

May 12, 2022



TerrAscend Reports First Quarter 2022 Financial Results

TORONTO, May 12, 2022 /CNW/ - TerrAscend Corp. ("TerrAscend" or the "Company") (CSE: TER) (OTCQX: TRSSF), a leading North American cannabis operator, today reported its financial results for the first quarter ending March 31, 2022. All amounts are expressed in U.S. dollars unless indicated otherwise and are prepared under U.S. Generally Accepted Accounting principles (GAAP).

First Quarter 2022 Financial Highlights

- **Net Sales** were \$49.7 million as compared to \$49.2 million in Q4 2021.
- **Gross Profit Margin** was 30.5% as compared to 42.3% in Q4 2021.
- **Adjusted Gross Profit Margin**¹ was 38.4% as compared to 49.8% in Q4 2021.
- **Adjusted EBITDA**¹ was \$3.3 million as compared to \$11.9 million in Q4 2021.
- **Adjusted EBITDA Margin**¹ was 6.6% as compared to 24.2% in Q4 2021.
- **Cash and Cash Equivalents** totaled \$88.4 million as of March 31, 2022.

Jason Wild, Executive Chairman of TerrAscend, commented, "While revenue and margins during the first quarter were impacted by the industry wide vape recall in Pennsylvania and front-loaded operating costs in New Jersey ahead of adult use, we expect revenue and margin to increase materially in the second quarter and beyond. The strategic decisions and investments we have made over the last three years position us well for substantial growth in each of our four key markets – New Jersey, Pennsylvania, Michigan and Maryland."

Mr. Wild continued, "New Jersey adult use sales began on April 2nd, a significant milestone for TerrAscend and the entire industry. Demand has been strong for our brands and our elevated retail experience. We recently introduced the first concentrates in the state and expect additional 'first-in-state' product introductions in the near future. In Pennsylvania, we continue to cultivate the highest quality flower in our history and have introduced new genetics, to which patients have reacted positively. In Michigan, Gage has positioned us as a leader in one of the largest cannabis markets in the U.S. Lastly, subsequent to the quarter end, we announced the acquisition of a medical dispensary in Maryland and 5 dispensaries in Michigan. These acquisitions exemplify our strategy of 'going deep' in the markets in which we operate. While remaining focused on organic growth, the dislocation in public and private company valuations should provide attractive M&A opportunities to accelerate growth in a financially disciplined way."

Financial Summary Q1 2022 and Comparative Periods

<i>(in millions of U.S. Dollars)</i>	Q1 2021	Q4 2021	Q1 2022
Revenue, net	53.4	49.2	49.7
QoQ increase	7.5%	0.1%	0.9%
YoY increase	106.2%	-0.8%	-6.9%
Gross profit	34.9	20.8	15.1
Adjusted Gross profit ¹	34.9	24.5	19.1
Adjusted gross margin %	65.5%	49.8%	38.4%
Share-based compensation expense	3.6	1.5	3.4
General & Administrative expense (excl share based comp)	16.8	17.0	19.2
% of revenue, net	31.5%	34.5%	38.7%
Adjusted EBITDA ¹	21.6	11.9	3.3
Adjusted EBITDA % of revenue, net	40.4%	24.2%	6.6%
Net loss	(14.1)	(5.9)	(16.0)
Cash Flow from Operations	6.2	(3.8)	(18.8)

1. Adjusted EBITDA and the respective margin and Adjusted Gross Profit and the respective margin are non-GAAP measures. Please see discussion and reconciliation of non-GAAP measures at the end of this press release.

First Quarter 2022 Business and Operational Highlights

- Closed on the acquisition of Gage Growth Corp.
- Appointed Ziad Ghanem as President and Chief Operating Officer.
- Appointed Jared Anderson, SVP Finance & Strategy, Charishma Kothari, SVP Marketing, and Charles Oster, SVP Sales.
- Appointed Kara DioGuardi to the Board of Directors.
- Became first major MSO to expand its ecommerce platform via proprietary Apothecarium mobile app, available in the Apple App store, with express pick-up and delivery where permitted.

