TERRASCEND CORP.

Consolidated Financial Statements

For the year ended December 31, 2018 and December 31, 2017
(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, 2018 and December 31, 2017, and the consolidated statements of loss and other comprehensive loss, changes in equity and cash flows 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, 2018 and December 31, 2017, 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.

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

Chartered Professional Accountants

April 23, 2019

Licensed Public Accountants

Consolidated Statements of Financial Position

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

	Notes	As at December 31, 2018	As at December 31, 2017
ASSETS			
Current Assets			
Cash and cash equivalents		**$ 21,773**	$ 51,817
Receivables	4	**9,641**	412
Note receivable	5	**1,561**	—
Investments	6	**7,690**	—
Biological assets	9	**545**	—
Inventory	10	**14,844**	1,364
Prepaid expenses		**1,557**	100
Deposits	11	**870**	—
Deferred costs	11	**313**	—
		58,794	**53,693**
Non-Current Assets			
Investment in joint venture	7	**2,732**	—
Property, plant and equipment	12	**25,427**	15,035
Intangible assets	13	**2,025**	333
Total Assets		**$ 88,978**	$ 69,061
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 17,677**	$ 1,692
Deferred revenue		**12**	—
Loan payable	14	**12,683**	—
Corporate income tax payable	22	**16**	—
Deferred income tax liability	22	**688**	—
Total Liabilities		**31,076**	1,692
Shareholders' Equity			
Share capital	16	**64,883**	50,344
Warrants reserve	16	**14,335**	23,460
Share-based payments reserve	16	**7,849**	2,336
Deficit		**(30,596)**	(8,771)
Non-controlling interest	17	**1,431**	—
Total Shareholders' Equity		**57,902**	67,369
Total Liabilities and Shareholders' Equity		**$ 88,978**	$ 69,061
Total Number of Common Shares Outstanding	16	**41,147,636**	94,351,198

Subsequent events (*note 26*)

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

On behalf of the Board

"*Michael Nashat*"
Chief Executive Officer

"*Jason Wild*"
Chairman of the Board

TerrAscend Corp.

Consolidated Statements of Loss and Comprehensive Loss

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

	Notes		December 31, 2018		December 31, 2017
Sales	19	**$**	**6,826**	$	—
Cost of Sales:					
Cost of goods sold			**5,378**		—
Impairment of inventory	10		**2,485**		—
Production salaries and wages	10		**853**		—
Production amortization and depreciation	10, 12		**388**		—
Production supplies and expenses	10		**531**		—
Gross loss before gain on fair value of biological assets			**(2,809)**		—
Unrealized gain on changes in fair value of biological assets	9		**1,657**		—
Realized fair value amounts included in inventory sold	10		**(596)**		—
Gross Loss			**(1,748)**		—
Expenses:					
Share-based payments	16		**6,558**		2,458
General and administrative			**9,129**		2,063
Consulting & professional fees			**7,237**		1,601
Research & development			**141**		—
Selling expenses			**1,532**		—
Loss on disposal of property and equipment	12		**—**		222
Amortization and depreciation	12, 13		**533**		244
Shareholder relations			**216**		154
Pre-production costs			**—**		137
Finance (income) expense			**(415)**		(36)
Unrealized (gain) loss on investments	6, 7		**(5,177)**		—
Impairment of intangible assets	13		**188**		
Unrealized foreign exchange (gain) loss			**(24)**		—
Other income			**(226)**		(37)
Total operating expenses			**19,692**		6,806
Net Loss and Comprehensive Loss before Income Tax		**$**	**(21,440)**	$	(6,806)
Income Taxes:					
Current income taxes	22		**16**		—
Deferred income taxes	22		**688**		—
Net Loss and Comprehensive Loss after Income Tax		**$**	**(22,144)**	**$**	**(6,806)**
Less: Net loss attributable to non-controlling interest	17		**116**		**—**
Net loss attributable to controlling interest		**$**	**(22,028)**	$	(6,806)
Net Loss Per Share, Basic and Diluted					
Net loss per share – basic and diluted		**$**	**(0.24)**	$	(0.19)
Weighted average shares outstanding			**90,981,483**		36,158,255

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)

	Share Capital	Warrants Reserve	Share-based Payments Reserve	Deficit	Non-controlling Interest	Total
Balance at January 1, 2018	**$ 50,344**	**$ 23,460**	**$ 2,336**	**$ (8,771)**	**$ —**	**$ 67,369**
Shares issued - warrant exercises	**3,633**	**(849)**	**—**	**—**	**—**	**2,784**
Shares issued - stock option exercises	**1,997**	**—**	**(1,197)**	**—**	**—**	**800**
Shares issued- plan of arrangement	**8,909**	**(8,909)**	**—**	**—**	**—**	**—**
Warrants issued for services	**—**	**633**	**—**	**—**	**—**	**633**
Share-based compensation expense	**—**	**—**	**6,913**	**—**	**—**	**6,913**
Options expired	**—**	**—**	**(203)**	**203**	**—**	**—**
Net loss for the year	**—**	**—**	**—**	**(22,028)**	**116**	**(21,912)**
Non-controlling interest	**—**	**—**	**—**	**—**	**1,315**	**1,315**
Balance at December 31, 2018	**$ 64,883**	**$ 14,335**	**$ 7,849**	**$ (30,596)**	**$ 1,431**	**$ 57,902**

	Share Capital	Warrants Reserve	Share-based Payments Reserve	Deficit	Non-controlling Interest	Total
Balance at January 1, 2017	$ 4,047	$ —	$ —	$ (1,966)	$ —	$ 2,081
Units issued	34,951	22,960	—	—	—	57,911
Shares issued for service	160					160
Warrants issued for service		500				500
Conversion of convertible debentures	9,912	—	—	—	—	9,912
Settlement of related party debt	968	—	—	—	—	968
Shares issued - stock option exercises	306		(121)	—	—	185
Share-based compensation expense	—	—	2,457	—	—	2,457
Net loss for the year	—	—	—	(6,805)	—	(6,805)
Balance at December 31, 2017	$ 50,344	$ 23,460	$ 2,336	$ (8,771)	$ —	$ 67,369

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)

