrant	**$**	**—**	$	0.1489

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

7. Acquisitions

Acquisition of ABI SF, LLC ("State Flower")

On January 23, 2020, the Company, through a wholly owned subsidiary, WDB Holding CA, Inc. ("WDB CA"), acquired ABI SF LLC ("State Flower"), which operates a California cannabis cultivation facility and the State Flower brand.

As consideration, the Company converted its previously issued note receivable and accrued interest in the amount of $3,985 (US$3.03 million) into a 49.9% equity interest in State Flower. The Company also recorded contingent consideration payable of $10,462 (US$7.96 million), representing the expected consideration payable to acquire the remaining 50.1% of State Flower, which comprises 100% of its Class A common shares, subject to regulatory approval. The contingent consideration is based on a multiple of future revenue. Effective with the conversion, the Company controls the appointment of three out of five seats on the board of directors and controls strategic and financial operations of State Flower.

On a standalone basis had the Company acquired the business on January 1, 2020, sales estimates would have been $400 for the three months ended March 31, 2020 and net loss estimates would have been $1,200.

	$
Cash and cash equivalents	971
Receivables	139
Inventory	568
Prepaid expenses and deposits	184
Right-of-use asset	3,558
Property, plant and equipment	1,597
Intangible assets	6,571
Goodwill	8,253
Accounts payable and accrued liabilities	(499)
Lease liability	(3,558)
Deferred tax liability	(643)
Net assets acquired	**17,141**
Consideration paid on conversion of note receivable	3,985
Contingent consideration payable	10,462
Line of credit advances at date of acquisition	2,694
Total consideration	**17,141**
Cash and cash equivalents acquired, net cash inflow	**971**
Acquisition related expense included in transaction and restructuring costs	**56**

Goodwill arose in this acquisition because purchase consideration included a control premium. In addition, the consideration paid reflected the benefit of expected sales growth and future market and product development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The goodwill arising on this acquisition is expected to be deductible for tax purposes.

The accounting for this acquisition has been provisionally determined at March 31, 2020. The fair value of net assets acquired, specifically with respect to inventory, intangible assets and goodwill, and total consideration have been determined provisionally and subject to adjustment. Upon completion of a comprehensive valuation and finalization of the purchase price allocation, the amounts above may be adjusted retrospectively to the acquisition date in future reporting periods.

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

7. Acquisitions (continued)

Costs related to this transaction were $56, including legal, accounting, due diligence, and other transaction-related expenses. As part of the transaction, the Company entered into a put/call arrangement with the non-controlling shareholders of the State Flower principals. As a result, the non-controlling interest in State Flower does not qualify for equity treatment under IAS 32, Financial Instruments: Presentation. Under the put/call arrangement, the non-controlling interest is redeemable by either party to the agreement after certain regulatory approvals are met. The Company has classified the non-controlling interest as a liability on the consolidated statements of financial position as other contingent consideration payable. The initial 50.1% non-controlling interest liability was recorded at a fair value of $10,462 million. This amount was calculated as a multiple of estimated revenues for the one-year period beginning three months after the completion of the first harvest following the installation of additional growing equipment, which is expected to be completed in October 2020. Any fair value adjustments to the liability are recorded in the consolidated statements of loss. No profit or loss with respect to State Flower operations is allocated to the non-controlling interest.

Contingent consideration

Contingent consideration as at March 31, 2020 and for the year ended December 31, 2019 are as follows:

	Grander	Apothecarium	Ilera	Total
Carrying amount, December 31, 2018	$ —	$ —	$ —	$ —
Contingent consideration recognized on acquisition	776	4,051	144,312	149,139
Revaluation of contingent consideration	(772)	—	62,623	61,851
Effects of movements in foreign exchange	(4)	(118)	(3,838)	(3,960)
Carrying amount, December 31, 2019	$ —	$ 3,933	$ 203,097	$ 207,030
Amount recognized on acquisition of State Flower	—	10,462	—	10,462
Payments of contingent consideration	—	—	(26,481)	(26,481)
Revaluation of contingent consideration	—	—	5,575	5,575
Effects of movements in foreign exchange	—	1,194	16,748	17,942
Carrying amount, March 31, 2020	**—**	**15,589**	**198,939**	**214,528**
Less: current portion	**—**	**(15,589)**	**(198,939)**	**(214,528)**
Non-current contingent consideration	**$ —**	**$ —**	**$ —**	**$ —**

Contingent consideration recorded relates to the Company's asset acquisition and business acquisitions. Contingent consideration is based upon the potential earnout of the underlying business unit and is measured at fair value using a projection model for the business and the formulaic structure for determining the consideration under the terms of the agreement. The determination of the fair value of the contingent consideration payable is primarily based on the Company's expectations of the amount of revenue to be achieved by the underlying business units within the specified time period of the agreement.

The fair value of contingent consideration is considered a Level 3 financial instrument in the fair value hierarchy. The fair value of contingent consideration was determined using a probability weighted model based on the likelihood of achieving certain revenue and EBITDA scenario outcomes. A discount rate range of 11.8% to 13.69% (December 31, 2019 – 11.8%) was utilized to determine the present value of the liabilities, resulting in a loss on revaluation of contingent consideration of $5,575 for the three months ended March 31, 2020.

On December 27, 2019, the Company and the sellers of Ilera amended the terms of the transaction to reduce the amount deposited into escrow from $16,237 (US$12.5 million) to $649 (US$0.5 million), which is deferred until the final earnout payment is due on March 15, 2021. The Company also 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. This additional amount was included in the loss on revaluation of contingent consideration in the condensed interim consolidated statement of loss for the year ended December 31, 2019.

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

7. Acquisitions (continued)

On January 15, 2020, the Company made the first earnout payment to the former owners of Ilera in the amount of $25,137 (US$19.35 million), with an additional $15,588 (US$12 million) deferred until the final earnout payment is due, no later than March 15, 2021.

It is management's expectation that the full amount of $231,840 (US$175 million) will be paid. The illustrative variance of the contingent consideration as at March 31, 2020 based on a range of revenue results and discount rates is outlined in the following table:

Discount Rate Sensitivity	Implied value of contingent consideration
Increase of 100 Basis Points	$ 197,262
Increase of 50 Basis Points	198,097
Decrease of 50 Basis Points	199,789
Decrease of 100 Basis Points	200,646

Contingent consideration recognized on the acquisition of State Flower is included under Apothecarium as management considers it to be a member of the Apothecarium group of entities.

