TERRASCEND CORP.

Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019
(In Thousands of Canadian Dollars)

Independent Auditor's Report

To the Shareholders of TerrAscend Corp.:

Opinion

We have audited the consolidated financial statements of TerrAscend Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and December 31, 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flow for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jonathan Mac Neil.

MNP LLP

Toronto, Ontario
March 22, 2021

Chartered Professional Accountants
Licensed Public Accountants

Consolidated Statements of Financial Position

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

	Notes	At December 31, 2020	At December 31, 2019
Assets			
Current Assets			
Cash and cash equivalents		**$ 75,407**	$ 11,900
Receivables, net of sales returns and allowances	4	**13,847**	7,623
Share subscriptions receivable		**—**	31,772
Note receivable	5	**—**	5,986
Investments		**—**	465
Biological assets	6	**22,684**	5,484
Inventory	7	**44,175**	20,422
Prepaid expenses and other assets		**6,576**	6,178
		162,689	89,830
Non-Current Assets			
Investment in associate		**1,756**	1,299
Property, plant and equipment	8	**165,179**	112,650
Intangible assets and goodwill	9	**254,621**	241,148
Indemnification asset	16	**14,642**	14,936
Other assets	5	**4,994**	903
		441,192	370,936
Total Assets		**$ 603,881**	$ 460,766
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 34,601**	$ 25,002
Deferred revenue		**813**	1,179
Loans payable	10	**7,300**	63,068
Contingent consideration payable	5	**39,426**	31,182
Lease liability	12	**2,177**	1,157
Corporate income tax payable	16	**35,318**	21,276
		119,635	142,864
Non-Current Liabilities			
Loans payable	10	**227,654**	6,298
Contingent consideration payable	5	**8,390**	175,848
Lease liability	12	**28,786**	19,572
Warrant liability	22	**168,389**	—
Convertible debentures	11	**5,199**	13,874
Deferred income tax liability	16	**34,711**	26,981
		473,129	242,573
Total Liabilities		**$ 592,764**	$ 385,437
Shareholders' Equity			
Share capital	13	**321,271**	259,892
Contributed surplus	13	**91,621**	54,777
Cumulative translation adjustment		**(14,839)**	(1,992)
Deficit		**(396,866)**	(245,998)
Non-controlling interest	14	**9,930**	8,650
Total Shareholders' Equity		**11,117**	75,329
Total Liabilities and Shareholders' Equity		**$ 603,881**	$ 460,766
Total Number of Common and Proportionate Voting Shares Outstanding	13	**155,834,272**	141,980,314

Subsequent events (*Note 24*)

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

On behalf of the Board

"*Jason Wild*"

Executive Chairman

Consolidated Statements of Loss and Comprehensive Loss

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

	Notes	For the year ended December 31, 2020	December 31, 2019
Sales, gross		**$ 211,830**	$ 90,375
Excise and cultivation taxes		**(13,512)**	(5,507)
Sales, net	18	**198,318**	84,868
Cost of sales	7	**90,069**	81,295
Gross profit before gain on fair value of biological assets		**108,249**	3,573
Unrealized gain on changes in fair value of biological assets	6	**108,964**	5,480
Realized fair value amounts included in inventory sold	7	**(72,022)**	(725)
Gross profit		**145,191**	8,328
Operating expenses:			
General and administrative	17	**59,140**	50,073
Share-based payments	13	**16,030**	11,604
Amortization and depreciation	8, 9	**9,890**	5,499
Research and development		**426**	709
Total operating expenses		**85,486**	67,885
Income (loss) from operations		**59,705**	(59,557)
Net increase in fair value of warrant and derivative liabilities	22	**146,105**	-
Revaluation of contingent consideration	5	**25,099**	61,851
Finance and other expenses	10, 11, 12	**14,091**	5,675
Transaction and restructuring costs		**2,642**	11,146
Impairment of property, plant, and equipment	8	**1,156**	2,305
(Reversal of) impairment of intangible assets	9	**(2,901)**	4,367
Unrealized (gain) loss on investments		**(249)**	5,546
Unrealized loss on note receivable		**-**	1,655
Impairment of goodwill	9	**-**	66,213
Realized gain on investments		**-**	(1,400)
Foreign exchange loss		**235**	413
Loss before income taxes		**(126,473)**	(217,328)
Current income tax expense (recovery)	16	**30,464**	3,959
Deferred income tax (recovery) expense	16	**(2,590)**	(2,335)
Net loss		**$ (154,347)**	$ (218,952)
Items that will be subsequently reclassified to profit or loss:			
Currency translation adjustment		**12,847**	1,992
Comprehensive loss		**$ (167,194)**	$ (220,944)
Net loss attributable to:			
Shareholders of the Company		**(155,123)**	(215,788)
Non-controlling interests		**776**	(3,164)
Comprehensive loss attributable to:			
Shareholders of the Company		**(167,970)**	(217,666)
Non-controlling interests		**776**	(3,278)
Net loss per share, basic and diluted			
Net loss per share – basic and diluted		**$ (1.04)**	$ (2.17)
Weighted average number of outstanding common and proportionate voting shares		**149,740,210**	99,592,007

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

TerrAscend Corp.

Consolidated Statements of Changes in Shareholders' Equity

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

For the year ended December 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	13	**40,446**	**—**	**—**	**—**	**—**	**40,446**
Shares issued - stock option, warrant exercise, and RSU exercises	13	**16,042**	**(4,961)**	**—**	**—**	**—**	**11,081**
Issuance of warrants	13	**—**	**29,484**	**—**	**—**	**—**	**29,484**
Options expired/forfeited	13	**—**	**(4,255)**	**—**	**4,255**	**—**	**—**
Share-based compensation expense	13	**—**	**16,576**	**—**	**—**	**—**	**16,576**
Shares issued – compensation for services	9	**4,891**	**—**	**—**	**—**	**—**	**4,891**
Capital contribution		**—**	**—**	**—**	**—**	**526**	**526**
Net loss for the period		**—**	**—**	**—**	**(155,123)**	**776**	**(154,347)**
Cumulative translation adjustment		**—**	**—**	**(12,847)**	**—**	**(22)**	**(12,869)**
Balance at December 31, 2020		**$ 321,271**	**$ 91,621**	**$ (14,839)**	**$ (396,866)**	**$ 9,930**	**$ 11,117**

For the year ended December 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	13	46,880	(13,701)	—	—	—	33,179
Shares issued - stock option exercises	13	4,749	(2,129)	—	—	—	2,620
Shares issued- Acquisitions	13	75,476	—	—	—	—	75,476
Private placement net of share issuance costs	13	97,110	1,298	—	—	—	98,408
Issuance of proportionate voting warrants	13	(29,820)	29,820	—	—	—	—
Issuance of convertible debentures - conversion option	11	614	4,005				4,619
Issuance of convertible debentures - warrants	11	—	863				863
Warrants expired		—	(2)	—	2	—	—
Options expired/forfeited		—	(384)	—	384	—	—
Share-based compensation expense	13	—	12,823	—	—	—	12,823
Non-controlling interest on acquisition		—	—	—	—	8,154	8,154
Capital contributions		—	—	—	—	2,346	2,346
Net loss for the period		—	—	—	(215,788)	(117)	(215,905)
Cumulative translation adjustment		—	—	(1,992)	—	(3,164)	(5,156)
Balance at December 31, 2019		$ 259,892	$ 54,777	$ (1,992)	$ (245,998)	$ 8,650	$ 75,329

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

TerrAscend Corp.

Consolidated Statements of Cash Flow

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

	Notes	For the year ended December 31, 2020	December 31, 2019
Operating activities			
Net loss		**$ (154,347)**	$ (218,952)
Add (deduct) items not involving cash			
Unrealized gain on changes in fair value of biological assets	6	**(108,964)**	(5,480)
Realized fair value amounts included in inventory sold	7	**72,022**	725
Non-cash write downs of inventory	7	**9,615**	14,262
Accretion and accrued interest	10	**13,794**	6,055
Depreciation of property, plant and equipment	8	**8,399**	2,976
Amortization of intangible assets	9	**8,172**	4,340
Share-based payments	13	**16,576**	12,823
Current income tax expense (recovery)	16	**30,464**	3,959
Deferred income tax (recovery) expense	16	**(2,590)**	(2,335)
Net increase in fair value of warrant and derivative liability	22	**146,105**	—
Unrealized loss on note receivable		**—**	1,655
Realized gain on investments		**—**	(1,400)
Unrealized loss on investments		**(249)**	5,546
Revaluation of contingent consideration	5	**25,099**	61,851
Impairment of property, plant and equipment	8	**1,156**	2,305
(Reversal of) impairment of intangible assets	9	**(2,901)**	4,367
Impairment of goodwill	9	**—**	66,213
Changes in working capital items	20	**(14,751)**	(6,823)
Income taxes paid	16	**(14,587)**	—
Cash inflow (outflow) from operating activities		**33,013**	(47,913)
Financing activities			
Proceeds from warrants exercised	13	**3,698**	33,179
Proceeds from options exercised	13	**5,767**	2,620
Proceeds from loans payable	10	**262,937**	50,383
Capital contributions received	14	**526**	2,346
Loan principal and interest paid	10	**(76,867)**	(3,641)
Loan origination fee paid	10	**(2,865)**	—
Proceeds from private placement, net of share issuance costs	13	**95,611**	66,636
Proceeds from mortgage	10	**—**	6,500
Proceeds from convertible debentures, net of issuance costs	11	**—**	20,343
Lease payments	12	**(4,098)**	(1,382)
Cash inflow from financing activities		**284,709**	176,984
Investing activities			
Investment in property, plant and equipment	8	**(59,573)**	(43,341)
Investment in intangible assets	9	**(1,537)**	(1,725)
Investment in notes receivable		**—**	(13,742)
Principal and interest payments received on notes receivable		**—**	8,159
Principal and interest payments received on lease receivable		**221**	—
Sale (purchase) of investments		**—**	3,204
Investment in joint venture		**—**	(818)
Deposits for business acquisition	5	**(1,768)**	—
Payments of contingent consideration	5	**(189,916)**	—
Cash portion of consideration paid in acquisitions, net of cash acquired	5	**—**	(89,956)
Cash received on acquisition of State Flower	5	**971**	—
Cash outflow from investing activities		**(251,602)**	(138,219)
Increase (decrease) in cash and cash equivalents during the year		**66,120**	(9,148)
Net effects of foreign exchange		**(2,613)**	(725)
Cash and cash equivalents, beginning of year		**11,900**	21,773
Cash and cash equivalents, end of year		**$ 75,407**	$ 11,900

The accompanying notes are an integral part of these 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 United States ("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 ("Apothecarium"), a cannabis dispensary with several retail locations in California, Pennsylvania and New Jersey; Arise Bioscience Inc., a manufacturer and distributor of hemp-derived products; Ilera Healthcare ("Ilera"), Pennsylvania's medical cannabis 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 permit to operate as an alternative treatment center in New Jersey, which allows for the cultivation and processing of cannabis with the ability to operate up to three 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 consolidated financial statements for the year ended December 31, 2020 and December 31, 2019 of the Company were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were authorized for issue by the Board of the Directors on March 22, 2021.