	December 31, 2018	December 31, 2017
Operating activities		
Net loss and comprehensive loss	**$ (22,144)**	$ (6,805)
Add (deduct) items not involving cash		
Unrealized gain on changes in fair value of biological assets	**(1,657)**	—
Realized loss on changes in fair value of biological assets	**596**	—
Impairment of inventory	**2,485**	—
Impairment of intangible asset	**188**	—
Accretion and accrued interest	**28**	—
Deprecation of property, plant and equipment	**789**	224
Amortization of intangible assets	**132**	20
Share-based payments	**7,546**	2,457
Unrealized gain on investments	**(5,180)**	—
Future income taxes	**688**	—
Issuance of warrants for services	—	500
Loss on disposal of property, plant and equipment	—	222
Change in working capital		
Receivables	**(6,489)**	(297)
Biological assets	**(284)**	—
Inventory	**(15,165)**	(1,364)
Prepaid expense and deposits	**(1,457)**	(81)
Deferred costs	**(313)**	—
Accounts payable and accrued liabilities	**15,985**	974
Deposits	**(870)**	—
Deferred revenue	**12**	—
Corporate income tax payable	**16**	—
Cash outflow from operating activities	**(25,094)**	(4,150)
Financing activities		
Private placements of shares, net of issuance costs	**—**	57,912
Proceeds from warrants exercised	**2,784**	—
Proceeds from options exercised	**800**	185
Proceeds from convertible debentures	**—**	8,916
Proceeds from non-controlling interest	**1,130**	—
Proceeds from loan net of interest payable	**13,602**	—
Loan origination fee paid	**(1,017)**	—
Unrealized foreign exchange loss on loan payable	**70**	—
Cash inflow from financing activities	**17,369**	67,013
Investing activities		
Investment in property, plant and equipment	**(11,181)**	(14,086)
Investment in intangible assets	**(1,595)**	(293)
Issuance of note receivable	**(1,561)**	—
Purchase of investments	**(2,500)**	—
Investment in joint operations	**(2,742)**	—
Advances to joint venture partner	**(2,740)**	—
Cash outflow from investing activities	**(22,319)**	(14,379)
Increase (Decrease) in cash and cash equivalents during the year	**(30,044)**	48,484
Cash and cash equivalents, beginning of year	**51,817**	3,333
Cash and cash equivalents, end of year	**$ 21,773**	$ 51,817

Supplemental cash flow information (note 21)

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. The Company's wholly owned subsidiary, TerrAscend Canada Inc. is a Licensed Producer of medical and adult use cannabis (as such term is defined in the *Cannabis Act*) and its current principal business activities include cultivation and sale of medical and adult use cannabis. TerrAscend Canada Inc. applied to Health Canada to become a Licensed Producer under the *Access to Cannabis for Medical Purposes Regulations* (the "**ACMPR**") and on July 10, 2017, was granted that license (the "**License**") for its 67,300 square foot Mississauga facility (the "**Facility**"). On February 5, 2018, TerrAscend Canada Inc. was granted an amendment to the License by Health Canada to allow for cannabis oil production pursuant to the ACMPR. A further amendment to the License was granted on March 9, 2018 to allow for sales of dried cannabis. The License expires on July 10, 2020. Effective October 17, 2018, ACMPR was transitioned to The Cannabis Act. Additional activities include physician consultations, patient education and support programs carried out by the Company's wholly owned subsidiary, Solace Health Network Inc.

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

2. Basis of presentation

(a) Statement of compliance

The Company's annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on April 23, 2019.

(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. These consolidated financial statements are presented in Canadian dollars unless otherwise specified.

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

2. Basis of presentation (continued)

(d) Principles of consolidation

The Company has the following subsidiaries:

Subsidiary	Jurisdiction	Ownership %
TerrAscend Canada Inc. ("TerrAscend Canada", formerly "Solace Health Inc.")	Canada	100%
Solace Health Network Inc. ("SHN", formerly "Terra Health Network Inc.")	Canada	100%
TerrAscend Medical Holdings Inc.	Canada	100%
2151924 Alberta Ltd.	Canada	100%
2627685 Ontario Inc.	Canada	100%
2666999 Ontario Inc.	Canada	100%
2671983 Ontario Inc.	Canada	100%
Ascendant Laboratories Inc. ("Ascendant Lab")	Canada	60%
Solace Rx Inc. ("Solace Rx")	Canada	50%
Well and Good Inc. ("Well & Good")	US	100%
TerrAscend USA Inc.	US	100%
Torrey Holdco Inc.	US	100%
Neta NJ LLC ("NNJ")	US	75%
TerrAscend America, Inc.	US	100%
Arise Bioscience Inc.	US	100%

The Company consolidates its interest in entities which it controls. Control is defined by the power to govern an entity's financial and operating policies so as to be able to obtain benefits from its activities. Management has assessed that the Company is deemed to control Ascendant Lab and NNJ. As at December 31, 2018, there is a non-controlling interest of $1,431 (note 17).

The Company jointly controls Solace Rx along with Theomar Ltd. The Company's investment in Solace Rx is a joint venture and therefore in accordance with *IFRS 11 Joint Arrangements,* these consolidated financial statements have not been consolidated with Solace Rx. The Company's share of the net assets of Solace Rx has been recorded on the statement of financial position as an Investment in Joint Venture. All intercompany balances and transactions have been eliminated.

(e) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2. Basis of presentation (continued)

Management has applied significant estimates and assumptions 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 estimating the stage of growth of the cannabis, harvesting costs, sales price and expected yields.

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

ii) *Stock based compensation*

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

iii) *Warrants*

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

iv) *Investment in Non-Publicly Listed Shares and Warrants*

In determining the fair value of the shares of Fire & Flower Inc., the Company used the price for the most recent financing completed by the investee.

In determining the fair value of the warrants of Fire & Flower Inc., the Company used the Black-Scholes model and key estimates such as risk-free interest rate and the volatility and value of the Fire & Flower share price.

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

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

2. Basis of presentation (continued)

Management has applied significant judgements related to the following:

i) Going concern

The assumption that the Company will be able to continue as a going concern is subject to critical judgements of management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investment and financing activities and management's strategic planning. Should those judgements prove to be inaccurate, management's continued use of the going concern assumptions would be inappropriate.

ii) 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.

iii) *Functional currency*

The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. The Company has determined its functional currency and that of its subsidiaries is the Canadian dollars. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions that determined the primary economic environment.

iv) Impairment of intangible assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value in use and fair value less costs to sell. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. For the year ended December 31, 2018, management has determined that there were indicators of impairment for the Company's patient list and as a result recorded an impairment of intangible assets of $188.

v) *Joint arrangements*

Judgement was required in determining whether the Company's investment in Solace Rx is a joint venture or a joint operation. In accordance with *IFRS 11 Joint Arrangements*, 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 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 parties sharing control. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Management has assessed that its investment in Solace Rx is a joint venture. Refer to Note 7 for additional information on the Company's joint venture.

2. Basis of presentation (continued)

vi) *Asset acquisition*

In the acquisition of Ascendant Lab on June 8, 2018 judgement was required to determine if the acquisition represented either a business combination or an asset purchase. Management concluded that Ascendant Lab did not represent a business as the assets acquired were not an integrated set of activities with inputs, processes and outputs.

Since it was concluded that the acquisition represented the purchase of assets, there was no goodwill recognized on the transaction and acquisition costs were capitalized to the assets purchased rather than expensed. The fair values of the net assets acquired were determined using estimates and judgements. Refer to Note 8 for additional information on the Company's asset acquisition.

3. Significant accounting policies

<u>Inventory</u>

Inventories of harvested finished goods and packing materials are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. 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. Cost is determined using the standard cost method. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value.

<u>Biological assets</u>

The Company measures biological assets consisting of cannabis plants at fair value less cost 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 in the scope of IAS 16 – Property, Plant and Equipment, but only have a useful life of less than one year.

