

TerraAscend Reports Third Quarter 2022 Financial Results

TORONTO, Nov. 14, 2022 /CNW/ - TerraAscend Corp. ("TerraAscend" or the "Company") (CSE: TER) (OTCQX: TRSSF), a leading North American cannabis operator, today reported its financial results for the third quarter ending September 30, 2022. All amounts are expressed in U.S. dollars unless indicated otherwise and are prepared under U.S. Generally Accepted Accounting principles (GAAP).



Third Quarter 2022 Financial Highlights

- **Net Revenue** increased 3.4% sequentially and 36.4% year over year to \$67 million.
- **Gross Profit Margin** was 36.3%, compared to 35.5% in Q2 2022 and 43.7% in Q3 2021.
- **Adjusted Gross Profit Margin**¹ was 46.1%, compared to 47.1% in Q2 2022 and 46.1% in Q3 2021.
- **Adjusted EBITDA**¹ was \$11.3 million, an increase of 96% sequentially and 22.8% year over year.
- **Adjusted EBITDA Margin**¹ was 16.9%, compared to 8.9% in Q2 2022 and 18.8% in Q3 of 2021.
- **GAAP Net Loss** was \$311 million, compared to net income of \$14.2 million in Q2 2022. A \$331 non-cash impairment charge was recorded against goodwill and intangibles for the Company's Michigan business.
- **Cashflow from Operations** was positive \$1.5 million, compared to negative \$16.1 million in Q2 2022.
- **Cash and Cash Equivalents** totaled \$34.3 million as of September 30, 2022. Subsequent to the third quarter, the Company closed on a \$45.5 million non-brokered senior secured term loan.

"We took decisive action to reduce our operating expenses in the quarter while still generating record sales. These factors combined to drive substantial improvement in adjusted EBITDA margins quarter over quarter and positive cash flow from operations." commented Jason Wild, Executive Chairman of TerraAscend, "Our strong brand presence is evidenced by our retail and wholesale results in New Jersey, where we have quickly established ourselves as a leading operator with three of the top ten flower SKUs, including #1. We look forward to deploying our branded strategy in Maryland and Pennsylvania when these states implement adult use." continued Wild.

Financial Summary Q3 2022 and Comparative Periods

<i>(in millions of U.S. Dollars)</i>	Q3 2021	Q2 2022	Q3 2022
Revenue, net	49.1	64.8	67.0
Quarter-over-Quarter increase	-16.3 %	30.5 %	3.4 %
Year-over-Year increase	28.9 %	10.4 %	36.4 %
Gross profit	21.5	23.0	24.4
Gross profit margin	43.7 %	35.5 %	36.3 %
Adjusted gross profit ¹	22.7	30.5	30.9
Adjusted gross margin %	46.1 %	47.1 %	46.1 %
Share-based compensation expense	5.2	4.4	2.6
General & Administrative expense (excluding share based compensation)	16.1	29.5	26.7
% of revenue, net	32.8 %	45.5 %	39.8 %
Net income (loss)	55.8	14.2	(311.0)
Adjusted EBITDA ¹	9.2	5.8	11.3
Adjusted EBITDA % of revenue, net	18.8 %	8.9 %	16.9 %
Cash provided by (used in) operations	(17.9)	(16.1)	1.5

1. Adjusted Gross Profit and Adjusted Gross Profit Margin, and Adjusted EBITDA and Adjusted EBITDA Margin are non-GAAP measures. Please see discussion of non-GAAP measures and reconciliation to Gross Profit and Net Income (Loss), the closest comparable GAAP measures at the end of this press release.

Third Quarter 2022 Business and Operational Highlights

- Entered into an agreement to exclusively introduce the Cookies brand to Pennsylvania.
- Appointed Karim Bouaziz as President of the Northeast Region.
- Closed on the acquisition of Pinnacle in Michigan, which includes six dispensary licenses, five of which are currently operational.
- Opened third New Jersey Apothecarium Dispensary in Lodi.
- Opened "Cookies Corners" at all three Apothecarium locations in New Jersey.