(b) Basis of measurement

These 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 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 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 consolidated financial statements from the date that control commences until the date that control ceases.

All intercompany balances and transactions were eliminated on consolidation.

2. Basis of presentation (continued)

(e) Use of significant estimates and judgments

The preparation of 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.

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

i) *Biological assets and inventory*

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

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

ii) *Share-based payments*

In calculating share-based compensation expense, key estimates are used such as, the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price, the vesting period of the option and the risk-free interest rate.

iii) *Warrant Liability*

In calculating the fair value of warrants issued, the Company includes key estimates such as the volatility of the Company's stock price and the risk-free interest rate.

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

Depreciation and amortization rates are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

v) *Income taxes*

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

2. Basis of presentation (continued)

vi) *Impairment of intangible assets and goodwill*

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value in use and fair value less costs to sell. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value.

In addition to assessing evidence of possible impairment, the Company also determines whether there is any indication that a previously recognized impairment loss for an asset other than goodwill no longer exists or may have decreased. The Company determines whether there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss is recognized.

vii) *Acquisitions*

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

ix) *Contingent Consideration*

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

x) *Incremental borrowing rates*

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

xi) *Sales returns and price adjustments*

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

2. Basis of presentation (continued)

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

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

xiii) *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 year ended December 31, 2020. The production and sale of cannabis have been recognized as essential services across Canada and the US and the Company has not experienced production delays or prolonged retail closures as a result.

Management has been closely monitoring the impact of COVID-19 and has implemented various measures to reduce the spread of the virus including enhanced cleaning protocols and implementing social distancing measures. In April 2020, to mitigate patient and caregiver concerns, the Company's Illera operations implemented a curbside service at its dispensaries to promote social distancing. Additionally, the Company's Apothecarium business launched a delivery service in California.

Due to the uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the 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 was performed as of December 31, 2020 for the Company's goodwill and intangible assets (Note 9). Management is closely monitoring the impact of the pandemic on all aspects of its business. At December 31, 2020, management has not observed any material impairments of assets or significant change in the fair value of assets due to the COVID-19 pandemic.

3. Significant accounting policies

<u>Biological assets</u>

The Company measures biological assets consisting of cannabis plants at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the results of operations of the related period. The Company does not recognize the mother plants used for cloning the cannabis plants on the consolidated statement of financial position, since such plants are under the scope of IAS 16 – Property, Plant and Equipment, but have a useful life of less than one year.

While the Company's biological assets are within the scope of IAS 41 Agriculture, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 Inventories. This includes the direct cost of seeds and growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process are also included, as well as depreciation of production equipment and overhead costs such as rent to the extent it is associated with the growing space. Amortization of acquired cannabis production licenses are also considered to be indirect costs of biological assets. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are all subsequently recorded within the line item 'cost of sales' on the consolidated statement of loss and comprehensive loss in the period that the related product is sold. Unrealized fair value gains on growth of biological assets are recorded in a separate line on the face of the consolidated statements of loss.

3. Significant accounting policies (continued)

Biological assets are measured at their fair value less costs to sell on the consolidated statements of financial position.

Inventory

Inventories of harvested finished goods and packaging materials are valued at the lower of cost or net realizable value. The direct and indirect costs of inventory initially include the fair value of the biological asset at the time of harvest. They also include subsequent costs such as materials, labour and depreciation expense on equipment involved in packaging, labeling and inspection. Amortization of acquired cannabis production licenses are also considered to be indirect costs of inventory. All direct and indirect costs related to inventory are capitalized as they are incurred and they are subsequently recorded within 'cost of sales' on the consolidated statements of loss and comprehensive loss at the time cannabis is sold, except for realized fair value amounts included in inventory sold which are recorded as a separate line on the face of the statement of loss. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Products for resale and supplies and consumables are valued at the lower of cost or net realizable value.

Property, plant and equipment

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

Buildings and improvements	Lesser of useful life or 30 years
Machinery & equipment	5-15 years
Office & equipment	3-5 years
Right of use assets	Lease term

An asset's residual value, useful life and depreciation method are reviewed at each reporting period and adjusted if appropriate. Gains and losses on disposal of an asset are determined by comparing the proceeds from disposal with the carrying amount of the items and are recognized in the consolidated statements of loss and comprehensive loss. Assets in process are transferred to building and improvements when available for use and depreciation of the assets commences at that point.

The Company capitalizes borrowing costs on qualifying capital construction projects. Upon the asset becoming available for use, capitalization of borrowing costs ceases, and depreciation commences on a straight-line basis over the estimated useful life of the related asset.

Intangible assets

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

3. Significant accounting policies (continued)

Software & licenses	5-30 years
Intellectual property	4-5 years
Customer relationships	5 years
Non-compete agreements	3 years

Intellectual property relating to cultivation and dispensary licenses are amortized using a useful life consistent with the property, plant and equipment to which they relate. Brand names and goodwill have indefinite useful lives.

Revenue recognition

IFRS 15 *Revenue from Contracts with Customers* introduced a single model for recognizing sales from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRS standards. The standard requires sales to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps: i) identify the contract with a customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations in the contract; and v) recognize sales when (or as) the entity satisfies a performance obligation.

Sales are recognized when control of the goods has transferred to the purchaser and the collectability is reasonably assured. This is generally when goods have been delivered, which is also when the performance obligations have been fulfilled under the terms of the related sales contract. Revenue from retail sales of cannabis to customers is recognized when the Company transfers control of the goods to the customer at the point of sale and the customer has accepted and paid for the goods. Revenue for branded manufacturing sales is recognized upon delivery to the customer. Sales are recorded net of discounts and incentives but inclusive of freight. Excise and cultivation taxes are a production tax which become payable when a cannabis product is delivered to the customer and are not directly related to the value of sales. Excise and cultivation taxes are netted against gross sales on the consolidated statements of loss and comprehensive loss.

Business Combinations

The Company accounts for business combinations using the acquisition method when control is obtained by the Company (see Note 2(d)). The Company measures the consideration transferred, the assets acquired, and the liabilities assumed in a business combination at their acquisition-date fair values. Acquisition related costs are recognized as expenses in the periods in which the costs are incurred and the services are received, except for the costs to issue debt or equity securities which are recognized according to specific requirements. The excess of the consideration transferred to obtain control, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

Contingent consideration for a business combination is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as a liability is measured at subsequent reporting dates in accordance with IFRS 9 *Financial Instruments*, and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

If the acquiree's former owners contractually indemnify the Company for a particular uncertainty, an indemnification asset is recognised on a basis that matches the indemnified item, subject to the contractual provisions or any collectability considerations.

3. Significant accounting policies (continued)

Impairment of Non-Financial Assets

At each balance sheet date, the Company reviews the carrying amounts of its non-financial assets, other than inventories, to determine whether there is any indication of impairment. If any such indicator exists, the asset is then tested for impairment by comparing its recoverable amount to its carrying value. Goodwill and indefinite life intangible assets are tested for impairment at least annually.

For the purpose of impairment testing, assets, including right-of-use assets, are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets. This grouping is referred to as a cash generating unit ("CGU").

Corporate assets, which include head office facilities, do not generate separate cash inflows. Corporate assets are tested for impairment at the minimum grouping of CGUs to which the corporate assets can be reasonably and consistently allocated. Goodwill arising from a business combination is tested for impairment at the minimum grouping of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of a CGU, or CGU grouping, is the higher of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows from the CGU, or CGU grouping, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU, or CGU grouping. If the CGU, or CGU grouping, includes right-of-use assets in its carrying amount, the pre-tax discount rate reflects the risks associated with the exclusion of lease payments from the estimated future cash flows. The fair value less costs to sell is based on the best information available to reflect the amount that could be obtained from the disposal of the CGU, or CGU grouping, in an arm's length transaction between knowledgeable and willing parties, net of estimates of the costs of disposal.

An impairment loss is recognized if the carrying amount of a CGU, or CGU grouping, exceeds its recoverable amount. For asset impairments other than goodwill, the impairment loss reduces the carrying amounts of the non-financial assets in the CGU on a pro-rata basis, up to an asset's individual recoverable amount. Any loss identified from goodwill impairment testing is first applied to reduce the carrying amount of goodwill allocated to the CGU grouping, and then to reduce the carrying amounts of the other non-financial assets in the CGU, or CGU grouping, on a pro-rata basis. Impairment losses and reversals are recognized separately from operations in the consolidated statement of loss.

For assets other than goodwill, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

Investment in associates and joint ventures

Investments accounted for using the equity method include investments in associates, which are entities over which the Company exercises significant influence, and joint arrangements representing joint ventures. Significant influence is the power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

3. Significant accounting policies (continued)

The Company accounts for its investments in associates and joint ventures using the equity method of accounting. Under the equity method, investments in associates and joint ventures are initially recognized in the consolidated statements of financial position at cost, and subsequently adjusted for the Company's share of the net income (loss), comprehensive income (loss) and distributions of the investee. The carrying value is assessed for impairment at each statement of financial position date.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

Income taxes

Income tax expense, consisting of current and deferred tax expense, is recognized in the consolidated statements of operations. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to previous years. Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized, or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income (loss) in the period that substantive enactment occurs. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

For the year ended December 31, 2020, several of the Company's US subsidiaries are subject to Internal Revenue Code ("IRC") Section 280E. This tax provision disallows tax deductions and credits from gross income attributable to a trade or business of trafficking in US controlled substances (labeled as Schedule I or Schedule II). Under current US federal law, cannabis is a Schedule I controlled substance, therefore the provisions of Section 280E would apply. Since Section 280E denies deductions on gross "income" (and not revenues), the determination of gross income allows for a deduction from revenues relating to direct purchases or Section 471 inventory costs. Currently, the only US state in which the Company operates in that has decoupled from the federal Section 280E provision is California, thereby allowing all ordinary and necessary deductions at that state level.

Financial instruments

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories:

i) those to be measured subsequently at fair value through profit or loss ("FVTPL");
ii) those to be measured subsequently at fair value through other comprehensive income ("FVOCI"); and
iii) those to be measured at amortized cost.

3. Significant accounting policies (continued)

The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income. The Company reclassifies financial assets if and when its business model for managing those assets changes. Financial liabilities are not reclassified.

Financial assets at fair value through comprehensive income

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

Measurement

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

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

Impairment

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

3. Significant accounting policies (continued)

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

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

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

	IFRS 9	
	Classification	**Measurement**
Cash and cash equivalents	FVTPL	Fair value
Receivables	Amortized cost	Amortized cost
Notes receivables	FVTPL	Fair value
Investments	FVTPL	Fair value
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Corporate income taxes payable	Amortized cost	Amortized cost
Loans payable	Amortized cost	Amortized cost
Convertible debentures	Amortized cost	Amortized cost
Warrant Liability	FVTPL	Fair value
Contingent consideration payable	FVTPL	Fair value

Share capital

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

Equity units
Proceeds received on the issuance of units, comprised of common shares and warrants are allocated to common shares and warrants based on the residual method.

