

**TERRASCEND CORP.****MANAGEMENT DISCUSSION & ANALYSIS**

**Amounts in thousands of United States dollars, except for per share amounts**

**June 30, 2021**

**INTRODUCTION**

*This Management's Discussion and Analysis ("MD&A") relates to the performance, financial condition and future prospects of TerrAscend Corp. ("TerrAscend", or the "Company") and should be read in conjunction with the Condensed Interim Consolidated Financial Statements for the three and six months ended June 30, 2021 and 2020 (the "Quarterly Financial Statements"), as well as the Audited Consolidated Financial Statements for the years ended December 31, 2020 and 2019 (the "Annual Financial Statements") including the notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). References in this MD&A to TerrAscend or the Company include its subsidiaries, as the context requires. Readers are cautioned that the MD&A contains forward-looking statements and that actual events may vary from management's expectations. This discussion addresses matters the Company considers important for an understanding of its financial condition and results of operations as of June 30, 2021 and for the six months ended June 30, 2020. Readers are encouraged to read the Company's public filings with Canadian securities regulators which can be accessed and viewed via the System for Electronic Data Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).*

This MD&A was approved by the Board of Directors of TerrAscend on August 18, 2021 and reflects all material events up to that date.

Other than per share, per unit or per warrant amounts, all dollar amounts in this MD&A are in thousands of United States dollars unless otherwise stated. On March 31, 2021, the Company changed its presentation currency from the CAD to the USD to better reflect the Company's business activities (refer to Note 23 of the Unaudited Condensed Interim Consolidated Financial Statements of the Company for and as of the three and six months ended June 30, 2021 for further discussion). The Company applied the change retrospectively as if the new presentation currency has always been the Company's presentation currency.

**FORWARD-LOOKING STATEMENTS**

This MD&A contains forward-looking statements with respect to expected financial performance, strategy and business conditions. The words "believe", "anticipate", "estimate", "plan", "expect", "intend", "may", "project", "will", "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management.

The forward-looking statements contained herein are based on certain key expectations and assumptions, relating to:

- the ability of the Company to generate cash flow from operations and obtain necessary financing on acceptable terms, and the use of net proceeds from private placements;
- the Company's expectations regarding its consolidated sales, expenses and operations;
- the Company's plans for developing its business and its operations;
- expectations with respect to future production costs and capacity;
- the general economic, financial market, regulatory and political conditions in which the Company operates;
- consumer interest in the Company's products;
- the timely receipt of any required regulatory approvals for the conduct of the Company's businesses from the applicable authorities;
- competition;
- the ability of the Company to obtain qualified staff, equipment and services in a timely and cost-efficient manner; and
- the ability of the Company to conduct operations in a safe, efficient and effective manner.

If any of these risks or uncertainties materialize, or if assumptions underlying the forward-looking statements prove incorrect, actual results might vary materially from those anticipated in those forward-looking statements.

Certain information of the forward-looking statements and forward-looking information and other information contained in this MD&A concerning the Company's industry and the markets in which it operates is based on estimates prepared by the Company using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which the Company believes to be reasonable. While the Company is not aware of any misstatement regarding any data presented herein, the medical and recreational cannabis industry involves risks and uncertainties that are subject to change based on various factors and the Company has not independently verified such third-party information (see "Risk Factors" in this MD&A). Given these risks, uncertainties and assumptions, the reader should not place undue reliance on any forward-looking statements or information. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors.

## SUMMARY OF FINANCIAL PERFORMANCE

The following table summarizes results of operations for the three and six months ended June 30, 2021 and 2020. See "Results From Operations" for additional details.

	For the three months ended		For the six months ended	
	June 30, 2021	June 30, 2020*	June 30, 2021	June 30, 2020*
Sales, net	\$ 58,723	\$ 34,214	\$ 112,077	\$ 60,089
Gross profit before gain on fair value of biological assets	34,722	19,215	69,652	30,775
Gross margin before gain on fair value of biological assets	59%	56%	62%	51%
Gross profit	46,339	22,189	83,801	40,177
General & administrative expenses	14,818	11,345	30,580	22,201
General & administrative expenses as a % of net sales	25%	33%	27%	37%
Net loss	(23,125)	(9,825)	(35,873)	(20,136)
Other data: <sup>(1)</sup>				
EBITDA	\$ (1,632)	\$ 2,752	\$ 5,474	4,090
Adjusted EBITDA	\$ 24,278	\$ 8,439	\$ 46,838	12,154
Adjusted EBITDA margin	41%	25%	42%	20%
Adjusted gross profit before gain on fair value of biological assets	35,738	19,215	70,668	31,963
Adjusted gross margin before gain on fair value of biological assets	61%	56%	63%	53%

\*Change in presentation currency; refer to Note 23 the Unaudited Condensed Interim Consolidated Financial Statements of the Company for and as of the six months ended June 30, 2021 for further discussion.

- (1) EBITDA, Adjusted EBITDA, Adjusted gross profit before gain on fair value of biological assets, and adjusted gross margin before gain on fair value of biological assets are non-IFRS financial measures. See "Non-IFRS Financial Measures" for a description of these measures and a reconciliation to the nearest IFRS measure.

## Second Quarter 2021 Financial Highlights

- For the three months ended June 30, 2021, TerrAscend generated net sales of \$58,723, compared to \$53,354 in the first quarter of 2021, an increase of 10.1%, and compared to \$34,214 for the three months ended June 30, 2020, an increase of 71.6%. Refer to Results from Operations section for further details regarding the drivers of the changes.
- For the three months ended June 30, 2021, EBITDA was \$(1,632) compared with \$7,106 for the three months ended March 31, 2021 and \$2,750 for the three months ended June 30, 2020. Refer to Results from Operations section for further details regarding the drivers of the changes.
- For the three months ended June 30, 2021, adjusted EBITDA was \$24,278, compared to \$22,560 in the three months ended March 31, 2021 and compared to \$8,439 for the three months ended June 30, 2020. For the three

months ended June 30, 2021, adjusted EBITDA margin was 41%, compared to 42% for the three months ended March 31, 2021 and compared to 25% for the three months ended June 30, 2020. Refer to Results from Operations section for further details regarding the drivers of the changes.

## **BUSINESS OVERVIEW**

TerrAscend is a leading North American cannabis operator with vertically integrated operations in Pennsylvania, New Jersey, and California, licensed cultivation and processing operations in Maryland, and licensed processing operations in Canada. TerrAscend operates an award-winning chain of Apothecarium dispensary retail locations, as well as scaled cultivation, processing, and manufacturing facilities on both the East and West coasts of the United States. TerrAscend's best-in class cultivation and manufacturing practices yield consistent, high-quality cannabis, providing industry-leading product selection to both the medical and legal adult-use market.

TerrAscend's portfolio of operating businesses and brands include:

- Ilera Healthcare ("Ilera"), a vertically integrated cannabis cultivator, processor and dispensary operator in Pennsylvania;
- TerrAscend NJ LLC ("TerrAscend NJ"), a majority owned subsidiary that holds a permit to operate up to three alternative treatment centers in New Jersey with the ability to cultivate and process;
- The Apothecarium ("Apothecarium"), consisting of Architectural Digest award-winning retail dispensaries in California, Pennsylvania and New Jersey;
- Valhalla Confections ("Valhalla"), a leading provider of premium edible products;
- State Flower, a California-based cannabis producer operating a licensed cultivation facility in San Francisco, California;
- HMS Health, LLC and HMS Processing, LLC (collectively "HMS"), a producer and seller of dried flower and oil products for the wholesale medical cannabis market in Maryland;
- Arise Bioscience ("Arise"), a manufacturer and distributor of hemp-derived products, located in Boca Raton, Florida; and
- TerrAscend Canada Inc. ("TerrAscend Canada"), a Licensed Producer (as such term is defined in the Cannabis Act) of cannabis, with its current principal business activities including processing and sale of cannabis flower and oil products in Canada.