Subsequent Events

- Introduced Gage and Cookies brands in Pennsylvania.
- Closed on a non-brokered senior secured term loan in an aggregate principal amount of approximately \$45.5 million.

Third Quarter 2022 Financial Results

Net revenue for the third quarter totaled \$67 million, an increase of 3.4% sequentially and 36.4% year-over-year. The sequential growth was primarily driven by strong results in New Jersey and a partial quarter benefit from the Pinnacle acquisition, partially offset by a decline in wholesale sales in Pennsylvania and challenging retail trends in Pennsylvania and Michigan.

Gross margin for the quarter was 36.3%, impacted by a \$6 million USD write-off of inventory in Canada. Adjusted gross margin for the quarter, excluding the inventory write-off in Canada, was 46.1% compared to 47.1% in the previous quarter, a decline of 100 basis points sequentially, driven mainly by temporary operational drags from Maryland and Canada. The Company has now fully exited its legacy facility in Maryland and has scaled down the business in Canada such that neither of these areas are expected to be a material drag on gross margin beginning in 2023.

General and Administrative expenses (G&A) for the quarter were reduced by \$2.8 million, or

almost 10%, to \$26.7 million, or 39.8% of revenue, compared to \$29.5 million, or 45.5% of revenue, in the second quarter. The \$26.7 million in the third quarter included \$3 million of one-time items mainly related to severance and legal settlements. The cost reductions, partly driven by a 12% reduction in the Company's workforce, are expected to generate further savings into the fourth quarter as the Company realizes a full quarter of the benefit, without the one-time costs.

Adjusted EBITDA for the quarter was \$11.3 million versus \$5.8 million in the previous quarter, representing a 96% increase sequentially. Adjusted EBITDA margin improved 800 basis points to 16.9% in the third quarter from 8.9% in the second quarter, driven by operating expense reductions.

GAAP net loss for the third quarter was \$311 million compared to \$14.2 million of net income for the previous quarter. The net loss for the quarter was driven by a \$331 million non-cash impairment to goodwill and intangibles of its Michigan business.

Balance Sheet and Cash Flow

Ending cash position for the third quarter was \$34.3 million. Following the quarter end, the Company closed on a \$45.5 million non-brokered debt financing.

Cash flow from operations totaled a positive \$1.5 million in the third quarter, a significant improvement versus negative cash flow from operations of \$16.1 million in the second quarter, which included \$9 million of taxes paid.

Capital expenditures were \$3.6 million in the third quarter, primarily related to the recently completed expansion at TerrAscend's Hagerstown facility. The Company also closed on the acquisition of Pinnacle, which included a \$10 million cash component.

As of November 11, 2022, there were 324 million shares outstanding including 259 million common shares, 13 million preferred shares as converted, and 52 million exchangeable shares, using the treasury method.

Conference Call

TerrAscend will host a conference call today, November 14, 2022, to discuss these results. Jason Wild, Executive Chairman, Ziad Ghanem, President and Chief Operating Officer, and Keith Stauffer, Chief Financial Officer, will host the call starting at 5:00 p.m. Eastern time. A question-and-answer session will follow management's presentation.

DATE:	Monday, November 14, 2022
TIME:	5:00 p.m. Eastern Time
WEBCAST:	Click Here
DIAL-IN NUMBER:	1-888-664-6392
CONFERENCE ID:	17993713
REPLAY:	416-764-8677 or 1-888-390-0541
	Available until 12:00 midnight Eastern Time Monday, November 28, 2022
	Replay Code: 993713#

Financial results and analyses are available on the Company's website (www.terrascend.com) and SEDAR (www.sedar.com).

The Canadian Securities Exchange ("CSE") has neither approved nor disapproved the contents of this news release. Neither the CSE nor its Market Regulator (as that term is defined in the policies of the CSE) accepts responsibility for the adequacy or accuracy of this release.