3. Significant accounting policies (continued)

Share-based payments

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

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

Convertible debentures

Convertible debentures are financial instruments which contain a separate financial liability and equity instrument. These financial instruments are accounted for separately dependent on the nature of their components. The identification of such components embedded within a convertible debenture requires significant judgment given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. Where the conversion option has a variable conversion rate, the conversion option is recognized as a derivative liability measured at fair value through profit and loss. The residual amount is recognized as a financial liability and subsequently measured at amortized cost. The determination of the fair value is also an area of significant judgment given that it is subject to various inputs, assumptions and estimates including contractual future cash flows, discount rates, credit spreads and volatility. Transaction costs are apportioned to the debt liability and equity components in proportion to the allocation of proceeds.

Preferred Shares

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*. 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 derivative akin to 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 result in liability classification relating to the conversion of Preferred Share Warrants to Preferred Shares, which arises due to the conversion taking place at a fixed US dollar redemption rate, while the Company maintains a Canadian dollar functional currency. The Company records the preferred share derivative 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)

Loss per share and diluted loss per share

The Company presents basic and diluted loss per share data for its ordinary shares. Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of the Company by the weighted average number of common and proportionate voting shares outstanding during the period. Diluted loss earnings per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common and proportionate voting shares outstanding, adjusted for the effects of all dilutive potential common and proportionate voting shares. Proportionate voting shares are converted to their common share equivalent of one thousand common shares for every one proportionate voting share for the purposes of calculating basic and diluted loss per share. In a period of losses, the options are excluded in the determination of dilutive net loss per share because their effect is antidilutive.

Government Assistance

Government subsidies and monetary assistance is recognized when there is a reasonable assurance that the subsidy will be received and that the Company will comply with all required conditions. Government subsidies related to current expenses are recorded as a reduction of the related expenses. During the year ended December 31, 2020, the Company qualified for the Canada Emergency Wage Subsidy ("CEWS") program by the Government of Canada and recorded a reduction in cost of sales of $704 and a reduction in general and administrative expenses of $437 on the statement of loss and comprehensive loss. Additionally, the Company received a Paycheck Protection Program (PPP) loan at its US Arise business during the year ended December 31, 2020 in the amount of $976. Refer to Note 24 for further details.

New standards, amendments and interpretations adopted

IFRS 3 – "Business Combinations (Amendments to IFRS 3)", 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. The Company has adopted this standard effective January 1, 2020. There was no impact to the Company's financial statements as a result of this adoption.

New standards, amendments and interpretations not yet adopted

All recently issued accounting pronouncements are not expected to have a material effect on the consolidated financial statements.

4. Receivables, net of sales returns and allowances

		December 31, 2020		December 31, 2019
Trade receivables	**$**	**15,843**	$	7,994
Sales tax receivables		**57**		1,158
Other receivables		**191**		1,088
Provision for sales returns and allowances		**(2,244)**		(2,617)
Receivables, net of sales returns and allowances	**$**	**13,847**	$	**7,623**

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

4. Receivables, net of sales returns and allowances (continued)

Sales tax receivable represents input tax credits arising from sales tax levied on the supply of goods purchased or services received in Canada. Other receivables at December 31, 2020 includes amounts due from the sellers of the Apothecarium (Note 5). Other receivables at December 31, 2019 are related to amounts receivable from the Solace Rx joint venture partner. This amount became part of the consideration paid in the acquisition of Solace Rx.

		December 31, 2020		December 31, 2019
Trade receivables	**$**	**15,843**	$	7,994
Less: provision for sales returns and allowances		**(2,244)**		(2,617)
Total trade receivables, net	**$**	**13,599**	$	5,377
Of which				
Current	**$**	**12,596**	$	6,506
31-90 days		**3,113**		880
Over 90 days		**134**		608
Less: provision for sales returns and allowances		**(2,244)**		(2,617)
Total trade receivables, net	**$**	**13,599**	$	5,377

5. Acquisitions

2020 Acquisitions

Acquisition of HMS

On November 6, 2020, the Company announced the signing of a definitive agreement to acquire HMS Health, LLC ("HMS Health") and HMS Processing, LLC ("HMS Processing" and together with HMS Health "HMS"). HMS is a cultivator and processor of medical cannabis products in the state of Maryland. TerrAscend has agreed to acquire 100% of the equity of HMS for total consideration of CAD $35,013 (US$27,500), comprised of CAD $31,830 (US$25,000) in cash and a CAD $3,183 (US$2,500) note, which bears 5.0% annual interest, due April 2022. Upon closing in 2021, 100% of HMS' economics will be retained by the Company through full ownership of HMS Health and a master services agreement with HMS Processing. The transfer of 100% equity of HMS Processing is expected to close in April 2022. The Company made an initial deposit of $1,291 (US$1,014) during the year ended December 31, 2020 and is included in other assets.

Acquisition of ABI SF, LLC ("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.

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

5. Acquisitions (continued)

On January 23, 2020, the Company, through a wholly owned subsidiary, WDB Holding CA, Inc. ("WDB CA"), acquired State Flower and 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 also extended State Flower a separate line of credit of up to US$4,500 for cultivation facility improvements to expand its production capacity. The Company consolidates State Flower into its financial statements beginning on the date it obtained control, which was the conversion date. At December 31, 2020, the note receivable from State Flower has been recorded at its fair value of $nil (December 31, 2019- $5,986).

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 less the total principal amount drawn under the line of credit and discounted using an appropriate risk adjusted rate. 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 $2,927 for the twelve months ended December 31, 2020 and net loss estimates would have been $1,125. Actual sales and net loss for the twelve months ended December 31, 2020 are $2,606 and $1,121, respectively. The following table presents the fair values of assets acquired and liabilities assumed as of the January 23, 2020 acquisition date and an allocation of the consideration to net assets acquired:

	$
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	6,817
Accounts payable and accrued liabilities	(499)
Lease liability	(3,558)
Deferred tax liability	(652)
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**

5. Acquisitions (continued)

Goodwill was recognized for this acquisition because the 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. None of the goodwill recognized is expected to be deductible for income tax purposes.

Costs related to this transaction were $56, including legal, accounting, due diligence, and other transaction-related expenses and were included in transaction and restructuring costs. 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 noncontrolling 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 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 January 1, 2021. The payment amount is discounted using an appropriate risk adjusted rate. 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.

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

5. Acquisitions (continued)

2019 Acquisitions

A summary of acquisitions completed during the year ended December 31, 2019 is provided below:

	Grander	Apothecarium	Ilera
Cash and cash equivalents	$ 178	$ 2,682	$ 1,072
Receivables	332	25	1,961
Investment	—	—	1,325
Biological assets	—	—	3,547
Inventory	995	2,742	4,906
Prepaid expenses and deposits	54	831	1,386
Lease receivable	—	949	—
Right-of-use asset	187	15,179	1,990
Property, plant and equipment	29	3,418	20,043
Indemnification asset	—	15,385	—
Intangible assets	9,552	49,499	94,524
Goodwill	6,647	64,665	91,089
Accounts payable and accrued liabilities	(1,008)	(3,892)	(1,334)
Lease liabilities	(169)	(16,126)	(1,971)
Deferred tax liability	—	(21,015)	(7,075)
Corporate income tax payable	—	(18,352)	—
Non-controlling interest	—	—	(5,747)
Net assets acquired	$ 16,797	$ 95,990	$ 205,716
Consideration paid in cash	8,623	49,281	33,120
Consideration paid in shares	6,729	41,259	27,488
Contingent consideration payable	776	4,051	144,312
Working capital adjustment	669	1,399	796
Total consideration	**$ 16,797**	**$ 95,990**	**$ 205,716**
Consideration paid in cash	9,292	50,680	33,916
Less: cash and cash equivalents acquired	178	2,682	1,072
Net cash outflow	**$ 9,114**	**$ 47,998**	**$ 32,844**

Acquisition of Ilera Healthcare

On September 16, 2019, the Company through a wholly owned subsidiary, WDB Holding PA, Inc. ("WDB PA"), acquired Ilera Healthcare ("Ilera"), one of five vertically integrated cannabis cultivator, processor, and dispensary operators in Pennsylvania. The Company acquired the following group of entities (collectively the "Pennsylvania Ilera Entities"):

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

5. Acquisitions (continued)

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

On a standalone basis, had the Company acquired the business on January 1, 2019, sales estimates would have been $45,916 was the year ended December 31, 2019 and net income of $16,800, excluding the impact of revaluation of contingent consideration of $62,623.

Costs related to this transaction were $617, including legal, accounting, due diligence, and other transaction-related expenses and were included in transaction and restructuring costs.

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. None of the goodwill recognized is deductible for income tax purposes.

Acquisition of The Apothecarium

On June 6, 2019, the Company, through a wholly owned subsidiary, WDB Holding CA, Inc. ("WDB CA"), acquired the following group of entities (collectively the "California Apothecarium Entities"):

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

As consideration, the Company paid $95,990 (US$71.8 million), comprising $49,281 (US$36.8 million) in cash, $1,339 (US$1.1 million) in the form of a working capital adjustment, contingent consideration of $4,051 (US$3 million) and 6,700 proportionate voting shares of TerrAscend. The fair value of the share consideration at June 6, 2019 was $41,259 (US$30.9 million). The contingent consideration is the expected consideration payable to acquire the remaining 50.1% of the SF Entities, which comprises 100% of its preferred shares, subject to regulatory approval. On a standalone basis, had the Company acquired the business on January 1, 2019, sales estimates would have been $38,200 for the year ended December 31, 2019 and a net loss of $14,300, excluding the impact of losses related to intangible assets and goodwill impairment of $67,671 as a result of lower than expected revenue and profitability forecasts as compared to the acquisition date forecast.

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 did not meet the recognition criteria for identifiable intangible assets. None of the goodwill recognized is deductible for income tax purposes. The goodwill arising on this acquisition was subsequently fully impaired at December 31, 2019 (Note 9).

5. Acquisitions (continued)

Costs related to this transaction were $1,837, including legal, accounting, due diligence, and other transaction-related expenses and were included in transaction and restructuring costs. As part of the transaction, the Company entered into a put/call arrangement with the non-controlling shareholders of the Apothecarium principals. As a result, the non-controlling interest in The Apothecarium does not qualify for equity treatment under *IAS 31 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 contingent consideration payable. The initial 50.1% non-controlling interest liability was recorded at fair value of $4,051 million. Any fair value adjustments to the liability are recorded in the consolidated statement of loss. No profit or loss with respect to the Apothecarium operations is allocated to the non-controlling interest.

