TERRASCEND CORP.

Unaudited Condensed Interim Consolidated Financial Statements

As of and for the three and six months ended June 30, 2020 and 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 June 30, 2020	As at December 31, 2019
Assets			
Current Assets			
Cash and cash equivalents		**$ 69,721**	$ 11,900
Restricted cash	20	**5,062**	—
Receivables, net of sales returns and allowances	4, 14	**5,822**	7,623
Share subscriptions receivable		**—**	31,772
Note receivable		**—**	5,986
Investments		**—**	465
Biological assets	6	**11,437**	5,484
Inventory	7	**31,955**	20,422
Prepaid expenses and other assets		**5,475**	7,081
		129,472	90,733
Non-Current Assets			
Investment in associate		**1,621**	1,299
Property, plant and equipment	8	**148,673**	112,650
Intangible assets and goodwill	9	**273,493**	241,148
Indemnification asset	15	**15,672**	14,936
Other assets		**1,600**	—
		441,059	370,033
Total Assets		**$ 570,531**	$ 460,766
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 28,493**	$ 25,002
Deferred revenue		**1,080**	1,179
Loans payable	10	**2,698**	63,068
Contingent consideration payable	5	**200,093**	31,182
Lease liability	11	**1,975**	1,157
Corporate income tax payable	15	**37,801**	21,276
Preferred share liability	13	**7,464**	—
		279,604	142,864
Non-Current Liabilities			
Loans payable	10	**70,554**	6,298
Contingent consideration payable	5	**9,758**	175,848
Lease liability	11	**29,200**	19,572
Preferred share liability	13	**16,434**	—
Convertible debentures	12	**5,001**	13,874
Deferred income tax liability	15	**33,037**	26,981
		163,984	242,573
Total Liabilities		**$ 443,588**	$ 385,437
Shareholders' Equity			
Share capital	13	**305,409**	259,892
Contributed surplus	13	**85,309**	54,777
Cumulative translation adjustment		**(1,921)**	(1,992)
Deficit		**(269,079)**	(245,998)
Non-controlling interest		**7,225**	8,650
Total Shareholders' Equity		**126,943**	75,329
Total Liabilities and Shareholders' Equity		**$ 570,531**	$ 460,766
Total Number of Common and Proportionate Voting Shares Outstanding	13	**149,102,302**	141,980,314

Subsequent events (note 23), Commitments and contingencies (note 22)

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

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 June 30, 2020	For the three months ended June 30, 2019	For the six months ended June 30, 2020	For the six months ended June 30, 2019
Sales, gross		**$ 50,214**	$ 19,019	**$ 88,063**	$ 33,984
Excise taxes		**(2,984)**	(1,447)	**(6,035)**	(1,830)
Sales, net	17	**47,230**	17,572	**82,028**	32,154
Cost of sales	7	**20,766**	16,063	**40,018**	29,138
Gross profit before gain on fair value of biological assets		**26,464**	1,509	**42,010**	3,016
Unrealized gain on changes in fair value of biological assets	6	**23,051**	1,009	**37,940**	1,453
Realized fair value amounts included in inventory sold		**(18,862)**	(360)	**(25,106)**	(377)
Gross profit		**30,653**	2,158	**54,844**	4,092
Operating expenses:					
General and administrative	16	**15,706**	11,376	**30,306**	19,389
Share-based payments	13	**3,439**	2,459	**6,256**	4,366
Amortization and depreciation	8, 9	**3,164**	1,241	**4,801**	1,993
Research and development		**168**	173	**375**	297
Total operating expenses		**22,477**	15,249	**41,738**	26,045
Income (loss) from operations		**8,176**	(13,091)	**13,106**	(21,953)
Revaluation of contingent consideration	5	**6,192**	—	**11,767**	—
Finance and other expenses		**3,143**	1,337	**6,447**	2,069
Transaction and restructuring costs		**1,737**	2,997	**2,313**	3,805
Unrealized loss (gain) on investments		**(132)**	1,968	**333**	2,586
Impairment of intangible assets	9	**540**	58	**1,002**	58
Foreign exchange loss		**49**	62	**103**	102
Loss before income taxes		**(3,353)**	(19,513)	**(8,859)**	(30,573)
Current income tax expense	15	**9,798**	39	**15,663**	39
Deferred income tax expense (recovery)	15	**474**	(416)	**2,967**	(786)
Net loss		**$ (13,625)**	$ (19,136)	**$ (27,489)**	$ (29,826)
Items that will be subsequently reclassified to profit or loss:					
Currency translation adjustment		**5,636**	2,396	**(71)**	2,906
Comprehensive loss		**$ (19,261)**	$ (21,532)	**$ (27,418)**	$ (32,732)
Net loss attributable to:					
Shareholders of the Company		**(12,731)**	(18,704)	**(25,937)**	(29,234)
Non-controlling interests		**(894)**	(432)	**(1,552)**	(592)
Comprehensive loss attributable to:					
Shareholders of the Company		**(18,367)**	(21,100)	**(25,866)**	(32,140)
Non-controlling interests		**(894)**	(432)	**(1,552)**	(592)
Net loss per share, basic and diluted					
Net loss per share – basic and diluted		**(0.09)**	(0.22)	**$ (0.18)**	$ (0.36)
Weighted average number of outstanding common and proportionate voting shares		**149,031,066**	83,888,265	**147,750,133**	80,628,421