Definition and Reconciliation of Non-GAAP Measures

In addition to reporting the financial results in accordance with GAAP, the Company reports certain financial results that differ from what is reported under GAAP. Non-GAAP measures used by management do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. The Company believes that certain investors and analysts use these measures to measure a company's ability to meet other payment obligations or as a common measurement to value companies in the cannabis industry, and the Company calculates Adjusted Gross Profit as Gross Profit adjusted for certain material non-cash items and Adjusted EBITDA as EBITDA adjusted for certain material non-cash items and certain other adjustments management believes are not reflective of the ongoing operations and performance. 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 GAAP. The Company believes this definition is a useful measure to assess the performance of the Company as it provides more meaningful operating results by excluding the effects of expenses that are not reflective of the Company's underlying business performance and other one-time or non-recurring expenses.

The table below reconciles Gross Profit and Adjusted Gross Profit for the quarters ended September 30, 2022, June 30, 2022, and September 30, 2021:

	For the Three Months Ended		
	September 30, 2021	June 30, 2022	September 30, 2022
<i>(in millions of U.S. Dollars)</i>			
Gross profit	21,497	22,993	24,363
Add (deduct) the impact of:			
Relief of fair value of inventory upon acquisition	1,163	549	415
Non-cash write downs of inventory	—	5,894	6,037
Vape recall	—	1,071	—
Facility transition costs	—	—	107
Adjusted gross profit	22,660	30,507	30,922

The table below reconciles net loss to EBITDA and Adjusted EBITDA for the quarters ended September 30, 2022, June 30, 2022, and September 30, 2021:

	For the Three Months Ended		
	September 30, 2021	June 30, 2022	September 30, 2022
Net income (loss)	\$ 55,835	\$ 14,162	\$ (310,985)
<i>Add (deduct) the impact of:</i>			
Provision for income taxes	4,999	4,688	(34,033)
Finance expenses	6,351	9,427	10,092
Amortization and depreciation	4,200	7,046	7,110
EBITDA	71,385	35,323	(327,816)
<i>Add (deduct) the impact of:</i>			
Relief of fair value of inventory upon acquisition	1,163	549	415
Non-cash write downs of inventory	—	5,894	6,037
Vape recall	—	1,071	—
Share-based compensation	5,178	4,463	2,705
Impairment of goodwill and intangible assets	—	331,242	331,242
Loss (gain) on disposal of fixed assets	220	929	(81)
Revaluation of contingent consideration	(338)	34	36
Restructuring and executive severance	450	—	1,443
Legal settlements	—	—	1,170
Other one-time items	1,365	924	1,311
Gain on fair value of warrants and purchase option derivative asset	(69,016)	(47,345)	(5,497)
Indemnification asset release	95	3,998	—
Unrealized and realized loss (gain) on investments	—	234	(231)
Unrealized and realized foreign exchange loss (gain)	(1,256)	(306)	586
Adjusted EBITDA	\$ 9,246	\$ 337,010	\$ 11,320

About TerrAscend

TerrAscend is a leading North American cannabis operator with vertically integrated operations in Pennsylvania , New Jersey , Michigan and California , licensed cultivation and processing operations in Maryland and licensed production in Canada . TerrAscend operates The Apothecarium and Gage dispensary retail locations as well as scaled cultivation, processing, and manufacturing facilities in its core markets. TerrAscend's cultivation and manufacturing practices yield consistent, high-quality cannabis, providing industry-leading product selection to both the medical and legal adult-use markets. The Company owns several synergistic businesses and brands, including Gage Cannabis, The Apothecarium, Ilera Healthcare, Kind Tree, Prism, State Flower, Valhalla Confections, and Arise Bioscience Inc. For more information, visit www.terrascend.com.

Caution Regarding Cannabis Operations in the United States

Investors should note that there are significant legal restrictions and regulations that govern the cannabis industry in the United States. Cannabis remains a Schedule I drug under the US Controlled Substances Act, making it illegal under federal law in the United States to, among other things, cultivate, distribute, or possess cannabis in the United States. Financial transactions involving proceeds generated by, or intended to promote, cannabis-related business activities in the United States may form the basis for prosecution under applicable US federal money laundering legislation.

