TERRASCEND

TerrAscend Corp.

Management Discussion & Analysis
Amounts in thousands of Canadian dollars, except for per share amounts
March 31, 2019

Introduction

*This Management's Discussion and Analysis ("**MD&A**") relates to the performance, financial condition and future prospects of TerrAscend Corp. ("**TerrAscend**", or the "**Company**") and should be read in conjunction with the Audited Consolidated Financial Statements for the year ended December 31, 2018 and 2017 (the "Annual Financial Statements"), annual MD&A, and the Unaudited Condensed Interim Consolidated Financial Statements for the three months ended March 31, 2019 and 2018 (the "Quarterly Financial Statements"), including the notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). References in this MD&A to TerrAscend or the Company include its subsidiaries, as the context requires. Readers are cautioned that the MD&A contains forward-looking statements and that actual events may vary from management's expectations. All amounts are presented in thousands of Canadian dollars unless otherwise specified. This discussion addresses matters we consider important for an understanding of our financial condition and results of operations as of March 31, 2019 and for the three months ended March 31, 2019. Readers are encouraged to read the Company's public information filings which can be accessed and viewed through a link to the Company's Canadian Securities Commissions filings via the System for Electronic Data Analysis and Retrieval (SEDAR) at* www.sedar.com.

This MD&A was approved by the Board of Directors of TerrAscend on May 23, 2019 and reflects all material events up to that date.

Other than per share amounts, all dollar amounts in this MD&A are in thousands of Canadian dollars unless otherwise stated. All percentages are calculated using the rounded numbers as they appear in the tables.

Forward-Looking Statements

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

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

- the ability of the Company to generate cash flow from operations and obtain necessary financing on acceptable terms, and the use of net proceeds from Private Placements;
- the suitability of the production facility;
- expectations with respect to the expansion of the production facility;
- TerrAscend's expectations regarding its consolidated revenue, expenses and operations;
- TerrAscend's intention to develop its business and its operations;
- expectations with respect to future production costs and capacity;
- the general economic, financial market, regulatory and political conditions in which the Company operates;
- consumer interest in the Company's products;
- the timely receipt of any required regulatory approvals, including approvals from Health Canada;
- competition;
- the ability of the Company to obtain qualified staff, equipment and services in a timely and cost-efficient manner; and
- the ability of the Company to conduct operations in a safe, efficient and effective manner.

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

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

Business Overview

TerrAscend Corp. was incorporated under the Ontario Business Corporations Act on March 7, 2017 and 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%
2680982 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. ("Arise")	US	100%
WDB Holding NV, Inc.	US	100%
WDB Holding CA South, Inc.	US	100%
WDB Holding CA, Inc.	US	100%
WDB Management CA LLC	US	100%

The Company's registered and head office is located at PO Box 43125, Mississauga, Ontario, L5C 1W2.

<u>TerrAscend Canada</u>

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

TerrAscend Canada applied to Health Canada to become a Licensed Producer under the ACMPR and on July 10, 2017 was granted that license (the "**License**") for its 67,300 square foot Mississauga facility (the "**Facility).**

TerrAscend Canada was granted amendments to its License by Health Canada on February 5th and March 9th, 2018 for production of cannabis oil and sale of dried cannabis respectively.

The current Facility consists of completed construction on approximately 18,000 square feet (Phase 1) which is in use for cultivation and processing of medicinal and recreational cannabis. The current licensed space includes: 2 Flower Rooms, a Mother/Vegetation room, a trimming/drying room, a packaging room, an order fulfillment room, a level 10 vault, and additional supporting areas such as mechanical and electrical rooms.

TerrAscend Canada is currently in the process of building out the additional 41,000 square feet area between the front offices and existing Phase 1 build of the property at the Facility, with completion expected in the second quarter of 2019. The buildout is divided into three separate areas:

1. The proposed DPP, which will be licensed under the Ontario College of Pharmacists when completed. (~ 6,500 Sq Ft)
2. An expansion of Cultivation and Support Facilities which will be licensed under the Cannabis Act when completed. (~22,000 Sq Ft)
3. Good Manufacturing Practices (GMP) Post Cultivation Processing space which will be licensed under the Cannabis Act when completed. (~12,000 Sq Ft)

The expansion of the cultivation area will begin as soon as a permit is granted by the City of Mississauga and approval is obtained from Health Canada. The additional space will allow for the cultivation of an estimated 2,000 to 2,500 kilograms of dried cannabis annually.

The GMP processing area is currently under construction and once completed will provide the Company with processing and packaging areas that can be used to produce and package alternative formats of dried cannabis products and derivative products such as oils.

On May 2, 2019, the Company announced that its manufacturing facility in Canada has been issued a Good Manufacturing Practice ("GMP") certificate in accordance with the rules governing medicinal products in the European Union. Additionally, the Company has entered a comprehensive sale and distribution agreement with iuvo Therapeutics GmbH ("iuvo"), a German pharmaceutical wholesaler with a cannabis-specific import and distribution licenses. The Company is currently preparing to export to Germany and other international markets.

SHN

SHN provides ancillary services to TerrAscend Canada, including physician and patient education and support programs.

Solace Rx

Solace Rx is a proposed drug preparation premise (the "**DPP**"). The construction of the DPP began in February of 2018 and once completed, the DPP will have 16 GMP compounding stations and will allow the Company to produce medicinal compounds for distribution to health care institutions and practitioners and generate a revenue stream that is completely separate from the Canadian cannabis market.

Ascendant Laboratories

Ascendant Laboratories is a science and innovation company dedicated to the advancement of cannabinoid expressing plant biology.

NNJ

NNJ is a majority owned subsidiary that was awarded a permit to apply for a vertically integrated license in Phillipsburg, NJ. TerrAscend's minority partners in NNJ are BWH NJ, LLC and Blue Marble Ventures, LLC and its operations will include cultivation, processing and retail.

Arise

Arise is a wholly owned subsidiary incorporated in the state of Delaware. On January 15, 2019, Arise, completed the acquisition of substantially all of the assets from Grander Distribution, LLC ("Grander"). Grander is an industry leader in the production and distribution of innovative hemp-derived wellness products. Their whole-plant hemp extract products are made in the USA and are available for sale in approximately 10,000 retail locations worldwide.

Other

The Company's other subsidiaries act as holding companies for future investments and partnerships.

Significant Events

On April 20, 2018, TerrAscend completed a strategic investment into a private retailer applicant, Fire & Flower Inc. ("F&F"). The Company purchased 3,125,000 units of F&F for an aggregate of $2.5 million 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 TerrAscend to purchase one additional common share of F&F at a price of CDN$1.05 within twenty-four (24) months. The Company completed this strategic investment through 2627685 Ontario Inc.

On April 25, 2018, the Company's wholly-owned subsidiary, TerrAscend Canada launched the Solace Health Marketplace, a centralized destination for Canadian cannabis patients to access information, quality support and a diverse selection of dried cannabis products to support patient wellness.

On May 1, 2018, TerrAscend made a strategic investment in Think AHLOT Corporation ("AHLOT"), an award-winning cannabis innovation company that creates groundbreaking cannabis products and accessories. The Company has issued convertible notes of up to $1.5 million to AHLOT to be utilized towards increasing sales & marketing, product development, operations, and general corporate purposes. Additionally, TerrAscend (through its wholly-owned affiliate, 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 unique product portfolio.

On June 6, 2018, TerrAscend formed a strategic joint venture with Cistron Corp. and launched Ascendant Lab., a company dedicated to the advancement of cannabinoid expressing plant biology. Cistron has agreed to grant to Ascendant Laboratories an exclusive license over proprietary intellectual property rights and trade secrets relating to cannabis plant and plant-derived cannabinoid research, and TerrAscend has agreed to contribute cash payments of up to $1,250,000 in return for a combination of shares and warrants, representing approximately 60% of Ascendant Laboratories on a fully-diluted basis.

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 ("Greenhouse"), located in Leamington, Ontario. Once fully licensed, the production of flower, trim and clones from 20% of the dedicated flowering space at the Facility will be made available to TerrAscend Canada.

On October 22, 2018, the Company began trading on the OTCQX ® Best Market ("OTCQX") under the ticker symbol "TRSSF".

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

i. the articles of the Company were amended to: (i) authorize the issuance of an unlimited number of a new class of unlisted proportionate voting shares (the "Proportionate Voting Shares"); (ii) authorize the issuance of an unlimited number of a new class of non-participating, non-voting, unlisted exchangeable shares (the "Exchangeable Shares"); (iii) authorize the issuance of an unlimited number of a new class of preferred shares, issuable in series (the "Preferred Shares"); and (iv) specify the rights, privileges, restrictions and conditions attaching to the Proportionate Voting Shares, Common Shares, Exchangeable Shares, and Preferred Shares;

ii. 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");

iii. 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;

iv. 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;

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

vi. 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.