Subsequent Events

- Held the grand opening of adult-use sales on April 21st in Maplewood and Phillipsburg, New Jersey, two of only twelve dispensaries currently opened in the state.
- Approved for hydrocarbon extraction in New Jersey with first products recently launched.
- Signed lease on new facility in New Jersey, which will provide expanded capacity up to the 150,000 canopy square foot limit.
- Received home delivery license for medical patients in New Jersey.
- Partnered with Cookies to open its third Cookies-branded dispensary in Michigan, located in Ann Arbor.
- Announced agreement to acquire KISA Enterprises MI, LLC and KISA Holdings, LLC ("Pinnacle"), a dispensary operator in Michigan with 5 operational locations.
- Extraction lab and packaging facilities in Michigan approved to start operations.
- Announced acquisition of Allegany Medical Marijuana Dispensary ("AMMD") located in Cumberland, MD, which will enable the Company to become vertically integrated in the state.
- Announced the promotion of Jodie Lampert to SVP of Human Resources and the appointment of Lynn Gefen as Chief Legal Officer and Corporate Secretary.

First Quarter 2022 Financial Results

Net sales for the first quarter of 2022 totaled \$49.7 million, up 1% sequentially and down 7% year over year, mainly related to the temporary impact of the vape recall on the Pennsylvania business, combined with the continued intentional accumulation of inventory in New Jersey, versus selling wholesale, in preparation for adult use sales. The Company's Canadian business also experienced a soft quarter both sequentially and year over year. The declines were partially offset by three weeks of revenue from the Gage acquisition, which closed on March 10th.

Gross margin for the quarter was 30.5% as compared to 42.3% in the previous quarter. Adjusted gross margin for the quarter, excluding one-time impacts such as reserves for the Pennsylvania vape recall in the first quarter, was 38.4% as compared to 49.8% in the previous quarter. The sequential margin compression was driven by the under-absorption impact of lower volumes related to the vape recall in Pennsylvania, front loaded costs in New Jersey ahead of adult use sales, and an unfavorable mix from the addition of Gage.

General & Administrative expenses, excluding stock-based compensation, were up \$2.2 million, including Gage, versus the previous quarter. As a percentage of revenue, G&A increased to 38.7% in the first quarter of 2022 from 34.5% in fourth quarter of 2021. The increase as a percentage of revenue was impacted by flat revenue combined with front-loaded spending in New Jersey ahead of adult use and the addition of Gage for part of the quarter.

Adjusted EBITDA for the quarter was \$3.3 million versus \$11.9 million in the previous quarter. This reduction was mainly driven by gross margin compression in Pennsylvania related to lower volumes and front-loaded costs in New Jersey ahead of adult use sales, as well as intentional accumulation of inventory in the state in preparation for adult use sales.

Operating loss for the quarter was \$10.0 million, driven by the mix of revenue resulting in compressed gross margin.

Net loss for the quarter was \$16.0 million, mainly driven by the operating loss, accrued income taxes of \$3.7 million, and finance and other expenses of \$6.9 million, partially offset by a net gain on fair value of warrant liability of \$5.7 million.

Balance Sheet and Cash Flow

Cash and cash equivalents were \$88.4 million as of March 31, 2022, compared to \$79.6 million as of December 31, 2021, providing ample capacity to fund planned organic and inorganic growth initiatives.

Cash used from operations was \$18.8 million for the three months ended March 31, 2022, mainly driven by working capital as the Company continued to prepare for adult use sales in New Jersey, as well as \$8 million of interest payments. The Company received \$23.9 million in proceeds from warrants and options during the quarter while paying \$3.3 million to terminate the lease in Frederick, Maryland in preparation for the transition to the new facility in Hagerstown. A payment of \$7.0 million was also made for the final earnout related to the acquisition of the State Flower business.

Capital expenditures were \$4.2 million in the quarter, primarily related to the on-going expansion work at the Hagerstown, Maryland facility.

As of May 11th, 2022 there were 318.4 million basic shares outstanding including 252 million common shares, 14 million preferred shares as converted, and 52.4 million exchangeable shares.

Conference Call

TerrAscend will host a conference call today, May 12, 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 6:00 p.m. Eastern time. A question-and-answer session will follow management's presentation.

CONFERENCE CALL DETAILS

DATE: Thursday, May 12, 2022

TIME: 6:00 p.m. Eastern Time

WEBCAST: [Click Here](#)

DIAL-IN NUMBER: 1-888-664-6392

CONFERENCE ID: 37033819

(416) 764-8677 or (888) 390-0541

REPLAY: Available until 12:00 midnight Eastern Time Thursday, May 26, 2022

Replay Code: 033819 #

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 March 31, 2022, December 31, 2021, and March 31, 2021

	For the Three Months Ended		
(in millions of U.S. Dollars)	March 31, 2021	December 31, 2021	March 31, 2022
Gross profit	34,942	20,830	15,140
Add (deduct) the impact of:			
Vape recall	—	—	1,894
Accelerated depreciation	—	—	238
Non-cash write downs of inventory	—	1,968	—
Relief of fair value of inventory upon acquisition	—	1,735	1,806
Adjusted gross profit	34,942	24,533	19,078