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

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

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

For the six months ended June 30, 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	13	**40,353**	**—**	**—**	**—**	**—**	**40,353**
Shares issued - stock option exercises	13	**274**	**(155)**	**—**	**—**	**—**	**119**
Issuance of warrants	13	**—**	**26,844**	**—**	**—**	**—**	**26,844**
Options expired/forfeited	13	**—**	**(2,856)**	**—**	**2,856**	**—**	**—**
Share-based compensation	13	**4,890**	**6,699**	**—**	**—**	**—**	**11,589**
Capital Contribution		**—**	**—**	**—**	**—**	**127**	**127**
Net loss for the period		**—**	**—**	**—**	**(25,937)**	**(1,552)**	**(27,489)**
Cumulative translation adjustment		**—**	**—**	**71**	**—**	**—**	**71**
Balance at June 30, 2020		**$ 305,409**	**$ 85,309**	**$ (1,921)**	**$ (269,079)**	**$ 7,225**	**$ 126,943**

For the six months ended June 30, 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	13	1,235	(208)	—	—	—	1,027
Shares issued - stock option exercises	13	2,704	(1,187)	—	—	—	1,517
Shares issued- Acquisition of Grander	13	7,372	—	—	—	—	7,372
Shares issued- Acquisition of Apothecarium	13	42,042	—	—	—	—	42,042
Private placement net of share issuance costs	13	67,177	—	—	—	—	67,177
Share-based compensation expense	13	—	4,762	—	—	—	4,762
Non-controlling interest on acquisition of Solace Rx		—	—	—	—	2,407	2,407
Capital contributions		—	—	—	—	67	67
Net loss for the period		—	—	—	(29,234)	(592)	(29,826)
Cumulative translation adjustment		—	—	(2,906)	—	—	(2,906)
Balance at June 30, 2019		$ 185,413	$ 25,551	$ (2,906)	$ (59,830)	$ 3,313	$ 151,541

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

TerrAscend Corp.

Unaudited Condensed Interim Consolidated Statements of Cash Flow

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

		For the six months ended	
	Notes	June 30, 2020	June 30, 2019
Operating activities			
Net loss		**$ (27,489)**	$ (32,732)
Add (deduct) items not involving cash			
Unrealized gain on changes in fair value of biological assets	6	**(37,940)**	(1,453)
Realized fair value amounts included in inventory sold		**25,106**	377
Non-cash write downs of inventory	7	**4,321**	764
Accretion and accrued interest		**6,376**	2,032
Depreciation of property, plant and equipment	8	**3,653**	846
Amortization of intangible assets	9	**4,141**	1,443
Share-based payments	13	**6,613**	4,762
Current income tax expense	15	**15,663**	—
Deferred income tax expense (recovery)	15	**2,967**	(786)
Unrealized loss on investments		**333**	2,724
Revaluation of contingent consideration	5	**11,767**	—
Impairment of intangible assets	9	**1,002**	58
Changes in working capital items	19	**(7,406)**	(14,090)
Cash inflow (outflow) from operating activities		**9,107**	(36,055)
Financing activities			
Proceeds from warrants exercised	13	**—**	1,027
Proceeds from options exercised	13	**119**	1,517
Proceeds from loan including interest accrued	10	**90,129**	31,900
Return of capital to non-controlling interests		**127**	—
Loan principal and interest paid	10	**(76,597)**	(2,109)
Proceeds from private placement, net of share issuance costs	13	**95,554**	67,177
Proceeds from mortgage	10	**—**	6,490
Lease payments	11	**(1,866)**	(229)
Cash inflow from financing activities		**107,466**	105,773
Investing activities			
Investment in property, plant and equipment	8	**(25,104)**	(16,523)
Investment in intangible assets	9	**(857)**	(1,033)
Investment in notes receivable		**—**	183
Principal and interest payments received on lease receivable	11	**38**	—
Investment in joint venture		**—**	(818)
Payments of contingent consideration	5	**(27,007)**	—
Cash portion of consideration paid in acquisition of Grander, net of cash acquired	5	**—**	(9,187)
Cash portion of consideration paid in acquisition of Apothecarium net of cash acquired		**—**	(47,701)
Contributions by non-controlling interests		**—**	63
Cash received on acquisition of State Flower	5	**972**	—
Cash outflow from investing activities		**(51,958)**	(75,016)
Increase (decrease) in cash, cash equivalents and restricted cash during the period		**64,615**	(5,298)
Net effects of foreign exchange		**(1,731)**	581
Cash, cash equivalents and restricted cash, beginning of period		**11,900**	21,773
Cash, cash equivalents and restricted cash, end of period		**$ 74,783**	$ 17,056

Supplemental cash flow information (note 19)

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. TerrAscend provides cannabis products, brands, and services to the global cannabinoid market. With operations in both Canada and the US, TerrAscend participates in the medical and legal adult use market across Canada and in several US states where cannabis has been legalized for therapeutic or adult use. TerrAscend operates a number of synergistic businesses, including The Apothecarium, a cannabis dispensary with several retail locations in California; Arise Bioscience Inc., a manufacturer and distributor of hemp-derived products; Ilera Healthcare, Pennsylvania's medical marijuana cultivator, processor and dispenser; Valhalla Confections, a manufacturer of cannabis-infused edibles and State Flower a California-based cannabis producer operating a licensed cultivation facility in San Francisco. TerrAscend holds a cultivation permit in the State of New Jersey and is pending final approval for a vertically integrated medical cannabis operation with the ability to operate up to 3 Alternative Treatment Centers.

