

August 11, 2022



TerrAscend Second Quarter 2022 Revenue Increases 31% Sequentially to \$65 Million

TORONTO, Aug. 11, 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 second quarter ending June 30, 2022. All amounts are expressed in U.S. dollars unless indicated otherwise and are prepared under U.S. Generally Accepted Accounting principles (GAAP).



Second Quarter 2022 Financial Highlights

- **Net Sales** increased 31% sequentially to \$65 million as compared to \$50 million in Q1 2022.
- **Gross Profit Margin** was 35.5% as compared to 30.4% in Q1 2022.
- **Adjusted Gross Profit Margin¹** was 47.1% as compared to 38.4% in Q1 2022.
- **Adjusted EBITDA¹** was \$5.8 million as compared to \$3.3 million in Q1 2022.
- **Adjusted EBITDA Margin¹** was 8.9% as compared to 6.6% in Q1 2022.
- **GAAP Net Income** was \$14.2 million as compared to net loss of \$16 million in Q1 2022.
- **Cash and Cash Equivalents** totaled \$49 million as of June 30, 2022.

Jason Wild, Executive Chairman of TerrAscend, commented, "We grew revenue 31% sequentially for the second quarter as New Jersey adult-use sales got off to a great start. Growth should continue as we remain on track for each of our stores in New Jersey to achieve at least a \$40 million run rate in their first full year of adult-use sales. Adjusted EBITDA and margins grew sequentially, and I expect this to continue into the second half of the year. The leadership team, which has been significantly bolstered over the past few quarters, remains focused on building the business for success over the long term and we will continue to make decisions with that mindset."

Ziad Ghanem, President and Chief Operating Officer, added, "TerrAscend is focused on engaging our team members, listening to our customers, delivering quality products, and achieving operational excellence. Between our state line up and the wide-open map that will allow us to be selective on where we go next, TerrAscend is set up for strong growth for years to come. We will achieve that growth while improving margins and driving profitability."

Financial Summary Q2 2022 and Comparative Periods

(in millions of U.S. Dollars)

	Q2 2021	Q1 2022	Q2 2022
Revenue, net	58.7	49.7	64.8
QoQ increase	10.1 %	0.9 %	30.5 %
YoY increase	71.6 %	-6.9 %	10.4 %
Gross profit	34.8	15.1	23.0
Adjusted Gross profit ¹	35.9	19.1	30.5
Adjusted gross margin %	61.1 %	38.4 %	47.1 %
Share-based compensation expense	4.6	3.4	4.4
General & Administrative expense (excluding share based comp)	16.1	19.2	29.5
% of revenue, net	27.4 %	38.7 %	45.5 %
Adjusted EBITDA ¹	23.2	3.3	5.8
Adjusted EBITDA % of revenue, net	39.5 %	6.6 %	8.9 %
Net income (loss)	(29.7)	(16.0)	14.2
Cash used in operations	(16.3)	(18.8)	(16.1)

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.

Second Quarter 2022 Business and Operational Highlights

- Held the grand opening of adult-use sales on April 2nd at its Apothecarium stores in Maplewood and Phillipsburg, New Jersey, two of only twelve dispensaries at the time to open for adult-use sales in the state.
- Approved for hydrocarbon extraction in New Jersey with initial products launched in the quarter.
- Successfully launched Cookies and Gage brands in New Jersey, resulting in a 40% increase in sales for the first full weekend versus the prior weekend with continued momentum and growth since launch.
- Signed lease on new facility in New Jersey, which will accommodate expanded capacity up to the 150,000 square foot canopy limit over time.
- Received home delivery license for medical patients in New Jersey.
- Partnered with Cookies to open 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.
- Operationalized extraction lab and packaging facility in Michigan.
- Introduced Khalifa Kush, a premium cannabis brand founded by Grammy Award-nominated recording artist Wiz Khalifa, at Gage Cannabis dispensaries in Michigan.
- Announced agreement to acquire Allegany Medical Marijuana Dispensary ("AMMD") located in Cumberland, Maryland, which will enable the Company to become vertically integrated in the state.
- Appointed Lynn Gefen as Chief Legal Officer and Corporate Secretary.

Subsequent Events

- Opened third New Jersey Apothecarium Dispensary in Lodi.
- Opened first "Cookies Corner" at The Apothecarium location in Maplewood, New Jersey.
- Exclusively launched Chris Webber's "Players Only" premium cannabis brand in Gage and Cookies dispensaries in Michigan.