8. Biological assets

The Company's biological assets consist of 36,658 cannabis plants as at March 31, 2020. The reconciliation of biological assets is as follows:

	March 31, 2020	December 31, 2019
Opening amount	**$ 5,484**	$ 545
Increase in fair value due to biological transformation	**14,889**	5,480
Additions on Ilera Acquisition	**—**	3,547
Capitalized costs	**3,046**	3,797
Transferred to inventories upon harvest	**(13,760)**	(7,884)
Effect of movements in foreign exchange	**677**	—
Fair value less costs to sell of cultivated plants	**10,336**	5,485
Cannabis seeds purchased (planted)	**—**	(1)
Ending balance	**$ 10,336**	$ 5,484

The fair value measurements for biological assets are categorized as Level 3 in the fair value hierarchy based on the inputs to the selected valuation technique. The fair value was determined using an expected cash flow model which assumes the biological assets at the balance sheet date will grow to maturity, be harvested and converted into finished goods inventory and sold in the retail recreational or medical cannabis market. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from the flowering stage to the point of harvest and assumes that the value of clones is nominal. The Company also deducts a distribution margin of 10% along with the excise price when estimating the fair value of biological assets.

The Company's estimates, by their nature, are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets.

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

8. Biological assets (continued)

Dry bud

The dry bud model utilizes the following significant assumptions:

	Canada		United States	
	Weighted Average March 31, 2020	**Weighted Average December 31, 2019**	**Weighted Average March 31, 2020**	**Weighted Average December 31, 2019**
Weighted average of expected loss of plants until harvest	**18%**	18%	**5%**	7%
Expected yields for cannabis plants (average grams per plant)	**88 grams**	107 grams	**32 grams**	38 grams
Expected number of growing weeks	**15 weeks**	15 weeks	**13 weeks**	13 weeks
Estimated selling price (per gram)	**$ 5.34**	$ 5.26	**$ 9.75**	$ 8.51
Post-harvest cost to complete and sell (per gram)	**$ 2.07**	$ 2.43	**$ 1.97**	$ 2.36

Trim

The trim model utilizes the following significant assumptions:

	Canada		United States	
	Weighted Average March 31, 2020	**Weighted Average December 31, 2019**	**Weighted Average March 31, 2020**	**Weighted Average December 31, 2019**
Weighted average of expected loss of plants until harvest	**18%**	18%	**5%**	7%
Expected yields for cannabis plants (average grams per plant)	**56 grams**	81 grams	**61 grams**	71 grams
Expected number of growing weeks	**15 weeks**	15 weeks	**13 weeks**	13 weeks
Estimated selling price (per gram)	**$ 1.00**	$ 1.00	**$ 6.26**	$ 2.42
Post-harvest cost to complete and sell (per gram)	**$ 0.11**	$ 0.22	**$ 0.27**	$ 0.14

These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

8. Biological assets (continued)

The following table presents the effect of a 10% change on the fair valuation of biological assets as at March 31, 2020 and December 31, 2019 which would be reported as part of the gross profit (loss) on the statement of loss and comprehensive loss.

	Canada		United States	
	10% change as at March 31, 2020	**10% change as at December 31, 2019**	**10% change as at March 31, 2020**	**10% change as at December 31, 2019**
Weighted average of expected loss of plants until harvest	**$ 30**	$ 39	**$ 21**	$ 21
Expected yields for cannabis plants (average grams per plant)	**30**	39	**982**	480
Expected number of growing weeks	**27**	27	**884**	272
Estimated selling price (per gram)	**49**	112	**1,119**	700
Post-harvest cost to complete and sell (per gram)	**19**	51	**334**	220

9. Inventory

The Company's inventory of dry cannabis includes both purchased and internally produced inventory. The recorded oil inventory was externally purchased. The Company's inventory is comprised of the following items:

	March 31, 2020	**December 31, 2019**
Raw materials	**$ 15,159**	$ 9,911
Finished goods	**7,778**	5,628
Work in process	**4,425**	3,439
Accessories	**410**	265
Supplies and consumables	**1,028**	1,179
	$ 28,800	$ 20,422

During the three months ended March 31, 2020, management assessed that the net book value of inventory held at its Canadian facility relating to raw materials and Cannabis 1.0 products exceeded the net realizable value and thus recorded an impairment of $1,833 (December 31, 2019- $9,184). Management determined net realizable value as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. In addition, during the three months ended March 31, 2020, management wrote off $74 (December 31, 2019 - $5,078) of inventory that it deemed unsaleable.

As at March 31, 2020, the fair value adjustment component included in inventory is $7,708 (December 31, 2019 – $3,057).

Total inventory acquired through business combinations for the three months ended March 31, 2020 was $568 (year ended December 31, 2019 – $8,643).

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

10. Property, plant and equipment

Property, plant and equipment for the three months ended March 31, 2020 are as follows:

	Land	Assets in Process	Buildings and Improvements	Irrigation & Lighting Systems	Security Systems	Machinery & Equipment	Office Furniture & Equipment	Right of Use Assets	Total
	$	$	$	$	$	$	$	$	$
Cost									
Balance at December 31, 2019	4,706	29,095	48,681	1,013	742	9,168	3,076	20,126	116,607
Additions	—	3,604	3,853	223	—	4,039	71	—	11,790
Completion of construction	—	(21,840)	21,840	—	—	—	—	—	—
Additions on State Flower acquisition	—	1,352	212	—	—	—	33	3,558	5,155
Effects of movements in foreign exchange	343	970	3,439	—	—	716	175	2,086	7,729
Balance at March 31, 2020	**5,049**	**13,181**	**78,025**	**1,236**	**742**	**13,923**	**3,355**	**25,770**	**141,281**
Accumulated Depreciation									
Balance at December 31, 2019	—	—	1,486	88	248	260	737	1,138	3,957
Depreciation	—	—	926	13	37	244	153	509	1,882
Effects of movements in foreign exchange	—	—	131	—	—	13	33	120	297
Balance at March 31, 2020	—	—	**2,543**	**101**	**285**	**517**	**923**	**1,767**	**6,136**
Net book value at March 31, 2020	**5,049**	**13,181**	**75,482**	**1,135**	**457**	**13,406**	**2,432**	**24,003**	**135,145**

As at March 31, 2020, assets in process of $13,181 (December 31, 2019 – $29,095) are not being depreciated. Depreciation will commence when the related construction projects are complete and facilities ready for use. During the three months ended March 31, 2020, borrowing costs were not capitalized because the assets in process did not meet the criteria of a qualifying asset. During the year ended December 31, 2019, the Company capitalized $836 of borrowing costs in assets in process using a weighted average capitalization rate of 11.82%.

Right of use assets are comprised entirely of the Company's leased premises and offices and are depreciated on a straight-line basis over each respective lease term.