The Company was listed on the Canadian Stock Exchange effective May 3, 2017, 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 six months ended June 30, 2020 and June 30, 2019 of the Company have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The Company followed the same accounting policies and methods of application as those disclosed in the audited annual consolidated financial statements for the year ended December 31, 2019 prepared in accordance with International Financial Reporting Standards ("IFRS"). 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 August 19, 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.

(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.

2. Basis of presentation (continued)

All intercompany balances and transactions were eliminated on consolidation.

(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 period ended June 30, 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 June 30, 2020, management has 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 June 30, 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.

<u>Preferred Shares</u>

In June 2020, the Company completed a Preferred Share Unit financing (note 13). The Preferred Shares are classified partly as financial liabilities on the Statements of Financial Position, since they do not meet the criteria in IAS 32, Financial Instruments: Presentation for classification as equity. The Preferred Shares have a price protection clause that could result in the conversion to a variable number of common shares (proportionate voting shares for US investors) before May 22, 2021. The price protection clause holds certain characteristics of a debt instrument and therefore the Preferred Shares have been classified as part liability and part share capital in the consolidated financial statements of the Company. In addition, the terms of the Preferred Share Warrants give rise to an embedded derivative liability relating to the conversion of Preferred Share Warrants to Preferred Shares. The embedded derivative liability arises due the conversion taking place at a fixed US dollar redemption rate, while the Company maintains a Canadian functional currency. The Company records the preferred share liability and preferred share warrant liability at its fair value at every reporting period with any gains or losses recorded in the statement of loss and comprehensive loss.

(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. Receivables, net of sales returns and allowances

		June 30, 2020		**December 31, 2019**
Trade receivables	**$**	**6,908**	$	7,994
Sales tax receivables		**368**		1,158
Other receivables		**396**		1,088
Provision for sales returns and allowances		**(1,850)**		(2,617)
Receivables, net of sales returns and allowances	**$**	**5,822**	$	**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.

		June 30, 2020		**December 31, 2019**
Trade receivables	**$**	**6,908**	$	7,994
Less: provision for sales returns and allowances		**(1,850)**		(2,617)
Total trade receivables, net	**$**	**5,058**	$	5,377
Of which				
Current	**$**	**6,107**	$	6,506
31-90 days		**592**		880
Over 90 days		**209**		608
Less: provision for sales returns and allowances		**(1,850)**		(2,617)
Total trade receivables, net	**$**	**5,058**	$	5,377

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

5. 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 $8,714 (US$6.63 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 $640 for the six months ended June 30, 2020 and net loss estimates would have been $2,037. Actual sales and net loss for the six months ended June 30, 2020 are $319 and $2,033, respectively.

	$
Cash and cash equivalents	971
Receivables	139
Inventory	568
Prepaid expenses and deposits	184
Right-of-use asset	3,558
Property, plant and equipment	1,596
Intangible assets	6,269
Goodwill	7,861
Accounts payable and accrued liabilities	(499)
Lease liability	(3,558)
Deferred tax liability	(1,697)
Net assets acquired	**15,393**
Consideration paid on conversion of note receivable	3,985
Contingent consideration payable	8,714
Line of credit advances at date of acquisition	2,694
Total consideration	**15,393**
Cash and cash equivalents acquired, net cash inflow	**971**
Acquisition related expense included in transaction and restructuring costs	**56**

Goodwill was recognized for 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.

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

5. Acquisitions (continued)

The accounting for this acquisition has been provisionally determined at June 30, 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.

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 $8,714 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 June 30, 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		—	8,714	—	8,714
Payments of contingent consideration		—	—	(27,007)	(27,007)
Revaluation of contingent consideration		—	724	11,043	11,767
Effects of movements in foreign exchange		—	514	8,833	9,347
Carrying amount, June 30, 2020		**—**	**13,885**	**195,966**	**209,851**
Less: current portion		**—**	**(4,127)**	**(195,966)**	**(200,093)**
Non-current contingent consideration	**$**	**—$**	**9,758$**	**—$**	**9,758**

Contingent consideration recorded relates to the Company's asset acquisition and business acquisitions. 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 $11,767 for the six months ended June 30, 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 consolidated statement of loss for the year ended December 31, 2019.

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

5. 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 for Ilera the full amount of US$175 million will be paid of which US$150 million is outstanding as of June 30, 2020.

The illustrative variance of the total contingent consideration as at June 30, 2020 based on a range of discount rates is outlined in the following table:

Discount Rate Sensitivity	**Implied value of contingent consideration**
Increase of 100 Basis Points	$ 208,212
Increase of 50 Basis Points	208,987
Decrease of 50 Basis Points	210,581
Decrease of 100 Basis Points	211,384

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.