The Company is listed on the Canadian Stock Exchange (the "CSE"), 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, Canada, L5C 1W2.

### Ilera Healthcare

Ilera is one of the initial five permitted vertically integrated cannabis cultivator, processor, and dispensary operators in the State of Pennsylvania. The grower/processor operation began as a 67,000 sq. ft. site in Waterfall, PA in January 2018. In Q1 2020, it tripled its capacity, now spanning an approximate 150,000 sq. ft. footprint including a double-stack indoor grow and one of the largest branded manufacturers in the market. Ilera distributes its broad product line, which includes dried flower, vaporizables, concentrates, tinctures, and topicals to all dispensaries throughout Pennsylvania.

In addition, Ilera operates three Apothecarium-branded retail dispensaries, one in Plymouth Meeting, PA opened in March 2018, a second in Lancaster, PA opened in April 2020, with a third dispensary in Thorndale, PA opened in July 2020. On April 30, 2021, the Company acquired three retail dispensaries from Keystone Canna Remedies ("KCR") located in Bethlehem, Allentown, and Stroudsburg, Pennsylvania to complement its existing retail footprint in Southeastern Pennsylvania. The Company's Pennsylvania dispensaries offer a variety of products and formats, produced by Ilera and other manufacturers, to ensure its pharmacists and wellness associates can provide an appropriate product to meet a particular patient's needs. In April 2020, to mitigate patient and caregiver concerns

during the COVID crisis, Ilera implemented a smooth-running curbside service at its dispensaries to promote social distancing, which has led to increased patient usage of the on-line ordering and drive-through service with approximately one-half of patients now using this service since inception.

On September 16, 2019, the Company through a wholly owned subsidiary, WDB Holding PA, Inc. (“WDB PA”) acquired Ilera pursuant to a Securities Purchase and Exchange Agreement (the “Ilera Purchase Agreement”). The Company acquired the following group of entities.

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

TerrAscend acquired 100% of the equity of Ilera for total consideration of \$225,000, paid in a combination of cash and TerrAscend shares. At closing, TerrAscend paid to the sellers \$25,000 in cash, subject to customary closing adjustments, an additional \$25,000 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 \$601 in working capital adjustments. Additional cash consideration of \$175,000 in aggregate was paid to the sellers based on Ilera achieving certain specified sales and profitability targets, with staged payments made in 2020 and 2021. The fair value of the contingent consideration at acquisition was \$108,931.

The contingent consideration was calculated based on fiscal year 2019 and 2020 performance. As of June 30, 2021, the final earnout has been calculated and remaining fair value amount of \$29,668 was paid on June 30, 2021.

On April 30, 2021, the Company through WDB PA, acquired Guadco, LLC and KCR Holdings LLC (collectively “KCR”). The transaction added three retail dispensaries located in Bethlehem, Allentown and Stroudsburg, Pennsylvania. Prior to the acquisition, the Company owned 10% of KCR. The Company acquired the remaining 90% of the equity for total consideration of \$69,847, comprised of \$34,427 in common shares, \$20,506 in cash, \$7,101 related to the fair value in previously owned shares, and a \$6,750 note which bears 10% annual interest, due April 2022.

#### New Jersey

In December 2018, TerrAscend NJ was awarded a permit by the New Jersey Department of Health (“NJ DOH”) for a vertically integrated license to cultivate, process and dispense medical cannabis in its north region. TerrAscend NJ is a majority-owned subsidiary of TerrAscend, whose minority partners are BWH NJ, LLC and Blue Marble Ventures, LLC. TerrAscend NJ owns a 16-acre site in Boonton Township, Morris County. The Company has completed construction of its cultivation and manufacturing facility for a total current footprint of approximately 140,000 sq. ft. The Company has the ability to further increase the Boonton facility to 240,000 sq. ft. The Company holds a permit to operate as an alternative treatment center in New Jersey. Under New Jersey law, alternative treatment centers are able to cultivate and process cannabis, and are able to operate up to three dispensaries. The Company has been issued a permit to process cannabis by the NJ DOH which allows the Company to engage in the extraction, processing and manufacturing of a wide range of branded form factors including, vaporizables, concentrates, topicals, tinctures and edibles and currently operates two Apothecarium-branded alternative treatment center in Phillipsburg, and Maplewood, NJ. The Company plans to open a third additional alternative treatment center during the second half of 2021.

#### The Apothecarium, Valhalla and State Flower

The Apothecarium is a group of licensed, full-service dispensaries in Northern California that provide quality cannabis to both medical patients and adult-use customers. The dispensaries are known for emphasizing education and customer service for seniors, first-time dispensary visitors, and patients with serious medical conditions. The focus is on providing guests with in-depth, one-on-one consultations from highly trained cannabis consultants. The Apothecarium

also provides free cannabis education events that are open to the public. Guests may purchase their cannabis in the dispensaries or order online for pickup.

The Apothecarium currently operates five dispensaries in California, including three in San Francisco, one in Berkeley and one in Capitola. The flagship dispensary located in the Castro district of San Francisco was named the best-designed dispensary in the country by Architectural Digest.

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

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

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

As consideration, TerrAscend paid \$71,752, comprising \$36,837 in cash, \$1,046 in the form of a working capital adjustment, contingent consideration of \$3,028 and 6,700 proportionate voting shares of TerrAscend. The fair value of the share consideration at June 6, 2019 was \$30,841. 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 January 23, 2020, the Company, through WDB CA, acquired ABI SF LLC (“State Flower”), which operates a California cannabis cultivation facility and the State Flower brand. As consideration, the Company converted its previously issued note receivable and accrued interest in the amount of \$3,032 into a 49.9% equity interest in State Flower. The Company also recorded contingent consideration payable of \$6,630, representing the expected consideration payable to acquire the remaining 50.1% of State Flower, which comprises 100% of its preferred shares, subject to regulatory approval. Effective with the conversion of its note into equity interest, 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.

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

### HMS

HMS, a wholly owned subsidiary, is a cultivator and processor of medical cannabis in the state of Maryland. The grower/processor operation include a 22,000 square foot facility located in Frederick, Maryland.

On May 3, 2021, the Company, through a wholly owned subsidiary WDB Holdings MD, Inc. (“WDB MD”) acquired HMS. The Company acquired 100% of the equity of HMS for total consideration of \$24,488, comprised of \$22,399 in cash and a \$2,089 note, which bears 5.0% annual interest, due April 2022. 100% of HMS economics is retained by the Company through full ownership of HMS Health and a master services agreement with HMS Processing.

### Arise

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

As consideration, the Company paid \$12,661, comprising \$6,500 in cash, \$504 in the form of a working capital adjustment and 1,362,343 common shares of TerrAscend. The fair value of the common shares was \$5,072 at January 15, 2019.

#### TerrAscend Canada

TerrAscend Canada is a Licensed Producer (as such term is defined in the Cannabis Act) of cannabis in Canada, and its current principal business activities include the sale of recreational cannabis to the provincial cannabis retailers.