Any costs related to the production of biological assets are treated as periodic expense and are included in the consolidated statement of income (loss) for the related period.

3. Significant accounting policies (continued)

Revenue Recognition

The Company has adopted IFRS 15 – Revenue from Contracts with Customers for the year ended December 31, 2018.

IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue 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 revenue when (or as) the entity satisfies a performance obligation.

Revenue is 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. Revenues are recorded net of discounts and incentives but inclusive of freight. Excise 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 revenue. Excises taxes are netted against gross revenue on the statement of net (loss) income and comprehensive (loss) income.

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:

Building and Improvements	30 years
Irrigation & Lighting System	20 years
Security System	5 years
Machinery & Equipment	5 years
Office Furniture & Equipment	3-5 years

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 item are determined by comparing the proceeds from disposal with the carrying amount of the items and are recognized in the statement 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.

3. Significant accounting policies (continued)

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:

Software	3 years
Patient List	5 years
Intellectual Property	10 years
Website costs	5 years

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. At December 31, 2018 the Company held $55 in cash equivalents (December 31, 2017- $ nil).

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.

3. Significant accounting policies (continued)

IFRS 9 - Financial instruments

Effective January 1, 2018, the Company adopted IFRS 9.

IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also amends the requirements around hedge accounting, and introduces a single, forward-looking expected loss impairment model.

The Company has elected to apply the limited exemption in IFRS 9 paragraph 7.2.15 relating to the transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. The adoption of IFRS 9 had no impact on the Company's consolidated financial statements on the date of initial application. There was no change in the carrying amounts on the basis of allocation from original measurement categories under IAS 39 Financial Instruments: Recognition and Measurement to the new measurement categories under IFRS 9.

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.

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 only 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.

3. Significant accounting policies (continued)

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 as at the reporting date with the risk of default as 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.

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, the probability 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		**IAS 39**	
	Classification	**Measurement**	**Classification**	**Measurement**
Cash and cash equivalents	FVTPL	Fair value	Loans and receivables	Fair Value
Receivables	Amortized cost	Amortized cost	Loans and receivables	Amortized cost
Note receivable	FVTPL	Fair value	Loans and receivables	Amortized cost
Investments	FVTPL	Fair value	Held for trading	Fair value
Accounts payable and accrued liabilities	Amortized cost	Amortized cost	Other liabilities	Amortized cost
Deferred revenue	Amortized cost	Amortized cost	Other liabilities	Amortized cost
Loan Payable	Amortized cost	Amortized cost	Other liabilities	Amortized cost

3. Significant accounting policies (continued)

Joint Venture

The Company's investment in Solace Rx is a joint venture. In accordance with *IFRS 11 Joint Arrangements*, 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 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 parties sharing control. A joint venturer recognizes its interest in a joint venture as an investment and accounts for that investment using the equity method in accordance with *IAS 28 Investments in Associates and Joint Ventures*. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. The investor's share of those changes is recognised in the investor's other comprehensive income.

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 deduction from 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 relative fair value method.

Share-based compensation

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

3. Significant accounting policies (continued)

New standards, amendments and interpretations adopted

The following new standard became effective January 1, 2018 and has been adopted in preparing these consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:
• Identify the contract with the customer
• Identify the performance obligations in the contract
• Determine the transaction price
• Allocate the transaction price to the performance obligations in the contracts
• Recognize revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

New standards, amendments and interpretations not yet adopted

The following new standard has been issued but has not been adopted in preparing these consolidated financial statements.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low value assets; however, this exemption can only be applied by lessees. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application if IFRS 15 is also applied.

The Company has assessed the impact that IFRS 16 will have on its consolidated financial statements and determined that all of the operating leases, as currently disclosed in note 25, will be reflected as right-of-use assets on consolidated statement of financial position as at January 1, 2019.

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

4. Receivables

	December 31, 2018 $	**December 31, 2017 $**
Trade receivable	5,441	—
Interest receivable	6	55
Sales tax receivable	1,454	357
Other	2,740	—
	9,641	412

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 are related to amounts receivable from Solace Rx joint venture partner.

5. Note receivable

On April 28, 2018, the Company issued $1,500 in a convertible note to Think AHLOT Corporation ("AHLOT"), a cannabis innovation company that creates cannabis products and accessories. The proceeds of the convertible note will be utilized by AHLOT towards increasing sales & marketing, product development, operations and general corporate purposes. Additionally, the Company, through its wholly-owned subsidiary, TerrAscend Canada, will provide fulfillment and distribution services on behalf of AHLOT that will enable AHLOT to commence the development and sale of licensed cannabis products for AHLOT's product portfolio.

The convertible note will accrue interest at 6% per annum, compounded annually and will mature on July 16, 2019.

Upon the maturity date, the principal and accrued interest will be automatically converted into Class A common shares based on a conversion price that will vary depending on the total revenue earned by AHLOT as of the maturity date.

As at December 31, 2018, the note receivable has been recorded at its fair value of $1,561 (December 31, 2017- $nil).

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

6. Investments

On April 20, 2018, the Company purchased 3,125,000 units of Fire & Flower Inc. ("F&F"), a proposed private retailer for adult use cannabis sales in select provinces for an aggregate of $2,500 or $0.80 per unit, amounting to approximately 5% of the outstanding F&F shares. Each unit is comprised of one common share and one common share purchase warrant in F&F. Each common share purchase warrant entitles the Company to purchase one additional common share of F&F at a price of $1.05 within twenty-four months. As at December 31, 2018, the investment has been recorded at its fair value of $7,690 determined based on recent financing completed by F&F (December 31, 2017 - $nil).

	Number of Units	**$**
Carrying amount, December 31, 2017	—	—
Units purchased	3,125,000	2,500
Units sold	—	—
Unrealized gain/ (loss)	—	5,190
Carrying amount, December 31, 2018	**3,125,000**	**7,690**

The fair value of F&F warrants outstanding as at December 31, 2018 was estimated every reporting period using the Black-Scholes valuation model based on the following weighted average assumptions:

		Quarterly Weighted Average Assumptions
Volatility		105%
Risk-free interest rate		2.07%
Expected life (years)		1.85
Dividend yield		Nil
Number of F&F warrants valued		3,125,000
F&F estimated share price	$	0.88
Value per F&F warrant	$	0.4571

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

7. Investment in Joint Venture

On July 18, 2017, the Company entered into a Unanimous Shareholder agreement with Theomar Ltd. ("Theomar") and incorporated Solace Rx, a jointly operated entity. The Company and Theomar each own 50% of Solace Rx and both parties in various capacities will assist in the development and construction of a Drug Preparation Premise ("DPP") for Solace Rx. Until Solace Rx achieves a break-even point, expenses incurred will be funded by the Company and Theomar on a pro-rata ownership basis as shareholder loans.

Management has assessed that the Company's investment in Solace Rx is a joint venture in accordance with *IFRS 11 Joint Arrangements*. 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 arrangement. A joint venturer recognizes its interest in a joint venture as an investment and accounts for that investment using the equity method in accordance with *IAS 28 Investments in Associates and Joint Ventures*.