This reorganization paved the way for the Company to explore and pursue growth opportunities in the United States.

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. The credit facility is intended to give TerrAscend access to non-dilutive capital for acquisitions in the United States, as well as for general corporate and working capital purposes. The facility, once signed, is intended to mature one year from its date of effectiveness and will bear interest at 8.75% per annum, with a 1% origination fee.

On December 18, 2018, the Company's majority owned subsidiary NETA NJ, LLC was awarded a permit to apply for a vertically integrated license in Phillipsburg, NJ. TerrAscend's minority partners in NETA NJ, LLC are BWH NJ, LLC and Blue Marble Ventures, LLC and its operations will include cultivation, processing and retail.

The Company launched Haven Street ("Haven St."), a premium cannabis brand for the Canadian adult-use market. During the year ended December 31, 2018, the Company signed supply agreements with the provinces of British Columbia, Ontario, Nova Scotia, Alberta and Prince Edward Island to supply a variety of premium branded cannabis products for the adult-use cannabis market.

Outlook

TerrAscend provides quality products, brands, and services to the global cannabinoid market. As the first North American Operator (NAO), with scale operations in both Canada and the U.S., the Company participates in the medical and legal adult use market across Canada and in several U.S. states where cannabis has been legalized for therapeutic or adult use. TerrAscend will soon be the first and only cannabis company with sales in Europe as well as the U.S. and Canada as it has received EU GMP certification for its manufacturing facility in Mississauga, Ontario. TerrAscend operates a number of synergistic businesses, including Arise Bioscience Inc., a manufacturer and distributor of hemp-derived products; Ascendant Laboratories Inc., a biotechnology and licensing company committed to the continuous improvement of cannabinoid expressing plants; and Solace RX Inc., a proposed Drug Preparation Premises (DPP) focused on the development of novel formulations and delivery forms.

Canadian Operations

TerrAscend's wholly owned subsidiary TerrAscend Canada is a licensed medical and recreational cannabis company. The Company has a growth plan in place to ramp up production, processing and distribution of both medicinal and recreational cannabis in Canada.

The location of the Facility allows the Company to offer same-day processing and distribution services to patients that are located outside of the greater Toronto area.

In addition to medical and recreational cannabis cultivation, processing and distribution, the Company is also focused on developing diversified revenue streams from non-cannabis sources. Through a 50%-owned joint arrangement with Solace Rx, TerrAscend has entered into a joint venture agreement to construct and license a DPP facility for non-cannabis drug formulations, subject to compliance with all regulatory and licensing requirements. The DPP will be in the business of the reconstitution, dilution, preparation and/or combination of non-cannabis drug preparations for health care practitioners and institutions. The DPP will be operated by TerrAscend's joint venture partner, an experienced DPP owner and operator.

The Company also has an interest in Ascendant Labs, a cannabis biotechnology and licensing company committed to the continuous improvement of the cannabis plant, which is a strategic joint venture with leading researchers Cistron Corp.

US Operations

On December 18, 2018, the Company's majority owned subsidiary NETA NJ, LLC was awarded a permit to apply for a vertically integrated license in Phillipsburg, NJ.

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 $12.4 million United States dollars ("USD") comprising $6.9 million USD in cash and 1,362,343 common shares of TerrAscend, representing $5.5 million USD.

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.

FINANCIAL HIGHLIGHTS

- For the three months ended March 31, 2019, TerrAscend generated revenue of $14.6 million, up from $5.0 million in the fourth quarter of 2018. The Company did not have revenue in the comparable first quarter of 2018.

- Adjusted EBITDA loss (non-GAAP measure) was $7.2 million for the first quarter of 2019 versus a loss of $1.6 million in the comparable first quarter of 2018.

- As of March 31, 2019, the Company held $8.6 million in cash and cash equivalents. On May 15, 2019, the Company closed the first tranche of its previously announced private placement with total proceeds in excess of $40.2 million. The final tranche is expected to close on or around May 24.

FIRST QUARTER 2019 HIGHLIGHTS

The Company reported its highest quarterly revenue to date driven by solid organic growth in Canada as well as, through a wholly owned subsidiary, Arise Bioscience Inc., the completion of the acquisition of substantially all of the assets from Grander Distribution, LLC on January 15, 2019.

- In Canada, the Company experienced strong demand in both the medical and adult-use markets; revenue for the Company's Canadian subsidiaries totaled $8.9 million for the first quarter of 2019.
- In the US, sales of hemp-derived products developed, manufactured, and distributed by Arise Bioscience Inc. totaled $5.7 million for the first quarter of 2019.

SELECTED FINANCIAL INFORMATION

Consolidated

	December 31, 2017 $	December 31, 2018 $	March 31, 2019 $
Total sales	—	6,826	14,582
Net loss and comprehensive loss after income tax	(6,806)	(22,144)	(11,200)
Net loss attributable to controlling interest	—	116	160
Net gain (loss) per share	(0.19)	(0.24)	(0.26)
Cash and cash equivalents	51,817	21,773	8,627
Working capital	52,000	27,718	(1,371)
Non-current assets	15,369	30,184	61,518
Total assets	69,062	88,978	116,773
Current liabilities	1,693	31,076	56,626
Long-term liabilities	—	—	3,410
Total shareholders' equity	67,369	57,902	56,737

Canada

	December 31, 2017 $	December 31, 2018 $	March 31, 2019 $
Total sales	—	6,826	8,860
Net loss and comprehensive loss after income tax	(6,806)	(20,735)	(7,641)
Net loss attributable to controlling interest	—	52	50

United States

	December 31, 2017 $	December 31, 2018 $	March 31, 2019 $
Total sales	—	—	5,722
Net loss and comprehensive loss after income tax	—	(1,409)	(3,559)
Net loss attributable to controlling interest	—	64	110

SUMMARY OF QUARTERLY RESULTS

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

	Q2 2017 $	Q3 2017 $	Q4 2017 $	Q1 2018 $	Q2 2018 $	Q3 2018 $	Q4 2018 $	Q1 2019 $
Sales	—	—	—	—	9	1,786	5,031	14,582
Cost of goods sold	—	—	—	—	7	1,706	3,665	12,263
Impairment of inventory	—	—	—	—	623	1,081	781	307
Production salaries and wages	—	—	—	226	224	93	310	274
Production amortization and depreciation	—	—	—	81	96	103	108	102
Production supplies and expenses	—	—	—	105	84	267	75	129
Gross profit (loss) before gain on fair value of biological assets	—	—	—	(412)	(1,025)	(1,464)	92	1,507
Unrealized gain on changes in fair value of biological assets	—	—	—	577	99	917	64	444
Realized loss on changes in fair value of biological assets	—	—	—	—	—	(69)	(527)	(17)
Gross profit (loss)	**—**	**—**	**—**	**165**	**(926)**	**(616)**	**(371)**	**1,934**
Expenses:								
Share-based payments (recovery)	2,705	50	(297)	998	978	2,090	2,492	1,907
General and administrative expense (recovery)	437	1,182	1,483	1,527	3,390	4,920	8,051	8,821
Research & development	—	—	—	—	31	70	40	124
Amortization and depreciation	—	84	160	87	107	149	189	752
Loss on disposal of property, plant and equipment	—	—	222	—	—	—	—	—
Pre-Production costs	—	—	137	—	—	—	—	—
Finance (income) expense	406	164	(927)	(101)	(234)	(100)	20	732
Unrealized (gain) loss on investments	—	—	—	—	—	(5,079)	(98)	618
Impairment of intangible assets	—	—	—	—	—	—	188	—
Unrealized foreign exchange (gain) loss	—	—	—	—	—	168	(192)	40
Total operating expenses	**3,548**	**1,480**	**778**	**2,511**	**4,272**	**2,218**	**10,690**	**12,994**
Income Taxes:								
Current income taxes	—	—	—	—	—	—	16	—
Future income taxes (benefits)	—	—	—	—	—	—	688	(370)
Net loss	**(3,548)**	**(1,480)**	**(778)**	**(2,346)**	**(5,198)**	**(2,834)** -	**(11,765)**	**(10,690)**
Other comprehensive loss	—	—	—	—	—	—	—	510
Net Loss and Comprehensive Loss after Income Tax	**(3,548)**	**(1,480)**	**(778)**	**(2,346)**	**(5,198)**	**(2,834)**	**(11,765)**	**(11,200)**
Less: Net loss attributable to non-controlling interest	—	—	—	—	—	71	45	160
Net loss attributable to controlling interest	**(3,548)**	**(1,480)**	**(778)**	**(2,346)**	**(5,198)**	**(2,763)**	**(11,720)**	**(11,040)**
Net loss per share – basic and diluted	**(0.12)**	**(0.04)**	**(0.02)**	**(0.02)**	**(0.05)**	**(0.03)**	**(0.13)**	**(0.26)**

During the fourth quarter of 2018, the Company completed a plan of arrangement where Canopy Rivers and Canopy Growth exchanged an aggregate 38,890,571 common shares into exchangeable shares and JW Entities exchanged 35,021,529 common shares into proportionate voting shares. The above two noted transactions resulted in a reduction in issued and outstanding common shares and an increase in the basic and diluted net loss per share.