TerrAscend Canada operates out of a 67,300 square foot facility (the “Facility”) located in Mississauga, Ontario and is licensed to cultivate, process and sell cannabis for medical and non-medical purposes. These licenses allow for sales of dried cannabis, cannabis oil and extracts, topicals, and edibles.

TerrAscend Canada sells products nationally under the Haven Street and Legend brands in the dried flower, vapes, and edibles categories.

A strategic decision was made to cease the growing and cultivation of cannabis in Canada in order to focus on more profitable distribution opportunities. The final harvest from its manufacturing facility occurred in September 2020. On November 18, 2020, TerrAscend Canada was issued a research license to possess cannabis for the purposes of research.

## RESULTS FROM OPERATIONS

### Three months ended June 30, 2021 as compared to the three months ended June 30, 2020

	June 30, 2021	June 30, 2020*
	\$	\$
<b>Sales, gross</b>	\$ 61,977	\$ 36,367
Excise and cultivation taxes	(3,254)	(2,153)
<b>Sales, net</b>	<b>58,723</b>	<b>34,214</b>
<b>Cost of sales</b>	<b>24,001</b>	<b>14,999</b>
<b>Gross profit before gain on fair value of biological assets</b>	<b>34,722</b>	<b>19,215</b>
Unrealized gain on changes in fair value of biological assets	27,685	16,722
Realized fair value amounts included in inventory sold	(16,068)	(13,748)
<b>Gross profit</b>	<b>46,339</b>	<b>22,189</b>
<b>Operating expenses:</b>		
General and administrative	14,818	11,345
Share-based payments	6,230	2,484
Amortization and depreciation	2,386	2,299
Research and development	—	121
<b>Total operating expenses</b>	<b>23,434</b>	<b>16,249</b>
<b>Income (loss) from operations</b>	<b>22,905</b>	<b>5,940</b>
Revaluation of contingent consideration	(7)	4,475
Finance and other expenses	9,987	2,266
Transaction and restructuring costs	432	1,266
Unrealized (gain) loss on investments	(5,964)	(102)
Impairment of goodwill	5,007	—
Impairment of intangible assets	3,633	390
Loss on fair value of warrants	19,891	—
Unrealized foreign exchange loss	3,055	37
<b>Loss before income taxes</b>	<b>(13,129)</b>	<b>(2,392)</b>
Current income tax expense	6,876	7,113
Deferred income tax expense	3,120	320
<b>Net loss</b>	<b>\$ (23,125)</b>	<b>\$ (9,825)</b>
Currency translation adjustment	(3,020)	156
<b>Comprehensive loss</b>	<b>\$ (20,105)</b>	<b>\$ (9,981)</b>
<b>Net loss attributable to:</b>		
Shareholders of the Company	(25,939)	(9,177)
Non-controlling interests	2,814	(648)
<b>Comprehensive loss attributable to:</b>		
Shareholders of the Company	(22,919)	(9,333)
Non-controlling interests	2,814	(648)
Net loss per share – basic and diluted	\$ (0.14)	\$ (0.06)
<b>Weighted average shares outstanding</b>	<b>182,369,839</b>	<b>149,031,066</b>

\*Restated; refer to Note 23

### ***Sales, net of excise and cultivation taxes***

For the three months ended June 30, 2021, the Company generated sales, net of excise and cultivation taxes of \$58,723 compared to \$34,214 for the three months ended June 30, 2020. The increase was due to an increase in production and branded manufacturing capacity in Pennsylvania and California, as well as the initial ramp up in New Jersey. Additionally, during the second quarter of 2021, the Company acquired KCR and HMS, which resulted in an increase in sales as compared to the prior year period. Retail dispensaries across Pennsylvania, California, and New Jersey, increased from five in the second quarter of 2020 to thirteen during the second quarter of 2021.

### ***Cost of sales***

The cost of sales for the three months ended June 30, 2021 and three months ended June 30, 2020 are presented in the tables below:

	June 30, 2021	June 30, 2020*
For the three months ended	\$	\$
<b>Cost of goods sold</b>	<b>24,001</b>	14,999
<b>Impairment of inventory</b>	—	—
<b>Cost of sales</b>	<b>24,001</b>	14,999
<b>Cost of sales before changes in biological assets as percentage of net sales</b>	<b>41%</b>	44%
<b>Unrealized gain on changes in fair value of biological assets</b>	<b>(27,685)</b>	(16,722)
<b>Realized loss on changes in fair value of biological assets</b>	<b>16,068</b>	13,748
<b>Cost of sales after changes in biological assets</b>	<b>12,384</b>	12,025
<b>Cost of sales after changes in biological assets as percentage of net sales</b>	<b>21%</b>	35%

The improvement in the ratio of cost of sales relative to net sales is a result of the Company becoming more cost efficient throughout its production process.

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

### ***General and administrative expense***

General and Administrative ("G&A") expenses of \$14,818 for the three months ended June 30, 2021 increased by \$3,473 compared to \$11,345 for the same period last year. The increase in G&A expenses was primarily due to increased salaries and wages as a result of the increase in US operations, as well as an increase in professional fees. In addition, the Company paid \$740 in one-time legal settlements, \$561 in fees related to US filer preparation and IFRS to US GAAP conversion, and \$306 in executive severance during the three months ended June 30, 2021.

### ***Share-based payments***

Share-based payments expense was \$6,230 for the three months ended June 30, 2021 compared to \$2,484 for the same period last year. The increase was primarily due to the greater number of options granted during the second and third quarters of 2020, resulting in higher expense during the three months ended June 30, 2021 as compared to the three months ended June 30, 2020.

### ***Amortization and depreciation expense***

Amortization and depreciation expense were \$2,386 for the three months ended June 30, 2021 compared to \$2,299 for the same period last year. The increase in amortization and depreciation expenses is primarily related to additions of property, plant, and equipment due to the Company's cultivation expansion and increase in dispensaries.



### ***Revaluation of contingent considerations***

Revaluation of contingent consideration was \$(7) for the three months ended June 30, 2021 compared to \$4,475 for the same period last year. The revaluation was related to the accretion of the contingent consideration payable for Ilera and State Flower which were recorded at the present value of future payments upon initial recognition, adjusted for payments made during the respective three-month period.

### ***Finance and other expenses***

Finance expense for the three months ended June 30, 2021 totaled \$9,987 compared to \$2,266 for the comparable period last year. Finance expense in the current period increased primarily due to the Ilera Term Loan issued in Q4 2020. In addition, during the three months ended June 30, 2021, the Company recorded a reduction to the indemnification asset related to the Apothecarium tax audit settlement and statute expirations for tax years ended September 30, 2014 and September 30, 2015 in the amount of \$2,599. The finance expense in the prior year period was primarily related to borrowings on the \$75,000 credit facility with JW Asset Management LLC, as well as the Canopy Growth financing received in Q1 2020.

### ***Transaction and restructuring costs***

Transaction and restructuring costs for the three months ended June 30, 2021 totaled \$432 compared to \$1,266 for the comparable period last year. The transaction and restructuring costs in the current period are mainly due to legal costs related to acquisitions during the period. The transaction and restructuring costs in the prior year period are primarily personnel related reorganization and severance costs.