For the three months ended March 31, 2020, $851 (March 31, 2019 – $102) of depreciation was capitalized into biological assets and inventory and expensed to cost of sales upon the sale of goods.

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

10. Property, plant and equipment (continued)

Property, plant and equipment for the year ended December 31, 2019 were as follows:

	Land $	Assets in Process $	Building and Improvements $	Irrigation & Lighting Systems $	Security System $	Machinery & Equipment $	Office Furniture & Equipment $	Right of Use Assets $	Total $
Cost									
Balance at December 31, 2018	994	6,786	14,715	809	703	1,083	1,350	—	26,440
Effect of adoption of IFRS 16, January 1, 2019	—	—	—	—	—	—	—	234	234
Additions	3,419	18,543	16,105	204	39	4,330	701	3,918	47,259
Effect of derecognition	—	—	—	—	—	—	—	(894)	(894)
Additions on acquisitions	372	6,044	18,518	—	—	4,053	1,073	17,356	47,416
Impairment	—	(2,121)	—	—	—	(184)	—	—	(2,305)
Effects of movements in foreign exchange	(79)	(157)	(657)	—	—	(114)	(48)	(488)	(1,543)
Balance at December 31, 2019	4,706	29,095	48,681	1,013	742	9,168	3,076	20,126	116,607
Accumulated Depreciation									
Balance at December 31, 2018	—	—	644	46	105	—	218	—	1,013
Depreciation	—	—	855	42	143	263	514	1,159	2,976
Effects of movements in foreign exchange	—	—	(13)	—	—	(3)	5	(21)	(32)
Balance at December 31, 2019	—	—	1,486	88	248	260	737	1,138	3,957
Net book value at December 31, 2019	4,706	29,095	47,195	925	494	8,908	2,339	18,988	112,650

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

11. Intangible assets and goodwill

	Software & Licenses $	Intellectual Property $	Brand Name $	Customer Relationships $	Non-Compete Agreements $	Goodwill $	Total $
Cost							
Balance at December 31, 2019	2,435	106,531	32,979	5,781	1,753	95,772	245,251
Additions	282	10,071	—	—	—	—	10,353
Additions on State Flower acquisition	—	4,416	1,761	—	394	8,253	14,824
Impairment	—	—	—	(672)	—	—	(672)
Effects of movements in foreign exchange	58	11,064	3,100	497	157	9,534	24,410
Balance at March 31, 2020	**2,775**	**132,082**	**37,840**	**5,606**	**2,304**	**113,559**	**294,167**
Accumulated Amortization							
Balance at December 31, 2019	424	1,990	—	1,111	578	—	4,103
Amortization	144	1,378	—	462	34	—	2,018
Impairment	—	—	—	(210)	—	—	(210)
Effects of movements in foreign exchange	5	260	—	118	55	—	438
Balance at March 31, 2020	**573**	**3,628**	**—**	**1,481**	**667**	**—**	**6,349**
Net book value at March 31, 2020	**2,202**	**128,454**	**37,840**	**4,125**	**1,637**	**113,559**	**287,818**

For the three months ended March 31, 2020, $545 (March 31, 2019 – $nil) of amortization was capitalized into biological assets and inventory and expensed to cost of sales upon the sale of goods.

During the three months ended March 31, 2020, the Company capitalized $9,782 (US$7.5 million) related to two success fees payable to an entity controlled by the minority shareholders of NJ. The first success fee payment of $4,891 (US$3.75 million) was due upon NJ being granted an Alternative Treatment Center ("ATC") license in the state of New Jersey. The first success fee payment was settled in shares on March 25, 2020 at a fair value determined on the date NJ received the license. The second success fee payment of $4,891 (US$3.75 million) is due upon NJ making its first sale of medicinal marijuana to a patient in compliance with the New Jersey Compassionate Use Marijuana Act (Note 24), which management believes is probable to occur during fiscal 2020. The payments were capitalized as an intellectual property intangible asset as costs to obtain the ATC license. The useful life of the assets is based on the ATC license.

At the end of each reporting period, the Company assesses whether there were events or changes in circumstances that would indicate that a Cash Generating Unit ("CGU") or group of CGUs were impaired. The Company considers external and internal factors, including overall financial performance and relevant entity-specific factors, as part of this assessment. With respect to the Company's Florida CGU, a reduction in forecasted revenue driven by the cessation of a distribution agreement as well as the COVID-19 pandemic was identified as an indicator of impairment.

Florida CGU

The Company's Florida CGU grouping represents its operations dedicated to the sale of hemp derived products within the state of Florida. This CGU grouping is attributed to the Company's United States operating segment. The recoverable amount of the Florida CGU was determined based on a fair value less costs to dispose ("FVLCD") method using level 3 inputs in a discounted cash flow ("DCF") model.

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

11. Intangible assets and goodwill (continued)

The significant assumptions applied in the determination of the recoverable amount are described as follows:

i) Cash flows: Estimated cash flows forecasted for a total of five years (terminal year thereafter);
ii) Terminal value growth rate: Based on historical and projected consumer price inflation, historical and projected economic indicators, and projected industry growth;
iii) Post-tax discount rate: Reflective of the CGUs weighted average cost of capital, estimated based on the risk-free rate, equity risk premium, beta adjustment to the equity risk premium based on a direct comparison approach, an unsystematic risk premium, and post-tax cost of debt based on bond yields;
iv) Tax rate: tax rates used were those substantively enacted at the valuation date.

Key assumptions used in calculating the recoverable amount for the Florida CGU were: terminal value growth rate - 3%; discount rate – 19.5%; forecasted sales growth rate – 17.9%; and recoverable amount - $18,724. As a result of the impairment test, management concluded that the carrying value was lower than the recoverable amount and recorded no impairment related to goodwill. An increase in the discount rate of 50 basis points would cause an impairment in the CGU grouping related to goodwill. The Company recorded impairment of $462 related to its customer relationships as a result of its termination of an agreement with one of its wholesale distributors.