Acquisition of the Assets of Grander Distribution, LLC

On January 15, 2019, the Company through a wholly owned subsidiary, Arise Bioscience Inc. ("Arise"), completed the acquisition of substantially all of Grander Distribution, LLC ("Grander"), a producer and distributor of innovative hemp-derived wellness products. As consideration, the Company paid $16,797 (US$12.7 million), comprising $8,623 (US$6.5 million) in cash, $669 (US$0.5 million) in the form of a working capital adjustment and 1,362,343 common shares of TerrAscend. The fair value of the common shares was $6,729 (US$5.1 million) at January 15, 2019. Subject to meeting certain sales milestones, the Company will pay up to an additional $12,988 (US$10 million) in cash or share considerations. The total value of the potential purchase consideration payable by the Company of the agreement was approximately $29,785 (US$22.7 million), and the fair value of the contingent consideration was $776 (US$0.6 million) at acquisition. The fair value of the contingent consideration at acquisition was calculated using a Monte Carlo simulation and was contingent on the achievement of certain targeted gross revenues. The fair value of the contingent consideration at December 31, 2019 was revalued to $nil as the targeted revenue forecasts used in the determination of the contingent consideration did not meet the minimum targeted revenue established in the purchase price agreement.

On a standalone basis, had the Company acquired the business on January 1, 2019, sales estimates would have been $22,700 for the year-ended December 31, 2019 and a net loss of $6,800. Costs related to this transaction were $61, including legal, accounting, due diligence, and other transaction-related expenses and were included in transaction and restructuring costs.

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 development. These benefits were not recognized separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets. The goodwill recognized is deductible for income tax purposes.

Contingent consideration

Contingent consideration recorded relates to the Company's 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 a specified time period based on the agreement. Refer to Note 22 for further discussion surrounding the fair value of the contingent consideration.

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

5. Acquisitions (continued)

The balance of contingent consideration is as follows:

	Apothecarium	State Flower	Ilera	Grander	Total
Carrying amount, December 31, 2018	$ —	$ —	$ —	$ —	$ —
Contingent consideration recognized on acquisition	4,051	—	144,312	776	149,139
Revaluation of contingent consideration	—	—	62,623	(772)	61,851
Effects of movements in foreign exchange	(118)	—	(3,838)	(4)	(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	—	—	(189,916)	—	(189,916)
Revaluation of contingent consideration	—	(53)	25,152	—	25,099
Effects of movements in foreign exchange	(77)	(271)	(2,763)	—	(3,111)
Carrying amount, December 31, 2020	**3,856**	**8,390**	**35,570**	**—**	**47,816**
Less: current portion	**(3,856)**	**—**	**(35,570)**	**—**	**(39,426)**
Non-current contingent consideration	**$ —**	**$ 8,390**	**$ —**	**$ —**	**$ 8,390**

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. On September 4, 2020, the Company and the sellers of Ilera amended the Ilera Purchase Agreement to allow the Company to utilize cash flow generated by the Ilera business to prepay up to US$30 million (the "Pre-Payment Amount") towards the final earnout payment. The amendment also allows the Company to defer up to an amount equal to the actual Pre-Payment Amount paid to the sellers of Ilera until June 30, 2021.

The contingent consideration was calculated based on fiscal year 2019 and 2020 performance. During the year ended December 31, 2020, the Company made payments to the sellers of Ilera totaling $189,916 (US$147,184). As of December 31, 2020, the final earnout has been calculated and the remaining amount of $35,570 (US$27,937) will be paid by the due date.

Refer to Note 22 for discussion of valuation methods used when determining the fair value of the contingent consideration liability at December 31, 2020, and the changes in fair value during the year ended December 31, 2020.

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

6. Biological assets

The Company's biological assets consist of 91,080 cannabis plants at December 31, 2020 (December 31, 2019- 30,413). The reconciliation of biological assets is as follows:

	December 31, 2020	December 31, 2019
Opening amount	**$ 5,484**	$ 545
Increase in fair value due to biological transformation	**108,964**	5,480
Additions on business acquisitions	**80**	3,547
Capitalized costs	**22,334**	3,797
Transferred to inventories upon harvest	**(113,714)**	(7,884)
Effect of movements in foreign exchange	**(464)**	—
Fair value less costs to sell of cultivated plants	**22,684**	5,485
Cannabis seeds purchased (planted)	**—**	(1)
Ending balance	**$ 22,684**	$ 5,484

The fair value measurements for biological assets have been categorized as Level 3 in the fair value hierarchy based on the inputs to the valuation technique used. 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 and cultivation 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.

Dry bud

The dry bud model utilizes the following significant assumptions:

	Weighted Average December 31, 2020	Weighted Average December 31, 2019
Weighted average of expected loss of plants until harvest	**8%**	8%
Expected yields for cannabis plants (average grams per plant)	**63 grams**	47 grams
Expected number of growing weeks	**13 weeks**	13 weeks
Estimated selling price (per gram)	**$ 8.52**	$ 8.10
Post-harvest cost to complete and sell (per gram)	**$ 1.07**	$ 2.37

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

6. Biological assets (continued)

Trim

The trim model utilizes the following significant assumptions:

	Weighted Average December 31, 2020	Weighted Average December 31, 2019
Weighted average of expected loss of plants until harvest	**8%**	8%
Expected yields for cannabis plants (average grams per plant)	**51 grams**	72 grams
Expected number of growing weeks	**13 weeks**	13 weeks
Estimated selling price (per gram)	**$ 5.84**	$ 2.24
Post-harvest cost to complete and sell (per gram)	**$ 0.31**	$ 0.15

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 at December 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:

	10% change at December 31, 2020	10% change at December 31, 2019
Weighted average of expected loss of plants until harvest	**$ 65**	$ 60
Expected yields for cannabis plants (average grams per plant)	**2,265**	519
Expected number of growing weeks	**2,023**	299
Estimated selling price (per gram)	**2,546**	812
Post-harvest cost to complete and sell (per gram)	**668**	271

7. Inventory

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

	December 31, 2020	December 31, 2019
Raw materials	**$ 4,230**	$ 9,911
Finished goods	**15,317**	5,628
Work in process	**21,344**	3,439
Accessories	**185**	265
Supplies and consumables	**3,099**	1,179
	$ 44,175	$ 20,422

Realized fair value amounts included in inventory sold were $72,022 for the year ended December 31, 2020 (December 31, 2019- $725).

7. Inventory (continued)

During the year ended December 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 $5,515 (December 31, 2019 - $9,184). The impairment was recorded in cost of sales. 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 year ended December 31, 2020, management wrote off $1,686 (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 year ended December 31, 2020, management recorded 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 sales.

At December 31, 2020, the fair value adjustment component included in inventory is $22,416 (December 31, 2019 - $3,057).

Total inventory acquired through business combinations was $568 and $8,643 for the years ended December 31, 2020 and December 31, 2019, respectively.

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

8. Property, plant and equipment

Property, plant and equipment for the year ended December 31, 2020 were 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	20,084	117,186
Additions	—	20,742	23,892	11,455	418	8,371	64,878
Additions on Acquisition of State Flower	—	1,352	215	—	29	3,558	5,154
Completion of construction	—	(48,312)	48,312	—	—	—	—
Disposals	—	—	(22)	(187)	(171)	(2,879)	(3,259)
Impairment	—	—	—	(1,253)	(53)	—	(1,306)
Effects of movements in foreign exchange	(72)	17	(3,465)	(765)	(76)	(989)	(5,350)
Balance at December 31, 2020	**4,634**	**2,897**	**117,940**	**20,196**	**3,491**	**28,145**	**177,303**
Accumulated Depreciation							
Balance at December 31, 2019	—	—	1,816	624	1,000	1,096	4,536
Depreciation	—	—	3,059	2,619	443	2,278	8,399
Disposals	—	—	—	(80)	(5)	(113)	(198)
Impairment	—	—	—	(150)	—	—	(150)
Effects of movements in foreign exchange	—	—	(158)	(124)	(20)	(161)	(463)
Balance at December 31, 2020	—	—	**4,717**	**2,889**	**1,418**	**3,100**	**12,124**
Net book value at December 31, 2020	**4,634**	**2,897**	**113,223**	**17,307**	**2,073**	**25,045**	**165,179**

(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	3,876	47,217
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)	(154)	(330)	(91)	220	(488)	(922)
Balance at December 31, 2019	4,706	29,098	49,008	10,946	3,344	20,084	117,186
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	—	—	317	25	268	(63)	547
Balance at December 31, 2019	—	—	1,816	624	1,000	1,096	4,536
Net book value at December 31, 2019	4,706	29,098	47,192	10,322	2,344	18,988	112,650

Certain de minimis reclassifications were made to better present the above schedule as of December 31, 2019.

During the year ended December 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%.

For the year ended December 31, 2020, $3,582 (December 31, 2019 – $970) of depreciation was expensed to cost of sales.

Asset Specific Impairment

The Company reviews the carrying value of its property, plant and equipment at each reporting period for indicators of impairment. During the year ended December 31, 2020 management noted indicators of impairment at the asset specific level.

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

8. Property, plant and equipment (continued)

During the three months ended December 31, 2020, the Company made a strategic decision to cease the growing and cultivation of cannabis in Canada. As a result of this decision, the Company wrote down the net book value of the lighting and irrigation assets previously used in the Canadian cultivation business to $nil and recognized asset specific impairment of $1,156. The cultivation of cannabis in Canada was not individually significant to the Company as a whole.

During the year ended December 31, 2019, the Company determined that Solace Rx's proposed Drug Preparation Premises ("DPP") was no longer commercially viable and ceased all further construction and operations, which is an indicator of impairment. The fair value of the DPP was determined based on a third-party appraisal using a fair value less costs to dispose of 2% approach. As a result, the Company recognized a $2,305 impairment loss for the DPP for the year ended December 31, 2019.