### ***Unrealized (gain) loss on investments***

For the three months ended June 30, 2021, the Company recorded unrealized gain on investments of \$5,964 compared to \$102 in the same period for 2020. The unrealized gain in the current period relates to the acquisition of the remaining 90% investment in Guadco LLC and KCR Holdings LLC. Refer to Note 5 *Acquisitions* of the Unaudited Condensed Interim Consolidated Financial Statements of the Company as of and for three and six months ended June 30, 2021 and 2020.

### ***Impairment of goodwill***

The Company recorded impairment of goodwill of \$5,007 for the three months ended June 30, 2021 as compared to \$nil in the same period for 2020. The impairment recorded for the three months ended June 30, 2021 related to the Company's Florida cash generating unit ("CGU") as the Company determined that the estimated cash flows for its Arise business did not support the carrying value of the intangible assets and goodwill. As a result, the company recorded impairment to reduce the balance of goodwill at its Florida CGU to \$nil.

### ***Impairment of intangible assets***

The Company recorded impairment of intangible assets of \$3,633 for the three months ended June 30, 2021 as compared to \$390 in the same period for 2020. The impairment recorded in the current period relates to the write-off of intellectual property at the Company's Arise business. The impairment recorded in the three months ended June 30, 2020 related to the write-off of intellectual property in Canada.

### ***Loss on fair value of warrants***

For the three months ended June 30, 2021, the warrant liability has been remeasured to fair value at June 30, 2021 using the Black Scholes model. In addition, warrants were exercised during the quarter. The combined impact resulted in a loss on fair value of warrants of \$19,891 for the three months ended June 30, 2021.

***Unrealized foreign exchange loss***

For the three months ended June 30, 2021, the Company recorded unrealized foreign exchange loss of \$3,055 compared to a loss of \$37 for the same period last year. The unrealized exchange loss is a result of the remeasurement of USD denominated cash and other assets recorded in CAD functional currency.

***Current and deferred income tax expense***

For the three months ended June 30, 2021, the Company recorded current income tax expense of \$6,876 and deferred income tax expense of \$3,120, respectively. For the comparable period last year, the Company recorded a current income tax expense of \$7,113 and deferred income tax expense of \$320. The increase in tax expense is related to operational scale up. The deferred income tax recovery during the current period primarily relates to temporary differences resulting from unrealized gain on biological assets.

**Six months ended June 30, 2021 as compared to the six months ended June 30, 2020**

	June 30, 2021	June 30, 2020*
	\$	\$
<b>Sales, gross</b>	<b>\$ 118,473</b>	<b>\$ 64,510</b>
Excise and cultivation taxes	(6,396)	(4,421)
<b>Sales, net</b>	<b>112,077</b>	<b>60,089</b>
<b>Cost of sales</b>	<b>42,425</b>	<b>29,314</b>
<b>Gross profit before gain on fair value of biological assets</b>	<b>69,652</b>	<b>30,775</b>
Unrealized gain on changes in fair value of biological assets	51,208	27,793
Realized fair value amounts included in inventory sold	(37,059)	(18,391)
<b>Gross profit</b>	<b>83,801</b>	<b>40,177</b>
<b>Operating expenses:</b>		
General and administrative	30,580	22,201
Share-based payments	10,414	4,581
Amortization and depreciation	4,659	3,517
Research and development	—	275
<b>Total operating expenses</b>	<b>45,653</b>	<b>30,574</b>
<b>Income (loss) from operations</b>	<b>38,148</b>	<b>9,603</b>
Revaluation of contingent consideration	2,990	8,620
Finance and other expenses	17,233	4,723
Transaction and restructuring costs	432	1,694
Unrealized (gain) loss on investments	(6,192)	244
Impairment of goodwill	5,007	-
Impairment of intangible assets	3,633	734
Loss on fair value of warrants	25,301	—
Unrealized foreign exchange loss	5,838	77
<b>Loss before income taxes</b>	<b>(16,094)</b>	<b>(6,489)</b>
Current income tax expense	16,088	11,474
Deferred income tax expense	3,691	2,173
<b>Net loss</b>	<b>\$ (35,873)</b>	<b>\$ (20,136)</b>
Currency translation adjustment	(4,981)	2,009
<b>Comprehensive loss</b>	<b>\$ (30,892)</b>	<b>\$ (22,145)</b>
<b>Net loss attributable to:</b>		
Shareholders of the Company	(39,954)	(18,999)
Non-controlling interests	4,081	(1,137)
<b>Comprehensive loss attributable to:</b>		
Shareholders of the Company	(34,973)	(21,008)
Non-controlling interests	4,081	(1,137)
Net loss per share – basic and diluted	<b>\$ (0.23)</b>	<b>\$ (0.13)</b>
Weighted average shares outstanding	<b>176,901,119</b>	<b>147,750,133</b>

\*Restated; refer to Note 23

### ***Sales, net of excise and cultivation taxes***

For the six months ended June 30, 2021, the Company generated sales, net of excise and cultivation taxes of \$112,077 compared to \$60,089 for the six months ended June 30, 2020. The increase was due an increase in production and branded manufacturing capacity in Pennsylvania and California, as well as the initial ramp up in New Jersey. Additionally, during the second quarter of 2021, the Company acquired KCR and HMS, which resulted in an increase in sales as compared to the prior year period. Retail dispensaries across Pennsylvania, California, and New Jersey, increased from five in the second quarter of 2020 to thirteen during the second quarter of 2021.

### ***Cost of Sales***

For the six months ended	June 30, 2021 \$	June 30, 2020* \$
<b>Cost of goods sold</b>	<b>42,425</b>	27,951
<b>Impairment of inventory</b>	<b>—</b>	1,363
<b>Cost of sales</b>	<b>42,425</b>	29,314
<b>Cost of sales before changes in biological assets as percentage of net sales</b>	<b>38%</b>	49%
<b>Unrealized gain on changes in fair value of biological assets</b>	<b>(51,208)</b>	(27,793)
<b>Realized loss on changes in fair value of biological assets</b>	<b>37,059</b>	18,391
<b>Cost of sales after changes in biological assets</b>	<b>28,276</b>	19,912
<b>Cost of sales after changes in biological assets as percentage of net sales</b>	<b>25%</b>	33%

The improvement in the ratio of cost of sales relative to net sales is a result of the Company becoming more cost efficient throughout its production process. The impairment recorded in the prior year was due to the carrying value of inventory exceeding the estimated net realizable value of inventory held in Canada.

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

### ***General and Administrative Expense***

G&A expenses of \$30,580 for the six months ended June 30, 2021 increased by \$8,379 compared to \$22,201 for the same period last year. The increase in G&A expenses was primarily due to increased salaries and wages as a result of the increase in US operations, as well as an increase in professional fees. In addition, the Company paid \$2,121 in one-time legal settlements, \$561 in fees related to US filer preparation and IFRS to US GAAP conversion, and \$681 in executive severance during the six months ended June 30, 2021.

### ***Share-based payments***

Share-based payments expense was \$10,414 for the six months ended June 30, 2021 compared to \$4,581 for the same period last year. The increase was primarily due to the greater number of options granted during the third quarter of 2020, resulting in higher expense during the six months ended June 30, 2021 as compared to the six months ended June 30, 2020.

### ***Amortization and Depreciation Expense***

Amortization and depreciation expense were \$4,659 for the six months ended June 30, 2021 compared to \$3,517 for the same period last year. The increase in amortization and depreciation expense is primarily related to additions of property, plant, and equipment due to the Company's cultivation expansion and increase in dispensaries.