6. Biological assets

The Company's biological assets consist of 39,371 cannabis plants as at June 30, 2020. The reconciliation of biological assets is as follows:

	June 30, 2020	**December 31, 2019**
Opening amount	**$ 5,484**	$ 545
Increase in fair value due to biological transformation	**37,940**	5,480
Additions on Ilera Acquisition	**—**	3,547
Capitalized costs	**6,628**	3,797
Transferred to inventories upon harvest	**(38,681)**	(7,884)
Effect of movements in foreign exchange	**66**	—
Fair value less costs to sell of cultivated plants	**11,437**	5,485
Cannabis seeds purchased (planted)	**—**	(1)
Ending balance	**$ 11,437**	$ 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 vegetation 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 tax 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)

6. Biological assets (continued)

Dry bud

The dry bud model utilizes the following significant assumptions:

	Weighted Average June 30, 2020	Weighted Average December 31, 2019
Weighted average of expected loss of plants until harvest	**7%**	7%
Expected yields for cannabis plants (average grams per plant)	**44 grams**	38 grams
Expected number of growing weeks	**13 weeks**	13 weeks
Estimated selling price (per gram)	**$ 9.14**	$ 8.51
Post-harvest cost to complete and sell (per gram)	**$ 1.28**	$ 2.36

Trim

The trim model utilizes the following significant assumptions:

	Weighted Average June 30, 2020	Weighted Average December 31, 2019
Weighted average of expected loss of plants until harvest	**7%**	7%
Expected yields for cannabis plants (average grams per plant)	**66 grams**	71 grams
Expected number of growing weeks	**13 weeks**	13 weeks
Estimated selling price (per gram)	**$ 6.01**	$ 2.42
Post-harvest cost to complete and sell (per gram)	**$ 0.22**	$ 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.

The following table presents the effect of a 10% change on the fair valuation of biological assets as at June 30, 2020 and December 31, 2019 which would be reported as part of the gross profit (loss) on the statement of loss and comprehensive loss.

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

6. Biological assets (continued)

	10% change as at June 30, 2020	10% change as at December 31, 2019
Weighted average of expected loss of plants until harvest	**$ 38**	$ 21
Expected yields for cannabis plants (average grams per plant)	**1,080**	480
Expected number of growing weeks	**972**	272
Estimated selling price (per gram)	**1,198**	700
Post-harvest cost to complete and sell (per gram)	**291**	220

7. Inventory

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

	June 30, 2020	December 31, 2019
Raw materials	**$ 19,370**	$ 9,911
Finished goods	**5,471**	5,628
Work in process	**5,373**	3,439
Accessories	**130**	265
Supplies and consumables	**1,611**	1,179
	$ 31,955	$ 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 (finished goods) exceeded the net realizable value and thus recorded an impairment of $1,772 (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 $135 (December 31, 2019 - $5,078) of inventory that it deemed unsaleable.

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. During the three months ended June 30, 2020, management recorded an impairment of $2,414 of inventory that the Company purchased in the current period under the agreement for which the net book value exceeded the net realizable value. Inventory impairment and write-offs have been recorded in cost of goods sold.

As at June 30, 2020, the fair value adjustment component included in inventory is $10,212 (December 31, 2019 – $3,057).

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

8. Property, plant and equipment

Property, plant and equipment for the six months ended June 30, 2020 are as follows:

	Land $	Assets in Process $	Buildings and Improvements $	Machinery & Equipment $	Office Furniture & Equipment $	Right of Use Assets $	Total $
Cost							
Balance at December 31, 2019	4,706	29,098	49,008	10,946	3,344	20,080	117,182
Additions	—	10,535	7,602	6,099	868	6,084	31,188
Additions on Acquisition of State Flower	—	1,352	799	—	33	3,558	5,742
Completion of construction	—	(21,840)	21,840	—	—	—	—
Disposals	—	—	—	(146)	—	—	(146)
Effects of movements in foreign exchange	183	359	2,160	257	74	1,000	4,033
Balance at June 30, 2020	**4,889**	**19,504**	**81,408**	**17,157**	**4,319**	**30,722**	**157,999**
Accumulated Depreciation							
Balance at December 31, 2019	—	—	1,816	624	1,000	1,096	4,536
Depreciation	—	—	1,514	674	381	1,084	3,653
Additions on Acquisition	—	—	584	—	4	—	588
Disposals	—	—	—	(36)	(7)	—	(43)
Effects of movements in foreign exchange	—	—	(25)	478	19	119	591
Balance at June 30, 2020	—	—	**3,890**	**1,740**	**1,397**	**2,299**	**9,326**
Net book value at June 30, 2020	**4,889**	**19,504**	**77,519**	**15,417**	**2,922**	**28,423**	**148,673**

During the three months ended June 30, 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%.

For the six months ended June 30, 2020, $2,994 (June 30, 2019 – $202) of depreciation was expensed to cost of sales.

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

8. 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 $	Machinery & Equipment $	Office Furniture & Equipment $	Right of Use Assets $	Total $
Cost							
Balance at December 31, 2018	994	6,786	14,715	2,595	1,350	—	26,440
Effect of adoption of IFRS 16, January 1, 2019	—	—	—	—	—	234	234
Additions	3,419	18,543	16,105	4,573	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	10,923	3,076	20,126	116,607
Accumulated Depreciation							
Balance at December 31, 2018	—	—	644	151	218	—	1,013
Depreciation	—	—	855	448	514	1,159	2,976
Effects of movements in foreign exchange	—	—	(13)	(3)	5	(21)	(32)
Balance at December 31, 2019	—	—	1,486	596	737	1,138	3,957
Net book value at December 31, 2019	4,706	29,095	47,195	10,327	2,339	18,988	112,650