9. Intangible assets and goodwill

Intangible assets and goodwill for the year ended December 31, 2020 were as follows:

	Software & Licenses $	Intellectual Property $	Brand Name $	Customer Relationships $	Non-Compete Agreements $	Goodwill $	Total $
Cost							
Balance at December 31, 2019	2,435	107,272	32,238	5,844	1,753	95,805	245,347
Additions	800	10,464	—	—	—	—	11,264
Additions on acquisition of State Flower	—	4,127	1,774	—	368	6,817	13,086
Disposal	(61)	—	—	—	—	—	(61)
Impairment (charge) reversal	(1)	(568)	3,928	(668)	—	—	2,691
Effects of movements in foreign exchange	(58)	(2,924)	(888)	(84)	(46)	(2,105)	(6,105)
Balance at December 31, 2020	**3,115**	**118,371**	**37,052**	**5,092**	**2,075**	**100,517**	**266,222**
Accumulated Amortization							
Balance at December 31, 2019	425	1,989	—	1,201	584	—	4,199
Amortization	522	5,767	—	1,136	747	—	8,172
Impairment (charge) reversal	—	—	—	(210)	—	—	(210)
Effects of movements in foreign exchange	(14)	(395)	—	(90)	(61)	—	(560)
Balance at December 31, 2020	**933**	**7,361**	**—**	**2,037**	**1,270**	**—**	**11,601**
Net book value at December 31, 2020	**2,182**	**111,010**	**37,052**	**3,055**	**805**	**100,517**	**254,621**

(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	889	772	(2)	66	—	—	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	61	(2,429)	(850)	(109)	(41)	(2,790)	(6,158)
Balance at December 31, 2019	2,435	107,272	32,238	5,844	1,753	95,805	245,347
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	2	(33)	—	(41)	(21)	—	(93)
Balance at December 31, 2019	426	1,988	—	1,201	584	—	4,199
Net book value at December 31, 2019	2,009	105,284	32,238	4,643	1,169	95,805	241,148

During the year ended December 31, 2020, the Company capitalized $9,666 (US $7,500) related to two success fees payable to an entity controlled by the minority shareholders of TerrAscend NJ. The first success fee payment of $4,891 (US $3,750) was due upon NJ being granted an alternative treatment center 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 $4,775 (US $3,750) was due upon NJ making its first sale of medical cannabis to a patient in compliance with the New Jersey Compassionate Use Marijuana Act. The second success fee payment was included in accounts payable and accrued liabilities at December 31, 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.

For the year ended December 31, 2020, $3,099 (December 31, 2019 – $847) of amortization was expensed to cost of sales.

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

9. Intangible assets and goodwill (continued)

Impairment of Goodwill

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.

The Company allocated goodwill to its businesses based on the geographic location of the entity to which the goodwill is attributable, as this represented the lowest level at which management monitored goodwill. The recoverable amount of the CGUs was determined based on a fair value less costs to dispose ("FVLCD") method in Pennsylvania and value in use in State Flower and Florida, using level 3 inputs in a discounted cash flow ("DCF") model. The significant assumptions applied in the determination of the recoverable amount are described as follows:

i. Cash flows: Estimated cash flows were projected based on actual operating results from internal sources as well as industry and market trends. The forecasts were extended to a total of five years (with a terminal year thereafter);
ii. Terminal value growth rate: The terminal growth rate was based on historical and projected consumer price inflation, historical and projected economic indicators, and projected industry growth;
iii. Post-tax discount rate: The post-tax discount rate is reflective of the CGUs Weighted Average Cost of Capital ("WACC"). The WACC was 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 after-tax cost of debt based on corporate bond yields; and
iv. Tax rate: The tax rates used in determining the future cash flows were those substantively enacted at the respective valuation date.

The key assumptions used in calculating the recoverable amount for each CGU grouping tested for impairment as of December 31, 2020 and December 31, 2019 are outlined in the below tables:

	December 31, 2020		
	Florida CGU grouping	**State Flower CGU grouping**	**Pennsylvania CGU grouping**
Terminal value growth rate	3.0%	3.0%	3.0%
Discount rate	16.0%	13.0%	12.5%
Forecasted sales growth rate (average of next five years)	11.3%	62.6%	10.2%

	December 31, 2019		
	Florida CGU grouping	**California CGU grouping**	**Pennsylvania CGU grouping**
Terminal value growth rate	3.0%	3.0%	3.0%
Discount rate	19.5%	11.0%	13.5%
Forecasted sales growth rate (average of next five years)	20.8%	16.4%	51.4%

The post-tax discount rate is reflective of the CGUs Weighted Average Cost of Capital ("WACC").

9. Intangible assets and goodwill (continued)

Florida CGU grouping

The Company's Florida CGU grouping represents its operations dedicated to the sale of hemp derived products within the state of Florida. The carrying value of the CGU was $12,249 and $17,186 for the year ended December 31, 2020 and December 31, 2019, respectively. As a result of the impairment test performed as of December 31, 2020 and December 31, 2019, management concluded that the carrying value was lower than the recoverable amount and recorded no impairment. An increase in the discount rate of 50 and 100 basis points would not cause an impairment in the CGU during the year ended December 31, 2020. An increase in the discount rate of 50 or 100 basis points would cause an impairment of $882 and $1,554, respectively, for the year ended December 31, 2019.

State Flower CGU grouping

The Company acquired State Flower on January 23, 2020. The State Flower CGU grouping represents its operations dedicated to the cultivation of cannabis products within the state of California. The carrying value of the CGU was $16,452 for the year ended December 31, 2020. As a result of the impairment test performed as of December 31, 2020, management concluded that the carrying value was lower than the recoverable amount and recorded no impairment. An increase in the discount rate of 100 basis points would cause an impairment in the CGU grouping of $792.

Pennsylvania CGU grouping

The Company's Pennsylvania CGU grouping represents its operations dedicated to the cultivation and sale of cannabis products within the state of Pennsylvania. The carrying value of the CGU was $246,123 and $215,450 for the year ended December 31, 2020 and December 31, 2019, respectively. As a result of the impairment test performed as of December 31, 2020 and December 31, 2019, management concluded that the carrying value was lower than the recoverable amount and recorded no impairment. An increase in the discount rate of 50 or 100 basis points would not cause an impairment in the CGU grouping in either the year ended December 31, 2020 or 2019.

California CGU grouping

The Company's California CGU grouping represents its operations dedicated to the sale of cannabis products and accessories at retail dispensaries within the state of California. Each retail store is considered to be a CGU, however for the purposes of the goodwill impairment tests, all retail stores have been grouped together. The carrying value of the CGU was $96,183 during the year ended December 31, 2019. During the year ended December 31, 2019, as a result of the impairment test performed, management concluded that the carrying value was higher than the recoverable amount and recorded impairment losses of $67,671. Management allocated the impairment loss based on the relative carrying amounts of the CGU's assets at the impairment date, with no individual asset being reduced below its recoverable amount. Management recorded impairment losses to goodwill of $63,806, reducing the balance to $nil at December 31, 2019. Additionally, management allocated the remaining impairment losses to the CGU's brand name intangible asset and recorded impairment of $3,865 for the year ended December 31, 2019. During the year ended December 31, 2020, the Apothecarium brand intangible assets were evaluated separately for impairment.

Canada Pharmaceutical Research CGU

The Company's Canadian Pharmaceutical Research CGU represents its operations dedicated to the research and development of cannabis biotechnology, including the development of novel formulations and delivery forms, the reconstitution, dilution and preparation of drug preparations for health care practitioners and institutions, and the sale and distribution of medical cannabis. This CGU is attributed to the Company's Canadian operations.

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

9. Intangible assets and goodwill (continued)

During the year ended December 31, 2019, the Company shut down its drug preparation facility as management deemed that market conditions did not support the operations of this business. As a result, sales forecasts were updated to $nil. Management obtained a third-party appraisal to determine the CGU's fair value using the direct comparison cost approach of comparable properties and applied it against the net book value of the assets less costs to dispose of 2%. As a result of the impairment test, management concluded that the carrying value was higher than the recoverable amount and recorded impairment losses of $5,214 for the year ended December 31, 2019. Management allocated the impairment loss specifically to the assets it identified as impaired, with no individual assets being reduced below its recoverable amount. Management recorded impairment losses to goodwill of $2,407, reducing the balance to $nil at December 31, 2019. Additionally, management allocated the remaining impairment losses to the CGU's software, licenses, and intellectual property of $502 and to property, plant, and equipment of $2,305 (Note 8). At December 31, 2019, there was no goodwill or indefinite lived intangible assets remaining in the Company's Canada operations.

Impairment of Intangible Assets

The Company recorded impairment of $566 of intellectual property in Canada during the year ended December 31, 2020 related to packaging designs that were written down to its recoverable value. Additionally, during the year ended December 31, 2020, the Company recorded impairment of $462 related to its customer relationships at Arise as a result of its termination of an agreement with one of its wholesale distributors.

At the end of each reporting period, the Company tests its indefinite useful life for impairment by comparing its carrying amount with its recoverable amount. During the year ended December 31, 2019, the Company utilized the Apothecarium brand name for its dispensaries in California and the brand name was assessed under the California CGU. During 2020, the dispensaries in Pennsylvania were rebranded to the Apothecarium name. As a result, the Company utilizes the Apothecarium brand name for its dispensaries located in California, Pennsylvania, and its alternative treatment center in New Jersey. The carrying value of the brand name intangible asset was $16,134 for the year ended December 31, 2020. Based on the impairment test performed, management concluded that the carrying value of the Apothecarium brand intangible asset was lower than its recoverable amount and recorded no impairment. An increase in the discount rate of 50 or 100 basis points would not cause an impairment.

During the year ended December 31, 2019, the Company recognized impairment losses of $3,865 related to the brand intangible asset at Apothecarium. During the year ended December 31, 2020, the Company assessed whether there is an indication that impairment loss recognized in prior periods should be reversed as the brand intangible is now being used at the dispensaries in Pennsylvania and alternative treatment centers in New Jersey and therefore provides favorable changes to the cash flow forecasts. As a result of the assessment performed, the Company recorded a reversal of impairment loss of $3,928 which is included in impairment of intangible assets on the Consolidated Statements of Loss and Comprehensive Loss.

The key assumptions used in calculating the recoverable amount for the Apothecarium brand intangible asset as of December 31, 2020 is outlined in the table below:

	Apothecarium Brand Name
Terminal value growth rate	3.0%
Discount rate	11.0%
Forecasted sales growth rate (average of next five years)	22.0%

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

9. Intangible assets and goodwill (continued)

As a result of the impairment analysis performed over the CGUs, management recorded a reversal of impairment loss related to the brand intangible assets at Apothecarium of $3,928 for the year ended December 31, 2020. During the year ended December 31, 2019, the Company recorded impairment losses of $4,367 and $66,213 for intangible assets and goodwill, respectively.

10. Loans payable

	Credit Facility	Loans from Related Parties	Canopy Rivers Loan	Canopy Growth-Canada Inc Loan	Other Loans	Canopy Growth-Arise Loan	Ilera Term Loan	Total
Balance at December 31, 2018	$ 12,683	$ —	$ —	$ —	$ —	$ —	$ —	$ 12,683
Loan principal net of transaction costs	47,085	3,298	—	—	6,500	—	—	56,883
Interest accretion	5,105	—	—	—	—	—	—	5,105
Principal and interest paid	(3,569)	—	—	—	(72)	—	—	(3,641)
Effects of movements in foreign exchange	(1,613)	(51)	—	—	—	—	—	(1,664)
Ending carrying amount at December 31, 2019	**59,691**	**3,247**	**—**	**—**	**6,428**	**—**	**—**	**69,366**
Loan principal net of transaction costs	—	1,963	—	80,127	8,039	25,211	147,597	262,937
Loan discount - origination fee paid	—	—	—	—	—	—	(2,865)	(2,865)
Converted from convertible debt	—	—	12,833	—	—	—	—	12,833
Less: fair value of warrants	—	—	(3,781)	(26,844)	—	(13,083)	—	(43,708)
Interest accretion	1,574	—	1,639	5,198	361	89	772	9,633
Principal and interest paid	(64,718)	(5,451)	—	—	(6,698)	—	—	(76,867)
Effects of movements in foreign exchange	3,453	241	—	—	(69)	—	—	3,625
Ending carrying amount at December 31, 2020	**$ —**	**$ —**	**$ 10,691**	**$ 58,481**	**$ 8,061**	**$ 12,217**	**$ 145,504**	**$ 234,954**
Less: current portion	—	—	(992)	(3,983)	(1,624)	—	(701)	**(7,300)**
Non-current loans payable	**$ —**	**$ —**	**$ 9,699**	**$ 54,498**	**$ 6,437**	**$ 12,217**	**$ 144,803**	**227,654**

Total interest paid on all loan payables during the year ended December 31, 2020 was $2,940 (December 31, 2019 - $4,828).