Three Months Ended March 31, 2019 vs. Three Months Ended March 31, 2018

Sales

For the three months ended March 31, 2019, the Company generated sales of $14,582 compared to $nil for the three months ended March 31, 2018. For the three months ended March 31, 2019, sales in Canada were $8,860 and sales in the United States of $5,722. The Company obtained the license to sell cannabis in March 2018 and commenced medical cannabis sales in the second quarter of 2018 and recreational cannabis sales to provinces in the third quarter of 2018.

Cost of Sales

Biological assets are measured at fair value less costs to sell until harvest. Changes in fair value less cost to sell of the biological assets during the reporting period before harvest are recognized in the results of operations in the related reporting period.

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. Production costs consist of labour, materials, consumables, supplies, overhead, amortization on production equipment, shipping, packaging and other expenses required to produce cannabis products that will be sold in future periods. Production costs related to the transformation of biological assets to the point of harvest are capitalized and included in the fair value measurement of biological assets. Once goods are sold, the associated capitalized costs are recognized as production costs in the statement of operations in the related reporting period.

Harvested cannabis is transferred from biological assets at their fair value less cost to sell at harvest, which becomes the deemed cost for inventory. Upon sale, the fair value cost adjustment portion is expensed to finished harvest inventory sold and the capitalized cost portion is expensed to production costs. Gross loss before gain on fair value of biological assets represents loss before the net impact of unrealized gain on biological transformation and realized fair value amounts from inventory sold during the period.

The fair value changes of the biological assets, inventory expensed, fair value recovery and impairments, and production costs that make up the total cost of sales, for the three months ended March 31, 2019 and three months ended March 31, 2018 is presented in the table below:

Consolidated

Three months ended March 31,	2019 $	2018 $
Cost of goods sold	**12,263**	—
Impairment of inventory	**307**	—
Production costs	**505**	412
Unrealized loss (gain) on changes in fair value of biological assets	**(444)**	(577)
Realized loss on changes in fair value of biological assets	**17**	—
Cost of Sales	**12,648**	**(165)**

Canada

Three months ended March 31,	2019 $	2018 $
Cost of goods sold	**8,227**	—
Impairment of inventory	**256**	—
Production costs	**505**	412
Unrealized loss (gain) on changes in fair value of biological assets	**(444)**	(577)
Realized loss on changes in fair value of biological assets	**17**	—
Cost of Sales	**8,561**	(165)

United States

Three months ended March 31,	2019 $	2018 $
Cost of goods sold	**4,036**	**—**
Impairment of inventory	**51**	**—**
Production costs	**—**	**—**
Unrealized loss (gain) on changes in fair value of biological assets	**—**	**—**
Realized loss on changes in fair value of biological assets	**—**	**—**
Cost of Sales	**4,087**	—

Cost of sales for the three months ended March 31, 2019 were $12,648 compared to the prior year same period gain of $165. For the three months ended March 31, 2019, the cost of sales in Canada was $8,561 (2018- $165 gain) and cost of sales in United States was $4,087 (2018- $nil). The Company obtained the license to sell cannabis in Canada in March 2018 and commenced medical cannabis sales in the second quarter of 2018 and recreational cannabis sales to provinces in the third quarter of 2018. The increase in cost of sales for the United States was due to the Company acquiring Grander in the first quarter of 2019. Production costs included production salaries and wages, depreciation and supplies. The impairment charges of $307 for the three months ended March 31, 2019 were due to the carrying value of inventory exceeding the estimated net realizable value. The Company did not incur any crop failures in 2019 or 2018.

Production costs and cost of finished inventory harvest sold were offset by unrealized and realized fair value gains on the transformation of biological assets. Fair value gains are sensitive to changes in the Company's average selling price and other changes in the Company's valuation estimates which include, but are not limited to, average selling prices, remaining costs to complete, the allocation rate and method of production costs, the stage of plant growth and cycles and expected yields. Any changes in underlying estimates and assumptions used to determine fair value gains on the transformation of biological assets could have a negative impact on expected gains.

Net Loss and Comprehensive Loss Attributable to Controlling Interest

The Company incurred a net loss of $11,040 or $0.26 per share for the three months ended March 31, 2019, compared with a net loss of $2,346 or $0.02 per share for the same period last year.

For the three months ended March 31, 2019, the Company incurred a net loss in Canada of $7,591 compared to a net loss of $2,346 for the same period last year. The Company received its license to sell dried cannabis in the first quarter of 2018 and license to produce cannabis oils in the second quarter of 2018. The increase in net loss was due to the Company incurring additional G&A and consulting and professional expenditures as the Company continued to ramp up operations and strategic investments.

For the three months ended March 31, 2019, the Company incurred a net loss in the United States of $3,449 compared to a net loss of $nil for the same period last year. The increase in cost of sales for the United States was due to the Company acquiring Grander in the first quarter of 2019 and incurring various acquisition related costs.

Share-based Payments

Share-based payments in Canada were $1,907 for the three months ended March 31, 2019 compared to $998 for the same period last year. The increase was primarily driven by higher number of options granted as well as higher number of unvested options outstanding in the first quarter of 2019 as compared to the first quarter of 2018.

Share-based payments in the United States were $nil for the three months ended March 31, 2019 and 2018.

General and Administrative Expense

General & Administrative ("G&A") expenses of $8,821 for the three months ended March 31, 2019 increased by $7,294 compared to $1,527 for the same period last year. G&A expenses in Canada for the three months ended March 31, 2019 were $5,030 compared to $1,527 for the same period last year. G&A expenses in the United States for the three months ended March 31, 2019 were $3,791 compared to $nil for the same period last year.

In Canada, the increase in G&A was primarily due to increases in salaries and wages of $1,130, consulting and professional fees of $1,123, selling expenses of $781 and insurance of $131. In the United States, the increase in G&A was primarily due to increases in salaries and wages of $1,511, consulting and professional fees of $1,238, advertising and promotions of $377, office and administration expense of $300 and bad debts of $111.

Amortization and Depreciation Expense

Amortization and depreciation expense of $752 for the three months ended March 31, 2019 increased by $665 compared to $87 for the same period last year. Amortization and depreciation expenses in Canada for the three months ended March 31, 2019 were $280 compared to $87 for the same period last year. Amortization and depreciation expense in the United States for the three months ended March 31, 2019 were $472 compared to $nil for the same period last year. The increase in amortization and depreciation expense was due to increased capital investment in Canada and the asset acquisition of Grander in the first quarter of 2019.

Finance (income) Expense

For the three months ended March 31, 2019, finance expense totaled $732 versus $101 of finance income for the same comparable period in 2018. Finance income in Canada for the three months ended March 31, 2019 was $23 compared to $101 for the same period last year. Finance expense in the United States for the three months ended March 31, 2019 were $755 compared to $nil for the same period last year.

The finance income in Canada for 2019 was primarily due to the interest income from the Think AHLOT note receivable whereas the finance income in 2018 was associated with the interest income on term deposits. The finance expense in the United States was primarily due to the accretion on the $75 million USD credit facility with JW Asset Management LLC. As at March 31, 2019, $34 million USD was drawn on this credit facility.

Unrealized Gain on Investments

For the three months ended March 31, 2019, the Company recorded unrealized gain on investments of $618 compared to $nil in 2018. The unrealized gain on investments relates to the increase in fair value of the Company's investment in Fire and Flower Inc. shares and warrants. The fair value of the investment was based on Level 3 of the fair value hierarchy.

Unrealized gain on investments in the United States were $nil for the three months March 31, 2019 and 2018.

Unrealized Foreign Exchange Gain

For the three months ended March 31, 2019, the Company recorded unrealized foreign exchange gain of $40 compared to $nil in 2018. The foreign exchange gain related to the translation of the parent Company's US denominated monetary assets and liabilities to the Canadian functional currency.

Unrealized foreign exchange impact on translation of US entity amounts into Canadian reporting currency are recorded in the statement of financial position as other comprehensive income.

Adjusted EBITDA (Non-GAAP Measure)

The Company's "Adjusted EBITDA" is a non-GAAP metric used by management that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management uses Adjusted EBITDA to evaluate the performance of the Company's business as it reflects its ongoing profitability. The Company believes that certain investors and analysts use Adjusted EBITDA to measure a company's ability to service debt and to meet other payment obligations or as a common measurement to value companies in the biopharmaceutical industry. Adjusted EBITDA has no direct comparable IFRS financial measure. Such information is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The Company measures Adjusted EBITDA as net income (loss) less unrealized gain on changes in fair value of biological assets and other income plus fair value changes in biological assets included in inventory sold, income taxes, interest expense, accretion expense, transaction costs, share based compensation and depreciation and amortization. The Company believes that this definition is suited to measure the Company's ability to service debt and to meet other payment obligations.