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

9. Intangible assets and goodwill

	Software & Licenses $	Intellectual Property $	Brand Name $	Customer Relationships $	Non-Compete Agreements $	Goodwill $	Total $
Cost							
Balance at December 31, 2019	2,436	107,272	32,238	5,844	1,753	95,805	245,348
Additions	524	10,383	—	—	—	—	10,907
Additions on acquisition of State Flower	—	4,127	1,774	—	368	7,861	14,130
Impairment	—	(533)	—	(679)	—	—	(1,212)
Effects of movements in foreign exchange	25	5,465	1,654	286	101	5,014	12,545
Balance at June 30, 2020	**2,985**	**126,714**	**35,666**	**5,451**	**2,222**	**108,680**	**281,719**
Accumulated Amortization							
Balance at December 31, 2019	425	1,989	—	1,201	584	—	4,199
Amortization	283	2,814	—	588	373	—	4,058
Impairment	—	—	—	(210)	—	—	(210)
Effects of movements in foreign exchange	3	92	—	57	27	—	179
Balance at June 30, 2020	**711**	**4,895**	**—**	**1,636**	**984**	**—**	**8,226**
Net book value at June 30, 2020	**2,274**	**121,819**	**35,666**	**3,815**	**1,238**	**108,680**	**273,493**

During the six months ended June 30, 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 13), 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, the cessation of a distribution agreement was identified as an indicator of impairment, resulting in the agreement recorded in customer relationships to be written down to its recoverable value of $nil. The Company’s Canada CGU recorded an impairment of $533 of intellectual property related to packaging designs that were written down to its recoverable value of $nil.

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

9. Intangible assets and goodwill (continued)

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

10. Loans payable

	Credit facility	Loans	Loans from related parties	Canopy Rivers Loan	Canopy Growth Financing	Total
Opening carrying amount	$ 59,691 $	6,428 $	3,247 $	— $	— $	69,366
Loan principal net of transaction costs	—	8,039	1,963	—	80,127	90,129
Converted from convertible debt	—	—	—	12,833	—	12,833
Less: fair value of warrants	—	—	—	(3,781)	(26,844)	(30,625)
Interest accretion	1,574	22	—	902	1,954	4,452
Principal and interest paid	(64,718)	(6,428)	(5,451)	—	—	(76,597)
Effects of movements in foreign exchange	3,453	—	241	—	—	3,694
Ending carrying amount	$ — $	8,061 $	— $	9,954 $	55,237 $	73,252
Less: current portion	—	(599)	—	(592)	(1,507)	(2,698)
Non-current loans payable	$ — $	7,462 $	— $	9,362 $	53,730 $	70,554

10. Loans payable (continued)

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

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.

Loan from Related Parties

During the year ended December 31, 2019, the Company received loan proceeds of $3,247 (US$2.5 million) from key management of the Company’s subsidiary, Ilera. During the six months ended June 30, 2020, the Company received additional loan proceeds of $1,963 (US$1.5 million). The loans bear interest at a rate of 12% per annum, payable monthly, and has a balance due date of June 30, 2020. The principal and interest was fully paid at June 30, 2020.

Canopy Rivers Loan

On February 5, 2020, the Company and Canopy Rivers Corporation (“Canopy Rivers”), a related party of the Company, 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 effective interest rate on the loan is 15.4%. 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. The amendment was treated as a modification of the convertible debenture and as a result, no gains or losses were recorded for the transaction.

Canopy Growth Financing

On March 10, 2020, TerrAscend Canada Inc. entered into a loan financing agreement with Canopy Growth, a related party of the Company, 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.

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

10. Loans payable (continued)

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 was restricted for use in Canadian operations and was held in a segregated bank account. The restricted cash held at June 30, 2020 is $5,062 (Note 20).

Other Loans

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 was recorded at its fair value at inception and subsequently carried at amortized cost. The loan principal and interest were fully paid in June 2020. The Company recognized a loss on termination of mortgage payable in the amount of $636 recorded in finance and other expenses in the statement of comprehensive loss. The Company has capitalized $255 of transaction costs in loan payable.

On June 19, 2020, the Company completed a $7,250 loan financing secured by its manufacturing facility in Mississauga, bearing interest of 8.25% and a balance due date of July 1, 2023. The mortgage payable was recorded at its fair value at inception and subsequently carried at amortized cost.

Total interest paid on all loan payables during the six months ended June 30, 2020 was $2,672 (June 30, 2019 – $1,587).

11. Leases

The Company's lease liabilities for the six months ended June 30, 2020 are as follows:

		June 30, 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		**5,987**		2,901
Lease payments		**(1,866)**		(1,382)
Interest expense		**1,643**		1,259
Effects of movements in foreign exchange		**1,124**		(549)
Ending lease liability	**$**	**31,175**	$	20,729
Less: current portion		**(1,975)**		(1,157)
Non-current lease liability	**$**	**29,200**	$	19,572

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

11. Leases (continued)

The Company recognized a total of $nil expenses related to short-term leases and leases of low-value assets for the six months ended June 30, 2020 (June 30, 2019- $35).

Undiscounted lease obligations are as follows:

	$
Less than one year	4,401
One to five years	18,381
More than five years	41,071
Total	63,853

12. 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. 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. The carrying value of the debt was converted to a loan payable as of the amendment date (Note 10). 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.