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.

10. Loans payable (continued)

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 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. In January 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. The principal and interest were fully paid during the year ended December 31, 2020.

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$10,000). Pursuant to the amended terms, the first tranche of the convertible debentures was 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.

During the year ended December 31, 2020, Canopy Growth acquired the common share purchase warrants previously issued to Canopy Rivers as well as the loan payable outstanding balance.

Canopy Growth Canada Inc Loan

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 had 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 US federal laws permitting the cultivation, distribution, and possession of cannabis or to remove the regulation of such activities from the federal laws of the US. The warrants were issued such that they can be exercised upon maturity of the loan payable 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.

10. Loans payable (continued)

In accordance with the terms of the loan financing agreement, the funds cannot be used, directly or indirectly, in connection with or for any cannabis or cannabis-related operations in the US, unless and until such operations are permitted by the federal and applicable state laws of the US.

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.

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 consolidated statements of loss and 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.

Canopy Growth Arise Loan

On December 10, 2020, the Company, through a wholly owned subsidiary Arise Bioscience Inc. (“Arise”) entered into a loan financing agreement with Canopy Growth in the amount of $25,464 (US$20,000) pursuant to a secured debenture. In connection with the funding of the loan, the Company has issued 2,105,718 common share purchase warrants to Canopy Growth.

The secured debenture bears interest at a rate of 6.10% per annum commencing four years from the effective date, with an effective interest rate of 12.76%, and matures on December 9, 2030. The debenture is secured by the assets of Arise, is not convertible, and is not guaranteed by the Company. The warrants are comprised of 1,926,983 common share purchase warrants entitling Canopy Growth to acquire one common share of TerrAscend at an exercise price of $15.28 per share, expiring on December 9, 2030, and 178,735 common share purchase warrants entitling Canopy Growth to acquire one common share of TerrAscend at an exercise price of $17.19 per share, expiring on December 9, 2030.

All warrants will be exercisable following changes in US federal laws permitting the cultivation, distribution, and possession of cannabis or to remove the regulation of such activities from the federal laws of the US. The warrants were issued such that they can be exercised upon maturity of the loan payable 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.

In accordance with the terms of the loan financing agreement, the funds cannot be used, directly or indirectly, in connection with or for any cannabis or cannabis-related operations in the US, unless and until such operations are permitted by the federal and applicable state laws of the US.

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

10. Loans payable (continued)

Ilera Term Loan

On December 18, 2020, Ilera Healthcare entered into a senior secured term loan with a syndicate of lenders in the amount of $152,784 (US$120,000). The term loan bears interest at 12.875% per annum and matures on December 17, 2024. The Company has the ability to increase the facility by up to US$30,000. The term loan is secured by the Ilera Healthcare Division. The loan is callable after 18 months from the closing date subject to a premium payment due. Of the total proceeds received, $135,751 was used to satisfy the remaining Ilera earn-out payments.

11. Convertible debentures

Private Placement

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. 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 term, 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.

The Company shall have the right to require the holder to exercise all of the outstanding warrants for common shares at the exercise price if certain criteria are met including if the average trading price equals or exceeds $10.82 over a five-day trading window.

Canopy Rivers

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.

	December 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	**881**	192
Ending carrying amount	**$ 5,703**	$ 13,874
Less: current portion	**(504)**	—
Non-current convertible debt	**$ 5,199**	$ 13,874

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

11. Convertible debentures (continued)

The fair value of the equity portion was calculated at 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 conversion option and warrants using the relative fair value method.

12. Leases

The Company's leases are comprised of leased premises and offices. The Company's lease liabilities were as follows:

		December 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		**8,295**		2,901
Lease payments		**(4,098)**		(1,382)
Interest expense		**3,400**		1,259
Effects of movements in foreign exchange		**(921)**		(549)
Ending lease liability	$	**30,963**	$	20,729
Less: current portion		**(2,177)**		(1,157)
Non-current lease liability	$	**28,786**	$	19,572

Undiscounted lease obligations are as follows:

	$
Less than one year	4,497
One to five years	18,196
More than five years	40,357
Total	63,050

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.

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

13. Share capital and contributed surplus (continued)

Outstanding share capital

	Common Shares	Exchangeable Shares	Proportionate Voting Shares	Preferred Shares	Total shares*	Amount $
Outstanding, December 31, 2018	41,147,636	38,890,571	35,022	—	115,059,736	64,883
Shares issued – warrant exercises	959,772	—	28,636	—	29,595,772	33,179
Shares issued – stock option exercises	1,101,562	—	—	—	1,101,562	2,620
Shares issued – acquisition of Grander assets	1,362,343	—	—	—	1,362,343	6,729
Shares issued – acquisition of Apothecarium	—	—	6,700	—	6,700,000	41,259
Shares issued – acquisition of Ilera	—	—	5,059	—	5,059,000	27,488
Shares issued – private placement net of share issue costs	21,992,009	—	—	—	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**	**—**	**180,870,422**	**259,892**
Shares issued – private placement net of share issue costs	**5,313,786**	**—**	**—**	**18,679**	23,992,786	40,446
Shares issued – stock option exercises	**1,816,496**	**—**	**—**	**—**	1,816,496	5,767
Shares issued – warrant exercises	**1,229,186**	**—**	**—**	**—**	1,229,186	3,698
Shares issued – compensation for services	**1,625,701**	**—**	**—**	**—**	1,625,701	4,891
Shares issued – RSU exercise	**157,788**	**—**	**—**	**—**	157,788	566
Shares issued – conversion	**2,820,506**	**—**	**890**	**(3,711)**	—	—
Reallocation from share-based payment reserve	**—**	**—**	**—**	**—**	—	6,011
Outstanding, December 31, 2020	**79,526,785**	**38,890,571**	**76,307**	**14,968**	**209,692,379**	**321,271**

**on an as converted basis*

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 proceeds were collected in January 2020.

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

13. Share capital and contributed surplus (continued)

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. The fair value of the warrants issued was determined through the residual method and as a result, no value was assigned to the warrants as the market price exceeded the subscription price.

On January 27, 2020, the Company closed the third tranche of the non-brokered private placement accounted 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. The fair value of the warrants issued was determined through the residual method and as a result, no value was assigned to the warrants as the market price exceeded the subscription price.

During the year ended December 31, 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 $52,005 (US$37,358). 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 US 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
05-Jun-20	1,397	2,028	539	1,186	3,753
08-Jun-20	75	109	28	63	200
Total	18,679	$28,107	$7,464	$16,434	$52,005

The price protection derivative liability and warrant liability have been measured at fair value at issuance date and subsequently remeasured using the Black Scholes model and have been classified as Level 3 in the fair value hierarchy (Note 22).

Refer to Note 22 for discussion regarding changes in fair value of the preferred share derivative liability and warrant liability during the year ended December 31, 2020, as well as the key inputs and assumptions used in the model.

Transaction costs associated with the brokered preferred share issuance amounted to $1,045 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 $540 netted with share capital.

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

13. Share capital and contributed surplus (continued)

Warrants reserve

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

Number outstanding at December 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	320,000	06-06-18	06-06-23	4.16	2.43
Issued in payment for services	70,000	70,000	08-09-18	08-09-23	4.25	2.61
Issued in convertible debt	333,723	333,723	10-02-19	10-02-24	6.49	3.76
Issued in convertible debt	120,027	120,027	11-06-19	11-06-24	6.49	3.85
Issued in convertible debt	66,880	66,880	11-26-19	11-26-24	6.49	3.91
Issued during private placement	12,399,275	12,399,275	12-30-19	01-14-22	3.25	1.04
Issued during private placement	3,190,127	3,190,127	01-10-20	01-14-22	3.25	1.04
Issued during private placement	1,863,659	1,863,659	01-27-20	01-14-22	3.25	1.04
Issued in debt arrangement- Canopy Rivers Loan	2,225,714	—	02-05-20	10-02-24	5.95	3.76
Issued in debt arrangement- Canopy Growth Canada Inc Loan	15,656,242	—	03-11-20	03-10-30	5.14	9.19
Issued in debt arrangement- Canopy Growth Canada Inc Loan	2,152,733	—	03-11-20	03-10-31	3.74	10.19
Issued in debt arrangement- Canopy Growth Arise Loan	1,926,983	—	12-11-20	12-09-30	15.28	9.95
Issued in debt arrangement- Canopy Growth Arise Loan	178,735	—	12-11-20	12-09-31	17.19	10.95
	40,504,098	**18,363,691**			**4.84**	**5.34**

Number Outstanding 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**

In connection with the Canopy Growth and Canopy Rivers financings, the Company determined the fair value of the liability component (Note 10) and allocated the residual amount to the equity component to determine the fair value of the warrants issued. The fair value of the warrants was recorded as an increase to contributed surplus.

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

13. Share capital and contributed surplus (continued)

The following is a summary of the outstanding warrants for Proportionate Voting Shares at December 31, 2020 and December 31, 2019. 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 at December 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	1.64
	8,590,908	**8,590,908**			**7.21**	**1.64**

Number Outstanding 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 as incentive compensation	8,590,908	8,590,908	08-23-19	08-23-22	7.21	2.65
	8,590,908	**8,590,908**			**7.21**	**2.65**

The fair value of the warrants issued as incentive compensation was estimated on the grant date using the Black-Scholes valuation model based on the following assumptions:

	August 23, 2019
Volatility	90.29%
Risk-free interest rate	1.32%
Expected life (years)	3.00
Dividend yield	Nil
Forfeiture rate	0%
Number of Warrants issued	8,590,908
Share price	$6.35
Value per warrant	$3.4405

The following is a summary of the outstanding warrants for Preferred Shares at December 31, 2020. These warrants are exercisable into 1 preferred share:

Number outstanding at December 31, 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	2.39
Issued during private placement	3,311	3,311	05-28-20	05-28-23	3,000	2.41
Issued during private placement	992	992	06-05-20	06-05-23	3,000	2.43
Issued during private placement	75	75	06-08-20	06-08-23	3,000	2.44
	18,024	**18,024**			**3,000**	**2.39**

13. 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 these shares resulted in the Company capitalizing licensing costs of $4,890.