Second Quarter 2022 Financial Results

Net sales for the second quarter of 2022 totaled \$64.8 million, an increase of 30.5% sequentially and 10.4% year over year, mainly related to a partial quarter of adult use sales in New Jersey along with a full quarter of contribution related to the acquisition of Gage, partially offset by the Company's decision to discontinue non-branded wholesale sales in Michigan.

Gross margin for the second quarter of 2022 was 35.5%. Adjusted gross margin was 47.1% as compared to 38.4% in the previous quarter, an improvement of 870 basis points quarter over quarter. The sequential margin expansion was driven by strong improvements across all of the Company's core businesses. Adjusted gross margin excludes the one-time impact of reserves and write-downs related to aged inventory in Pennsylvania, dating back to the revamp of its cultivation facility in the second half of 2021.

General & Administrative expenses (G&A), excluding stock-based compensation, increased \$10 million versus the first quarter of 2022 to \$29.5 million, mainly driven by the full quarter addition of the Gage acquisition. Excluding Michigan, G&A expenses were up \$1.1 million quarter over quarter related to additional staffing and other pre-opening expenses in preparation for the start of adult use sales in New Jersey. As a percentage of revenue, G&A increased to 45.5% in the second quarter from 38.7% in the previous quarter. The increase as a percentage of revenue was impacted by the addition of Gage for a full quarter as well as staffing for all three stores in New Jersey despite the delayed opening of the Lodi store, which opened subsequent to the quarter.

Adjusted EBITDA for the quarter was \$5.8 million versus \$3.3 million in the first quarter of 2022. Adjusted EBITDA margin improved from 6.6% in the first quarter to 8.9% in the second quarter. The improvement was driven by higher sales and improved gross margin, offset by higher G&A expenses with the addition of Gage for a full quarter and costs associated with the launch of adult-use in New Jersey.

GAAP Net income for the quarter was \$14.2 million, compared to a Net loss of \$16.0 million in first quarter of 2022.

Balance Sheet and Cash Flow

Cash and cash equivalents were \$49 million as of June 30, 2022, compared to \$88 million as of March 31, 2022. The Company has ample liquidity and access to capital, mainly through its capacity for additional borrowing related to its unencumbered owned assets and minimal usage of sale leasebacks. The Company also has the ability to raise equity should the capital markets improve.

Cash used from operations was \$16.1 million for the three months ended June 30, 2022, mainly driven by tax payments of \$9.2 million and interest payments of \$6.4 million. Current income taxes payable at the end of the period was \$13 million.

Capital expenditures, including deposits, were \$12.3 million in the quarter, primarily related to the on-going expansion work at the Company's Maryland and Michigan cultivation and processing facilities. The Company also made final note payments of \$5 million related to its previous acquisitions of HMS in Maryland and KCR in Pennsylvania.

As of August 11, 2022, there were 318 million basic shares outstanding including 253 million

common shares, 13 million preferred shares as converted, and 52 million exchangeable shares.

Conference Call

TerrAscend will host a conference call today, August 11, 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.

CONFERENCE CALL DETAILS

DATE: Thursday, August 11, 2022
TIME: 5:00 p.m. Eastern Time
WEBCAST: [Click Here](#)
DIAL-IN NUMBER: 1-888-664-6392
CONFERENCE ID: 81354387
416-764-8677 or 1-888-390-0541
REPLAY: Available until 12:00 midnight Eastern Time Thursday, August 26, 2022
Replay Code: 354387#

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 June 30, 2022, March 31, 2022, and June 30, 2021

	For the Three Months Ended		
(in millions of U.S. Dollars)	June 30, 2021	March 31, 2022	June 30, 2022
Gross profit	34,835	15,140	22,993
Add (deduct) the impact of:			
Vape recall	—	1,894	1,071
Accelerated depreciation	—	238	—
Non-cash write downs of inventory	449	—	5,894
Relief of fair value of inventory upon acquisition	567	1,806	549
Adjusted gross profit	35,851	19,078	30,507

The table below reconciles net loss to EBITDA and Adjusted EBITDA for the quarters ended June 30, 2022, March 31, 2022, and June 30, 2021