	$
Carrying amount, December 31, 2017	—
Investment in joint venture	2,742
Share of investee net loss	(10)
Carrying amount, December 31, 2018	2,732

As at December 31, 2018, the Company has a receivable of $2,740 (December 31, 2017 - $nil) from Theomar for its portion of contributions to Solace Rx (note 4).

For the year ended December 31, 2018 and 2017, Solace Rx key financial information is as follows:

	December 31, 2018 $	**December 31, 2017 $**
Current assets	3	-
Non-current assets	5,603	-
Current liabilities	(145)	-
Net loss	(20)	-

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

8. Acquisitions

Ascendant Lab

On June 8, 2018, the Company signed a Unanimous Shareholder Agreement with Cistron Corp. ("Cistron") and incorporated Ascendant Lab, a science and innovation company dedicated to the advancement of cannabinoid expressing plant biology. The Company received 375 preferred shares and one share purchase warrant of Ascendant Lab in exchange for advancing $625 to Ascendant Lab. The share purchase warrant entitles the Company to purchase an additional 375 preferred shares at an aggregate price of $625. Each preferred share of Ascendant Lab held by the Company is convertible to one common share of Ascendant Lab at the option of the Company on the earlier of:

i) Ascendant Lab IPO date and
ii) 2nd anniversary of preferred share issuance date (June 8, 2020)

Cistron received 250 common shares of Ascendant Lab in exchange for providing Ascendant Lab the rights and access to its intellectual property (note 13).

Management concluded that Ascendant Lab did not represent a business as the assets acquired were not an integrated set of activities with inputs, processes and outputs. Upon the completion of this transaction, Management has assessed that the Company is deemed to have 60% interest and control of Ascendant Lab and as a result, these consolidated financial statements have been consolidated with Ascendant Lab. As at December 31, 2018 there is a non-controlling interest of $365.

9. Biological assets

The Company's biological assets consist of 2,945 cannabis plants as at December 31, 2018. The continuity of biological assets is as follows:

	$
Carrying amount, December 31, 2017	—
Increase in fair value less costs to sell due to biological transformation	1,657
Transferred to inventories upon harvest	(1,396)
Fair value less costs to sell of cultivated plants	261
Cannabis seeds	284
Carrying amount, December 31, 2018	545

Biological assets are measured at fair value less costs to sell until harvest. All production costs related to biological assets are expensed as incurred. All direct and indirect costs related to both biological assets and inventory are included as production costs on the statements of loss and comprehensive loss.

The fair value measurements for biological assets have ben categorized as Level 3 of the fair values 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 initial cloning to the point of harvest.

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

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

9. Biological assets (continued)

Dry bud

The dry bud model utilizes the following significant assumptions:

		Weighted Average December 31, 2018
Weighted average of expected loss of plants until harvest		21%
Expected yields for cannabis plants (average grams per plant)		52
Expected number of growing weeks		15
Weighted average number for growing weeks completed as a percentage of total growing weeks at year-end		45%
Estimated selling price (per gram)	$	8.20
After Harvest cost to complete and sell (per gram)	$	4.43
Reasonable margin on after harvest costs to complete and sell (per gram)	$	3.81

Trim

The trim model utilizes the following significant assumptions:

		Weighted Average December 31, 2018
Weighted average of expected loss of plants until harvest		18%
Expected yields for cannabis plants (average grams per plant)		62
Expected number of growing weeks		15
Weighted average number for growing weeks completed as a percentage of total growing weeks at year-end		52%
Estimated selling price (per gram)	$	3.20
After Harvest cost to complete and sell (per gram)	$	1.75
Reasonable margin on after harvest costs to complete and sell (per gram)	$	1.84

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

The following table presents the effect of a 10% change on the fair valuation of biological assets as at December 31, 2018.

	10% change as at December 31, 2018 $
Weighted average of expected loss of plants until harvest	26
Expected yields for cannabis plants (average grams per plant)	26
Expected number of growing weeks	12
Weighted average number for growing weeks completed as a percentage of total growing weeks at year-end	5
Estimated selling price (per gram)	57
After Harvest cost to complete and sell (per gram)	25

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

10. Inventory

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

	December 31, 2018 $	December 31, 2017 $
Dry cannabis		
Packaged goods	610	96
Dry bud	4,493	1,226
Trim	503	
Oil inventory	9,020	—
Accessories	33	—
Supplies and consumables	185	42
	14,844	1,364

During the year ended December 31, 2018, management assessed that the net book value of inventory exceeded the net realizable value and thus recorded an impairment of $2,485 (December 31, 2017 -$nil). 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.

Cost of goods sold – production costs for the year ended December 31, 2018 and 2017 is comprised of:

	December 31, 2018 $	December 31, 2017 $
Production salaries including stock-based compensation expense	**853**	—
Material and utilities	**156**	—
Production amortization and depreciation	**388**	—
Other overhead including: facility & equipment maintenance, property tax, cleaning, personal protective equipment, quality testing and other	**375**	—
Impairment of inventory	**2,485**	—
	4,257	—

The Company does not capitalize any production costs including overheads to biological assets. All production costs related to biological assets are expensed as incurred and are included in production costs in the table above. The Company capitalizes cost incurred after harvest to bring the products to their present location and condition in accordance with IAS 2 Inventories. The cost of inventories includes the fair value less cost to sell of the cannabis at harvest and costs incurred after harvest (such as quality assurance costs, fulfillment costs and packaging costs) to bring the products to their present location and condition.

11. Deposits and deferred costs

Deferred costs include legal and consulting fees related to obtaining a vertically integrated Alternative Treatment Center license in New Jersey. Deposits are refundable and being held in escrow accounts for the potential purchase of properties.

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

12. Property, plant and equipment

	Land	Assets in Process	Building and Improvements	Irrigation & Lighting Systems	Security System	Machinery & Equipment	Office Furniture & Equipment	Total
	$	$	$	$	$	$	$	$
Cost								
Balance at December 31, 2017	994	371	12,774	707	152	—	261	15,259
Additions	—	6,415	1,941	102	551	1,083	1,089	11,181
Balance at December 31, 2018	**994**	**6,786**	**14,715**	**809**	**703**	**1,083**	**1,350**	**26,440**
Accumulated Depreciation								
Balance at December 31, 2017	—	—	191	11	1	—	21	224
Depreciation	—	—	453	35	104	—	197	789
Balance at December 31, 2018	**—**	**—**	**644**	**46**	**105**	**—**	**218**	**1,013**
Net book value at December 31, 2018	**994**	**6,786**	**14,071**	**763**	**598**	**1,083**	**1,132**	**25,427**

	Land	Assets in Process	Building and Improvements	Irrigation & Lighting Systems	Security System	Machinery & Equipment	Office Furniture & Equipment	Total
	$	$	$	$	$	$	$	$
Cost								
Balance at December 31, 2016	—	401	—	—	—	—	—	401
Additions	994	371	6,629	—	—	—	261	8,255
Completion of construction	—	(401)	6,369	707	152	—	—	6,827
Disposals	—	—	(224)	—	—	—	—	(224)
Balance at December 31, 2017	**994**	**371**	**12,774**	**707**	**152**	**—**	**261**	**15,259**
Accumulated Depreciation								
Balance at December 31, 2016	—	—	—	—	—	—	—	—
Depreciation	—	—	193	11	1	—	21	226
Disposals	—	—	(2)	—	—	—	—	(2)
Balance at December 31, 2017	**—**	**—**	**191**	**11**	**1**	**—**	**21**	**224**
Net book value at December 31, 2017	**994**	**371**	**12,583**	**696**	**151**	**—**	**240**	**15,035**

As at December 31, 2018, assets in process of $6,786 (December 31, 2017 – $371) are not being depreciated. Depreciation will commence when the construction of the second phase of the Mississauga facility is complete and ready for use.