The table below reconciles net loss to EBITDA and Adjusted EBITDA for the quarters ended March 31, 2022, December 31, 2021, and March 31, 2021

	For the Three Months Ended		
	March 31, 2021	December 31, 2021	March 31, 2022
Net loss	\$ (14,111)	\$ (5,927)	\$ (16,006)
Add (deduct) the impact of:			
Provision for income taxes	9,436	6,942	3,743
Finance expenses	5,359	6,528	6,699
Amortization and depreciation	3,521	4,140	5,084
EBITDA	4,205	11,683	(480)
Add (deduct) the impact of:			
Non-cash write-down of inventory	—	1,968	—
Relief of fair value of inventory upon acquisition	—	1,735	1,806
Vape recall	—	—	1,894
Share-based compensation	3,567	1,548	3,356
Impairment of property and equipment	—	470	—
Loss on lease termination	—	3,278	—
Revaluation of contingent consideration	2,997	932	119
Restructuring and executive severance	—	14	—
Legal settlements	1,381	—	—
Other one-time items	262	3,583	1,974
(Gain) loss on fair value of warrants and purchase option derivative asset	5,410	(14,189)	(5,713)
Indemnification asset release	1,197	613	(25)
Unrealized and realized (gain) loss on investments and notes receivable	(228)	—	—
Unrealized and realized foreign exchange loss	2,783	228	356
Adjusted EBITDA	\$ 21,574	\$ 11,863	\$ 3,287

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.

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 March 31, 2022	At December 31, 2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 88,407	\$ 79,642
Accounts receivable, net	23,097	14,920
Investments	4,121	-
Inventory	64,058	42,323
Prepaid Expenses and other current assets	7,452	6,336
	<u>187,135</u>	<u>143,221</u>
Non-Current Assets		
Property and equipment, net	211,717	140,762
Deposits	7,798	-
Operating lease right of use assets	30,801	29,561
Intangible assets, net	354,452	168,984
Goodwill	235,681	90,326
Indemnification asset	3,994	3,969
Other non-current assets	4,823	5,111
	<u>849,266</u>	<u>438,713</u>
Total Assets	\$ 1,036,401	\$ 581,934
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 49,214	\$ 30,340
Deferred revenue	2,029	1,071
Loans payable, current	60,108	8,837
Contingent consideration payable, current	3,114	9,982
Lease liability, current	1,688	1,193
Corporate income tax payable	28,808	18,939
Other current liabilities	3,305	-
	<u>148,266</u>	<u>70,362</u>
Non-Current Liabilities		
Loans payable, non-current	184,558	176,306
Contingent consideration payable, non-current	2,586	2,553
Lease liability, non-current	32,450	30,754
Warrant liability	55,021	54,986
Deferred income tax liability	72,740	14,269
Financing obligations	12,142	-
Other long term liabilities	3,399	3,750
	<u>362,896</u>	<u>282,618</u>
Total Liabilities	511,162	352,980
Commitments and Contingencies		
Shareholders' Equity		
Share Capital		
Series A, convertible preferred stock, no par value, unlimited shares authorized; 13,358 and 13,708 shares outstanding as of March 31, 2022 and December 31, 2021 respectively	—	—
Series B, convertible preferred stock, no par value, unlimited shares authorized; 610 and 610 shares outstanding as of March 31, 2022 and December 31, 2021 respectively	—	—
Series C, convertible preferred stock, no par value, unlimited shares authorized; nil and 36 shares outstanding as of March 31, 2022 and December 31, 2021 respectively	—	—
Series D, convertible preferred stock, no par value, unlimited shares authorized; nil and nil shares outstanding as of March 31, 2022 and December 31, 2021 respectively	—	—
Proportionate voting shares, no par value, unlimited shares authorized; nil and nil shares outstanding as of March 31, 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 March 31, 2022 and December 31, 2021 respectively	—	—
Common stock, no par value, unlimited shares authorized; 251,971,226 and 190,930,800 shares outstanding as of March 31, 2022 and December 31, 2021 respectively	—	—