		June 30, 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		**401**		192
Ending carrying amount	$	**5,223**	$	13,874
Less: current portion		**(222)**		—
Non-current convertible debt		**5,001**		13,874

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

13. 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, unlisted exchangeable shares and unlisted preferred shares.

Outstanding share capital

	Common Shares	Exchangeable Shares	Proportionate Voting Shares	Preferred 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**	**—**	**—**	**18,679**	40,353
Shares issued – stock option exercises	**182,500**	**—**	**—**	**—**	119
Shares issued – compensation for services	**1,625,701**	**—**	**—**	**—**	4,890
Shares issued – conversion	**(13,328,414)**	**—**	**13,328**	**—**	—
Reallocation from share-based payment reserve	**—**	**—**	**—**	**—**	155
Outstanding, June 30, 2020	**60,356,895**	**38,890,571**	**88,745**	**18,679**	**305,409**

Private Placements

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 proceeds were collected in January 2020.

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)

13. Share capital and contributed surplus (continued)

During the three months ended June 30, 2020, the Company closed a non-brokered private placement, issuing 18,679 units at an issue price of US$2,000 per unit, resulting in proceeds of US$37,358 (CAD$52,005). Each unit consists of one non-voting Preferred Share and one Preferred Share Warrant. Each preferred share will be convertible to 1,000 common shares of the Company (or the economic equivalent in proportionate voting shares for U.S. investors) at the option of the holder, subject to customary anti-dilution provisions. If the Company completes a qualified financing for gross proceeds in excess of US$30 million at a price that in the good faith determination of the Company's board of directors is less than the average price paid in the private placement, the Company's board of directors may increase the conversion ratio of the preferred shares to an amount that it considers equitable in the circumstances to provide equivalent value to participants in the private placement. This price protection will be in effect until May 22, 2021. Each warrant can be used to acquire one preferred share at an exercise price of US$3,000, subject to customary anti-dilution provisions. Warrants have a term of 3 years and can be exercised cashless.

On issuance date the total proceeds were allocated as follows:

Date of Issuance	Preferred Shares Units Issued	Preferred Shares Equity Component	Preferred Shares Liability	Preferred Shares Warrant Liability	Total Proceeds
22-May-20	13,646	$ 20,672	$ 5,490	$ 12,087	$ 38,249
28-May-20	3,561	5,298	1,407	3,098	9,803
5-Jun-20	1,397	2,028	539	1,186	3,753
8-Jun-20	75	109	28	63	200
Total	18,679	$ 28,107	$ 7,464	$ 16,434	$ 52,005

The preferred shares liability and embedded derivative liability have been measured at fair value as at issuance date and subsequently remeasured using a Monte Carlo simulation model and have been classified as Level 3 in the fair value hierarchy. Key inputs and assumptions used in the model is summarized below:

		22-May-20
Common Stock Price of TerrAscend Corp.*		$2.10
Unit Issue Price	USD$	2000
Warrant Exercise Price	USD$	3000
Initial Conversion Ratio		1,000
Annual Volatility		76.8%
Annual Risk-Free Rate		0.2%
Qualified Financing Probability		100%

*Based on the weighted-average closing price for the Company's common stock, based on all issuance dates for the Units.

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

13. Share capital and contributed surplus (continued)

Transaction costs associated with the brokered preferred share issuance amounted to $1,100 and have been allocated pro rata between the preferred share liability, preferred share warrant liability and share capital. Transaction costs allocated to the liability component was $505 and immediately expensed and transaction costs related to the equity component was $536 net with share capital.

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 $4,890.

Warrants reserve

The following is a summary of the outstanding warrants for Common Shares as at June 30, 2020 and December 31, 2019.

Number outstanding as at June 30, 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	320,000	06/06/18	06/06/23	4.16	2.93
Issued in payment for services	70,000	70,000	08/09/18	08/09/23	4.25	3.11
Issued in convertible debt	333,723	333,723	10/02/19	10/02/24	6.49	4.26
Issued in convertible debt	120,027	120,027	11/06/19	11/06/24	6.49	4.36
Issued in convertible debt	66,880	66,880	11/26/19	11/26/24	6.49	4.41
Issued during private placement	12,968,325	12,968,325	12/30/19	01/14/22	3.25	1.54
Issued during private placement	3,450,127	3,450,127	01/10/20	01/14/22	3.25	1.54
Issued during private placement	1,863,659	1,863,659	01/27/20	01/14/22	3.25	1.54
Issued in debt arrangement	2,225,714	—	02/05/20	10/02/24	5.95	4.26
Issued in debt arrangement	15,656,242	—	03/11/20	03/10/30	5.14	9.70
Issued in debt arrangement	2,152,733	—	03/11/20	03/10/31	3.74	10.70
	39,227,430	**19,192,741**			**4.24**	**5.51**

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)

13. Share capital and contributed surplus (continued)

The fair value of private placement warrants issued during the three months ended June 30, 2020 were estimated on their respective grant dates using the Black-Scholes valuation model based on the following assumptions:

Issue date		3 Months Ended March 31, 2020
Volatility		87.41%
Risk-free interest rate		1.41%
Expected life (years)		4.69
Dividend yield		Nil
Forfeiture rate		0%
Number of Warrants issued		2,575,739
Share price	$	2.86
Value per warrant	$	0.9170

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 June 30, 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 June 30, 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**

The following is a summary of the outstanding warrants for Preferred Shares as at June 30, 2020. These warrants are exercisable into 1 preferred share.