Restricted Share Units

The Company's Share Unit Plan effective November 19, 2019 (the "Share Unit Plan") provides for the granting of performance share units (PSUs) and restricted share units (RSUs) to directors, officers, employees, and consultants of the Company. The PSUs generally become vested upon attainment of established performance conditions, as well as service conditions. The RSUs generally become vested upon completion of continuous employment with the Company. During the year ended December 31, 2020, the Company granted 280,099 RSUs (191,521 vested on the grant date and 88,578 will vest over 4 years term) and recognized $904 as share-based payment expense. There are no PSUs outstanding as of December 31, 2020.

Stock Options

The Company's Stock Option Plan (the "Plan") effective March 8, 2017 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 fully diluted shares of the Company 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 year ended December 31, 2020 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Stock price volatility – 82.29% to 87.09% (December 31, 2019- 88.04% to 96.98%); Risk-free interest rate – 0.35% to 1.60% (December 31, 2019- 1.15% to 1.96%); Dividend yield – 0% (December 31, 2019- 0%); Forfeiture rate – 23.21% to 26.60% (December 31, 2019- 26.5%); and expected lives – 4.76 years to 4.95 years (December 31, 2019- 5 years). The expected volatility of the Company's equity instruments was estimated based on the historical volatility.

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

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

13. Share capital and contributed surplus (continued)

	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	1,480,189
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	**12,861,050**	N/A	**3.76**	N/A
Options Exercised	**(1,816,496)**	N/A	**3.18**	N/A
Options Forfeited/Cancelled	**(4,174,221)**	N/A	**5.62**	N/A
Balance Outstanding at December 31, 2020	**17,363,348**	**3.96**	**4.44**	**2,703,689**

Contributed surplus

The Company's contributed surplus consists of the following:

	Warrants reserve	Share-based payments reserve	Contributed surplus	Total
Outstanding, December 31, 2018	14,335	7,849	—	22,184
Share-based compensation expense	587	12,236	—	12,823
Warrant and stock option exercise	(13,701)	(2,129)	—	(15,830)
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 expense	**121**	**15,551**	**904**	**16,576**
Warrant, stock option and RSU exercise	**(57)**	**(4,338)**	**(566)**	**(4,961)**
Issuance of warrants	**29,484**	**—**	**—**	**29,484**
Reallocation on Canopy Rivers convertible debt amendment	**3,781**	**—**	**(3,781)**	**—**
Options expired/forfeited	**—**	**(4,255)**	**—**	**(4,255)**
Outstanding, December 31, 2020	**66,529**	**24,530**	**562**	**91,621**

During the year ended December 31, 2020, $16,576 (December 31, 2019- $12,823) of share-based payments expense was incurred of which $546 (December 31, 2019- $1,200) is included in cost of goods sold and $nil (December 31, 2019- $19) was included in inventory.

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

14. Non-controlling interest

Non-controlling interest includes the Company's ownership minority interest in New Jersey operations, State Flower and IHC Real Estate operations and consists of the following amounts at December 31, 2020 and December 31, 2019:

	December 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 received	**526**	2,346
Net loss attributable to non-controlling interest	**776**	(3,164)
Effects of movements in foreign exchange	**(22)**	(117)
Ending carrying amount balance	**$ 9,930**	$ 8,650

15. 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 year ended December 31, 2020 and December 31, 2019 respectively were as follows:

	December 31, 2020	December 31, 2019
Salaries and wages	**$ 2,362**	$ 1,688
Share-based payments	**7,882**	5,472
Total	**$ 10,244**	$ 7,160

(b) 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).

(c) A small number of related persons participated in the Ilera term loan (Note 10), which makes up $4,520 of the total loan principal balance.

(d) Refer to Note 10 for discussion regarding related party loan balances.

(e) During the year ended December 31, 2020, the Company paid a total of $183 and granted stock options totaling 500,000 to a current member of the Company's Board of Directors for consulting services performed in the Canadian business on an interim basis. The consulting agreement ended on June 30, 2020.

(f) Through the private placements during the year ended December 31, 2020 (Note 13), the Company issued 1,159,805 common shares, 1,159,805 common share purchase warrants, 10,000 preferred shares and preferred share warrants to entities controlled by Jason Wild, Chairman of the Board of TerrAscend. On August 26, 2019, the Company issued 8,590,908 Proportionate Voting Share purchase warrants to entities controlled by Jason Wild, Chairman of the Board of TerrAscend as incentive to accelerate the exercise of warrants. 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.

(g) During the year ended December 31, 2019, the Company purchased dried flower inventory in the amount of $827 from State Flower. See Note 5 for details on note receivable held from State Flower at December 31, 2019.

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

16. Income taxes

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

		December 31, 2020		December 31, 2019
Loss before income tax	**$**	**(126,473)**	$	(217,328)
Statutory tax rate		**21.0%**		26.5%
Expected income tax recovery		**(26,559)**		(57,592)
Effect on income taxes of deductible & non-deductible adjustments				
IRC 280E adjustment		**11,046**		**3,997**
Impairment on goodwill and intangibles		**—**		**32,954**
Transaction costs and legal fees adjustment		**246**		**886**
Subsidiary income		**—**		**783**
IFRIC 23 uncertain tax position		**(3,785)**		**1,524**
US state income taxes		**11,075**		**—**
Canada income taxes at different statutory rate		**(1,725)**		**—**
US income taxes at different statutory rate		**—**		**1,458**
Lease adjustment		**—**		**(398)**
Loss on revaluation of Equity/Warrants		**30,682**		**—**
Loss on revaluation of contingent consideration		**5,271**		**—**
Share based compensation and non-deductible expenses		**3,268**		**4,790**
Changes in tax benefits not recognized		**(1,411)**		**13,394**
Other adjustments		**(234)**		**(172)**
Income tax expense	**$**	**27,874**	$	1,624
The Company's income tax expense is allocated as follows:				
Current tax expense	**$**	**30,464**	$	3,959
Deferred tax recovery		**(2,590)**		(2,335)
Income tax expense	**$**	**27,874**	$	1,624

The Company's combined Canadian federal and provincial statutory rates are at 26.5% (December 31, 2019 – 26.5%). As the operations of the Company are predominantly US based, the Company has prepared the tax rate table for the year ended December 31, 2020 using the US Federal tax rate of 21.0%.

As many of the Company's US subsidiaries operate in the cannabis industry and are subject to the limitations of the United States Internal Revenue Code ("IRC") Section 280E explained above, the impact results in a permanent tax difference as a disallowed tax deduction. Therefore, the US 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 provision for income taxes for the year ended December 31, 2020 was reduced by a $3,252 recovery resulting from an expiration of the statute of limitations to assess tax.

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

16. Income taxes (continued)

The Company's current tax liability of $35,318 as of December 31, 2020 (December 31, 2019 – $21,276) includes a liability related to a tax matter arising from application of 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 $14,650 related to the years covered by the tax deficiency notices and certain other years, as of December 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 of December 31, 2020, an indemnification asset of $14,642 has been recorded on the statement of financial position.

The following table summarizes the components of deferred tax:

		December 31, 2020		**December 31, 2019**
Non-capital loss carried forward	**$**	**9,836**	$	1,437
Share issuance cost		**570**		535
Lease liability		**307**		228
Other		**284**		13
Deferred tax assets	**$**	**10,997**	$	2,213
Deferred tax liabilities				
Property, plant and equipment	**$**	**(949)**	$	(1,279)
Intangible assets		**(16,232)**		(19,487)
Right of use asset		**(3,759)**		(4,963)
Biological assets		**(13,085)**		(1,667)
Convertible debentures		**(11,664)**		(1,798)
Other		**(19)**		—
Deferred tax liabilities	**$**	**(45,708)**	$	(29,194)
Net deferred tax liabilities	**$**	**(34,711)**	$	(26,981)

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

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

16. Income taxes (continued)

Movement in net deferred tax liabilities:

		December 31, 2020	December 31, 2019
Balance at the beginning of the year	$	**(26,981)**	$ (688)
Recognized in profit/loss		**2,590**	2,346
Recognized in goodwill		**(656)**	(28,090)
Recognized in equity		**(10,706)**	(1,195)
Cumulative translation adjustment		**1,042**	646
Balance at the end of the period	**$**	**(34,711)**	$ (26,981)

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following temporary differences:

		December 31, 2020	December 31, 2019
Non-capital loss carried forward	$	**64,635**	$ 65,417
Interest limitation adjustment		**—**	5,189
Accounts receivable allowance		**—**	427
Deductible share issuance costs		**240**	453
Lease adjustment		**—**	321
Intangible assets		**2,998**	1,236
Investments		**348**	115
Net capital loss carried forward		**127**	127
Property, plant and equipment		**7,617**	4,591
Other		**264**	84
Deferred tax assets	**$**	**76,229**	$ 77,960

The Company's non-capital losses expire as follows:

2036	**$**	**1,531**
2037		**7,853**
2038		**4,599**
2039		**15,141**
2040 and after		**35,511**
Total	**$**	**64,635**

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

17. General and administrative expenses

The Company's general and administrative expenses were as follows:

		December 31, 2020		December 31, 2019
Office and general	**$**	**14,453**	$	8,981
Professional fees		**9,487**		8,650
Facility and maintenance		**3,061**		1,827
Salaries and wages		**27,760**		25,378
Sales and marketing		**3,927**		4,139
Travel		**452**		1,098
Total	**$**	**59,140**	$	50,073

18. Revenue

The Company's disaggregated revenue by source, primarily due to the Company's contracts with its external customers for the year ended December 31, 2020 and 2019 were as follows:

		For the year ended		
		December 31, 2020		December 31, 2019
Branded manufacturing	**$**	**138,341**	**$**	62,270
Retail		**59,977**		22,598
Total	**$**	**198,318**	$	84,868

For the years ended December 31, 2020 and 2019, the Company did not have any single customer that accounted for 10% or more of the Company's revenue.

19. Segment disclosure

Operating Segment

The Company operates under one operating segment, being the cultivation, production and sale of cannabis products.

Geography

The Company operates with subsidiaries located in Canada and the US. For the year ended December 31, 2020, the Company had net sales of $177,282 (December 31, 2019- $57,926) in the US and $21,036 (December 31, 2019- $26,942) in Canada. At December 31, 2020 the Company had $399,775 (December 31, 2019- $325,018) of non-current assets in the US and $41,417 (December 31, 2019- $45,015) in Canada.