Additional paid in capital	850,386	535,418
Accumulated other comprehensive income (loss)	(783)	2,823
Accumulated deficit	(329,855)	(314,654)
Non-controlling interest	5,491	5,367
Total Shareholders' Equity	525,239	228,954
Total Liabilities and Shareholders' Equity	\$ 1,036,401	\$ 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	
	March 31,	March 31,
	2022	2021
Revenue	\$ 50,445	\$ 56,496
Excise and cultivation tax	(786)	(3,142)
Revenue, net	49,659	53,354
 Cost of Sales	 34,519	 18,412
 Gross profit	 15,140	 34,942
Operating expenses:		
General and administrative	22,552	20,392
Amortization and depreciation	2,618	1,873
Total operating expenses	25,170	22,265
 (Loss) income from operations	 (10,030)	 12,677
Other expense (income)		
Revaluation of contingent consideration	119	2,997
(Gain) loss on fair value of warrants and purchase option derivative asset	(5,713)	5,410
Finance and other expenses	6,856	6,390
Transaction and restructuring costs	615	—
Unrealized and realized foreign exchange loss	356	2,783
Unrealized and realized loss (gain) on investments	-	(228)
Loss before provision from income taxes	(12,263)	(4,675)
Provision for income taxes	3,743	9,436
Net loss	\$ (16,006)	\$ (14,111)
 Foreign currency translation	 3,607	 (2,189)
Comprehensive loss	\$ (19,613)	\$ (11,922)
 Net loss attributable to:		
Common and proportionate Shareholders of the Company	\$ (16,357)	\$ (14,174)
Non-controlling interests	351	63
 Comprehensive loss attributable to:		
Common and proportionate Shareholders of the Company	\$ (19,964)	\$ (11,985)
Non-controlling interests	351	63
 Net loss per share, basic and diluted		
Net income (loss) per share - basic	\$ (0.08)	\$ (0.08)
Weighted average number of outstanding common and proportionate voting shares	211,126,932	171,371,637
Net income (loss) per share - diluted	\$ (0.08)	\$ (0.08)
Weighted average number of outstanding common and proportionate voting shares, assuming dilution	211,126,932	171,371,637

Unaudited Interim Condensed Consolidated Statements of Cash Flows

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

	For the Three Months Ended	
	March 31, 2022	March 31, 2021
Operating activities		
Net loss	(16,006)	(14,111)
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Non-cash write downs of inventory	1,073	584
Accretion expense	(1,169)	(1,937)
Depreciation of property and equipment and amortization of intangible assets	5,085	3,521
Amortization of operating right-of-use assets	487	343
Share-based compensation	3,356	3,567
Deferred income tax (recovery) expense	(1,134)	224
(Gain) loss on fair value of warrants and purchase option derivative	(5,713)	5,410
Revaluation of contingent consideration	119	2,997
Release of indemnification asset	(25)	1,197
Forgiveness of loan principal and interest	-	(766)
Unrealized and realized foreign exchange loss	356	2,783
Unrealized and realized loss (gain) on investments	-	(228)
Changes in operating assets and liabilities		
Receivables	(1,399)	511
Inventory	3,706	(4,161)
Prepaid expense and deposits	682	294
Deposits	(593)	-
Other assets	571	(189)
Accounts payable and accrued liabilities and other payables	(12,475)	1,439
Operating lease liability	(271)	(81)
Other liability	(437)	-
Contingent consideration payable	(324)	-
Corporate income tax payable	4,869	4,713
Deferred revenue	395	102
Net cash (used in) provided by operating activities	(18,847)	6,212
Investing activities		
Investment in property and equipment	(4,193)	(8,311)
Investment in intangible assets	(106)	(40)
Principal payments received on lease receivable	156	193
Distributions of earnings from associates	-	99
Deposits for property and equipment	(6,058)	(4,826)
Deposits for business acquisition	(602)	-
Cash received on acquisition of Gage	24,716	-
Net cash provided by (used in) investing activities	13,913	(12,885)
Financing activities		
Proceeds from options and warrants exercised	23,925	9,170
Proceeds from loans payable	-	766
Capital contributions paid to non-controlling interests	(227)	(161)
Payments of contingent consideration	(6,630)	-
Proceeds from private placement, net of share issuance costs	-	173,477
Net cash provided by financing activities	17,068	183,252
Net (decrease) increase in cash and cash equivalents during the period	12,134	176,579
Net effects of foreign exchange	(3,369)	(1,568)
Cash and cash equivalents, beginning of period	79,642	59,226
Cash and cash equivalents, end of period	88,407	234,237
Supplemental disclosure with respect to cash flows		
Income taxes paid	8	4,499
Interest paid	8,271	9,140
Lease termination fee paid	3,300	-
Non-cash transactions		
Shares issued as consideration for acquisitions	294,800	-
Shares issued for liability settlement	22	-
Accrued capital purchases	56	-

 View original content:<https://www.prnewswire.com/news-releases/terrascend-reports-first-quarter-2022-financial-results-301546571.html>

SOURCE TerrAscend