Intangible assets for the year ended December 31, 2019 were as follows:

	Software $	Intellectual Property $	Brand Name $	Customer Relationships $	Non-Compete Agreements $	Goodwill $	Total $
Cost							
Balance at December 31, 2018	1,698	417	—	—	—	—	2,115
Additions	955	30	740	—	—	—	1,725
Additions on Grander acquisition	10	—	1,861	5,887	1,794	6,647	16,199
Additions on Apothecarium acquisition	—	30,435	19,064	—	—	64,665	114,164
Additions on Solace Rx acquisition	—	—	—	—	—	2,407	2,407
Additions on Ilera acquisition	—	78,494	16,030	—	—	91,089	185,613
Impairment	(223)	(417)	(3,865)	—	—	(66,213)	(70,718)
Effects of movements in foreign exchange	(5)	(2,428)	(851)	(106)	(41)	(2,823)	(6,254)
Balance at December 31, 2019	2,435	106,531	32,979	5,781	1,753	95,772	245,251
Accumulated Amortization							
Balance at December 31, 2018	69	21	—	—	—	—	90
Amortization	429	2,064	—	1,242	605	—	4,340
Impairment	(74)	(64)	—	—	—	—	(138)
Effects of movements in foreign exchange	—	(31)	—	(131)	(27)	—	(189)
Balance at December 31, 2019	424	1,990	—	1,111	578	—	4,103
Net book value at December 31, 2019	2,011	104,541	32,979	4,670	1,175	95,772	241,148

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

12. Loans payable

	Credit facility	Mortgage payable	Loans from related parties	Canopy Rivers Loan	Canopy Growth Financing	March 31, 2020
Opening carrying amount	$ 59,691	$ 6,428	$ 3,247	$ —	$ —	$ 69,366
Loan principal	—	—	1,963	—	80,127	82,090
Converted from convertible debt	—	—	—	12,833	—	12,833
Less: fair value of warrants	—	—	—	(3,781)	(26,844)	(30,625)
Interest accretion	1,574	—	—	350	366	2,290
Principal and interest paid	(64,718)	(32)	—	—	—	(64,750)
Effects of movements in foreign exchange	3,453	—	464	—	—	3,917
Ending carrying amount	$ —	$ 6,396	$ 5,674	$ 9,402	$ 53,649	$ 75,121
Less: current portion	—	(132)	(5,674)	(198)	(283)	(6,287)
Non-current loans payable	$ —	$ 6,264	$ —	$ 9,204	$ 53,366	$ 68,834

Credit Facility

On December 14, 2018, the Company entered into a US$75 million ($97.4 million) credit facility (the "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. The Credit Facility bears interest at 8.75% per annum, with a ($970 (US$0.75 million) origination fee payable on a quarterly basis. Any principal amount drawn will be due in one year and interest will be payable monthly.

On December 2, 2019, the Company and JW Asset Management agreed to an amendment of the Credit Facility whereby upon maturity on March 15, 2020, the Company would be extended a Term Loan for all outstanding principal and interest still outstanding on the Credit Facility. As of December 2, 2019, the interest rate of the Credit Facility was amended to 12.5% per annum. The expected Term Loan bears an interest rate of 12.5% per annum, payable semi-annually and the maturity date is no later than March 15, 2022. On March 11, 2020, a portion of the proceeds received from Canopy Growth loan financing were used to fully pay off the outstanding principal and interest amounts under the Credit Facility with JW Asset Management.

The Credit Facility was recorded at its fair value at inception and subsequently carried at amortized cost.

	March 31, 2020	December 31, 2019
Opening carrying amount	$ **59,691**	$ 12,683
Loan principal	**—**	47,085
Interest expense	**1,574**	5,105
Principal and interest paid	**(64,718)**	(3,569)
Effects of movements in foreign exchange	**3,453**	(1,613)
Ending carrying amount	$ —	$ 59,691

Mortgage Payable

On April 23, 2019, the Company completed a $6,500 mortgage financing secured by its manufacturing facility in Mississauga, bearing interest of 5.5% and a balance due date of May 1, 2022. The mortgage payable is recorded at its fair value at inception and subsequently carried at amortized cost. As at March 31, 2020, the carrying value of the current portion of the mortgage payable is $132, while the long-term portion is $6,264.

12. Loans payable (continued)

Loan from Related Parties

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.

In January 2020, the Company received additional loan proceeds of $1,963 (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. As at March 31, 2020 the total balance owing including accrued interest is $5,674.

Canopy Rivers Loan

On February 5, 2020, the Company and Canopy Rivers Corporation ("Canopy Rivers") agreed to amend the terms of their previously issued convertible debentures with a face value of $13,243 (US$10 million). Pursuant to the amended terms, the convertible debentures were converted into a $13,243 loan payable bearing interest at a rate of 6% per annum, payable annually, with a balance due date of October 2, 2024. The Company also issued Canopy Rivers 2,225,714 common share purchase warrants, exercisable at $5.95 upon the occurrence of certain triggering events. The warrants were issued such that they can be exercised upon maturity of the loan payable in a cashless exercise by offsetting the principal value of the loan payable.

Canopy Growth Financing

On March 10, 2020, TerrAscend Canada Inc. entered into a loan financing agreement with Canopy Growth in the amount of $80,526 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, with an effective interest rate of 11.9%, 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. All warrants will be exercisable 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. The warrants were issued such that they can be exercised upon maturity of the loan payable in a cashless exercise by offsetting the principal value of the loan payable. The fair value of the debt was calculated using the effective interest rate method, with the residual value allocated to contributed surplus.

Of the total proceeds received from Canopy Growth, $64,718 was used to fully pay off the outstanding principal and interest amounts under the Credit Facility with JW Asset Management and $8,494 is restricted for use in Canadian operations and is held in a segregated bank account (Note 22).

Total interest paid on all loan payables during the three months ended March 31, 2020 was $2,251 (March 31, 2019 – $313).

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

13. Leases

The Company's lease liabilities for the three months ended March 31, 2020 are as follows:

		March 31, 2020		December 31, 2019
Opening lease liability	$	**20,729**	$	—
Effect of adoption of IFRS 16, January 1, 2019		**—**		234
Additions on Grander asset acquisition		**—**		169
Additions on Apothecarium acquisition		**—**		16,126
Additions on Ilera acquisition		**—**		1,971
Additions on State Flower acquisition		**3,558**		—
Non-acquisition related additions		**—**		2,901
Lease payments		**(833)**		(1,382)
Interest expense		**667**		1,259
Effects of movements in foreign exchange		**2,149**		(549)
Ending lease liability	**$**	**26,270**	$	20,729
Less: current portion		**(1,479)**		(1,157)
Non-current lease liability	**$**	**24,791**	$	19,572

The Company recognized a total of $nil expenses related to short-term leases and leases of low-value assets for the three months ended March 31, 2020 (March 31, 2019- $35).

Undiscounted lease obligations are as follows:

	$
Less than one year	3,000
One to five years	12,190
More than five years	30,322
Total	45,512

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

14. Convertible debentures

On October 2, 2019, the Company completed the first tranche of a non-brokered private placement of convertible debentures and warrants. The Company issued 13,243 units, having a maturity date of five years from the date of issue and bearing interest at 6% per annum, compounded and payable annually, at face value of $13,243. Each unit comprises one convertible debenture and 25.2 common share purchase warrants. The convertible debentures are convertible at the holders' option into common shares of the Company at a conversion price of $5.95.