	For the Three Months Ended		
	June 30, 2021	March 31, 2022	June 30, 2022
Net income (loss)	\$ (29,662)	\$ (16,006)	\$ 14,162
Add (deduct) the impact of:			
Provision for income taxes	6,937	3,743	4,688
Finance expenses	6,424	6,699	9,427
Amortization and depreciation	3,529	5,084	7,046
EBITDA	(12,772)	(480)	35,323
Add (deduct) the impact of:			
Relief of fair value of inventory upon acquisition	567	1,806	549
Non-cash write downs of inventory	449	-	5,894
Vape recall	-	1,894	1,071
Share-based compensation	4,648	3,356	4,463
Impairment of goodwill and intangible assets	8,640	—	—
Loss on disposal of fixed assets	36	—	929
Revaluation of contingent consideration	(7)	119	34
Restructuring and executive severance	467	—	—
Legal settlements	740	—	—
Other one-time items	860	1,974	924
(Gain) loss on fair value of warrants and purchase option derivative asset	19,891	(5,713)	(47,345)
Indemnification asset release	2,599	(25)	3,998
Unrealized and realized loss (gain) on investments	(5,964)	—	234
Unrealized and realized foreign exchange loss	3,055	356	(306)
Adjusted EBITDA	\$ 23,209	\$ 3,287	\$ 5,768

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.terrascent.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 June 30, 2022	At December 31, 2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 48,426	\$ 79,642
Restricted cash	605	—
Accounts receivable, net	22,189	14,920
Investments	4,072	—
Inventory	54,371	42,323
Prepaid Expenses and other current assets	7,655	6,336
	<u>137,318</u>	<u>143,221</u>
Non-Current Assets		
Property and equipment, net	238,797	140,762
Deposits	4,698	—
Operating lease right of use assets	30,570	29,561
Intangible assets, net	351,638	168,984
Goodwill	240,598	90,326
Indemnification asset	-	3,969
Other non-current assets	4,998	5,111
	<u>871,299</u>	<u>438,713</u>
Total Assets	\$ 1,008,617	\$ 581,934
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 57,535	\$ 30,340
Deferred revenue	2,404	1,071
Loans payable, current	58,856	8,837
Contingent consideration payable, current	3,028	9,982
Operating lease liability, current	1,394	1,171
Lease obligations under finance leases, current	384	22
Corporate income tax payable	13,189	9,621
Other current liabilities	3,613	-
	<u>140,403</u>	<u>61,044</u>
Non-Current Liabilities		
Loans payable, non-current	180,781	176,306
Contingent consideration payable, non-current	2,620	2,553
Operating lease liability, non-current	31,680	30,573
Lease obligations under finance leases, non-current	4,794	181
Warrant liability	6,176	54,986
Deferred income tax liability	73,087	14,269
Financing obligations	11,606	—
Other long term liabilities	12,502	13,068
	<u>323,246</u>	<u>291,936</u>
Total Liabilities	463,649	352,980
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 June 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 June 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 June 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 June 30, 2022 and December 31, 2021 respectively	—	—
Proportionate voting shares, no par value, unlimited shares authorized; nil and nil shares outstanding as of June 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 June 30, 2022 and December 31, 2021 respectively	—	—
Common stock, no par value, unlimited shares authorized; 252,707,325 and 190,930,800 shares outstanding as of June 30, 2022 and December 31, 2021 respectively	—	—
Additional paid in capital	854,948	535,418
Accumulated other comprehensive income (loss)	(1,063)	2,823
Accumulated deficit	(315,132)	(314,654)
Non-controlling interest	6,215	5,367
Total Shareholders' Equity	544,968	228,954
Total Liabilities and Shareholders' Equity	\$ 1,008,617	\$ 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 Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Revenue	\$ 65,367	\$ 61,977	\$ 115,812	\$ 118,473
Excise and cultivation tax	(563)	(3,254)	(1,349)	(6,396)
Revenue, net	64,804	58,723	114,463	112,077
Cost of Sales	41,811	23,888	76,330	42,300
Gross profit	22,993	34,835	38,133	69,777
Operating expenses:				
General and administrative	33,981	20,750	56,533	41,142
Amortization and depreciation	3,016	1,844	5,634	3,717
Total operating expenses	36,997	22,594	62,167	44,859
(Loss) income from operations	(14,004)	12,241	(24,034)	24,918
Other expense (income)				
Revaluation of contingent consideration	34	(7)	153	2,990
(Gain) loss on fair value of warrants and purchase option derivative asset	(47,345)	19,891	(53,058)	25,301
Finance and other expenses	13,902	8,919	20,758	15,309
Transaction and restructuring costs	627	432	1,242	432
Impairment of goodwill	—	5,007	—	5,007
Impairment of intangible assets	—	3,633	—	3,633
Unrealized and realized foreign exchange loss	(306)	3,055	50	5,838
Unrealized and realized loss (gain) on investments	234	(5,964)	234	(6,192)
Income (loss) before provision from income taxes	18,850	(22,725)	6,587	(27,400)
Provision for income taxes	4,688	6,937	8,431	16,373
Net income (loss)	\$ 14,162	\$ (29,662)	\$ (1,844)	\$ (43,773)
Foreign currency translation	280	(3,025)	3,887	(5,214)
Comprehensive income (loss)	\$ 13,882	\$ (26,637)	\$ (5,731)	\$ (38,559)
Net income (loss) attributable to:				
Common and proportionate Shareholders of the Company	\$ 13,217	\$ (30,660)	\$ (3,140)	\$ (44,834)
Non-controlling interests	945	998	1,296	1,061
Comprehensive income (loss) attributable to:				
Common and proportionate Shareholders of the Company	\$ 12,937	\$ (27,635)	\$ (7,027)	\$ (39,620)
Non-controlling interests	945	998	1,296	1,061
Net income (loss) per share, basic and diluted				
Net income (loss) per share - basic	\$ 0.05	\$ (0.17)	\$ (0.01)	\$ (0.25)
Weighted average number of outstanding common and proportionate voting shares	252,305,425	182,369,839	231,829,926	176,901,119
Net income (loss) per share - diluted	\$ 0.05	\$ (0.17)	\$ (0.01)	\$ (0.25)
Weighted average number of outstanding common and proportionate voting shares, assuming dilution	257,883,711	182,369,839	231,829,926	176,901,119