Consolidated

	Three months ended March 31, 2019	**Three months ended March 31, 2018**
Net Loss and Comprehensive Loss after Income Tax	(11,200)	(2,346)
Unrealized gain on changes in fair value of biological assets	(444)	(577)
Realized loss on changes in fair value of biological assets	17	—
Accretion and accrued interest	732	—
Depreciation of property, plant and equipment	290	148
Amortization of intangible assets	565	19
Share-based payments	2,566	1,160
Unrealized gain on investments	617	—
Future income taxes	(372)	—
Adjusted EBITDA - Non-GAAP Measure	**(7,229)**	**(1,596)**

Canada

	Three months ended March 31, 2019	**Three months ended March 31, 2018**
Net Loss and Comprehensive Loss after Income Tax	(7,641)	(2,346)
Unrealized gain on changes in fair value of biological assets	(444)	(577)
Realized loss on changes in fair value of biological assets	17	—
Accretion and accrued interest	(17)	—
Depreciation of property, plant and equipment	276	148
Amortization of intangible assets	108	19
Share-based payments	2,566	1,160
Unrealized gain on investments	617	—
Adjusted EBITDA - Non-GAAP Measure	**(4,518)**	**(1,596)**

United States

	Three months ended March 31, 2019	Three months ended March 31, 2018
Net Loss and Comprehensive Loss after Income Tax	**(3,559)**	**—**
Accretion and accrued interest	749	—
Depreciation of property, plant and equipment	14	—
Amortization of intangible assets	457	—
Future income taxes	(372)	—
Adjusted EBITDA - Non-GAAP Measure	**(2,711)**	**—**

Liquidity and Capital Resources

As at March 31, 2019, TerrAscend had cash and cash equivalents of $8,627 and a working capital deficit of $1,371. 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.

The Company's objective with respect to its capital management is to ensure it has sufficient cash resources to maintain its ongoing operations and finance its research and development activities, corporate and administration expenses, working capital and overall capital expenditures. Since inception, the Company has primarily financed its liquidity needs through the issuance of shares.

Operating Activities

For the three months ended March 31, 2019, the Company's cash outflows from operating activities were $14,478 (three months ended March 31, 2018 – $ 4,084).

Financing activities

Cash provided by financing activities for the three months ended March 31, 2019 was $31,333. During the three months ended March 31, 2019, 50,131 warrants were exercised at $1.75 per unit for total gross proceeds of $88 and 2,831 stock options were exercised at a price of $3.20 per unit for gross proceeds of $9. During the three months ended March 31, 2019, the Company received a loan tranche including accrued interest in the amount of $31,815 from JW Partners L.P. and JW Opportunities Master Fund Ltd. and paid loan interest and loan origination fee of $313 and $266, respectively.

In the comparative period of last year, the cash provided by financing activities was $508 and mainly resulted from 112,080 stock options which were exercised ranging in price from $0.60 to $3.20 for gross proceeds of $77 and 246,379 warrants which were exercised at a price of $1.75 for gross proceeds of $431.

Investing activities

Cash used in investing activities during the three months ended March 31, 2019 totaled $30,001 and related primarily to the construction of the second phase of the Mississauga facility ($11,283), note receivable from Howard Street Partners, LLC and RHMT, LLC ($8,017) and to joint operations with Solace RX ($475), purchase of intangible assets mainly related to ERP software ($619) and advances to joint venture partner ($420). In addition, the Company paid $9,187 as consideration for the acquisition of Grander.

In comparison, the cash used in investing activities during the three months ended March 31, 2018 amounted to $2,560. This was due to the start of construction on the Mississauga facility.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements at March 31, 2019 and 2018.

Financial Instruments

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 are 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.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The Company monitors and manages its cash flows to assess the liquidity necessary to fund operations. As at March 31, 2019, the Company had cash and cash equivalents and receivables balance of $37,097 (December 31, 2018 - $32,975) to settle current liabilities of $56,626 (December 31, 2018 -$31,076). 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 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	
	March 31, 2019 $	December 31, 2018 $
Cash	2,263	14,461
Receivables	89	—
Prepaid expenses	877	27
Note receivable	8,057	—
Deposits	297	870
Deferred costs	307	283
Accounts payable and accrued liabilities	(2,477)	(1,010)
Loan payable	(44,974)	(12,683)
Contingent consideration payable	(781)	—
Lease liability	(3,148)	—
Net Financial Assets (Liabilities)	(39,490)	1,948

Based upon the above net exposure as at March 31, 2019 and assuming all other variables remain constant, a 10% (2018- 10%) appreciation or depreciation of the U.S. dollar relative to the Canadian dollar could result in an increase or decrease of approximately $3,949 (2018- $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.

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. The Company's note receivables bear interest at a fixed rate of 6% per annum.

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 March 31, 2019 and assuming all other variables remain constant, a net increase or decrease of 20% (2018 - 20%) in the market prices of the underlying securities would increase or decrease respectively net (loss) income by $1,736 (2018 - $nil).

Commitments

The Company has the following rental commitments for office premises:

	$
2019	174
2020	154
2021	113
2022	99
2023	242
Total	782

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 defense. The Company does not expect the claim to have a material adverse impact on the Company.

Subsequent Events

i) 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.

ii) 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.

iii) Private placement

On April 26, 2019, the Company announced its intention to complete a non-brokered private placement to raise approximately US$40 million – US$50 million through the issuance of common shares. On May 15, 2019, the Company closed the first tranche of the private placement and issued 5,257,662 common shares at a price of $7.64 per common share for total proceeds of $40,169.

iv) GMP Certification

On May 2, 2019, the Company announced that its manufacturing facility in Canada has been issued a Good Manufacturing Practice ("GMP") certificate in accordance with the rules governing medicinal products in the European Union. Additionally, the Company has entered a comprehensive sale and distribution agreement with iuvo Therapeutics GmbH ("iuvo"), a German pharmaceutical wholesaler with a cannabis-specific import and distribution licenses.

v) Option and warrant issuances, exercises and forfeitures

Subsequent to March 31, 2019, the Company granted 1,257,500 options to employees of the Company. The options have a weighted average exercise price of $7.89.

Subsequent to March 31, 2019, 486,190 warrants were exercised at an average exercise price of $1.75 for gross proceeds of $851.

Subsequent to March 31, 2019, 155,001 unvested options were forfeited.

Accounting Changes

<u>New standards, amendments and interpretations adopted</u>

The following new standard became effective January 1, 2019 and has been adopted in preparing these condensed interim 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 condensed interim consolidated financial statements and determined that all of the operating leases, as currently disclosed in note 24 of the Quarterly Financial Statements, will be reflected as right-of-use assets on the consolidated statement of financial position as at January 1, 2019.

Critical accounting 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.

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 Shares, and the risk-free interest rate.

iv) *Investment in Fire & Flower Inc. warrants and note receivable*

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

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 the functional currency of its Canadian subsidiaries is the Canadian dollar and foreign subsidiaries is the US dollar. 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 three months ended March 31, 2019, management has determined that there were no indicators of impairment for intangible assets.

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.

vi) *Acquisition of Grander*

In the acquisition of substantially all of the assets of Grander Distribution, LLC ("Grander") on January 15, 2019, judgement was required to determine if the acquisition represented either a business combination or an asset purchase. Management concluded that Grander represented a business as the assets acquired were an integrated set of activities with inputs, processes and outputs.

Since it was concluded that the acquisition represented the purchase of a business, there was goodwill recognized on the transaction and acquisition costs were expensed. The fair values of the net assets acquired were determined using estimates and judgements. Refer to Note 8 for additional information on the acquisition of Grander.

vii) *Operating segments*

Operating segments are determined based on internal reports used in making strategic decisions that are reviewed by the Chief Operating Decision Makers (CODM).

Significant accounting policies

Inventory

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.

Biological assets

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.

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.

Leases

The Company is the lessee under a number of real estate leases related to offices and warehouses. Prior to January 1, 2019, all of the Company's leases were classified as operating leases under IAS 17 Leases. Under IAS 17, lease payments were recognized as expenses on a straight-line basis.

On January 1, 2019, the Company adopted IFRS 16 Leases. Under IFRS 16, leases are recognized as a right-of-use asset and a corresponding lease liability on the lease commencement date. Lease liabilities are initially measured at the present value of lease payments discounted at the incremental borrowing rate of the lessee. Lease payments include fixed and in-substance fixed payments under the lease less lease incentives receivable, amounts expected to be payable under a purchase option or residual value guarantee, variable lease payments based on an index or a rate, and termination penalties if the option is expected to be exercised. Right-of-use assets are initially measured at cost which is comprised of the amount of the lease liability, rent prepayments less lease incentives received, initial direct costs and restoration costs and presented in property, plant and equipment (see note 12). Each lease payment is allocated between repayment of the lease liability and finance cost. Right-of-use assets are depreciated on a straight-line basis over the lease terms (or the useful life of the asset if shorter).