While the approach to enforcement of such laws by the federal government in the United States has trended toward non-enforcement against individuals and businesses that comply with medical or adult-use cannabis programs in states where such programs are legal, strict compliance with state laws with respect to cannabis will neither absolve TerrAscend of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against TerrAscend. The enforcement of federal laws in the United States is a significant risk to the business of TerrAscend and any proceedings brought against TerrAscend thereunder may adversely affect TerrAscend's operations and financial

performance.

Forward Looking Information

This news release contains "forward-looking information" within the meaning of applicable securities laws. Forward-looking information contained in this press release may be identified by the use of words such as, "may", "would", "could", "will", "likely", "expect", "anticipate", "believe", "intend", "plan", "forecast", "project", "estimate", "outlook" and other similar expressions, and include statements with respect to future revenue and profits. Forward-looking information is not a guarantee of future performance and is based upon a number of estimates and assumptions of management in light of management's experience and perception of trends, current conditions and expected developments, as well as other factors relevant in the circumstances, including assumptions in respect of current and future market conditions, the current and future regulatory environment, and the availability of licenses, approvals and permits.

Although the Company believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information because the Company can give no assurance that they will prove to be correct. Actual results and developments may differ materially from those contemplated by these statements. Forward-looking information is subject to a variety of risks and uncertainties that could cause actual events or results to differ materially from those projected in the forward-looking information. Such risks and uncertainties include, but are not limited to, current and future market conditions; risks related to federal, state, provincial, territorial, local and foreign government laws, rules and regulations, including federal and state laws in the United States relating to cannabis operations in the United States; and the risk factors set out in the Company's most recently filed MD&A, filed with the Canadian securities regulators and available under the Company's profile on SEDAR at www.sedar.com and in the section titled "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission on March 17, 2022 and as amended on March 24, 2022.

The statements in this press release are made as of the date of this release. The Company disclaims any intent or obligation to update any forward-looking information, whether, as a result of new information, future events, or results or otherwise, other than as required by applicable securities laws.

Unaudited Interim Condensed Consolidated Balance Sheets

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

	At September 30, 2022	At December 31, 2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 34,288	\$ 79,642
Restricted cash	1,031	—
Accounts receivable, net	17,937	14,920
Investments	3,556	—
Inventory	49,391	42,323
Prepaid Expenses and other current assets	7,194	6,336
	<u>113,397</u>	<u>143,221</u>
Non-Current Assets		
Property and equipment, net	244,125	140,762
Deposits	1,455	1,977
Operating lease right of use assets	30,044	29,561
Intangible assets, net	240,503	168,984
Goodwill	90,326	90,326
Indemnification asset	—	3,969
Other non-current assets	5,638	3,134
	<u>612,091</u>	<u>438,713</u>
Total Assets	\$ 725,488	\$ 581,934
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 61,680	\$ 30,340
Deferred revenue	2,309	1,071
Loans payable, current	75,305	8,837
Contingent consideration payable, current	4,434	9,982
Operating lease liability, current	1,582	1,171
Lease obligations under finance leases, current	369	22
Corporate income tax payable	23,088	9,621
Other current liabilities	3,575	-
	<u>172,342</u>	<u>61,044</u>
Non-Current Liabilities		
Loans payable, non-current	172,322	176,306
Contingent consideration payable, non-current	1,250	2,553
Operating lease liability, non-current	31,058	30,573
Lease obligations under finance leases, non-current	4,698	181
Warrant liability	679	54,986
Deferred income tax liability	40,414	14,269
Financing obligations	11,408	—
Other long term liabilities	12,495	13,068
	<u>274,324</u>	<u>291,936</u>
Total Liabilities	<u>446,666</u>	<u>352,980</u>
Commitments and Contingencies		
Shareholders' Equity		
Share Capital		
Series A, convertible preferred stock, no par value, unlimited shares authorized; 12,658 and 13,708 shares outstanding as of		
September 30, 2022 and December 31, 2021, respectively	—	—
Series B, convertible preferred stock, no par value, unlimited shares authorized; 610 and 610 shares outstanding as of		
September 30, 2022 and December 31, 2021, respectively	—	—
Series C, convertible preferred stock, no par value, unlimited shares authorized; nil and 36 shares outstanding as of		
September 30, 2022 and December 31, 2021, respectively	—	—
Series D, convertible preferred stock, no par value, unlimited shares authorized; nil and nil shares outstanding as of		
September 30, 2022 and December 31, 2021, respectively	—	—
Proportionate voting shares, no par value, unlimited shares authorized; nil and nil shares outstanding as of		
September 30, 2022		
and December 31, 2021, respectively	—	—
Exchangeable shares, no par value, unlimited shares authorized; 52,395,071 and 38,890,571 shares outstanding as of		
September 30, 2022 and December 31, 2021, respectively	—	—
Common stock, no par value, unlimited shares authorized; 257,860,852 and 190,930,800 shares outstanding as of		
September 30, 2022 and December 31, 2021, respectively	—	—
Additional paid in capital	877,298	535,418
Accumulated other comprehensive income (loss)	1,694	2,823
Accumulated deficit	(605,336)	(314,654)
Non-controlling interest	5,166	5,367
Total Shareholders' Equity	<u>278,822</u>	<u>228,954</u>
Total Liabilities and Shareholders' Equity	\$ 725,488	\$ 581,934