Unaudited Interim Condensed Consolidated Statements of Cash Flows

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

	For the Six Months Ended	
	June 30, 2022	June 30, 2021
Operating activities		
Net loss	\$ (1,844)	\$ (43,773)
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Non-cash write downs of inventory	8,495	699
Accretion expense	1,936	(544)
Depreciation of property and equipment and amortization of intangible assets	12,131	7,050
Amortization of operating right-of-use assets	1,074	2,269

Share-based compensation	7,819	8,215
Deferred income tax (recovery) expense	(787)	285
(Gain) loss on fair value of warrants and purchase option derivative	(53,058)	25,301
Revaluation of contingent consideration	153	2,990
Impairment of intangible assets	—	3,633
Impairment of goodwill	—	5,007
Loss on disposal of fixed assets	929	—
Release of indemnification asset	3,973	3,796
Forgiveness of loan principal and interest	—	(766)
Unrealized and realized foreign exchange loss	50	5,838
Unrealized and realized loss (gain) on investments	234	(6,192)
Changes in operating assets and liabilities		
Receivables	475	(950)
Inventory	208	(9,879)
Prepaid expense and deposits	1,474	(507)
Deposits	206	—
Other assets	461	389
Accounts payable and accrued liabilities and other payables	(8,299)	639
Operating lease liability		
	(614)	(1,889)
Other liability	(10,353)	—
Contingent consideration payable	(410)	(11,394)
Corporate income tax payable	5	(293)
Deferred revenue	766	—
Net cash used in operating activities	(34,976)	(10,076)
Investing activities		
Investment in property and equipment	(12,500)	(10,856)
Investment in intangible assets	(1,330)	(40)
Principal payments received on lease receivable	392	359
Distributions of earnings from associates	—	469
Deposits for property and equipment	(10,036)	(10,583)
Deposits for business acquisition	(852)	—
Payments made for land contracts	(429)	—
Cash received on acquisition	24,716	—
Cash portion of consideration paid in acquisitions, net of cash acquired	—	(42,736)
Net cash used in investing activities	(39)	(63,387)
Financing activities		
Proceeds from options and warrants exercised	24,158	12,921
Loan principal paid	(5,203)	—
Loan amendment fee paid	(1,200)	—
Proceeds from loans payable	—	766
Cash distributions to NJ partners	(1,436)	—
	(448)	(383)
Capital contributions received (paid) from (to) non-controlling interests		
Payments of contingent consideration	(6,630)	(18,274)
Payments made for financing obligations	(460)	—
Proceeds from private placement, net of share issuance costs	—	173,477
Net cash provided by financing activities	8,781	168,507
Net (decrease) increase in cash and cash equivalents and restricted cash during the period	(26,234)	95,044
Net effects of foreign exchange	(4,377)	(89)
Cash and cash equivalents and restricted cash, beginning of period	79,642	59,226
Cash and cash equivalents and restricted cash, end of period	\$ 49,031	\$ 154,181
Supplemental disclosure with respect to cash flows		
Income taxes paid	\$ 9,213	\$ 16,381
Interest paid	\$ 14,641	\$ 13,290
Lease termination fee paid	\$ 3,300	-
Non-cash transactions		
Equity and warrant liability issued as consideration for acquisition	\$ 294,800	\$ 34,427
Promissory note issued as consideration for acquisitions	\$ -	\$ 6,750
Shares issued for liability settlement	\$ 22	\$ 57
Accrued capital purchases	\$ 9,776	\$ 336

SOURCE TerrAscend