Number outstanding as at June 30, 2020	Number of Warrants Outstanding	Number of Warrants Exercisable	Issue Date	Expiry Date	Weighted Average Exercise Price USD$	Weighted Average Remaining Life (years)
Issued during private placement	13,646	13,646	05/22/20	05/22/23	3,000	2.89
Issued during private placement	3,561	3,561	05/28/20	05/28/23	3,000	2.91
Issued during private placement	1,397	1,397	06/05/20	06/05/23	3,000	2.93
Issued during private placement	75	75	06/08/20	06/08/23	3,000	2.94
	18,679	**18,679**			**3,000**	**2.90**

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

13. 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 stock options outstanding noted below consist of service-based options granted to employees to purchase common stock, the majority of which vest over a one to three-year period and have a five to ten-year contractual term. These awards are subject to the risk of forfeiture until vested by virtue of continued employment or service to the Company.

The fair value of the various stock options granted during the six months ended June 30, 2020 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Stock price volatility – 85% (June 30, 2019 – 93%); Risk-free interest rate – 0.36% to 1.61% (June 30, 2019 – 1.29% to 1.96%); Dividend yield – 0% (June 30, 2019 – 0%); Forfeiture rate – 24.1% (June 30, 2019 – 26.5%); and Expected lives – 5 years (June 30, 2019 – 5 years). As of June 30, 2020, the expected volatility of the Company's equity instruments is estimated based on the historical volatility.

The following is a summary of the changes in the Company's options for the six months ended June 30, 2020, and year ended December 31, 2019.

	Number of Options	**Weighted Average Remaining Life in Years**	**Weighted Average Exercise Price $**	**Number of options Exercisable**
Balance Outstanding at December 31, 2018	8,473,129	5.88	4.28	
Options Granted	6,844,000	N/A	6.69	N/A
Options Exercised	(1,117,936)	N/A	2.45	N/A
Options Forfeited/Cancelled	(3,706,178)	N/A	5.71	N/A
Balance Outstanding at December 31, 2019	10,493,015	4.04	5.53	2,443,578
Options Granted	**8,619,050**	N/A	**2.78**	N/A
Options Exercised	**(182,500)**	N/A	**0.65**	N/A
Options Forfeited/Cancelled	**(2,366,140)**	N/A	**5.73**	N/A
Balance Outstanding as at June 30, 2020	**16,563,425**	**4.18**	**4.12**	**2,804,122**

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

13. Share capital and contributed surplus (continued)

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	**122**	**6,577**	**—**	**6,699**
Exercise of stock options	—	**(155)**		**(155)**
Issuance of convertible debt	**26,844**	**—**	**—**	**26,844**
Reallocation on Canopy Rivers convertible debt amendment	**3,781**	**—**	**(3,781)**	**—**
Options expired/forfeited	**—**	**(2,856)**	**—**	**(2,856)**
Outstanding, June 30, 2020	**63,947**	**21,138**	**224**	**85,309**

14. 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 six months ended June 30, 2020 and June 30, 2019 respectively were as follows:

	June 30, 2020	June 30, 2019
Salaries and wages	**$ 1,467**	$ 708
Share-based payments	**3,224**	666
Total	**$ 4,691**	$ 1,374

(b) During the six months ended June 30, 2020, the Company had cannabis sales of $nil (June 30, 2019 - $6,732) to Canopy Growth and other income of $8 (June 30, 2019 - $3) related to patient referral fees. During the six months ended June 30, 2020, the Company and Canopy Growth exchanged cannabis products resulting in a cost of goods sold impact of $326. There are no amounts payable or receivable to or from Canopy Growth at June 30, 2020 or December 31, 2019.

(c) 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 9).

(d) Refer to note 10 for discussion regarding related party loans balances.

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

15. 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:

		June 30, 2020		June 30, 2019
Loss before income tax	**$**	**(8,859)**	$	(30,573)
Statutory tax rate		**26.5%**		26.5%
Expected income tax recovery		**(2,348)**		(8,102)
Effect on income taxes of deductible & non-deductible adjustments				
IRC 280E adjustment		**7,650**		—
Transaction costs and legal fees adjustment		**4**		—
IFRIC 23 uncertain tax position		**1,855**		—
Foreign income taxes at different statutory rate		**1,999**		—
Loss on revaluation of contingent consideration		**2,927**		—
Share based compensation and non-deductible expenses		**8**		7,355
Changes in tax benefits not recognized		**7,452**		—
Other adjustments		**(917)**		—
Income tax expense (recovery)	**$**	**18,630**	$	(747)
The Company's income tax expense (recovery) is allocated as follows:				
Current tax expense	**$**	**15,663**	$	39
Deferred tax expense (recovery)		**2,967**		(786)
Income tax expense (recovery)	**$**	**18,630**	$	(747)

The Company's combined Canadian federal and provincial statutory rates are at 26.5% (December 31, 2019 – 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.

The Company's current tax liability of $37,801 as of June 30, 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 $22,061 related to the years covered by the tax deficiency notices and certain other years, as at June 30, 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

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

15. Income taxes (continued)

indemnifications. As at June 30, 2020, an indemnification asset of $15,672 has been recorded on the statement of financial position (December 31, 2019 – $14,936).