Unaudited Interim Condensed Consolidated Statements of Operations and Comprehensive Loss

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2022	2021	2022	2021
Revenue	\$ 67,726	\$ 50,537	\$ 183,538	\$ 169,010
Excise and cultivation tax	(701)	(1,398)	(2,050)	(7,794)
Revenue, net	67,025	49,139	181,488	161,216
Cost of Sales	42,662	27,642	118,992	69,942
Gross profit	24,363	21,497	62,496	91,274
Operating expenses:				
General and administrative	29,385	21,320	85,918	62,462
Amortization and depreciation	3,032	1,947	8,666	5,664
Impairment of intangible assets	152,928	—	152,928	3,633
Impairment of goodwill	178,314	—	178,314	5,007
Total operating expenses	363,659	23,267	425,826	76,766
(Loss) income from operations	(339,296)	(1,770)	(363,330)	14,508
Other expense (income)				
Revaluation of contingent consideration	36	(338)	189	2,652
Gain on fair value of warrants and purchase option derivative asset	(5,497)	(69,016)	(58,555)	(43,715)
Finance and other expenses	9,469	6,972	30,227	22,281
Transaction and restructuring costs	1,359	1,034	2,601	1,466
Unrealized and realized foreign exchange loss (gain)	586	(1,256)	636	4,582
Unrealized and realized (gain) loss on investments	(231)	—	3	(6,192)
(Loss) income before provision from income taxes	(345,018)	60,834	(338,431)	33,434
Provision for income taxes	(34,033)	4,999	(25,602)	21,372
Net (loss) income	\$ (310,985)	\$ 55,835	\$ (312,829)	\$ 12,062
Foreign currency translation	(2,758)	1,745	1,129	(3,469)
Comprehensive (loss) income	\$ (308,227)	\$ 54,090	\$ (313,958)	\$ 15,531
Net (loss) income attributable to:				
Common and proportionate Shareholders of the Company	\$ (313,212)	\$ 54,428	\$ (316,352)	\$ 9,594
Non-controlling interests	2,227	1,407	3,523	2,468
Comprehensive (loss) income attributable to:				
Common and proportionate Shareholders of the Company	\$ (310,454)	\$ 52,683	\$ (317,481)	\$ 13,063
Non-controlling interests	2,227	1,407	3,523	2,468
Net (loss) income per share, basic and diluted				
Net (loss) income per share - basic	\$ (1.23)	\$ 0.30	\$ (1.32)	\$ 0.05
Weighted average number of outstanding common and proportionate voting shares	254,355,792	184,438,592	239,567,866	179,441,224
Net (loss) income per share - diluted	\$ (1.23)	\$ 0.25	\$ (1.32)	\$ 0.04
Weighted average number of outstanding common and proportionate voting shares, assuming dilution	254,355,792	214,134,641	239,567,866	214,756,569