For the year ended December 31, 2018, $388 (December 31, 2017 – $nil) of depreciation was allocated to production amortization and depreciation.

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

13. Intangible Assets

	Software $	Patient List $	Intellectual Property $	Website $	Total $
Cost					
Balance at December 31, 2017	103	250	—	—	353
Additions	1,491	—	—	104	1,595
Additions on Ascendant Lab asset acquisition (Note 8)	—	—	417	—	417
Impairment	—	(250)	—	—	(250)
Balance at December 31, 2018	**1,594**	**—**	**417**	**104**	**2,115**
Accumulated Depreciation					
Balance at December 31, 2017	8	12	—	—	20
Amortization	60	50	21	1	132
Impairment	—	(62)	—	—	(62)
Balance at December 31, 2018	**68**	**—**	**21**	**1**	**90**
Net book value at December 31, 2018	**1,526**	**—**	**396**	**103**	**2,025**

	Software $	Patient List $	Intellectual Property $	Total $
Cost				
Balance at December 31, 2016	—	—	—	—
Additions	103	250	—	353
Balance at December 31, 2017	**103**	**250**	**—**	**353**
Accumulated Depreciation				
Balance at December 31, 2016	—	—	—	—
Amortization	8	12	—	20
Balance at December 31, 2017	**8**	**12**	**—**	**20**
Net book value at December 31, 2017	**95**	**238**	**—**	**333**

During the year ended December 31, 2018 the Company's subsidiary Ascendant Lab acquired intellectual property by issuing 250 common shares (note 8).

For the year ended December 31, 2018, management has determined that there were indicators of impairment for the Company's patient list and as a result recorded an impairment of intangible assets of $188.

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

14. Loan Payable

On December 14, 2018, the Company agreed to terms on a $75 million United States dollars ("USD") 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 $750 USD origination fee payable. Any principal amount drawn will be due in one year and interest will be payable monthly. The origination fee will be payable on a quarterly basis of which $188 has been paid as of December 31, 2018.

The Credit Facility was recorded at its fair value at inception and subsequently it was carried at amortized cost. On December 21, 2018, the Company borrowed $10 million USD on the Facility.

	$
Carrying amount, December 31, 2017	—
Loan principal	13,566
Loan discount- origination fee paid	(1,017)
Fair value of loan at inception	**12,549**
Interest accretion	28
Interest payable	36
Unrealized foreign exchange loss	70
Carrying amount, December 31, 2018	**12,683**

15. Convertible Debenture

On January 31, 2017, the Company issued a senior, secured convertible debenture for gross proceeds of $9,400. The convertible debenture had an interest rate of 12% per annum during the first 12 months and 18% per annum during the period after the initial 12 months. The interest rate was reduced to 6% per annum on the date of a liquidity event which, pursuant to the Agreement, was the date that the shares of the Company were listed on the CSE. The convertible debenture had a maturity date of 18 months from the date of closing.

The convertible debenture agreement allowed for two conversion prices depending on whether the Company received its license to cultivate from Health Canada before July 31, 2017 (convert at $0.75 per share) or after July 31, 2017 (convert at $0.59 per share). The Company was granted its license to cultivate from Health Canada on July 10, 2017 and, as such, the debenture was convertible at $0.75 per share. The Company initially recognized $7,794 as the fair value of the convertible debenture, and $1,123 was initially recognized in contributed surplus with respect to the value of the conversion feature.

On August 4, 2017, the principal amount of $500 of the convertible debenture was converted into 666,667 Common Shares. Accrued interest from the quarter ended June 30, 2017 to August 4, 2017 was added to the balance of the outstanding debenture. On September 1, 2017, the remaining outstanding balance of the debenture of $9,369 was converted into 12,492,596 Common Shares. During the year ended December 31, 2017, the Company capitalized $996 of interest and accretion cost related to the convertible debenture in Property, Plant and Equipment.

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

16. Share Capital

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.

Outstanding share capital

	Class A Shares	Class B Shares	Common Shares	Exchangeable Shares	Proportionate Voting Shares	Amount $
Outstanding, December 31, 2016	300	25,672,352	—			4,047.00
Shares issued for cash	—	1,089,888	53,944,819	—	—	57,911.00
Shares issued for services	—	225,000	62,500	—	—	160.00
Shares issued – stock options	—	—	197,376	—	—	185.00
Shares issued – convertible debentures	—	—	13,159,263	—	—	9,912.00
Reallocation from share-based payments reserve	—	—	—	—	—	121.00
Reallocation to warrants reserve	—	—	—	—	—	(22,960.00)
Reallocation of related party debt	(300)	—	—	—	—	968.00
Exchange of shares	—	(26,987,240)	26,987,240	—	—	—
Outstanding, December 31, 2017	**—**	**—**	**94,351,198**	**—**	**—**	**50,344**
Shares issued – warrant exercises	—	—	3,193,138	—	—	2,784
Shares issued – stock option exercises	—	—	1,195,741	—	—	800
Shares issued- warrant exercises Plan of Arrangement	—	—	16,319,659	—	—	8,909
Exchangeable shares issued- Plan of Arrangement	—	—	(38,890,571)	38,890,571	—	—
Proportionate voting shares issued- Plan of Arrangement	—	—	(35,021,529)	—	35,022	—
Reallocation from warrants reserve	—	—	—	—	—	849
Reallocation from share-based payment reserve	—	—	—	—	—	1,197
Outstanding, December 31, 2018	**—**	**—**	**41,147,636**	**38,890,571**	**35,022**	**64,883**

Plan of Arrangement

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

i. each of Canopy Growth Corporation ("Canopy Growth") and Canopy Rivers Corporation ("Canopy Rivers") exchanged each of their existing warrants to acquire Common Shares ("Warrants") for 0.8548 of a Common Share, based on the difference between the five day volume-weighted average trading price of the Common Shares as of October 5, 2018, being $7.5778, and the warrant exercise price of $1.10 (the "Cashless Warrant Exercise");

ii. each of Canopy Growth and Canopy Rivers then exchanged all of their Common Shares (including those received in the Cashless Warrant Exercise) for Exchangeable Shares, that are non-voting and non-participating and may not be exchanged into Common Shares until:

   (a) the applicable stock exchange restrictions applicable to Canopy Growth or Canopy Rivers that restrict their ability to have an investment in an entity with cannabis operations in the United States are lifted or cannabis becomes legal under U.S. federal law and

   (b) any necessary stock exchange approvals are received, at which point the Exchangeable Shares will become convertible into Common Shares on a one-for-one basis;

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

16. Share Capital (continued)

iii. entities (the "JW Entities") controlled by Jason Wild, the Chairman of the Company, exchanged their Common Shares for Proportionate Voting Shares on the basis of one Proportionate Voting Share for each 1,000 Common Shares held, which Proportionate Voting Shares carry 1,000 votes per share, are entitled to participate in dividends and in the distribution of proceeds on a wind-up of the Company on a $1,000-to-$1.00 basis relative to the Common Shares and are exchangeable into Common Shares on a basis of 1,000 Common Shares per Proportionate Voting Share;

iv. the outstanding Warrants held by the JW Entities were amended such that they became exercisable for 0.001 of a Proportionate Voting Share instead of one Common Share; and

v. the JW Entities, Canopy Growth and Canopy Rivers each waived the negative covenant in their respective subscription agreements entered into with the Company which prevented the Company from conducting business in the United States.

Warrants reserve

The fair value of warrants outstanding as at December 31, 2018 and December 31, 2017 was estimated on their respective grant dates using the Black-Scholes valuation model based on the following assumptions:

Issue date	January 31, 2017	July 31, 2017	August 16, 2017	December 8, 2017	June 6, 2018	August 9, 2018
Volatility	100%	100%	100%	100%	100%	100%
Risk-free interest rate	0.76%	1.31%	1.23%	1.54%	2.00%	2.24%
Expected life (years)	1.75	2.00	2.00	2.00	5.00	5.00
Dividend yield	Nil	Nil	Nil	Nil	Nil	Nil
Forfeiture rate	0%	0%	0%	0%	0%	0%
Number of Warrants issued	2,173,913	1,518,988	464,785	47,727,273	320,000	70,000
Share price	$ 0.45	$ 1.09	$ 0.80	$ 2.10	$ 4.59	$ 4.23
Value per warrant	$ 0.2298	$ 0.4498	$ 0.2718	$ 1.5475	$ 3.4967	$ 3.1737

On January 31, 2017, the Company issued 2,173,913 Common Share purchase warrants in payment for financial advisory services rendered. Each warrant is exercisable at $0.46 per share and expires on January 31, 2019.

On July 31, 2017 and August 16, 2017, the Company issued 1,518,988 and 464,785 Common Share purchase warrants, respectively, as a part of a non-brokered private placement offering (see above, *Outstanding share capital*). Each warrant is exercisable at $1.75 per share and expires at 24 months from the respective closing dates.

On December 8, 2017, the Company issued 47,727,273 Common Share purchase warrants as a part of a non-brokered private placement offering (see above, Outstanding share capital). Each warrant is exercisable at $1.10 per share and expires at 36 months from the respective closing date.

On June 6, 2018, the Company issued 320,000 Common Share purchase warrants as compensation for services. Each warrant is exercisable at $4.16 per share and expires at 60 months from the respective closing date.

On August 9, 2018, the Company issued 70,000 Common Share purchase warrants as compensation for services. Each warrant is exercisable at $4.25 per share and expires at 60 months from the respective closing date.

During the year ended December 31, 2018, 3,193,138 warrants were exercised for total gross proceeds of $2,784.

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

16. Share Capital (continued)

The following is a summary of the outstanding warrants for common shares as at December 31, 2018.

Number Outstanding as at December 31, 2018	Number of Warrants Outstanding	Number of Warrants Exercisable	Issue Date	Expiry Date	Weighted Average Exercise Price $	Weighted Average Remaining Life (years)
Issued during private placement	807,022	807,022	07/31/17	07/31/19	1.75	0.58
Issued during private placement	157,750	157,750	08/16/17	08/16/19	1.75	0.62
Issued in payment for services	320,000	—	06/06/18	06/06/23	4.16	4.43
Issued in payment for services	70,000	35,000	08/09/18	08/09/23	4.25	4.61
	1,354,772	**999,772**			**2.45**	**1.70**

The following is a summary of the outstanding warrants for common shares as at December 31, 2017.

Number Outstanding as at December 31, 2017	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 financial advisory services	2,173,913	2,173,913	01/31/17	01/31/19	0.46	1.08
Issued during private placement	1,518,988	1,518,988	07/31/17	07/31/19	1.75	1.58
Issued during private placement	464,785	464,785	08/16/17	08/16/19	1.75	1.62
Issued during private placement	47,727,273	47,727,273	12/08/17	12/08/20	1.10	2.94
	51,884,959	**51,884,959**			**1.10**	**2.81**

The following is a summary of the outstanding warrants for Proportionate Voting Shares as at December 31, 2018. These warrants are exercisable for 0.001 of a Proportionate Voting Share. The Proportionate Voting Shares are exchangeable into Common Shares on a basis of 1,000 Common Shares per Proportionate Voting Share.

Number Outstanding as at December 31, 2018	Number of Warrants Outstanding	Number of Warrants Exercisable	Issue Date	Expiry Date	Weighted Average Exercise Price $	Weighted Average Remaining Life (years)
Issued during private placement	28,636,361	28,636,361	12/08/17	12/08/20	1.10	1.94

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

16. Share Capital (continued)

Options

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

The fair value of the various stock options granted during the year ended December 31, 2018 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Stock price volatility – 100%; Risk-free interest rate – 1.94% to 2.04%; Dividend yield – 0%; and Expected lives –5 years.

The following is a summary of the changes in the Company's options for the year ended December 31, 2018 and 2017.

	Number of Options	**Weighted Average Exercise Price $**
Balance Outstanding at December 31, 2016	—	—
Options Granted	4,518,749	1.36
Options Exercised	(197,379)	0.94
Options Forfeited/Cancelled	(258,036)	0.95
Balance Outstanding at December 31, 2017	4,063,334	1.41
Options Granted	6,680,000	7.64
Options Exercised	(1,225,613)	0.63
Options Forfeited/Cancelled	(1,044,592)	3.98
Balance Outstanding at December 31, 2018	**8,473,129**	**4.28**

During the year ended December 31, 2018, $7,546 of share-based payment was recorded on the statement of loss and comprehensive loss (December 31, 2017 - $2,957), of which $513 (December 31, 2017 – $nil) is included in production salaries and wages.

During the year ended December 31, 2018, 875,613 options were exercised for total gross proceeds of $800. During the year ended December 31, 2018, there was a cashless exercise of 350,000 options that resulted in the issuance of 320,128 common shares.

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

16. Share Capital (continued)

The following is a summary of the outstanding stock options as at December 31, 2018.