The Company has elected to apply the recognition exemption provided under the standard for leases with a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis.

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
Distribution agreement	4 years
Customer relationship	5 years
Non-compete agreement	3 years
Domain name	15 years

Packaging designs are not yet ready for use and therefore not amortized. Brand name and goodwill have indefinite useful life.

Revenue Recognition

The Company adopted IFRS 15 – Revenue from Contracts with Customers on January 1, 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. Excise taxes are netted against gross revenue on the statement of net (loss) income and comprehensive (loss) income.

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.

Operating segment

Operating segments are components of the Company that engage in business activities from which they earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the Company), the operations of which can be clearly distinguished, and the operating results of which are regularly reviewed by the chief operating decision maker (“CODM”) for the purposes of resource allocation and assessing its performance. The CODMs are defined as Michael Nashat the CEO of the Company and Matthew Johnson, President of the Company.

The Company’s operating and reportable segment is the cultivation and sale of cannabinoid related products. As at March 31, 2019, as part of the integration of the Company’s recently acquired business, Arise in the United States, the CODM has revised the manner in which they review the operations and business performance of the Company by viewing the segments by geographical regions in Canada and the United States. Key measures used by the CODM in assessing performance and in making resource allocation decisions include revenues, gross profit and net income (loss).

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.

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
Contingent consideration payable	FVTPL	Fair value	Loans and receivables	Fair Value
Lease liability	Amortized cost	Amortized cost	Other liabilities	Amortized cost

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, exchangeable shares and proportionate voting shares are classified as equity. Transaction costs directly attributable to the issuance of share capital 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.

Outstanding Share Data

As at March 31, 2019, TerrAscend had 42,562,941 common shares outstanding.

As at the date of this MD&A, fully diluted share capital outstanding was as follows:

	Number outstanding on a basic unconverted basis	**Number outstanding on a basic converted basis**	**Weighted average exercise price $**
Common shares	48,306,793	48,306,793	N/A
Exchangeable shares	38,890,571	38,890,571	N/A
Proportionate voting shares	35,021.529	35,021,529	N/A
Warrants for common shares		818,451	2.91
Warrants for proportionate voting shares		28,636,361	1.10
Options		9,721,130	5.04
Total Outstanding	87,232,385	161,394,835	

Risk Factors

The following section describes specific and general risks that could affect the Company. These risks and uncertainties are not the only ones the Company is facing. Additional risks and uncertainties not presently known to the Company, or that it currently deems immaterial, may also impair its operations. If any such risks actually occur, the business, financial condition, liquidity and results of the Company's operations could be materially adversely affected. The risk factors described below should be carefully considered by readers.

An investment in securities of the Company should only be made by persons who can afford a significant or total loss of their investment.

Reliance on Licenses

The Company's ability to grow, store and sell medical cannabis and cannabis oil in Canada is dependent on TerrAscend Canada maintaining the License for both oil and dried cannabis production and the sale of dried cannabis with Health Canada. Failure to comply with the requirements of the License or any failure to maintain the License would have a material adverse impact on the business, financial condition and operating results of the Company.

The License expires on July 10, 2020. There can be no guarantees that Health Canada will extend or renew the License or, if it were extended or renewed, that the License would be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the License or should it renew the License on different terms, the business, financial condition and results of the operations of the company would be materially adversely affected.

In addition, the Company and its subsidiaries, as applicable, will apply for, as the need arises, all necessary licenses and permits to carry on the activities it expects to conduct in the future. However, the ability of the Company or its subsidiaries to obtain, maintain or renew any such licenses and permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions.

Obtaining a DPP License

In February 2018**,** the Company's subsidiary, Solace Rx, began construction of a proposed DPP location which will apply for a license (the "DPP License") from the Ontario College of Pharmacists. The DPP will allow for the reconstitution, dilution, preparation and/or combination of non-cannabis drug formulations for health care practitioners and institutions. Solace Rx has not yet received the DPP License and there is no assurance this license will be granted, or if granted, when it will be granted. Furthermore, the timing and success of Solace Rx at the various steps in the licensing process is beyond the Company's control and the sole discretion thereof lies with the Ontario College of Pharmacists. Should the Ontario College of Pharmacists not grant the DPP License, the business, financial condition and operating results of the Company could be materially adversely affected and the completion of the DPP may be halted or delayed.

Expansion of Facilities

Phase II construction for the expansion of growing and distribution activities, and the development of the DPP is currently underway at the Facility. There is no guarantee that Health Canada and the Ontario College of Pharmacists will approve the contemplated expansions of the Facility in a timely fashion, nor is there any guarantee that the expansion will be completed in its currently proposed form, if at all. The failure of the Company to successfully execute its expansion strategy (including receiving the expected Health Canada and Ontario College of Pharmacists approvals in a timely fashion) could adversely affect the business, financial condition and results of operations of the Company and may result in the Company not meeting anticipated or future demand when it arises.

The expansions of the Facility could be adversely affected by a variety of factors, including: delays in obtaining, or conditions imposed by, regulatory approvals; plant design errors; environmental pollution issues; non-performance by third party contractors; increases in materials or labour costs; construction performance falling below expected levels of output or efficiency; breakdown, aging or failure of equipment or processes; contractor or operator errors; labour disputes, disruptions or declines in productivity; inability to attract sufficient numbers of qualified workers; disruption in the supply of energy and utilities; and major incidents and/or catastrophic events, such as fires, explosions, earthquakes or storms.

Reliance on a Single Production Facility

The Facility is currently the Company's only licensed facility under the Cannabis Act and the License is specific to the Facility. Adverse changes or developments affecting the Facility, including but not limited to a breach of security, could have a material and adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures and other facility requirements, including any failure to comply with recommendations or requirements arising from inspections by Health Canada or the Ontario College of Pharmacists may also have an impact on the Company's ability to continue operating under the License, the prospect of renewing the License or of obtaining the DPP License.

The Facility continues to operate with routine maintenance, however the building does have components that require replacement or repair. The Company will bear many of the costs of maintenance and upkeep at the Facility. The Company's operations and financial performance may be adversely affected if it is unable to keep up with maintenance requirements.

Certain contemplated site expansions and renovations may require Health Canada or Ontario College of Pharmacists approval in order to continue. There is no guarantee that any contemplated expansion and/or renovation will be approved, which could adversely affect the business, financial condition and results of operations of the Company.

Regulatory Risks

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the impact of the compliance regime Health Canada, the Ontario College of Pharmacists, the applicable regulatory bodies in the United States, or any other applicable regulatory bodies are implementing that effect the business of the Company. Similarly, the Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. The impact of governmental compliance regimes, any delays in obtaining, or failure to obtain regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions on the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, result in increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

The cannabis industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Company and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company’s earnings and could make future capital investments or the Company’s operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

U.S.-Specific Regulatory Risk

The Company engages in the manufacture, possession and sale of hemp derived CBD products in the United States.

While some states in the United States have authorized the use and sale of cannabis in some form, it remains illegal under U.S. federal law. On January 4, 2018, United States Attorney General Jeff Sessions issued a memorandum to United States Attorneys which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the United States, including the Cole Memorandum, which stated that the U.S. Department of Justice would not prioritize the prosecution of cannabis-related violations of U.S. federal law in jurisdictions that had enacted laws legalizing medical cannabis in some form and had implemented strong and effective regulatory and enforcement systems. With the Cole Memorandum rescinded, U.S. federal prosecutors have greater discretion in determining whether to prosecute medical cannabis-related violations of U.S. federal law; there was never such a policy statement in relation to United States state and territories with adult use cannabis programs. Because the Company engages in cannabis-related activities in the United States, an increase in federal enforcement efforts with respect to current U.S. federal laws applicable to cannabis could cause financial damage to the Company. In addition, the Company is at risk of being prosecuted under U.S. federal law and having its assets seized.

Enforcement of the U.S. federal law is a significant risk.

Violations of any United States federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the United States federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities, civil forfeiture or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of cannabis under the Cannabis Act, investors are cautioned that in the United States, cannabis is largely regulated at the state level. Notwithstanding the permissive regulatory environment of cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substance Act (CSA) in the United States and as such, is in violation of federal law in the United States.

Further, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that will make it extremely difficult or impossible to transact business in the cannabis industry.

As stated above, the United States Congress has passed appropriations bills each of the last four years to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The 2018 Consolidated Appropriations Act was passed by Congress on March 23, 2018 and included the re-authorization of the protective amendments. It has subsequently been reauthorized and continues in effect until September 30, 2019.