### ***Revaluation of contingent considerations***

Revaluation of contingent consideration was \$2,990 for the six months ended June 30, 2021 compared to \$8,620 for the six months ended June 30, 2020. The revaluation was related to the accretion of the contingent consideration payable for Ilera and State Flower which were recorded at the present value of future payments upon initial recognition, adjusted for payments made during the respective six month period.

### ***Finance and other expenses***

For the six months ended June 30, 2021, finance expense totaled \$17,233 compared to \$4,723 for the same period last year. Finance expense in the current period increased primarily due to the Ilera Term Loan issued in Q4 2020. During the current period, finance expense is partially offset by \$766 of other income related to the forgiveness of the Company's Paycheck Protection Program (PPP) loan received by the Company's Arise business. In addition, during the six months ended June 30, 2021, the Company recorded a reduction to the indemnification asset related to the Apothecarium tax audit settlement and statute expirations for tax years ended September 30, 2014 and September 30, 2015 in the amount of \$3,796. The finance expense in the prior year period was primarily related to borrowings on the \$75,000 credit facility with JW Asset Management LLC, as well as the Canopy Growth financing received in Q1 2020.

### ***Transaction and restructuring costs***

Transaction and restructuring costs for the six months ended June 30, 2021 totaled \$432 compared to \$1,694 for the comparable period last year. The transaction and restructuring costs in the current period are primarily legal costs related to acquisitions during the period. The transaction and restructuring costs in the prior year period are primarily personnel related reorganization and severance costs.

### ***Unrealized (Gain) Loss on Investments***

For the six months ended June 30, 2021, the Company recorded unrealized gain on investments of \$6,192 compared to a loss of \$244 in 2020. The unrealized gain in the current period relates to the acquisition of the remaining 90% investment in Guadco LLC and KCR Holdings LLC. Refer to Note 5 *Acquisitions* of the Unaudited Condensed Interim Consolidated Financial Statements of the Company as of and for three and six months ended June 30, 2021 and 2020.

### ***Impairment of goodwill***

The Company recorded impairment of goodwill of \$5,007 for the three months ended June 30, 2021 as compared to \$nil in the same period for 2020. The impairment recorded for the three months ended June 30, 2021 related to the Company's Florida CGU as the Company determined that the estimated cash flows for its Arise business did not support the carrying value of the intangible assets and goodwill. As a result, the company recorded impairment to reduce the balance of goodwill at its Florida CGU to \$nil.

### ***Impairment of intangible assets***

The Company recorded impairment of intangible assets of \$3,633 for the six months ended June 30, 2021 as compared to \$734 in the same period for 2020. The impairment recorded in the current period relates to the write-off of intellectual property at the Company's Arise business. The impairment recorded in the six months ended June 30, 2020 related to the write-off of intellectual property in Canada and the termination of a distribution agreement at the Company's Arise business during Q1 2020.

### ***Loss on fair value of warrants***

For the six months ended June 30, 2021, the preferred share derivative liability and warrant liability have been remeasured to fair value at June 30, 2021 using the Black Scholes model. In addition, warrants were exercised during the six months ended June 30, 2021. The combined impact resulted in a loss on fair value of warrants of \$25,301 for the six months ended June 30, 2021.

### ***Unrealized foreign exchange loss***

For the six months ended June 30, 2021, the Company recorded unrealized foreign exchange loss of \$5,838 compared to \$77 for the same period last year. The unrealized exchange loss is a result of the remeasurement of USD denominated cash and other assets recorded in CAD functional currency.

### ***Current and deferred income tax expense***

For the six months ended June 30, 2021, the Company recorded current income tax expense of \$16,088 and deferred income tax recovery of \$3,691, respectively. For the comparable period last year, the Company recorded a current income tax expense of \$11,474 and deferred income tax recovery of \$2,173. The increase in tax expense is related to operational scale up. The current expense was impacted by a recovery resulting from the expiration of the statute of limitations to assess tax. The deferred income tax recovery during the current period primarily relates to temporary differences resulting from unrealized gain on biological assets and the recording of a deferred tax expense related to convertible debt.

## SUMMARY OF QUARTERLY RESULTS

The following table sets forth information regarding TerrAscend's Consolidated Financial Statements including sales, net of excise and cultivation taxes, loss from operations and other information for the periods presented, which were prepared in accordance with IFRS and should be read in conjunction with the corresponding audited annual consolidated financial statements and related notes.

	Q2 2021 \$	Q1 2021 \$	Q4 2020 \$	Q3 2020 \$	Q2 2020 \$	Q1 2020 \$	Q4 2019 \$	Q3 2019 \$
<b>Sales, gross</b>	61,977	56,496	52,980	40,416	36,367	28,143	21,918	21,956
Excise taxes	(3,254)	(3,142)	(3,364)	(2,288)	(2,153)	(2,268)	(2,351)	(1,677)
<b>Sales, net</b>	58,723	53,354	49,616	38,128	34,214	25,875	19,567	20,279
<b>Cost of sales</b>	24,001	18,424	22,166	15,659	14,999	14,315	22,812	16,674
<b>Gross profit (loss) before gain on fair value of biological assets</b>	34,722	34,930	27,450	22,469	19,215	11,560	(3,245)	3,605
Unrealized gain on changes in fair value of biological assets	27,685	23,523	34,547	18,885	16,722	11,071	1,325	1,733
Realized loss on changes in fair value of biological assets	(16,068)	(20,991)	(19,792)	(15,505)	(13,748)	(4,643)	(199)	(67)
<b>Gross profit (loss)</b>	<b>46,339</b>	<b>37,462</b>	<b>42,205</b>	<b>25,849</b>	<b>22,189</b>	<b>17,988</b>	<b>(2,119)</b>	<b>5,271</b>
<b>Operating expenses:</b>								
General and administrative expense	14,818	15,762	11,560	10,324	11,345	10,856	9,288	11,052
Share-based payments	6,230	4,184	4,309	3,129	2,484	2,097	5	5,470
Amortization and depreciation	2,386	2,273	1,943	1,912	2,299	1,218	150	2,511
Research & development	—	—	25	17	121	154	175	161
<b>Total operating expenses</b>	<b>23,434</b>	<b>22,219</b>	<b>17,837</b>	<b>15,382</b>	<b>16,249</b>	<b>14,325</b>	<b>9,618</b>	<b>19,194</b>
<b>Income (loss) from operations</b>	<b>22,905</b>	<b>15,243</b>	<b>24,368</b>	<b>10,467</b>	<b>5,940</b>	<b>3,663</b>	<b>(11,737)</b>	<b>(13,923)</b>
Revaluation of contingent consideration	(7)	2,997	4,042	6,047	4,475	4,145	46,857	—
Finance and other expenses	9,987	7,246	3,303	2,476	2,266	2,457	1,147	1,590
Transaction and restructuring costs	432	—	83	195	1,266	428	8,444	—
Unrealized (gain) loss on investments	(5,964)	(228)	(126)	(304)	(102)	346	2,070	185
Impairment of goodwill	5,007	—	—	—	—	—	50,162	—
Impairment of intangible assets	3,633	—	(2,902)	5	390	344	3,266	—
Unrealized gain on note receivable	—	—	—	—	—	—	1,344	(91)
Loss on fair value of warrants	19,891	5,410	98,470	17,833	—	—	—	—
Realized gain on investments	—	—	—	—	—	—	(1,061)	—
Impairment of property, plant, and equipment	—	—	862	—	—	—	1,746	—
Unrealized foreign exchange loss	3,055	2,783	72	31	37	40	212	24
<b>Loss before income taxes</b>	<b>(13,129)</b>	<b>(2,965)</b>	<b>(79,436)</b>	<b>(15,816)</b>	<b>(2,392)</b>	<b>(4,097)</b>	<b>(125,924)</b>	<b>(15,631)</b>
Current income tax expense (recovery)	6,876	9,212	9,113	2,122	7,113	4,361	3,675	(703)
Deferred income tax expense (recovery)	3,120	571	(768)	(3,336)	320	1,853	602	(1,778)
<b>Net loss</b>	<b>(23,125)</b>	<b>(12,748)</b>	<b>(87,781)</b>	<b>(14,602)</b>	<b>(9,825)</b>	<b>(10,311)</b>	<b>(130,201)</b>	<b>(13,150)</b>
Currency translation adjustment	(3,020)	(1,961)	894	90	156	1,853	(1,664)	(168)
<b>Comprehensive loss</b>	<b>(20,105)</b>	<b>(10,787)</b>	<b>(88,675)</b>	<b>(14,692)</b>	<b>(9,981)</b>	<b>(12,164)</b>	<b>(128,537)</b>	<b>(12,982)</b>
<b>Net loss attributable to:</b>								
Shareholders of the Company	(25,939)	(14,015)	(89,973)	(14,125)	(9,177)	(9,822)	(128,412)	(12,925)
Non-controlling interests	2,814	1,267	2,192	(477)	(648)	(489)	(1,789)	(225)
<b>Comprehensive loss attributable to:</b>								
Shareholders of the Company	(22,919)	(12,054)	(90,867)	(14,215)	(9,333)	(11,675)	(126,748)	(12,757)
Non-controlling interests	2,814	1,267	2,192	(477)	(648)	(489)	(1,789)	(225)