Unaudited Interim Condensed Consolidated Statements of Cash Flows

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

	For the Nine Months Ended	
	September 30, 2022	September 30, 2021
Operating activities		
Net (loss) income	\$ (312,829)	\$ 12,062
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Non-cash write downs of inventory	14,873	961
Accretion expense	5,793	1,981
Depreciation of property and equipment and amortization of intangible assets	19,241	11,250
Amortization of operating right-of-use assets	1,513	1,289
Share-based compensation	10,524	13,393
Deferred income tax recovery	(44,266)	(682)
Loss on fair value of warrants and purchase option derivative	(58,555)	(43,715)
Revaluation of contingent consideration	189	2,652
Impairment of intangible assets	152,928	3,633
Impairment of goodwill	178,314	5,007
Loss on disposal of fixed assets	848	—
Release of indemnification asset	3,973	3,891
Forgiveness of loan principal and interest	—	(766)
Unrealized and realized foreign exchange loss	636	4,582
Unrealized and realized loss (gain) on investments	3	(6,192)
Changes in operating assets and liabilities		
Receivables	4,317	1,144
Inventory	(1,894)	(10,450)
Prepaid expense and deposits	721	(523)
Deposits	2,340	(408)
Other assets	(1,522)	(4,214)
Accounts payable and accrued liabilities and other payables	(9,530)	(590)
Operating lease liability	(889)	3,750
Other liability	(9,627)	(11,394)
Contingent consideration payable	(410)	(14,978)
Corporate income tax payable	9,451	305
Deferred revenue	427	—
Net cash used in operating activities	(33,431)	(28,012)
Investing activities		
Investment in property and equipment	(24,678)	(26,706)
Investment in intangible assets	(1,330)	(342)
Principal payments received on lease receivable	394	559
Distributions of earnings from associates	—	469
Deposits for property and equipment	(1,455)	(1,739)
Deposits for business acquisition	(852)	(25,000)
Payments made for land contracts	(888)	—
Net cash received on acquisition, net of cash paid	16,227	(42,736)
Net cash used in investing activities	(12,582)	(95,495)
Financing activities		
Proceeds from options and warrants exercised	24,158	14,042
Loan principal paid	(6,088)	(2,250)
Loan amendment fee paid	(2,309)	—
Proceeds from loans payable	—	766
Cash distributions to NJ partners	(1,436)	—
Capital contributions (paid) received (to) from non-controlling interests	(1,237)	174
Payments of contingent consideration	(6,630)	(18,274)
Payments made for financing obligations	(921)	—
Proceeds from private placement, net of share issuance costs	—	173,477
Net cash provided by financing activities	5,537	167,935
Net (decrease) increase in cash and cash equivalents and restricted cash during the period	(40,476)	44,428
Net effects of foreign exchange	(3,847)	(1,016)
Cash and cash equivalents and restricted cash, beginning of period	79,642	59,226
Cash and cash equivalents and restricted cash, end of period	\$ 35,319	\$ 102,638
Supplemental disclosure with respect to cash flows		
Income taxes paid	\$ 9,213	\$ 37,032
Interest paid	\$ 20,643	\$ 17,408
Lease termination fee paid	\$ 3,300	-
Non-cash transactions		
Equity and warrant liability issued as consideration for acquisition	\$ 337,739	\$ 34,427
Promissory note issued as consideration for acquisitions	\$ 10,000	\$ 6,750
Investment in NJ Partnership	\$ -	\$ 25,000
Shares issued for liability settlement	\$ 264	\$ -
Accrued capital purchases	\$ 12,118	\$ 4,655

SOURCE TerrAscend