One United States federal appellate court construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws, vacated numerous convictions and sent the cases back to the trial courts for further determination. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the RBA in the 2019 budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the five-year statute of limitations applicable to non- capital CSA violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provide no protection against businesses operating in compliance with a state's recreational cannabis laws.

Although the 2018 Farm Bill, among other things, generally removes hemp from the controlled substances list under the CSA, it does not legalize CBD generally. In particular, the 2018 Farm Bill preserves the FDA's authority to regulate products containing cannabis or cannabis-derived compounds. Pursuant to a statement released December 20, 2018, an FAQ on the FDA's website, and numerous public statements, the FDA has taken the position that all CBD is a drug ingredient and therefore illegal to add to food or health products without its approval or further action by FDA. The FDA considers products containing CBD or other cannabis-derived compounds the same as any other FDA-regulated products and takes the position that they are subject to the same authorities and requirements as similarly regulated products, including but not limited to required approvals for food ingredients and dietary supplements based on safety standards. Importantly, the FDA has taken the position that it is unlawful under the FDCA to introduce food containing added CBD into interstate commerce, or to market CBD products as, or in, food or dietary supplements, regardless of whether the substances are hemp-derived. The FDA has however indicated that it will work towards providing ways for companies to seek approval from the FDA to market CBD products. Further, many state criminal laws and food and drug laws prohibit or restrict the production and/or sale of hemp-derived CBD products. The Company's U.S. hemp operations will be subject to FDA oversight. There is no guarantee that the that the Company will be able obtain necessary FDA or state approval for its products in the U.S.

The Company's activities and operations in the U.S. are, and will continue to be, subject to evolving regulation by governmental authorities. The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined. The USDA will promulgate additional rules governing the production of hemp in the US, with many states in the process of amending state laws to regulate hemp production and the sale of hemp-derived products within their borders. In addition, the FDA is expected to make determinations as to how CBD products will be regulated and is expected to issue a substantial change in its regulation of dietary supplements generally. Accordingly, there are significant changes in both federal and state law that may materially impact the Company's operations.

Changes in Laws, Regulations and Guidelines

The Cannabis Act came into force in Canada on October 17, 2018 along with various related regulations. The cultivation, processing, distribution and sale of cannabis, among other things, remains subject to extensive regulatory oversight under the Cannabis Act, as it was prior to its implementation. It is possible that these statutory requirements, including any new regulations that are subsequently issued, could significantly and adversely affect the business, financial condition and results of operations of the Company.

While the foregoing activities in respect of cannabis are under the regulatory oversight of the Government of Canada, the distribution of recreational use cannabis is the responsibility of the respective provincial and territorial governments. These jurisdictions have chosen varying retail frameworks with private, public and hybrid models being implemented. There is no guarantee that provincial and territorial legislation regulating the distribution and sale of cannabis for recreational purposes will be continued according to their current terms, that they will not be materially amended or that such regimes will create the growth opportunities that the Company currently anticipates.

In the United States, the operations of the Company and its subsidiaries are subject to a variety of laws, including, among other things, state and local regulations and guidelines relating to the cultivation, manufacture, management, transportation, distribution, sale, storage and disposal of cannabis. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's business, financial condition and result of operations. Local, state and federal laws and regulations governing marijuana for medicinal and recreational purposes are broad in scope and are subject to evolving interpretations, which could require the Company to incur substantial costs associated with bringing the Company's operations into compliance. In addition, violations of these laws, or allegations of such violations, could disrupt the Company's operations and result in a material adverse effect on its financial performance. It is beyond the Company's scope to predict the nature of any future change to the existing laws, regulations, policies, interpretations or applications, nor can the Company determine what effect such changes, when and if promulgated, could have on the Company's business.

In addition, government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical or recreational cannabis in Canada, the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, a shift could cause state and local jurisdictions to abandon initiatives or proposals to legalize medical or recreational cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

Regulatory Approval and Permits

The Company may be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions where its products are manufactured and/or sold. There can be no assurance that the Company will be able to obtain or maintain any necessary licenses, permits or approvals. Any material delay or inability to receive these items is likely to delay and/or inhibit the Company's ability to conduct its business, and would have an adverse effect on its business, financial condition and results of operations.

U.S. State Cannabis Laws and Enforcement are not Uniform from State to State and can, and do, Change Constantly

State cannabis laws are inconsistent with each other and federal laws and are constantly changing. Similarly, local cannabis laws are also constantly changing. The changing and inconsistent nature of the laws may create conflict and the inability for the Company to conduct business in a particular state or across state lines. Interstate cannabis activities are currently prohibited by the CSA. With respect to hemp, local law enforcement officials in Oklahoma and Idaho seized shipments of hemp that were traveling through those states on the grounds that the products qualified as marijuana and were illegal under the states' controlled substances laws. Criminal charges were filed along with product seizure, and an argument was made that the transportation provision of the 2018 Farm Bill has not yet taken effect. Despite the intent of the 2018 Farm Bill to allow transportation of hemp products through states without hemp programs, the novelty of the 2018 Farm Bill hemp provision, and conflicts among state laws and applicable federal laws remains an area of confusion and the cause of differing interpretations for many local authorities. Accordingly, there remains risk of enforcement even when activity is lawful under federal and state law.

Risks associated with the change in U.S. Administrations

As a result of the 2016 U.S. presidential election and the related change in political agenda, there continues to be uncertainty as to the position the United States will take with respect to world affairs and events. This uncertainty may include issues such as enforcement of the U.S. federal laws. Implementation by the U.S. of new legislative or regulatory regimes could impose additional costs on the Company, decrease U.S. demand for the Company's services or otherwise negatively impact the Company, which may have a material adverse effect on the Company's business, financial condition and operations.

Risk of Heightened Scrutiny by Regulatory Authorities in Canada

The Company's future investments, joint ventures and operations in the United States may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction, in addition to those described herein.

Although a Memorandum of Understanding signed by CDS and the Canadian recognized exchanges (Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange and the TSX Venture Exchange) dated February 8, 2018, confirms that CDS relies on the exchanges to review the conduct of listed issuers, and therefore there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as and until an alternative was implemented, investors would have no ability to affect a trade of Common Shares through the facilities of a stock exchange.

International Regulatory Risks

If the Company intends to expand internationally or engage in the international sale of hemp-derived products, it will become subject to the laws and regulations of the foreign jurisdictions in which it operates, or in which it imports or exports products or materials, including but not limited to customs regulations in the importing and exporting countries. The laws governing hemp and CBD differ in various jurisdictions and are subject to change. Under the 1961 United Nation Single Convention, all extracts of the cannabis plant are considered Schedule I substances. The varying laws and rapidly changing regulations may impact the Company's operations, including but not limited to the Company's ability to ensure compliance. In addition, the Company may avail itself of proposed legislative changes in certain jurisdictions to expand its product portfolio, which expansion may include business and regulatory compliance risks as yet undetermined. Failure by the Company to comply with the evolving regulatory framework in any jurisdiction could have a material adverse effect on the Company's business, financial condition and results of operations.

Risks Concerning Banking and Anti-Money Laundering Laws and Regulations

The U.S. federal prohibitions on the sale of marijuana may result in the Company and its partners being restricted from accessing the U.S. banking system and they may be unable to deposit funds in federally insured and licensed banking institutions. Banking restrictions could be imposed due to the Company's banking institutions not accepting payments and deposits. The Company is at risk that any bank accounts it has could be closed at any time. Such risks increase costs to the Company.

The Company's activities in the U.S., and any proceeds thereof, may be considered proceeds of crime due to the fact that cannabis remains federally illegal in the U.S. This may restrict the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends on its common shares in the foreseeable future, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

The guidance provided in the FinCEN Memorandum as described above may change depending on the position of the U.S. government administration at any given time and is subject to revision or retraction in the future, which may restrict the Company's access to banking services.

U.S. Border Officials Could Deny Entry into the U.S. to Management, Employees and/or Investors in Companies with Cannabis Operations in the U.S.

Because cannabis remains illegal under U.S. federal law, those employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry or lifetime bans from the U.S. for their business associations with U.S. cannabis businesses. Entry happens at the sole discretion of the U.S. Customs and Border Protection officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a foreign national. The government of Canada has started warning travelers on its website that previous use of cannabis, or any substance prohibited by U.S. federal laws, could mean denial of entry to the U.S. Business or financial involvement in the legal cannabis industry in Canada or in the U.S. could also be reason enough for U.S. border guards to deny entry**.**

Constraints on Marketing Products

The development of the Company's business and results of operations may be hindered by applicable regulatory restrictions on sales and marketing activities. For example, the regulatory environment in Canada limits our ability to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for the Company's products, our sales and results of operations could be adversely affected. See "*Description of the Business - Regulatory Framework in Canada – Recent Regulatory Developments – Federal Developments – Packaging and Labelling*".