## NON-IFRS FINANCIAL MEASURES

Management uses certain non-IFRS measures to evaluate the performance of the Company's business as it reflects its ongoing profitability. Non-IFRS measures used by management do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The Company believes that certain investors and analysts use these measures to evaluate a company's ability to service debt and to meet other payment obligations or as a common measurement to value companies in the industry. Such metrics are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The Company calculates Adjusted EBITDA as EBITDA less unrealized gain on changes in fair value of biological assets and other income plus fair value changes in biological assets included in inventory sold, impairments, restructuring costs, purchase accounting adjustments, transaction costs, share based compensation, revaluation of warrants and derivatives liabilities, unrealized loss on investments or foreign exchange and other one-time non-recurring items. The Company believes these definitions are suited to measure the Company's ability to service debt and to meet other payment obligations.

The table below reconciles net loss to EBITDA and Adjusted EBITDA for the three and six months ended June 30, 2021 and June 30, 2020:

Summary of EBITDA and Adjusted EBITDA	Notes	For the three months ended		For the six months ended	
		June 30, 2021	June 30, 2020*	June 30, 2021	June 30, 2020*
<b>Net loss</b>		<b>(23,125)</b>	<b>(9,825)</b>	<b>(35,873)</b>	<b>(20,136)</b>
<i>Add (deduct) the impact of:</i>					
Current income tax expense		6,876	7,113	16,088	11,474
Deferred income tax (recovery) expense		3,120	320	3,691	2,173
Finance expense		7,364	2,333	13,451	4,867
Amortization and depreciation		4,133	2,809	8,117	5,710
<b>EBITDA</b>	(a)	<b>(1,632)</b>	<b>2,750</b>	<b>5,474</b>	<b>4,088</b>
<i>Add (deduct) the impact of:</i>					
Unrealized gain on changes in fair value of biological assets	(b)	(27,685)	(16,722)	(51,208)	(27,793)
Realized loss on changes in fair value of biological assets	(c)	16,068	13,748	37,059	18,391
Revaluation of contingent consideration	(d)	(7)	4,475	2,990	8,620
Share-based payments	(e)	6,230	2,592	10,414	4,906
Non-cash write downs of inventory	(f)	449	—	449	1,418
Restructuring costs and executive severance	(g)	467	436	467	825
Unrealized (gain) loss on investments and investments in associates	(h)	(5,964)	(102)	(6,192)	244
Impairment of goodwill and intangible assets	(i)	8,640	395	8,640	739
Relief of fair value of inventory upon acquisition	(j)	567	—	567	(230)
Other one-time items	(k)	860	830	1,122	869
Legal settlements	(l)	740	—	2,121	—
Unrealized foreign exchange loss	(m)	3,055	37	5,838	77
Indemnification asset release	(n)	2,599	—	3,796	—
Loss on fair value of warrants	(o)	19,891	—	25,301	—
<b>Adjusted EBITDA</b>		<b>24,278</b>	<b>8,439</b>	<b>46,838</b>	<b>12,154</b>

The table below reconciles gross profit before gain on fair value of biological assets and gross margin before gain on fair value of biological assets for the three and six months ended June 30, 2021 and June 30, 2020.



		For the three months ended		For the six months ended	
Summary of adjusted gross profit and adjust gross margin before gain on fair value of biological assets	Notes	June 30, 2021	June 30, 2020*	June 30, 2021	June 30, 2020*
Gross profit before gain on fair value of biological assets		34,722	19,215	69,652	30,775
Gross margin before gain on fair value of biological assets		59%	56%	62%	51%
<i>Add (deduct) the impact of:</i>					
Non-cash write downs of inventory	(f)	449	—	449	1,418
Relief of fair value of inventory upon acquisition	(j)	567	—	567	(230)
Adjusted gross profit before gain on fair value of biological assets		35,738	19,215	70,668	31,963
Adjusted gross margin before gain on fair value of biological assets		61%	56%	63%	53%

- (a) EBITDA is a non-IFRS measure and is calculated as earnings before interest, tax, depreciation and amortization.
- (b) Represents fair value changes of biological assets based on the average stage of growth of plants compared to expected growth period of plants from planting to harvesting.
- (c) Represents the portion of inventory harvested and sold in the period that is related to the changes in fair value of biological assets.
- (d) Represents the (gain) loss on period end revaluation of the Company's contingent consideration liabilities.
- (e) Represents non-cash share-based compensation expense.
- (f) Represents inventory write downs outside the normal course of operations.
- (g) Represents costs associated with severance and winding down of business units as well as severance costs for executive level individuals.
- (h) Represents unrealized loss and gains on fair value changes on strategic investments and note receivables held.
- (i) Represents impairment charges taken on the Company's goodwill and intangible assets
- (j) In connection with the Company's acquisitions, inventory was acquired at fair value, which included a markup or markdown for profit. Recording inventory at fair value in purchase accounting has the effect of increasing or decreasing inventory and thereby increasing or decreasing cost of sales as compared to the amounts the Company would have recognized if the inventory was sold through at cost. The write-up or write-down of acquired inventory represents the incremental cost of sales that were recorded as a result of purchase accounting.
- (k) Includes one-time fees incurred in connection with the Company's acquisitions, such as expenses related to professional fees, consulting, legal and accounting that would otherwise not have been incurred. In addition, includes one-time charges for work completed in preparation of becoming a US filer. These fees are not indicative of the Company's ongoing costs and are expected to be incurred only as additional acquisitions are completed.
- (l) Represents one-time legal settlement charges.
- (m) Represents the unrealized loss resulting from foreign currency transactions.
- (n) Represents indemnification asset release. Refer to Note 16 *Income Taxes* of the Unaudited Condensed Interim Consolidated Financial Statements of the Company as of and for three and six months ended June 30, 2021 and 2020.
- (o) Represents the loss on fair value of warrants, including effects of the foreign exchange of the US denominated preferred shares and preferred share warrants.