On November 16, 2019, the Company completed the second tranche of the non-brokered private placement noted above. The Company issued 4,763 convertible debentures under the same terms, at face value of $4,763. On November 26, 2019, the Company completed the third tranche of the non-brokered private placement noted above. The Company issued 2,654 convertible debentures under the same terms, at face value of $2,654.

		March 31, 2020		December 31, 2019
Opening carrying amount	**$**	**13,874**	$	—
Convertible debentures issued, net of transaction costs		**—**		20,343
Less: fair value of conversion option		**—**		(5,798)
Less: fair value of warrants		**—**		(863)
Converted loan payable		**(9,052)**		—
Interest accretion		**199**		192
Ending carrying amount	**$**	**5,021**	$	13,874
Less: current portion		**(111)**		—
Non-current convertible debt		**4,910**		13,874

The fair value of the equity portion was calculated as the residual value after determining the fair value of the convertible debentures using the effective interest method. The fair value of the equity portion is allocated to the conversion option and warrants using the relative fair value method.

On February 5, 2020, the Company amended the terms of its previously announced $13,243 (US$10 million) convertible debenture issuance to Canopy Rivers. Under the original terms the issuance had a maturity date of five years, bore interest at 6% per annum, compounded and payable annually, and were convertible at the holders' option into common shares of the Company at a conversion price of $5.95. 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 effective interest rate on the loan is 15.4%. 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. The carrying value of the debt was converted to a loan payable as of the amendment date (Note 12). The amendment resulted in a reallocation of the previously recorded conversion option to warrants reserve in contributed surplus and had no impact on the consolidated statement of loss.

15. Share capital and contributed surplus

Authorized share capital

The authorized share capital of the Company consists of an unlimited number of common shares, unlisted proportionate voting shares, and unlisted exchangeable shares.

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

15. Share capital and contributed surplus (continued)

Outstanding share capital

	Common Shares	Exchangeable Shares	Proportionate Voting Shares	Amount $
Outstanding, December 31, 2018	41,147,636	38,890,571	35,022	64,883
Shares issued – warrant exercises	959,772	—	28,636	33,179
Shares issued – stock option exercises	1,101,562	—	—	2,620
Shares issued – acquisition of Grander assets	1,362,343	—	—	6,729
Shares issued – acquisition of Apothecarium	—	—	6,700	41,259
Shares issued – acquisition of Ilera	—	—	5,059	27,488
Shares issued – private placement net of share issue costs	21,992,009	—	—	97,110
Issuance of convertible units	—	—	—	614
Warrants issued	—	—	—	(29,820)
Reallocation from warrants reserve	—	—	—	13,701
Reallocation from share-based payment reserve	—	—	—	2,129
Outstanding, December 31, 2019	**66,563,322**	**38,890,571**	**75,417**	**259,892**
Shares issued – private placement net of share issue costs	**5,313,786**	**—**	**—**	12,782
Shares issued – compensation for services	**1,625,701**	**—**	**—**	4,891
Outstanding, March 31, 2020	**73,502,809**	**38,890,571**	**75,417**	**277,565**

Private Placements

On May 15, 2019, the Company completed the first tranche of a private placement and issued 5,257,662 common shares at a price of $7.64 per common share for total proceeds of $40,169. On May 27, 2019, the Company completed the second tranche and issued 3,766,022 common shares at a price of $7.64 per common share for total proceeds of $28,772. Total proceeds of the private placement were $67,176, net of share issue costs of $1,765.

On December 30, 2019, the Company completed the first tranche of a private placement and issued 12,968,325 units at a price of $2.45, each comprised of one common share and one common share purchase warrant, for total proceeds of $31,772. The Company allocated proceeds of $29,933, net of share issue costs of $541, to the common shares. At December 31, 2019, share subscriptions receivable totalled $31,772 and was collected subsequent to year-end.

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 $8,343, net of share issue costs of $110. 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.

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 $4,439, net of share issue costs of $127. 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.

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

15. Share capital and contributed surplus (continued)

Share-based payments

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. The issuance of theses shares resulted in the Company capitalizing licensing costs of $4,891.

Warrants reserve

The following is a summary of the outstanding warrants for Common Shares as at March 31, 2020 and December 31, 2019.

Number outstanding as at March 31, 2020	Number of Warrants Outstanding	Number of Warrants Exercisable	Issue Date	Expiry Date	Weighted Average Exercise Price $	Weighted Average Remaining Life (years)
Issued in payment for services	320,000	160,000	06/06/18	06/06/23	4.16	3.18
Issued in payment for services	70,000	70,000	08/09/18	08/09/23	4.25	3.36
Issued in convertible debt	333,723	333,723	10/02/19	10/02/24	6.49	4.51
Issued in convertible debt	120,027	120,027	11/06/19	11/06/24	6.49	4.61
Issued in convertible debt	66,880	66,880	11/26/19	11/26/24	6.49	4.66
Issued during private placement	12,968,325	12,968,325	12/30/19	01/14/22	3.25	1.79
Issued during private placement	3,450,127	3,450,127	01/10/20	01/14/22	3.25	1.79
Issued during private placement	1,863,659	1,863,659	01/27/20	01/14/22	3.25	1.79
Issued in debt arrangement	2,225,714	—	02/05/20	10/02/24	5.95	4.51
Issued in debt arrangement	15,656,242	—	03/11/20	03/10/30	5.14	9.95
Issued in debt arrangement	2,152,733	—	03/11/20	03/10/31	3.74	10.95
	39,227,430	**19,032,741**			**4.24**	**5.75**

Number Outstanding as at December 31, 2019	Number of Warrants Outstanding	Number of Warrants Exercisable	Issue Date	Expiry Date	Weighted Average Exercise Price $	Weighted Average Remaining Life (years)
Issued in payment for services	320,000	160,000	06/06/18	06/06/23	4.16	3.43
Issued in payment for services	70,000	70,000	08/09/18	08/09/23	4.25	3.61
Issued in convertible debt	333,723	333,723	10/02/19	10/02/24	6.49	4.76
Issued in convertible debt	120,027	120,027	11/06/19	11/06/24	6.49	4.85
Issued in convertible debt	66,880	66,880	11/26/19	11/26/24	6.49	4.91
Issued during private placement	12,968,325	12,968,325	12/30/19	01/14/22	3.25	2.04
	13,878,955	**13,718,955**			**3.40**	**2.18**

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

15. Share capital and contributed surplus (continued)

The fair value of private placement warrants issued during the three months ended March 31, 2020 were estimated on their respective grant dates using the Black-Scholes valuation model based on the following assumptions:

Issue date		**January 27, 2020**		**January 10, 2020**
Volatility		87.50%		87.50%
Risk-free interest rate		1.44%		1.65%
Expected life (years)		2.00		2.00
Dividend yield		Nil		Nil
Forfeiture rate		0%		0%
Number of Warrants issued		1,863,659		3,450,127
Share price	$	2.94	$	2.71
Value per warrant	$	—	$	—

The relative fair value of the warrants issued in connection with the Canopy Growth financing were determined using the residual value method and recorded as a reduction to contributed surplus.