Number Outstanding at December 31, 2018		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable at December 31, 2018
650,000	$	0.60	5.11	650,000
25,000		0.81	3.74	12,500
115,503		0.85	3.66	20,499
25,000		0.89	3.84	25,000
283,335		0.90	3.84	99,578
425,000		1.21	2.65	143,333
150,000		1.40	1.46	—
90,000		2.95	4.09	—
1,000,000		3.05	8.96	500,000
235,000		3.14	4.16	—
99,291		3.20	4.04	29,279
10,000		3.43	4.33	—
35,000		3.45	4.33	—
35,000		3.49	4.37	—
120,000		3.60	4.36	—
75,000		3.85	4.30	—
55,000		3.86	8.79	—
25,000		3.90	4.41	—
65,000		4.00	4.43	—
300,000		4.10	4.51	—
1,075,000		4.20	9.03	—
25,000		4.25	4.57	—
195,000		4.26	4.62	—
45,000		4.30	8.95	—
120,000		4.35	4.27	—
20,000		4.59	8.92	—
210,000		4.70	4.64	—
15,000		4.75	4.70	—
225,000		5.20	9.32	—
10,000		5.23	4.70	—
260,000		5.30	4.68	—
410,000		5.44	4.72	—
105,000		5.98	4.73	—
310,000		5.99	4.98	—
1,000,000		6.89	4.91	—
50,000		6.90	4.75	—
10,000		6.02	4.96	—
90,000		7.00	4.93	—
15,000		7.19	4.91	—
5,000		8.12	4.88	—
60,000		8.52	4.87	—
35,000		9.10	4.83	—
10,000		9.34	4.84	—
5,000		9.42	4.85	—
10,000		10.56	4.78	—
250,000		10.71	9.61	—
90,000		12.62	4.79	—
8,473,129	$	4.28	5.88	1,480,189

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

16. Share Capital (continued)

The following is a summary of the outstanding stock options as at December 31, 2017.

Number Outstanding at December 31, 2017	Weighted Average Exercise Price $	Weighted Average Remaining Contractual Life (years)	Number Exercisable at December 31, 2017
1,450,000	0.60	7.27	1,150,000
25,000	0.81	4.74	4,167
266,252	0.85	4.66	41,251
45,000	0.89	4.84	1,666
307,082	0.90	4.84	18,333
650,000	1.21	3.89	213,334
300,000	1.40	1.96	300,000
20,000	1.95	4.93	1,667
1,000,000	3.05	9.96	100,000
4,063,334	$ 1.41	3.16	1,830,418

At December 31, 2018, the weighted average exercise price of options outstanding and options exercisable was $4.28 (December 31, 2017 –$1.41) and $6.01 (December 31, 2017 - $0.95), respectively.

17. Non-controlling interest

Non-controlling interest at December 31, 2018 was $1,431 (December 31, 2017 - $nil) and consisted of the following amounts:

	December 31, 2018 $
Common shares held by non-controlling interest- Ascendant Lab	417
Less: Net loss attributable to non-controlling interest- Ascendant Lab	(52)
Non-controlling interest- Ascendant Lab	$ 365
Common shares held by non-controlling interest- NNJ	1,130
Less: Net loss attributable to non-controlling interest- NNJ	(64)
Non-controlling interest- NNJ	$ 1,066
Total non-controlling interest	$ 1,431

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

18. 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, 2018 and December 31, 2017 respectively were as follows:

	December 31, 2018 $	December 31, 2017 $
Salaries	**901**	468
Share-based payments	**3,491**	1,227
Total	**4,392**	1,695

(b) During the year ended December 31, 2018, the Company paid licensing, development and maintenance fees in the amount of $32 (December 31, 2017 - $69) to RX Infinity Inc., a Corporation that Dr. Michael Nashat is a director and managing partner and, together with a family member, owns 33%.

There are no amounts payable to Rx Infinity Inc. at December 31, 2018 or 2017.

(c) During the year ended December 31, 2018, the Company purchased $785 (December 31, 2017 - $ nil) of inventory from Canopy Growth Corp., a Corporation that is a shareholder of the Company. During the year ended December 31, 2018, the Company had sales of $199 (December 31, 2017 - $nil) to Canopy Growth Corp. and other income of $23 (December 31, 2017 - $ nil) related to patient referral fees.

At December 31, 2018, there is a $201 (December 31, 2017 - $ nil) receivable from Canopy Growth Corp. There are no amounts payable to Canopy Growth Corp. at December 31, 2018 or 2017.

(d) On December 14, 2018, the Company agreed to terms on a $75 million USD 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. Refer to note 14 for additional details.

(e) In January 2017, the Company purchased the property it was leasing from a corporation controlled by a director of the Company for $6,900 in total consideration, plus $191 of closing costs (note 12). Terms were market value.

(f) During the year ended December 31, 2017, related party debt of $968 was forgiven and reclassified to share capital.

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

19. Significant Customers

The following table represents sales to individual customers exceeding 10% of the Company's annual revenues:

	December 31, 2018 $	December 31, 2017 $
Customer A	**1,871**	—
Customer B	**1,052**	—
Customer C	**1,018**	—
Customer D	**884**	—
Customer E	**743**	—
Total	**5,568**	**—**

The customers are major Canadian corporations and provincial retailers who have displayed a pattern of consistent timely payment of amounts owing from sales.

20. Segment Disclosure

The Company has one operating segment, being the cultivation and sale of cannabis, with subsidiaries located in Canada and the United States. For the year ended December 31, 2018 and 2017, all revenue was generated from operations in Canada and as at December 31, 2018 and 2017, all non-current assets are located in Canada.

21. Supplemental cash flow information

Non-cash transactions during the year ended December 31, 2018 and December 31, 2017 are as follows:

	December 31, 2018 $	December 31, 2017 $
Intangibles acquired through issuance of Ascendant Lab common shares	417	—
Common shares issued in plan of arrangement	8,909	–
Fair value of harvested plants transferred to inventory	1,396	—

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

22. Income taxes

The reconciliation of the combined Canadian federal and provincial corporate income taxes at statutory rates 26.5% (2017- 26.5%) to the Company's effective income tax expenses is as follows:

		31-Dec-18	31-Dec-17
Loss before income tax		21,440	6,806
Statutory tax rate		26.5%	26.5%
Expected income tax recovery		5,682	1,804
Effect on income taxes of deductible & (Non-deductible) adjustments			
Tax rate changes and other adjustments		(10)	—
Debt forgiveness and other adjustments		—	(395)
Share based compensation and non-deductible expenses		(1,705)	(490)
Changes in tax benefits not recognized		(4,671)	(918)
Income tax recovery (expense)		**(704)**	—
The Company's income tax (recovery) is allocated as follows:			
Current tax recovery (expense)	$	(16)	—
Deferred tax recovery (expense)		(688)	—
		(704)	—

The following table summarizes the components of deferred tax:

	31-Dec-18	31-Dec-17
Deferred tax assets		
Non-capital loss carried forward	212	—
Deductible share issuance costs	—	—
Property, plant and equipment	—	—
Deferred tax assets	**212**	**—**
Deferred tax liabilities		
Biological assets	(212)	—
Investment	(688)	—
Deferred tax liabilities	**(900)**	**—**
Net deferred tax assets (liabilities)	**(688)**	**—**

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

22. Income taxes (continued)

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.