The increase in Adjusted EBITDA was primarily due to operational scale up. The Company continued to expand in the US organically through an increase in production and branded manufacturing capacity in Pennsylvania and New Jersey and store expansions in Pennsylvania, New Jersey, and California.

## LIQUIDITY AND CAPITAL RESOURCES

<b>Consolidated</b>	<b>June 30, 2021</b>	<b>December 31, 2020*</b>
Cash and cash equivalents	\$ 154,181	\$ 59,226
Current assets	254,207	127,779
Non-current assets	464,133	346,522
Current liabilities	74,135	93,963
Non-current liabilities	410,753	371,606
Working capital	180,072	33,816
Total shareholders' equity	233,452	8,732

At June 30, 2021, TerrAscend had cash and cash equivalents of \$154,181, which is sufficient to fund the Company's ongoing operations. Any additional future requirements will be funded through the following sources of capital:

- i) Cash from ongoing operations;
- ii) Market offering – the Company has the ability to offer equity in the market for significant potential proceeds to a large investor base, as evidenced by oversubscriptions on previous recent private placements;
- iii) Debt- the Company has the ability to obtain additional debt from additional debtors;
- iv) Sale leaseback – the Company has the ability to sell and lease back its capital properties;
- v) Exercise of options and warrants- the Company has the ability to obtain funds from exercise of options and warrant holders from securities that are in the money.

See “Challenges to Access to Public and Private Capital Markets” section under “Risks Related to the Common Shares” in the Company's Management Discussion & Analysis for the year ended December 31, 2020 for further information.

The Company's objective with respect to its capital management is to ensure it has sufficient cash resources to maintain its ongoing operations and finance its research and development activities, corporate and administration expenses, working capital and overall capital expenditures. Since inception, the Company has primarily financed its liquidity needs through the issuance of shares and utilization of borrowings. The Company expects that its cash on hand and cash flows from operations, along with financing transactions, will be adequate to meet its capital requirements and operational needs for the next 12 months.

### *Current Year Financing Transactions*

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 \$9.64 (CAD \$12.35) per unit resulting in proceeds of \$173,477 with 80% coming from four large US institutional investors.

## CASH FLOWS

	For the six months ended	
	June 30, 2021	June 30, 2020*
Cash inflow from operating activities	\$ 16,711	\$ 6,390
Cash inflow from financing activities	171,604	79,248
Cash outflow from investing activities	(93,055)	(38,626)
<b>Increase in cash and cash equivalents during the period</b>	<b>95,260</b>	<b>47,012</b>
Net effects of foreign exchange	(305)	(1,300)
Cash and cash equivalents, beginning of period	59,226	9,162
<b>Cash and cash equivalents, end of period</b>	<b>\$ 154,181</b>	<b>\$ 54,874</b>

### *Cash flows from operating activities*

For the six months ended June 30, 2021, the Company's cash inflows from operating activities were \$16,711 compared to \$6,390 for six months ended June 30, 2020. The improvement in cash inflow is primarily due to increased sales and improvements in the ratio of cost of sales as a percentage of net sales as previously described in the Results from Operations section, partially offset by income tax payments of \$16,381 for the six months ended June 30, 2021.

### *Cash flows from financing activities*

Cash inflow provided by financing activities for the six months ended June 30, 2021 was \$171,604 compared to \$79,248 for six months ended June 30, 2020. On January 28, 2021 the Company completed a private placement and issued 18,115,656 common shares at a price of \$9.64 (CAD \$12.35) per common share for total proceeds of \$173,477, net of share issuance costs of \$1,643. Additionally, during the six months ended June 30, 2021, 2,590,178 common share warrants were exercised for total proceeds of \$6,777 and 699,009 stock options were exercised at \$0.67 - \$0.93 (CAD \$0.85-\$8.52) per unit for total gross proceeds of \$2,385. In addition, 1,900 preferred share warrants were exercised at \$3,000 per unit for total gross proceeds of \$3,759.

The cash inflow provided by financing activities was offset by payments of principal and interest of \$13,292 on the Company's outstanding debt obligations.

During the six months ended June 30, 2020, the Company received loans in the amount of \$59,835 from Canopy Growth and management of Ilera. Total private placement net of shares issuance proceeds amounted to \$34,090. The JW Asset Management credit facility was completely paid off during the period in the amount of \$47,085.

### *Cash flows from investing activities*

Cash outflow from investing activities during the six months ended June 30, 2021 totaled \$93,055 compared to \$38,626 for the six months ended June 30, 2020, resulting primarily from the cash consideration paid on the acquisition of KCR and HMS totaling \$42,905 and payments of contingent consideration in the amount of \$29,668 related to the acquisition of Ilera. Additionally, the Company had investments in property, plant and equipment of \$10,856 primarily related to the buildout of the New Jersey operations and expansions in Pennsylvania cultivation and \$10,583 related to deposits paid for expansion of the cultivation premises in Pennsylvania.

In comparison, the cash outflow from investing activities during the six months ended June 30, 2020 amounted to \$38,626 primarily from payments of contingent consideration of \$20,666 related to Ilera and from investments in property, plant and equipment of \$17,943 primarily relating to the buildout of the New Jersey operations and expansions in Pennsylvania and California cultivation.

## USE OF PROCEEDS

The following table discusses the previously disclosed anticipated use of proceeds for its financing transactions:

Financing	Disclosed Intent of Proceeds
Private placement January 28, 2021	Proceeds of \$173,477 will be used to accelerate organic expansion plans and to pursue future mergers and acquisitions.

There have been no changes in the Company's use of proceeds as described in the Company's Management Discussion & Analysis for the year ended December 31, 2020. The Company's actual use of proceeds is consistent with previously disclosed anticipated uses.

During the six months ended June 30, 2021, the Company made capital expenditures of \$10,856 primarily related to the buildout of the New Jersey operations and expansions in Pennsylvania cultivation, and \$10,583 related to deposits paid for expansion of the cultivation premises in Pennsylvania. The Company also made loan interest payments of \$13,292. Additionally, the Company made working capital payments of \$9,843 and tax payments of \$16,381.

The Company continues to execute its expansion plans in its core northeast focus markets which include Pennsylvania, New Jersey and HMS Health in Maryland. As such, the Company is planning on executing on further capital expansion projects throughout 2021 in all three of those core states. These capital expansion projects will be specifically focused on additional cultivation expansions in all three states. In total, the Company plans to spend a similar level of capital expenditure in 2021 as was spent in 2020.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following represents the Company's significant contractual obligations at June 30, 2021:

	2021	2022	2023	2024	2025	Thereafter	Total
<b>Contractual Obligations</b>							
Loans payable	16,444	25,213	26,213	151,265	5,182	107,591	<b>331,908</b>
Lease liabilities	2,143	4,525	4,504	4,594	4,723	43,740	<b>64,229</b>
Contingent consideration payable	3,028	8,441	-	-	-	6,300	<b>17,769</b>
<b>Total</b>	<b>21,615</b>	<b>38,179</b>	<b>30,717</b>	<b>155,859</b>	<b>9,905</b>	<b>157,631</b>	<b>413,906</b>

Loans payable represent the contractually required principal and interest payments payable on borrowings as of June 30, 2021. The various borrowings bear interest rates at 6% to 12.875% per annum.