Environmental and Employee Health and Safety Regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. Changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Product Recalls

The Company's products may be subject to recall or return for a variety of reasons, including product defects such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection therewith. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the products produced by the Company were subject to recall, the image of that product and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada and other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Product Liability Claims

As a manufacturer of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacturing and sale of cannabis and other products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products produced by the Company caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances.

A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and financial condition of the Company.

Consumer-Protection Liability

The Company's products may be considered misbranded or adulterated, or otherwise unlawful under federal and state food and drug laws and could subject the company to local, federal, or state enforcement or private litigation. Some states permit advertising, labeling laws, false and deceptive trade practices, and other consumer-protection laws to be enforced by state attorney generals, who may seek relief for consumers, class action certifications, class wide damages and product recalls of products sold by the Company. Private litigations may also seek relief for consumers, class action certifications, class wide damages and product recalls of products sold by the Company. Any actions against the Company by governmental authorities or private litigants could have a material adverse effect on the Company's business, financial condition and results of operations.

History of Net Losses

The Company started sales in April 2018 and historically has had negative cash flow from operating activities. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable.

Continued losses may have the following consequences:

- increasing the Company's vulnerability to general adverse economic and industry conditions;
- limiting the Company's ability to obtain additional financing to fund future working capital, capital expenditures, operating costs and other general corporate requirements; and
- limiting the Company's flexibility in planning for, or reacting to, changes in its business and the industry.

Production Capacity and Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Limited Operating History

The Company has a limited operating history and, accordingly, potential investors will have a limited basis on which to evaluate its ability to achieve its business objectives. The future success of the Company is dependent on management's ability to implement its strategy, there is no certainty that anticipated outcomes and sustainable revenue streams will be achieved and there is no certainty that the Company will successfully produce commercial medical cannabis, establish a market for and sell its product, maintain the License or obtain other necessary licenses and/or approvals.

The Company faces risks frequently encountered by early-stage companies. In particular, its future growth and prospects will depend on its ability to expand its operation and gain additional revenue streams while at the same time maintaining effective cost controls. Any failure to expand is likely to have a material adverse effect on the Company's business, financial condition and results. As such, there is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

Early Stage of the Cannabis Industry

As a Licensed Producer under the Cannabis Act, the Company is operating its business in a relatively new industry and market. Competitive conditions, consumer preferences, patient requirements and spending patterns in this new industry and market are relatively unknown and may have unique circumstances that differ from existing industries and markets.

In addition, the Cannabis Act also permits patients to produce a limited amount of cannabis for their own medical purposes or to designate a person to produce a limited amount of cannabis on their behalf. This could potentially significantly reduce the market for the Company's products, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Accordingly, there are no assurances that this industry and market will continue to exist or grow as currently estimated or anticipated, or function and evolve in a manner consistent with management's expectations and assumptions. Any event or circumstance that affects the medical cannabis industry and market could have a material adverse effect on the Company's business, financial condition and results of operations.

Early Stage of the Hemp Industry

The Company, as a result of its indirect acquisition of substantially all of the assets of Grander, operates a hemp manufacturing, processing and distribution business, which business is in a relatively new industry and market. In addition to being subject to general business risks, the Company must continue to build brand awareness in this industry and market through significant investments in its strategy, its production capacity, quality assurance and compliance with regulations. In addition, there is no assurance that the industry and market will continue to exist and grow as currently estimated or anticipated or function and evolve in the manner consistent with management’s expectations and assumptions. Any event or circumstance that adversely affects the hemp industry and market could have a material adverse effect on the Company’s business, financial conditions and results of operations.

Risks Associated with Joint Venture Investments

The Company currently operates parts of its business through joint ventures with other companies, and it may enter into additional joint ventures and strategic alliances in the future. Joint venture investments may involve risks not otherwise present for investments made solely by the Company, including: (i) we may not control the joint ventures; (ii) our joint venture partners may not agree to distributions that we believe are appropriate; (iii) where we do not have substantial decision-making authority, we may experience impasses or disputes with our joint venture partners on certain decisions, which could require us to expend additional resources to resolve such impasses or disputes, including litigation or arbitration; (iv) our joint venture partners may become insolvent or bankrupt, fail to fund their share of required capital contributions or fail to fulfil their obligations as a joint venture partner; (v) the arrangements governing our joint ventures may contain certain conditions or milestone events that may never be satisfied or achieved; (vi) our joint venture partners may have business or economic interests that are inconsistent with ours and may take actions contrary to our interests; (vii) we may suffer losses as a result of actions taken by our joint venture partners with respect to our joint venture investments; and (viii) it may be difficult for us to exit a joint venture if an impasse arises or if we desire to sell our interest for any reason. Any of the foregoing risks could have a material adverse effect on the Company’s business, financial condition and results of operations. In addition, the Company may, in certain circumstances, be liable for the actions of its joint venture partners.

Risks Associated with Strategic Alliances

The Company currently has, and may in the future, enter into strategic alliances with third parties that we believe will complement or augment our existing business. Our ability to complete strategic alliances is dependent upon, and may be limited by, the availability of suitable candidates and capital. In addition, strategic alliances could present unforeseen integration obstacles or costs, may not enhance our business, and may involve risks that could adversely affect us, including significant amounts of management time that may be diverted from operations in order to pursue and complete such transactions or maintain such strategic alliances. Future strategic alliances could result in the incurrence of additional debt, costs and contingent liabilities, and there can be no assurance that future strategic alliances will achieve, or that our existing strategic alliances will continue to achieve, the expected benefits to our business or that we will be able to consummate future strategic alliances on satisfactory terms, or at all. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

Competition in the Cannabis Industry

The Cannabis Act and the introduction of a recreational model for cannabis production and distribution may impact the medical cannabis market. The impact of this potential development may be negative for the Company and could result in increased levels of competition in its existing medical market and/or the entry of new competitors in the overall cannabis market in which the Company operates.

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

The government has only issued to date a limited number of licenses under the Cannabis Act to produce and sell cannabis. According to Health Canada, as of the date hereof, there are currently 171 licensed producers under the Cannabis Act. There are, however, several hundred applicants for licenses. The number of licenses granted could have an impact on the operations of the Company. Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. The Company also faces competition from illegal cannabis dispensaries that are selling cannabis to individuals despite not having a valid license under the Cannabis Act.

If the number of users of medical cannabis in Canada increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis, which could materially and adversely affect the business, financial condition and results of operations of the Company.

As well, the legal landscape for medical and recreational cannabis is changing internationally. More countries have passed laws that allow for the production and distribution of medical cannabis in some form or another. Increased international competition might lower the demand for the Company's products on a global scale.

Competition in the Hemp Industry

The market for CBD-based hemp products is highly competitive and evolving. In particular, the Company faces strong competition from both existing and emerging companies that offer similar products to the Company. Competition consists of publicly and privately-owned companies, which tend to be highly fragmented in terms of both geographic market coverage and products offered. Some of the Company’s current and potential competitors may have longer operating histories, greater financial, marketing and other resources and larger customer bases. The Company’s competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements. Changes in regulations and the passing of the 2018 Farm Bill are likely to dramatically increase competition. Increased competition could impede the Company’s ability to sell additional products and services on terms favorable to it. The Company’s current and potential competitors may develop and market new technologies that render the Company’s existing or future products obsolete, unmarketable, or less competitive. The

Company’s current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with other providers, thereby increasing the availability of their services to address the needs of our current and prospective customers. The Company may not be able to compete successfully against its current and future competitors, and competitive pressures that we encounter may seriously harm the business. The Company’s success will depend on its ability to keep pace with any changes in the marketplace. The Company’s success will depend on its ability to respond to, among other things, changes in the economy, market conditions and competitive pressures. Any failure to anticipate or respond adequately to such changes could have a material adverse effect on the Company’s financial condition, operating results, liquidity, cash flow and operational performance.

Inherent Risks Associated with Relying on Hemp as an Active Pharmaceutical Ingredient in CBD Products

The Company's business involves the manufacturing and processing of innovative hemp-derived CBD products. The Company’s operations rely on a consistent supply of hemp from independent third-party producers. Hemp is an agricultural product and its cultivation is therefore subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although hemp is grown indoors under climate-controlled conditions, and while all growing conditions are carefully monitored with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of hemp, which could have a material impact on the business and operations of the Company given the Company’s reliance on hemp as the active pharmaceutical ingredient in certain of its CBD products.

Vulnerability to Rising Energy Costs

The Company's medical cannabis growing operations consume considerable energy, which make the Company vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

Client Acquisitions

The Company's success depends on its ability to attract and retain clients. There are many factors which could impact the Company's ability to attract and retain clients, including but not limited to the Company's ability to continually produce desirable and effective products, the successful implementation of a client-acquisition plan and the continued growth in the aggregate number of patients selecting medical cannabis as a treatment option. The Company's failure to acquire and retain clients would have a material adverse effect on the Company's business, operating results and financial condition.