The following is a summary of the outstanding warrants for Proportionate Voting Shares as at March 31, 2020. These warrants are exercisable for 0.001 of a Proportionate Voting Share. The Proportionate Voting Shares are exchangeable into Common Shares on a basis of 1,000 Common Shares per Proportionate Voting Share.

Number outstanding as at March 31, 2020	**Number of Warrants Outstanding**	**Number of Warrants Exercisable**	**Issue Date**	**Expiry Date**	**Weighted Average Exercise Price $**	**Weighted Average Remaining Life (years)**
Issued as incentive compensation	8,590,908	8,590,908	08/23/19	08/23/22	7.21	2.40
	8,590,908	**8,590,908**			**7.21**	**2.40**

On August 23, 2019, the Company issued 8,590,908 warrants for proportionate voting shares to JW Entities, as incentive warrants upon the exercise of 28,636,361 warrants for common shares. The fair value of these warrants issued were determined using the Black-Scholes model at a value of $29,820 and recorded as a reduction to share capital.

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

15. Share capital and contributed surplus (continued)

Options

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

The fair value of the various stock options granted during the three months ended March 31, 2020 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Stock price volatility – 87.09% (March 31, 2019 – 97%); Risk-free interest rate – 0.68% to 1.62% (March 31, 2019 – 1.44% to 1.96%); Dividend yield – 0% (March 31, 2019 – 0%); Forfeiture rate – 26.5% (March 31, 2019 – 26.5%); and Expected lives – 5 years (March 31, 2019 – 5 years).

The following is a summary of the changes in the Company's options for the three months ended March 31, 2020, and year ended December 31, 2019.

	Number of Options	Weighted Average Remaining Life in Years	Weighted Average Exercise Price $
Balance Outstanding at December 31, 2018	8,473,129	5.88	4.28
Options Granted	6,844,000	N/A	6.69
Options Exercised	(1,117,936)	N/A	2.45
Options Forfeited/Cancelled	(3,706,178)	N/A	5.71
Balance Outstanding at December 31, 2019	10,493,015	4.04	5.53
Options Granted	**3,500,000**	N/A	**2.49**
Options Forfeited/Cancelled	**(1,120,534)**	N/A	**5.75**
Balance Outstanding as at March 31, 2020	**12,872,481**	**4.10**	**4.68**

The following is a summary of the outstanding stock options as at March 31, 2020 and December 31, 2019.

Number Outstanding as at March 31, 2020	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable as at March 31, 2020
12,872,481	$ 4.68	4.10	2,128,054

Number Outstanding at December 31, 2019	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable at December 31, 2019
10,493,015	$ 5.53	4.04	2,443,578

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

15. Share capital and contributed surplus (continued)

At March 31, 2020, the weighted average exercise price of options outstanding and options exercisable was $4.68 (December 31, 2019 – $5.53) and $3.41 (December 31, 2019 – $3.65) respectively.

Contributed surplus

The Company's contributed surplus balances include the following:

	Warrants reserve	Share-based payments reserve	Contributed surplus	Total
Outstanding, December 31, 2018	14,335	7,849	—	22,184
Share-based compensation	587	12,236	—	12,823
Exercise of stock options	—	(2,129)	—	(2,129)
Exercise of warrants	(13,701)	—	—	(13,701)
Private placement	1,298	—	—	1,298
Issuance of proportionate voting warrants	29,820	—	—	29,820
Issuance of convertible units	863	—	4,005	4,868
Warrants expired	(2)	—	—	(2)
Options expired/forfeited	—	(384)	—	(384)
Outstanding, December 31, 2019	**33,200**	**17,572**	**4,005**	**54,777**
Share-based compensation	**70**	**3,039**	**—**	**3,109**
Issuance of convertible debt	**26,844**	**—**	**—**	**26,844**
Reallocation on Canopy Rivers convertible debt amendment	**3,781**	**—**	**(3,781)**	**—**
Options expired/forfeited	**—**	**(2,535)**	**—**	**(2,535)**
Outstanding, March 31, 2020	**63,895**	**18,076**	**224**	**82,195**

16. Non-controlling interest

Non-controlling interest at March 31, 2020 was $7,576 (December 31, 2019- $8,650) and consisted of the following amounts:

	March 31, 2020	December 31, 2019
Opening carrying amount balance	**$ 8,650**	$ 1,431
Additions of non-controlling interest on acquisition date	**—**	8,154
Capital contributions (paid) received	**(322)**	2,346
Net loss attributable to non-controlling interest	**(658)**	(3,164)
Effects of movements in foreign exchange	**(94)**	(117)
Ending carrying amount balance	**$ 7,576**	$ 8,650

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

17. Related parties

(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 three months ended March 31, 2020 and March 31, 2019 respectively were as follows:

	March 31, 2020	March 31, 2019
Salaries and wages	**$ 965**	$ 416
Share-based payments	**830**	17
Total	**$ 1,795**	$ 433

(b) During the three months ended March 31, 2020, the Company had sales of $nil (March 31, 2019 - $6,732) to Canopy Growth and other income of $nil (March 31, 2019 - $3) related to patient referral fees. There are no amounts payable or receivable to or from Canopy Growth at March 31, 2020 or December 31, 2019.

(c) On August 26, 2019, the Company issued 8,590,908 Proportionate Voting Share purchase warrants as incentive compensation to entities controlled by Jason Wild, Chairman of the Board of TerrAscend. 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.

(d) 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. On March 11, 2020, the Company repaid the entire line of credit amount. Refer to note 12 for details.

(e) The Company received loan proceeds of $3,247 (US$2.5 million) and $1,958 (US$1.5 million) during the year ended December 31, 2019 and the three months ended March 31, 2020 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. As at March 31, 2020 the total balance owing including accrued interest is $5,674. See Note 12 for details.

(f) 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 (Note 11).