Movement in net deferred tax liabilities:

		June 30, 2020		December 31, 2019
Balance at the beginning of the year	**$**	**(26,981)**	$	(688)
Recognized in profit/loss		**(3,452)**		2,346
Recognized in goodwill		**—**		(28,090)
Recognized in equity		**(1,766)**		(1,195)
Other		**(98)**		—
Cumulative translation adjustment		**(740)**		646
Balance at the end of the period	**$**	**(33,037)**	$	(26,981)

16. General and administrative expenses by nature

The Company's general and administrative expenses for the six months ended June 30, 2020, and 2019 are as follows:

		For the six months ended		
		June 30, 2020		June 30, 2019
Office and general	**$**	**8,284**	$	4,402
Professional fees		**3,477**		4,103
Occupancy costs		**1,572**		209
Salaries and wages		**15,367**		8,229
Sales and marketing		**1,606**		2,446
Total	**$**	**30,306**	$	19,389

17. Revenue

The Company's disaggregated revenue by source, primarily due to the Company's contracts with its customers for the six months ended June 30, 2020, and 2019 are as follows:

		For the six months ended		
		June 30, 2020		June 30, 2019
Wholesale	**$**	**60,085**	**$**	**29,576**
Retail		**21,943**		**2,578**
Total		**82,028**		**32,154**

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

18. 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 June 30, 2020			
Current assets	$ **27,560**	$ **101,912**	$ **129,472**
Non-current assets	**43,614**	**397,445**	**441,059**
Current liabilities	**17,391**	**262,213**	**279,604**
Non-current liabilities	**91,255**	**72,729**	**163,984**
For the six months ended June 30, 2020			
Sales, net	$ **8,843**	$ **73,185**	$ **82,028**
Gross profit (loss) before gain on fair value of biological assets	**(3,609)**	**45,619**	**42,010**
Gross profit (loss)	**(3,278)**	**58,122**	**54,844**
Income (loss) from operations	**(17,019)**	**30,125**	**13,106**
Net income (loss) attributable to controlling interest	**(21,196)**	**(4,741)**	**(25,937)**

	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 six months ended June 30, 2019			
Sales, net	$ 16,159	$ 15,995	$ 32,154
Gross profit (loss) before gain on fair value of biological assets	1,275	(4,291)	(3,016)
Gross profit (loss)	(199)	4,291	4,092
Income (loss) from operations	(14,409)	(7,544)	(21,953)
Net income loss attributable to controlling interest	(17,280)	(11,954)	(29,234)

For the six months ended June 30, 2020 and 2019, the Company did not have any single customer that accounted for 10% or more of the Company’s revenues.

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

19. Supplemental cash flow information

The changes in working capital items during the six months ended June 30, 2020, and 2019 are as follows:

	For the six months ended	
	June 30, 2020	**June 30, 2019**
Receivables	**$ 1,939**	$ (7,725)
Biological assets	**—**	—
Inventory	**(8,339)**	1,623
Prepaid expenses and deposits	**1,752**	(6,509)
Deferred costs	**—**	(5)
Deferred tax asset	**—**	15
Other asset	**(1,600)**	
Accounts payable and accrued liabilities	**(1,921)**	(2,220)
Corporate income tax payable	**862**	(741)
Other liability	**—**	202
Deferred revenue	**(99)**	1,270
	(7,406)	**(14,090)**

20. 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 share capital and debentures. The equity issuances are outlined in note 13 and debt issuances are outlined in note 10. Under the terms of the Canopy Growth Financing agreement, $5,062 of the proceeds received is restricted for use in Canadian operations and is held in a segregated bank account.

There have been no changes to the Company's objectives pertaining to capital management during the three months ended June 30, 2020 or during the year ended December 31, 2019. The Company is not subject to externally imposed capital requirements.

21. 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, 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 contingent consideration, preferred shares liability have been determined based on Level 3 of the fair value hierarchy, respectively.

Financial risk factors

The financial risk factors significant to the Company's condensed interim financial statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2019.

22. 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 (the "PharmHouse Agreement"). Under the terms of the PharmHouse Agreement, it was expected that PharmHouse would grow and supply cannabis to TerrAscend Canada from its 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 planted at the greenhouse was expected to be made available to TerrAscend Canada. To date, no transactions have occurred under the PharmHouse Agreement. TerrAscend Canada is engaged in good faith negotiations with PharmHouse regarding the terms of the PharmHouse Agreement.

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.

23. Subsequent events

On July 6, 2020, the Company opened its third Apothecarium dispensary in Pennsylvania and sixth overall. On July 31, 2020, the Company opened its fourth Apothecarium dispensary in California, in Berkeley. This is the Company’s seventh Apothecarium dispensary overall. The stores will carry a wide variety of medical cannabis products, including dried flower, vaporizable and activated oils, concentrates, capsules, tinctures, topicals, and ancillary products.

On August 4, 2020, the Company’s greenhouse located at its Boonton facility has been approved by the New Jersey Department of Health ("NJ DOH") to begin cultivating cannabis. Concurrently, TerrAscend has commenced initial planting of this facility with the first harvest anticipated to occur during the fourth quarter of this year.

On August 5, 2020, the Company announced the appointment of Jason Marks as Chief Legal Officer.