Lease liabilities include obligations due related to the Company's leased premises and offices.

The contingent consideration payable relates to the Company's business acquisitions of Apothecarium, State Flower, and KCR. Contingent consideration is based upon the potential earnout of the underlying business unit and is measured using a projection model for the business and the formulaic structure for determining the consideration under the agreement. The contingent consideration is revalued at the end of each reporting period using a probability weighted model based on the likelihood of achieving certain revenue and EBITDA scenario outcomes. The amounts included above represent the undiscounted amount of the contingent consideration due.

## CLAIMS AND LITIGATION

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. On March 11, 2021, the Ontario Superior Court of Justice approved a settlement agreement (the “Settlement Agreement”) between the Company, TerrAscend Canada and PharmHouse. The Settlement Agreement provides that 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 Canada 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 recommenced 261 Claim issued on February 10, 2021, which the Company believes is completely baseless and without merit.

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 unaudited condensed interim 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 June 30, 2021, 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 unaudited condensed interim consolidated financial statements.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements at June 30, 2021 and 2020.

## RELATED PARTY TRANSACTIONS

- (a) Key management includes directors and officers of the Company. Total compensation, comprised of salaries and share-based payments, awarded to key management for the six months ended June 30, 2021 and June 30, 2020 respectively were as follows:

For the six months ended			
		June 30, 2021	June 30, 2020*
Salaries and wages	\$	1,819	\$ 1,075
Share-based payments		4,333	2,362
<b>Total</b>	<b>\$</b>	<b>6,152</b>	<b>\$ 3,437</b>

- (b) A small number of related persons participated in the Ilera term loan (Note 10 *Loans payable*), which makes up \$4,520 of the total loan principal balance.
- (c) Refer to Note 10 *Loans payable* of the Unaudited Condensed Interim Consolidated Financial Statements of the Company as of and for the three and six months ended June 30, 2021 and 2020 for discussion regarding related party loan balances.
- (d) 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).

## FINANCIAL INSTRUMENTS

Refer to Note 22 *Financial instruments and risk management* of the Unaudited Condensed Interim Consolidated Financial Statements of the Company as of and for the six months ended June 30, 2021 and 2020 for the financial instrument and fair value disclosures.

## FINANCIAL RISK FACTORS

The financial risk factors significant to the financial statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2020.

## SUBSEQUENT EVENTS

In August 2021, the Company made the decision to undertake a strategic review of process to explore, review, and evaluate potential alternatives for its Arise business focused on maximizing shareholder value.

On July 16, 2021, the Company signed a definitive agreement to purchase an additional 12.5% of the issued and outstanding equity of TerrAscend NJ from BWH NJ, LLC and Blue Marble Ventures, LLC for a total consideration of \$50,000. Upon closing of the agreement, the Company will own 87.5% of the issued and outstanding equity of TerrAscend NJ. The transaction is expected to close in the third quarter of 2021. The Company has the option to purchase an additional 6.25% ownership, for a total of 93.75%, at a predetermined valuation during the period commencing April 1, 2023 through June 15, 2023.

On July 19, 2021, the Company amended the original agreement related to the success fee payable (refer to Note 9 *Intangible Assets* of the Unaudited Condensed Interim Consolidation Financial Statements of the Company as of and for the six months ended June 30, 2021 and 2020). Per the terms of the amendment, the Company will make the second success fee payment on the earlier of (i) March 31, 2023, and (ii) fifteen days after TerrAscend NJ shall have made distributions to one or more of its members totaling at least \$15,000 in aggregate.

Effective August 18, 2021, the Company signed an exclusive agreement to supply COOKIES licensed product to the New Jersey market and to bring COOKIES Corners to its three dispensaries in New Jersey.

Jason Marks, the Company's Chief Legal Officer and Head of Corporate Development, decided to leave the Company effective August 18, 2021 to return to the life sciences sector where he started his in-house legal career in 2008.

## OUTSTANDING SHARE DATA

At June 30, 2021, TerrAscend had 184,402,803 common shares outstanding. At the date of this MD&A, fully diluted share capital outstanding was as follows:

	Number outstanding on a basic unconverted basis	Number outstanding on a fully diluted converted basis	Weighted average exercise price  CAD
Common shares	184,413,749	184,413,749	N/A
Exchangeable shares	38,890,570	38,890,570	N/A
Preferred shares	14,318	14,318,000	N/A
Warrants for common shares		37,913,920	4.95
Warrants for proportionate voting shares		8,590,908	7.21
Warrants for preferred shares		16,119,000	3.76
Options		13,769,713	5.73
Total outstanding at date of this MD&A	223,318,637	314,015,860	5.09

## USE OF ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2020.

## SIGNIFICANT ACCOUNTING POLICIES

The same accounting policies have been applied in these unaudited condensed interim consolidated statements as those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2020.

## REGULATORY FRAMEWORK IN CANADA

There have been no changes with respect to the regulatory framework in Canada, as it relates to the Company, as disclosed in the Company's Management Discussion & Analysis for the year end December 31, 2020.

## US CANNABIS REGULATORY REGIME

There have been no changes with respect to the US cannabis regulatory regime, as it relates to the Company, as described in the Company's Management Discussion & Analysis for the year ended December 31, 2020.

## COMPLIANCE

The Company is in compliance with all state laws and the related cannabis licensing framework of Pennsylvania, New Jersey and California. There are no current incidences of noncompliance, citations or notices of violations outstanding which may have an impact on the Company's licenses, business activities or operations in these states. Notwithstanding the foregoing, like all businesses, the Company may from time-to-time experience incidences of noncompliance with applicable rules and regulations in the states in which the Company operates, and such non-compliance may have an impact on the Company's licenses, business activities or operations in the applicable states.

However, the Company takes steps to minimize, disclose and remedy all incidences of non-compliance which may have an impact on the Company's licenses, business activities or operations in all states in which the Company operates.

## **RISK FACTORS**

There have been no changes with respect to the risk factors described in the Company's Management Discussion & Analysis for the year ended December 31, 2020. The risks and uncertainties previously disclosed are not the only ones the Company is facing. Additional risks and uncertainties not presently known to the Company, or that it currently deems immaterial, may also impair its operations. If any such risks actually occur, the business, financial condition, liquidity and results of the Company's operations could be materially adversely affected. The risk factors previously described in the Company's Management Discussion & Analysis for the year ended December 31, 2020 should be carefully considered by readers.

### ***US Specific Regulatory Risk***

The Company's exposure to US marijuana related activities for the six months ended June 30, 2021 and June 30, 2020 is as follows:

	<b>At June 30, 2021</b>	<b>At December 31, 2020*</b>
Current assets	\$ 158,698	\$ 84,623
Non-current assets	430,736	\$ 303,173
Current liabilities	64,219	\$ 82,090
Non-current liabilities	202,080	\$ 168,048

  

	<b>June 30, 2021</b>	<b>June 30, 2020</b>
Sales, net	\$ 100,053	\$ 49,707
Gross profit (loss) before gain on fair value of biological assets	67,337	31,692
Gross profit (loss)	81,486	40,851
Income (loss) from operations	56,728	23,809
Net income (loss) attributable to controlling interest	23,684	(2,219)