Dependence on Suppliers and Skilled Labour

The ability of the Company to compete and grow will be dependent on having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the cost of the expansion of the Facility contemplated by the Company may be significantly greater than anticipated by the Company’s management and/or may cost more than the funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its expansion plan. This could have a material adverse effect on the financial condition and results of operations of the Company.

Transportation Risks

The Company business model contemplates offering same-day, third-party processing and distribution services to other Licensed Producers for delivery to their patients that are located outside of the Greater Toronto Area and out-of-Province. As such, the Company will depend on fast and efficient courier services to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Company. Rising costs associated with the courier services used by the Company to ship its products may also adversely impact the business of the Company and its ability to operate profitably. Due to the nature of the Company's products, security of the product during transportation to and from the Facility is of the utmost concern. A breach of security during transport or delivery could have a material and adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures during transport or delivery, including any failure to comply with recommendations or requirements of Health Canada, could also have an impact on the Company's ability to continue operating under the License or the prospect of renewing the License or obtaining additional licenses and/or approvals.

Research and Development and Product Obsolescence

The introduction of new products embodying new technologies, including new manufacturing processes, and the emergence of new industry standards may render the Company’s products obsolete, less competitive or less marketable. The process of developing the Company's products is complex and requires significant continuing costs, development efforts and third-party commitments. The Company's failure to develop new technologies and products and the obsolescence of existing technologies could adversely affect the business, financial condition and operating results of the Company. The Company may be unable to anticipate changes in its potential customer requirements that could make the Company's existing technology obsolete.

The development of the Company's proprietary technology entails significant technical and business risks. The Company may not be successful in using its new technologies or exploiting its niche markets effectively or adapting its businesses to evolving customer or medical requirements or preferences or emerging industry standards.

Privacy and Cyber Security

A security breach at the Facility could expose the Company to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company’s products. In addition, the Company collects and stores personal information about its patients and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions.

The Company has entered into agreements with third parties for hardware, software, telecommunications and other information technology (“**IT**”) services in connection with its operations. The Company’s operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company’s operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company’s reputation and results of operations.

Theft of data for competitive purposes is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on the Company’s business, financial condition and results of operations. In addition, there are a number of federal and provincial laws protecting the confidentiality of certain patient health information, including patient records, and restricting the use and disclosure of that protected information. In particular, the privacy rules under the Personal Information Protection and Electronics Documents Act (Canada) (“**PIPEDA**”), protect medical records and other personal health information by limiting their use and disclosure of health information to the minimum level reasonably necessary to accomplish the intended purpose. If the Company was found to be in violation of the privacy or security rules under PIPEDA or other laws protecting the confidentiality of patient health information, it could be subject to sanctions and civil or criminal penalties, which could increase its liabilities, harm its reputation and have a material adverse effect on the business, results of operations and financial condition of the Company.

Intellectual Property

The ownership and protection of trademarks, patents, trade secrets and intellectual property rights, and the protection thereof, are significant aspects of the Company’s future success. The Company has no patented technology or trademarked business methods at this time, nor has it registered any patents. The Company has filed trademark applications in Canada and the United States for, among others, the following trademarks: “TERRASCEND” (both Canada and the U.S.), “SOLACE” (Canada only), “SOLACE HEALTH MARKETPLACE” (Canada only), “SOLACE HEALTH NETWORK” (Canada only), “TERRA HEALTH NETWORK” (Canada only), “HAVEN ST.” (Canada only), “KNUBA NATURALS” (Canada only) and “FUNKY FARMS CBD” (U.S. only). Even if the Company moves to protect its technology with trademarks, patents, copyrights or by other means, the Company is not assured that competitors will not develop similar technology, business methods or that the Company will be able to exercise its legal rights. Other countries may not protect intellectual property rights to the same standards as does Canada or the United States. Actions taken to protect or preserve intellectual property rights may require significant financial and other resources such that said actions have a meaningful impact on the Company's ability to successfully grow the business.

In addition, other parties may claim that the Company's products infringe on their proprietary and perhaps patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders and/or require the payment of damages.

Insurance Coverage and Uninsured Risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance does not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for the Common Shares. Even if the Company is involved in litigation and wins, litigation can redirect significant resources.

Reliance on and Retention of Qualified Personnel

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management (collectively, "**Key Personnel**"). Moreover, the Company's future success depends on its continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and the Company may incur significant costs to attract and retain them. The loss of the services of Key Personnel, or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on the Company's ability to execute on its business plan and strategy, and the Company may be unable to find adequate replacements on a timely basis, or at all. While employment agreements are customarily used as a primary method of retaining the services of Key Personnel, these agreements cannot assure the continued services of such employees.

Further, as a Licensed Producer, certain Key Personnel are subject to a security clearance by Health Canada. Under the Cannabis Act, a security clearance cannot be valid for more than five years and must be renewed before the expiry of a current security clearance. There is no assurance that any of the Company's existing personnel who presently or may in the future require a security clearance will be able to obtain or renew such clearances or that new personnel who require a security clearance will be able to obtain one. A failure by Key Personnel to maintain or renew their security clearance would result in a material adverse effect on the Company's business, financial condition and results of operations. In addition, if a Key Person leaves the Company, and the Company is unable to find a suitable replacement that has a security clearance in a timely manner, or at all, it could have a material adverse effect on the Company's business, financial condition and results of operations.

Conflicts of Interest

Certain of the directors and officers of the Company are also directors and officers of other companies or are engaged and will continue to be engaged in activities that may put them in conflict with the business strategy of the Company. Consequently, there exists the possibility for such directors and officers to be in a position of conflict.

In particular, the Company may also become involved in other transactions which conflict with the interests of its directors and officers, who may from time to time deal with persons, firms, institutions or companies with which the Company may be dealing, or which may be seeking investments similar to those desired by it. All decisions to be made by directors and officers of the Company are required to be made in accordance with their duties and obligations to act honestly and in good faith with a view to the best interests of the Company. In addition, the directors and officers are required to declare their interests in, and such directors are required to refrain from voting on, any matter in which they may have a material conflict of interest.

The Company's Chairman of the Board, Jason Wild, who is active and has other interests in the Canadian cannabis industry, has indirect and direct control or direction over 35,021.529 Proportionate Voting Shares and 28,636,361 warrants, each exercisable for 0.01 of a Proportionate Voting Share and on a fully diluted basis representing 100% of the issued and outstanding Proportionate Voting Shares through JW Asset Management, LLC. and may exercise a significant degree of control over the business, future transactions and the composition of the Board and management.

Unfavorable Publicity or Consumer Perception

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis distributed to such consumers. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical cannabis market or any particular product, or consistent with earlier publicity.

Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition of the Company. In particular, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical cannabis in general, or the Company's products specifically, or associating the consumption of medical cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Although the Company believes that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its business, thereby having a material adverse impact on the financial condition and results of operations of the Company.

Reputational Risk to Third Parties

The parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's cannabis business activities. Failure to establish or maintain business relationships could have a material adverse effect on the Company.

Enforcement of Legal Rights

In the event of a dispute arising from the Company's U.S. operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of courts in Canada. Similarly, to the extent that the Company's assets are located outside of Canada, investors may have difficulty collecting from the Company any judgments obtained in the Canadian courts and predicated on the civil liability provisions of securities provisions. The Company may also be hindered or prevented from enforcing its rights with respect to a governmental entity or instrumentality because of the doctrine of sovereign immunity.

Risks Related to the Common Shares

Limited Market for Securities

The Common Shares are listed on the CSE and also trade over the counter in the United States on the OTCQX Best Market, however, there can be no assurance that an active and liquid market for the Common Shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

Share Price Volatility

The market price of the Common Shares may be subject to wide price fluctuations. Price fluctuations may be in response to many factors, including variations in the operating results of the Company and its subsidiaries, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company and its subsidiaries, general economic conditions, legislative changes, community support for the medical cannabis industry and other events and factors outside of the Company's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Common Shares.

Risks Related to Dilution

The Company may issue additional Common Shares in the future, which may dilute a shareholder’s holdings in the Company. The Company’s articles permit the issuance of an unlimited number of Common Shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of the Company have discretion to determine the price and the terms of issue of further issuances. Moreover, additional Common Shares will be issued by the Company on the exercise of options under the Company’s stock option plan and upon the exercise of outstanding warrants.

Access to Capital and Funding

The building and operation of the Company's business, including the Facility, are capital intensive. In order to execute the anticipated growth strategy, the Company may require additional equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to support on-going operations or to fund capital expenditures or acquisitions could limit the Company's growth and may have a material adverse effect upon future profitability.

The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

May 22, 2019
“Michael Nashat”
CEO