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

20. Supplemental cash flow information

Non-cash transactions during the years ended December 31, 2020 and December 31, 2019 were as follows:

	For the year ended December 31, 2020	December 31, 2019
Interest paid for leases	**3,400**	4,828
Shares issued as consideration for acquisitions	**—**	75,476
Shares issued to Regulatory Consulting Group	**4,891**	—
Conversion of F&F shares into note receivable	**—**	4,188
Conversion of F&F note receivable into shares	**—**	(4,188)
Right of use assets additions	**28,145**	20,126
Fair value of harvested plants transferred to inventory	**113,714**	7,884

The changes in working capital items during the year ended December 31, 2020 and December 31, 2019 were as follows:

	For the year ended December 31, 2020	December 31, 2019
Receivables	**$ (3,617)**	$ 1,078
Inventory	**(16,262)**	(7,835)
Prepaid expenses and deposits	**196**	(1,247)
Other asset	**(3,345)**	—
Accounts payable and accrued liabilities	**8,636**	1,065
Other liability	**—**	(1,051)
Deferred revenue	**(359)**	1,167
	$ (14,751)	$ **(6,823)**

21. Capital management

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.

The Company is subject to financial covenants as a result of its loans payable with various lenders. Other than these items related to loans payable as of December 31, 2020 and December 31, 2019, the Company is not subject to externally imposed capital requirements.

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

22. Financial instruments and risk management

Financial instruments

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 following table represents the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy:

	At December 31, 2020			
	Measurement basis			Fair value hierarchy
	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair value through profit or loss	Level 3
Fair value of assets				
Cash and cash equivalents	**75,407**	—	—	—
Receivables, net of sales returns and allowances	**13,847**	—	—	—
Fair value of liabilities				
Accounts payable and accrued liabilities	—	**34,601**	—	—
Corporate income tax payable	—	**35,318**	—	—
Loans payable	—	**234,954**	—	—
Convertible debentures	—	**5,199**	—	—
Warrant liability	—	—	**168,389**	**168,389**
Contingent consideration payable	—	—	—	—

	At December 31, 2019			
	Measurement basis			Fair value hierarchy
	Financial assets at amortized cost	Financial liabilities at amortized cost	Fair value through profit or loss	Level 3
Fair value of assets				
Cash and cash equivalents	**11,900**	—	—	—
Receivables, net of sales returns and allowances	**7,623**	—	—	—
Note receivable	**5,986**	—	—	—
Investments	—	—	**465**	—
Fair value of liabilities				
Accounts payable and accrued liabilities	—	**25,002**	—	—
Corporate income tax payable	—	**21,276**	—	—
Loans payable	—	**69,366**	—	—
Convertible debentures	—	**13,874**	—	—
Contingent consideration payable	—	—	**207,030**	**207,030**

There were no transfers between the levels of fair value hierarchy during the year ended December 31, 2020 or December 31, 2019.

The carrying values of financial assets and liabilities measured at amortized cost approximate their fair values due to their short periods to maturity.

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

22. Financial instruments and risk management (continued)

Fair Value of Warrant and Derivative Liabilities

The preferred share derivative liability and warrant liability have been measured at fair value at issuance date using the Monte Carlo simulation model. As there are no immediate plans for equity financing prior to the price protection expiration period, the preferred share derivative liability and warrant liability have been remeasured to fair value at December 31, 2020 using the Black Scholes model, resulting in the $7,464 decrease in the fair value of the preferred shares derivative liability to $nil at December 31, 2020 and the $153,569 increase in the warrant liability, with net increase in fair value of warrant and derivative liabilities of $146,105 loss, including effects of the foreign exchange of the USD denominated Preferred Shares and Preferred Share Warrants described in Note 13. The fair value of preferred share derivative liability decreased largely due to the increase in the Company's share price at December 31, 2020, making it less likely that the Company's next round of financing would be priced lower than the preferred share and warrant private placement and thus, making it less likely that the price protection feature would be invoked. The fair value of warrant liability increased largely due to an increase in the Company's share price making the preferred share warrants more valuable.

Key inputs and assumptions used in the Monte Carlo simulation valuation model used at the private placement dates, is summarized below:

		May 22, 2020
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%
Expected term		3 year
Probability of financing		100.0%

*Fair value input was based on the weighted-average closing price for the Company's common stock, based on all issuance dates for the Units described in Note 13.

Key inputs and assumptions used in the Black Scholes valuation at December 31, 2020 were as follows:

		December 31, 2020
Common Stock Price of TerrAscend Corp.		$9.95
Warrant Exercise Price	USD$	3000
Warrant conversion ratio		1,000
Annual Volatility		71.3%
Annual Risk-Free Rate		0.2%
Expected Term		2.4 year

Contingent Consideration Payable

Note 5 describes the nature of contingent consideration liabilities. The fair value of contingent consideration at December 31, 2020 was determined using a probability weighted model based on the likelihood of achieving certain revenue and EBITDA scenario outcomes. A discount range of 12.3% to 12.9% (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 $25,099 for the year ended December 31, 2020 (December 31, 2019 - $61,851).

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

22. Financial instruments and risk management (continued)

The illustrative variance of the total contingent consideration at December 31, 2020 based on reasonably possible changes to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

	Implied value of contingent consideration		
Discount rate sensitivity	**State Flower**	**Ilera**	**Total**
Increase 100 basis points	$8,148	$35,415	$43,563
Increase 50 basis points	8,263	35,493	43,756
Decrease 50 basis points	8,505	35,648	44,153
Decrease 100 basis points	8,632	35,727	44,359

Revenue sensitivity	**State Flower**
Increase 100 basis points	$8,543
Increase 50 basis points	8,263
Decrease 100 basis points	8,301
Decrease 50 basis points	8,225

The contingent consideration for Ilera was calculated based on fiscal year 2019 and 2020 performance and the final earn out has been calculated as of December 31, 2020 (Note 5).

Risk Management

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. Company assesses the credit risk of trade receivables by evaluating the aging of trade receivables based on the invoice date. The carrying amounts of trade receivables is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of loss and comprehensive loss. When a trade receivable balance is considered uncollectible, it is written off against the allowance for expected credit losses.

Management has reviewed the items comprising the accounts receivable balance and determined that the majority of accounts are collectible; accordingly, allowance for doubtful accounts of $227 (December 31, 2019 – $607) have been recorded. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of loss and comprehensive loss. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss. The Company has no customers whose balance is greater than 10% of total trade receivables as of December 31, 2020 and 2019.

(b) Liquidity risk

The Company is exposed to liquidity risk, or the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk through ongoing review of its capital requirements. The Company's objective with respect to its capital management is to ensure it has sufficient cash resources to maintain its ongoing operations.

22. Financial instruments and risk management (continued)

(c) Market Risk

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

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

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

ii) Interest rate risk:
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. In respect of financial assets, the Company's policy is to invest excess cash at floating rates of interest in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return. Fluctuations in interest rates impact the value of cash equivalents. The Company's investments in guaranteed investment certificates bear a fixed rate and are cashable at any time prior to maturity date. The company does not have significant cash equivalents at year end. The Company's loans payable have fixed interest rates from 6% to 12.875% 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.

23. Commitments and contingencies

On October 15, 2018, the Company's wholly owned subsidiary TerrAscend Canada entered into a multi-year cultivation agreement (the "PharmHouse Agreement") with PharmHouse Inc. ("PharmHouse"), a joint venture between Canopy Rivers Inc. and 2615975 Ontario Inc., the operators of a leading North American greenhouse produce company ("261"). 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, PharmHouse has not yet delivered product in accordance with the terms of the PharmHouse Agreement. On September 11, 2020, the Company and TerrAscend Canada were informed that a statement of claim was issued on August 31, 2020 in the Ontario Superior Court of Justice by 261 against Canopy Rivers Inc., Canopy Growth Corporation, the Company and TerrAscend Canada (the "261 Claim"). In the 261 Claim, 261 seeks damages from the defendants in the amount of $500 million and alleges certain causes of action, including bad faith, fraud, civil conspiracy, breach of the duty of honesty and good faith in contractual relations and breach of fiduciary duty. The 261 Claim, as against the Company and TerrAscend Canada, is completely baseless and without merit, and the Company will vigorously defend itself, if necessary, in the appropriate forum. On September 16, 2020, PharmHouse obtained an order from the Ontario Superior Court of Justice granting PharmHouse creditor protection under the Companies' Creditors Arrangement Act ("CCAA"). Pursuant to the CCAA order, the 261 Claim has been stayed. During a CCAA hearing in November, 261 objected to the stay of the 261 Claim. The judge presiding over the CCAA process agreed to allow 261 to discontinue the 261 Claim against the defendants 'without prejudice' to its right to recommence the 261 Claim against all parties except PharmHouse Inc., provided that such recommenced claim can only be brought after January 1, 2021. This does not affect any of the defendants' ability to move for a stay of the recommenced 261 Claim. On February 10, 2021, 261 served the Issuer and TerrAscend Canada with the recommenced 261 Claim.

23. Commitments and contingencies (continued)

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 $2,764 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 consolidated financial statements.

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At December 31, 2020, there were no pending lawsuits other than those disclosed that could reasonably be expected to have a material effect on the results of the Company's consolidated financial statements.

24. Subsequent events

i) On January 28, 2021, the Company closed on a non-brokered private placement announced on January 12, 2021, issuing 18,115,656 common shares at an issue price of $12.35 per unit resulting in proceeds of $224 million with 80% coming from four large US institutional investors.

ii) In January 2021, the Company received notice that its request for forgiveness on Arise's PPP loan in the amount of $976 was fully approved by the Small Business Administration and is now paid in full (including applicable interest). This loan was included in Other Loans in Note 10.

iii) On March 11, 2021, the Ontario Superior Court of Justice approved a settlement agreement (the "Settlement Agreement") between the Company, TerrAscend Canada and PharmHouse Agreement. The Settlement Agreement provides the Company make a one-time purchase of a specific quantity of cannabis that was grown under the PharmHouse Agreement for a set price per gram, and for a one-time cash payment to PharmHouse for full and final satisfaction of any claims or obligations between the Company, TerrAscend and PharmHouse. Both payments are immaterial to the Company and the Company plans to monetize the purchased cannabis. The Settlement Agreement does not affect the statement of claim issued on February 10, 2021 by 2615975 Ontario Inc. against Canopy Rivers Inc., Canopy Growth Corporation, the Company and TerrAscend Canada, which the Company believes is completely baseless and without merit.

iv) Subsequent to December 31, 2020, the Company awarded 631,500 options to employees of the Company pursuant to employment agreements and such awarded options will be granted in the first half of 2021. Subsequent to December 31, 2020, 152,477 unvested options were forfeited and 8,331 vested options expired. In addition, 374,648 options were exercised at the average exercise price of $5.02 for total cash proceeds of $1,889.

Subsequent to December 31, 2020, 955,146 warrants were exercised for common shares at the average exercise price of $3.29 for total cash proceeds of $3,139. In addition, 325 preferred share warrants were exercised cashless and 1,245 preferred share warrants were exercised at the average exercise price of US$3,000 for total proceeds of $4,758 (US$3,735).

v) Effective March 23, 2021, Jason Ackerman will step down from his role as Chief Executive Officer and Executive Chairman of the Company. Jason Wild, current Chairman of the Board of Directors, will assume the position of Executive Chairman. Ed Shutter, current board member, has been appointed Lead Independent Director.