(g) As at March 31, 2020, the Company has a loan payable to Canopy Rivers with a face value of $13,243 and a discounted value of $9,402. During the three months ended March 31, 2020, the Company has not repaid any portion of the principal or interest of the loan outstanding. Refer to note 12 for details.

(h) As at March 31, 2020, the Company has a loan payable to Canopy Growth with a face value of $80,526 and a discounted value of $53,649. During the three months ended March 31, 2020, the Company has not repaid any portion of the principal or interest of the loan outstanding. Refer to note 12 for details.

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

18. Income taxes

The reconciliation of the combined Canadian and U.S. federal and provincial and state corporate income taxes, and to the Company's effective income tax expenses is as follows:

		31-Mar-20		31-Mar-19
Loss before income tax	$	**(5,506)**	$	(11,060)
Statutory tax rate		**26.5%**		26.5%
Expected income tax recovery		**(1,459)**		(2,931)
Effect on income taxes of deductible & non-deductible adjustments				
IRC 280E adjustment		**2,672**		—
Transaction costs and legal fees adjustment		**12**		—
FIN 48 liability change		**830**		—
Foreign income taxes at different statutory rate		**791**		—
Lease adjustment		**—**		—
Share based compensation and non-deductible expenses		**277**		2,561
Changes in tax benefits not recognized		**4,859**		—
Other adjustments		**376**		—
Income tax expense (recovery)	**$**	**8,358**	$	(370)
The Company's income tax expense (recovery) is allocated as follows:				
Current tax expense	**$**	**5,865**	$	—
Deferred tax expense (recovery)		**2,493**		(370)
Income tax expense (recovery)	**$**	**8,358**	$	(370)

The Company's combined Canadian federal and provincial statutory rates are at 26.5% (December 31, 2018 – 26.5%)

As many of the Company's U.S. subsidiaries operate in the cannabis industry and are subject to the limitations of IRC Section 280E explained below, the impact results in a permanent tax difference as a disallowed tax deduction. Therefore, the U.S. effective tax rate can be highly variable and may not necessarily correlate with pre-tax income or loss due to the material impact of Section 280E.

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

18. Income taxes (continued)

The Company's current tax liability of $29,827 as of March 31, 2020 (December 31, 2019 – $21,276) includes a liability related to a tax matter arising from application of United States Internal Revenue Code ("IRC") Section 280E to the Apothecarium. Under Section 280E, all ordinary and necessary business deductions are disallowed if the taxpayer's trade or business is "trafficking" in a Schedule I or II Controlled Substance under the Controlled Substances Act. Cannabis remains a Schedule I controlled substance. While the Internal Revenue Service (the "IRS") accepted that the figures on the filed tax returns were substantiated and accurate, it nevertheless sought a complete disallowance of certain expenses under Section 280E for income tax returns for the fiscal years ended September 30, 2014 and September 30, 2015. Through deficiency notices, the IRS asserted that the Apothecarium is liable for a tax deficiency for each of these tax years as well as negligence penalties pursuant to IRC Section 6662(d). The Company disagreed with the IRS assertion and filed a petition with the US Tax Court contesting the IRS's findings and challenging its calculations regarding the disallowed deductions. While the Company cannot predict the outcome and timing of the case at this time, it has recorded a liability of $21,915 related to the years covered by the tax deficiency notices and certain other years, as at March 31, 2020 (December 31, 2019- $19,261). On the acquisition of the Apothecarium, the seller set aside cash in an escrow account to be used on future tax indemnifications. As at March 31, 2020, an indemnification asset of $16,315 has been recorded on the statement of financial position (December 31, 2019 – $14,936).

Movement in net deferred tax liabilities:

		31-Mar-20		31-Dec-19
Balance at the beginning of the year	**$**	**(26,981)**	$	(688)
Recognized in profit/loss		**(2,440)**		2,346
Recognized in goodwill		**(643)**		(28,090)
Recognized in equity		**—**		(1,195)
Other		**(97)**		—
Cumulative translation adjustment		**(2,074)**		646
Balance at the end of the period	**$**	**(32,235)**	$	(26,981)

19. General and administrative expenses by nature

The Company's general and administrative expenses for the three months ended March 31, 2020 and 2019 are as follows:

		For the three months ended		
		March 31, 2020		**March 31, 2019**
Office and general	**$**	**3,738**	$	949
Professional fees		**1,747**		2,755
Occupancy costs		**858**		225
Salaries and wages		**7,436**		3,009
Sales and marketing		**637**		1,703
Travel		**184**		180
Total	**$**	**14,600**	$	8,821

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

20. Segment disclosure

The Company has one operating segment, being the cultivation and sale of cannabis, with subsidiaries located in Canada and the United States.

	Canada	United States	Total
As at March 31, 2020			
Current assets	**$ 32,618**	**$ 52,314**	**$ 84,932**
Non-current assets	**44,910**	**395,787**	**440,697**
Current liabilities	**8,493**	**271,984**	**280,477**
Non-current liabilities	**74,073**	**56,697**	**130,770**
For the three months ended March 31, 2020			
Sales, net	**$ 3,842**	**$ 30,956**	**$ 34,798**
Gross profit (loss) before gain on fair value of biological assets	**(2,066)**	**17,612**	**15,546**
Gross (loss) profit	**(2,074)**	**26,265**	**24,191**
Income (loss) from operations	**(8,913)**	**13,843**	**4,930**
Net loss attributable to controlling interest	**(10,542)**	**(2,664)**	**(13,206)**

	Canada	United States	Total
As at December 31, 2019			
Current assets	$ 53,131	$ 37,602	$ 90,733
Non-current assets	45,015	325,018	370,033
Current liabilities	9,822	133,042	142,864
Non-current liabilities	20,529	222,044	242,573
For the three months ended March 31, 2019			
Sales, net	$ 8,860	$ 5,722	$ 14,582
Gross profit (loss) before gain on fair value of biological assets	(128)	1,635	1,507
Gross profit	299	1,635	1,934
Loss from operations	(7,006)	(2,664)	(9,670)
Net loss attributable to controlling interest	(7,591)	(2,939)	(10,530)

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

21. Supplemental cash flow information

Non-cash transactions during the three months ended March 31, 2020 and 2019 are as follows:

	For the three months ended	
	March 31, 2020	**March 31, 2019**
Shares issued as consideration for acquisition of Grander	**—**	7,372
Shares issued to Regulatory Consulting Group	**4,891**	—
Right of use assets additions	**—**	3,465
Fair value of harvested plants transferred to inventory	**13,760**	461

The changes in non-cash working capital items during the three months ended March 31, 2020 and 2019 are as follows:

	For the three months ended	
	March 31, 2020	**March 31, 2019**
Receivables	$ **(189)**	$ (3,832)
Biological assets	**—**	—
Inventory	**(5,173)**	4,685
Prepaid expenses and deposits	**780**	(101)
Deferred costs	**—**	(24)
Accounts payable and accrued liabilities	**(3,309)**	(8,500)
Corporate income tax payable	**2,686**	—
Deferred revenue	**(286)**	293
	(5,491)	**(7,479)**

22. Capital management and restricted cash

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

Since inception, the Company has primarily financed its liquidity needs through the issuance of Common Shares. On December 14, 2018, the Company agreed to terms on a US$75 million credit facility of which the Company had borrowed US$45.5 million. On March 10, 2020, TerrAscend Canada Inc. entered into a loan financing agreement with Canopy Growth in the amount of $80,526 pursuant to a secured debenture. On March 11, 2020, a portion of the proceeds received from Canopy Growth loan financing were used to fully pay off the outstanding principal and interest amounts under the Credit Facility with JW Asset Management.

There have been no changes to the Company's objectives pertaining to capital management during the three months ended March 31, 2020 or during the year ended December 31, 2019. The Company is not subject to externally imposed capital requirements.

22. Capital management and restricted cash (continued)

The Company holds an escrowed cash balance of $7,132 related to funds restricted to the use of extinguishing its mortgage payable related to its Canadian facility. Additionally, under the terms of the Canopy Growth Financing agreement, $8,494 of the proceeds received is restricted for use in Canadian operations and is held in a segregated bank account.

23. Financial instruments and risk management

Financial instruments

The Company has classified its cash and cash equivalents, notes 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, 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, and loan payable approximate their fair values due to their short periods to maturity. The fair value of the F&F warrants (Note 6) and contingent consideration (Note 7) have been determined based on Level 2 and Level 3 of the fair value hierarchy, respectively.

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 condensed interim 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 $511 (December 31, 2019– $607) have been recorded. Subsequent recoveries of amounts previously written off are credited against operating expenses in the condensed interim 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 March 31, 2020 and December 31, 2019.

(Amounts expressed in thousands of Canadian dollars, except for per share amounts)

23. Financial instruments and risk management (continued)

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:

	March 31, 2020	December 31, 2019
Trade receivables	**$ 8,402**	$ 7,994
Less: provision for sales returns and allowances	**(1,920)**	(2,617)
Total trade receivables, net	**$ 6,482**	$ 5,377
Of which		
Current	**$ 7,567**	$ 6,506
31-90 days	**83**	880
Over 90 days	**752**	608
Less: provision for sales returns and allowances	**(1,920)**	(2,617)
Total trade receivables, net	**$ 6,482**	$ 5,377

(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 March 31, 2020, the Company had a cash and cash equivalents, restricted cash, and receivables balance of $39,349 (December 31, 2019- $25,509) to settle current liabilities of $280,477 (December 31, 2019- $142,864). 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. 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. On March 10, 2020, TerrAscend Canada Inc. entered into a 10-year maturity loan financing agreement with Canopy Growth in the amount of $80,526 with interest of 6.10% per annum payable annually. 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 (see Note 12).

(c) Market Risk

The significant market risk 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.

23. Financial instruments and risk management (continued)

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 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.

In respect of financial liabilities, the Company's loan payables have fixed interest rates of 6.0% 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.

24. 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 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 defence. The Company does not expect the claim to have a material adverse impact on the Company and no amount has been accrued in the condensed interim consolidated statements of loss.

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

Pursuant to the success fee noted in Note 11, a second success fee payment of $4,981 (US$3.75 million) is due upon NJ making its first sale of medicinal marijuana to a patient in compliance with the New Jersey Compassionate Use Marijuana Act. The Company expects to make its first sale of medicinal marijuana in accordance with the above noted terms some time in fiscal 2020.

Subsequent to quarter-end on April 17, 2020, the Company's subsidiary, the Apothecarium, entered into a lease agreement to rent retail storefront in Oxnard, California. The term of the lease is 120 months with two options to extend the term for 60 months each. The lease term does not commence until the earlier of the date the required permits have been issued by the City of Oxnard's Commercial Cannabis Business Retail unit and January 1, 2021. Total lease payments over the initial term of the lease amount to $4,372 (US$3.08 million).

25. Subsequent events

i) On April 14, 2020, the Company announced the appointment of Jason Ackerman as the Chief Executive Officer. In addition, the Company announced its plans to relocate its financial operations to the US headquarters of New York City and as part of the move, Toronto-based Adam Kozak resigned as the Chief Financial Officer.

ii) On April 17, 2020, the Company's subsidiary, the Apothecarium, entered into a lease agreement to rent a retail storefront in Oxnard, California. The term of the lease is 120 months with two options to extend the term for 60 months each. The lease term does not commence until the earlier of the date the required permits have been issued by the City of Oxnard's Commercial Cannabis Business Retail unit and January 1, 2021. Total lease payments over the initial term of the lease amount to $4,372 (US$3.08 million).

iii) On April 24, 2020, the Company announced the appointment of Keith Stauffer as Chief Financial Officer.

iv) On May 19, 2020, the Company announced a non-brokered private placement to issue units for gross proceeds of approximately US$30 million, with the ability, at the Company's discretion, to upsize the amount to aggregate gross proceeds of between US$35 million and US$40 million. The Company has received initial investor commitments totaling US$28 million, including a US$20 million lead order from JW Asset Management LLC. Each unit shall be issued at a price of US$2 thousand per unit and is comprised of one convertible preferred share in the capital of the Company and one convertible preferred share purchase warrant. Each warrant will entitle the holder to purchase one convertible preferred share in the capital of the Company at a price of US$3 thousand per share and expire 36 months from the date of issuance. Each convertible preferred share converts to 1,000 common shares (for non-U.S. investors) and the economic equivalent in proportionate voting shares (for U.S. investors).

v) Subsequent to March 31, 2020, the Company granted 4,825,000 options to employees, consultants, and directors of the Company. The options have a weighted average exercise price of $2.96. Additionally, subsequent to March 31, 2020, the Company awarded 125,000 options to employees, consultants, and directors of the Company pursuant to employment agreements and such awarded options will be granted in Q2 2020.

vi) Subsequent to March 31, 2020, 150,000 options were exercised at an average exercise price of $0.60 for gross proceeds of $90. Subsequent to March 31, 2020, 553,639 options were forfeited.

vii) Subsequent to March 31, 2020, the Company issued 13,646 warrants to purchase convertible preferred shares. The warrants have a weighted average exercise price of US$3 thousand.