Movement in net deferred tax liabilities:		
	31-Dec-18	**31-Dec-17**
Balance at the beginning of the year	—	—
Recognized in profit/loss	(688)	—
Recognized in OCI	—	—
Recognized in equity	—	—
Other	—	—
Balance at the end of the year	**(688)**	**—**

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:

	31-Dec-18	**31-Dec-17**
Deferred tax assets		
Non-capital loss carried forward	21,050	4,305
Deductible share issuance costs	675	901
Investment in joint venture	10	—
Property, plant and equipment	1,315	219
Deferred tax assets	**23,050**	**5,425**

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

2034	696
2035	3,567
2036	17,589
Total	**21,852**

23. 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 Common Shares. On December 14, 2018, the Company agreed to terms on a $75 million USD credit facility of which the Company had borrowed $10 million USD at December 31, 2018.

There have been no changes to the Company's objectives as at December 31, 2018 or during the year ended December 31, 2017. The Company is not subject to externally-imposed capital requirements.

24. Financial instruments and risk management

Financial instruments

The Company has classified its cash and cash equivalents, investments and note receivable as fair value through profit and loss ("**FVTPL**"), receivables (excluding sales tax receivable) as loans and receivables, and accounts payable and accrued liabilities, deferred revenue and loan payable as other financial liabilities.

Fair value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The hierarchy is summarized as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2 – inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data

Level 3 – inputs for assets and liabilities not based upon observable market data

The carrying values of cash and cash equivalents, note receivable, other receivables, accounts payable and accrued liabilities, deferred revenue and loan payable approximate their fair values due to their short periods to maturity. The fair value of the investment has been determined based on Level 3 of the fair value hierarchy.

Financial risk factors

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

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, other receivables and note receivable. The Company's cash and cash equivalents is held at a major Canadian bank. Management has reviewed the items comprising the accounts receivable balance and determined that all accounts are collectible; accordingly, there has been no allowance for doubtful accounts recorded. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

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

24. Financial instruments and risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The Company monitors and manages its cash flows to assess the liquidity necessary to fund operations. As at December 31, 2018, the Company had cash and cash equivalents and receivables balance of $32,975 (December 31, 2017 -$52,229) to settle current liabilities of $31,076 (December 31, 2017 -$1,692). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms with the exception of loan payable which has a maturity of one year.

(c) Market Risk

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

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

The Company is exposed to currency risk for its Canadian dollar equivalent of assets and liabilities denominated in currencies other than Canadian dollars as follows:

	Stated in Canadian Dollars	
	December 31, 2018 **$**	**December 31, 2017** **$**
Cash	14,461	—
Prepaid expenses	27	—
Deposits	870	—
Deferred costs	283	—
Accounts payable and accrued liabilities	(1,010)	—
Loan payable	(12,683)	—
Net Financial Assets (Liabilities)	1,948	—

Based upon the above net exposure as at December 31, 2018 and assuming all other variables remain constant, a 10% (2017 - 10%) appreciation or depreciation of the U.S. dollar relative to the Canadian dollar could result in an increase or decrease of approximately $195 (2017 - $nil) in the foreign exchange gain or loss of the Company.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

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

24. Financial instruments and risk management (continued)

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

In respect of financial liabilities, the Company's loan payable has a fixed interest rate of 8.75% per annum. All other financial liabilities are non-interest-bearing instruments.

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

The Company's other price risk includes equity price risk, whereby investment in F&F and Think AHLOT are measured at fair value through profit or loss and as a result are subject to fluctuations in quoted market prices. There is no separately quoted market value for the Company's investments in the shares of certain strategic investments. As certain of the Company's investments are carried at market value and are directly affected by fluctuations in value of the underlying securities, the Company considers its financial performance and cash flows could be materially affected by such changes in the future value of the Company's investments. Based upon the net exposure as at December 31, 2018 and assuming all other variables remain constant, a net increase or decrease of 20% (2017 - 20%) in the market prices of the underlying securities would increase or decrease respectively net (loss) income by $2,055 (2017 - $nil).

25. Commitment

The Company has the following rental commitments for three premises:

	$
2019	93
2020	87
2021	60
2022	32
2023	16
Total	287

Subsequent to December 31, 2018, the Company's wholly owned subsidiary TerrAscend USA Inc. signed a 12-month property rental lease agreement in Unites States. The lease will charge a monthly fee of $3 USD per month and will expire on January 31, 2020.

25. Commitment (continued)

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

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

26. Subsequent events

i) Acquisition 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 the assets from Grander Distribution, LLC ("Grander"). As consideration, TerrAscend paid $13.4 million United States dollars ("USD") comprising $6.9 million USD in cash and 1,362,343 common shares of TerrAscend, representing $6.5 million USD. Subject to meeting certain earnings milestones, the Company will pay up to an additional $10 million USD in cash or share considerations. The total value of the potential purchase consideration payable by the Company under the terms of the agreement is approximately $23.4 million USD. The Company is currently preparing its purchase price allocation and assessing the fair value of the assets acquired and liabilities assumed. As of the date of issuance of these consolidated financial statements, the purchase price allocation is still being completed.

ii) Definitive purchase agreement for Apothecarium

On February 11, 2019, the Company announced the signing of definitive securities purchase agreements facilitating a significant investment in three entities in California operating the award-winning retail dispensary brand known as "The Apothecarium". The purchase agreements also include the acquisitions of a vertically integrated operation in Nevada with cultivation, edible manufacturing and an Apothecarium retail location, as well as Valhalla Confections, a provider of leading premium edible products. The transaction is subject to normal course closing conditions which are currently in process.

iii) Credit Facility

Subsequent to December 31, 2018, the Company drew an additional $24 million USD on the Credit Facility (note 14).

26. Subsequent events (continued)

iv) F&F Shares

Subsequent to December 31, 2018, the Company has converted 3,125,000 common shares of F&F for a $2.5 million unsecured, interest free convertible debenture (the "Convertible Debenture") that will mature on November 30, 2019.

Prior to the maturity date, F&F may convert, in whole or part, the outstanding principal of the Convertible Debenture into commons share of F&F calculated as the principal amount to be converted divided by the lesser of: (i) $0.80; and (ii) the last closing price of the F&F common shares on the exchange immediately before the conversion date. On the maturity date, the Company may convert, in whole or in part, the outstanding principal of the convertible debenture into common shares of F&F calculated as the principal amount to be converted divided by $0.80.

v) Mortgage financing

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.

vi) Proposed private placement

On April 22, 2019, the Company announced its intention to complete a non-brokered private placement to raise approximately US$30 million – US$40 million through the issuance of common shares.

vii) Option and warrant issuances, exercises and forfeitures

Subsequent to December 31, 2018 the Company granted 1,395,000 options to employees of the Company. The options have a weighted average exercise price of $7.65.

Subsequent to December 31, 2018, 2,831 options were exercised at an average exercise price of $3.20 for gross proceeds of $9. Subsequent to December 31, 2018, 50,131 warrants were exercised at an average exercise price of $1.75 for gross proceeds of $88.

Subsequent to December 31, 2018, 570,003 unvested options were forfeited.