



TERRASCEND CORP.

Unaudited Condensed Interim Consolidated Financial Statements

**For the three and nine months ended September 30, 2019 and September 30, 2018
(In Thousands of Canadian Dollars)**

TerrAscend Corp.

Unaudited Condensed Interim Consolidated Statements of Financial Position

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

	Notes	As at September 30, 2019	As at December 31, 2018
Assets			
Current Assets			
Cash and cash equivalents		\$ 6,853	\$ 21,773
Receivables, net of expected credit losses	4, 18	18,225	9,641
Notes receivable	5	6,290	1,561
Investments	6	4,993	7,690
Biological assets	10	4,916	545
Inventory	11	32,182	14,844
Prepaid expenses and deposits		10,939	2,427
Deferred costs		291	313
		<u>84,689</u>	<u>58,794</u>
Non-Current Assets			
Investment in joint venture	7	—	2,732
Investment in associate	8	1,324	—
Property, plant and equipment	12	98,243	25,427
Intangible assets and goodwill	13	345,280	2,025
Deferred tax asset		1,165	—
Total Assets		<u>\$ 530,701</u>	<u>\$ 88,978</u>
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 27,062	\$ 17,677
Deferred revenue		1,256	12
Loan payable	14	60,546	12,683
Contingent consideration payable	9	47,802	—
Lease liability	15	983	—
Corporate income tax payable		2,329	16
		<u>139,978</u>	<u>30,388</u>
Non-Current Liabilities			
Loan payable	14	6,331	—
Contingent consideration payable	9	118,566	—
Lease liability	15	20,566	—
Other liability		18,111	—
Deferred income tax liability		25,180	688
Total Liabilities		<u>\$ 328,732</u>	<u>\$ 31,076</u>
Shareholders' Equity			
Share capital	16	228,975	64,883
Warrants reserve	16	30,707	14,335
Share-based payments reserve	16	17,886	7,849
Accumulated other comprehensive loss		(2,894)	—
Deficit		(76,649)	(30,596)
Non-controlling interest	17	3,944	1,431
Total Shareholders' Equity		<u>201,969</u>	<u>57,902</u>
Total Liabilities and Shareholders' Equity		<u>\$ 530,701</u>	<u>\$ 88,978</u>
Total Number of Common Shares Outstanding	16	<u>53,368,225</u>	<u>41,147,636</u>
Subsequent events (note 26)			

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

On behalf of the Board

"Michael Nashat"
Chief Executive Officer

"Jason Wild"
Chairman of the Board

TerrAscend Corp.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

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

	Notes	For the three months ended		For the nine months ended	
		September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Sales	18, 19	\$ 26,831	\$ 1,786	\$ 58,985	\$ 1,795
Cost of sales:					
Cost of goods sold		19,496	1,706	46,569	1,713
Impairment of inventory	11	980	1,081	1,744	1,704
Production salaries and wages	11	915	93	1,635	543
Production amortization and depreciation	11, 12	114	103	316	280
Production supplies and expenses	11	526	267	905	456
Gross profit (loss) before gain on fair value of biological assets		4,800	(1,464)	7,816	(2,901)
Unrealized gain on changes in fair value of biological assets	10	2,283	917	3,736	1,593
Realized fair value amounts included in inventory sold	11	(87)	(69)	(464)	(69)
Gross profit (loss)		6,996	(616)	11,088	(1,377)
Operating expenses:					
General and administrative	20	14,606	5,029	37,800	10,030
Research and development		197	70	494	101
Share-based payments	16	7,227	2,090	11,593	4,066
Amortization and depreciation	12, 13	3,312	149	5,305	344
Total operating expenses		25,342	7,338	55,192	14,541
Loss from operations		(18,346)	(7,954)	(44,104)	(15,918)
Finance expense (income)	5, 14	2,118	(100)	4,187	(435)
Impairment of intangible assets	13	—	—	58	—
Unrealized loss (gain) on investments	6, 7	236	(5,079)	2,822	(5,079)
Unrealized gain on note receivable	5	(120)	—	(120)	—
Foreign exchange loss		32	168	134	168
Other income		(19)	(109)	(19)	(193)
Loss before income taxes		(20,593)	(2,834)	(51,166)	(10,379)
Current income tax recovery		(928)	—	(889)	—
Deferred income tax recovery		(2,344)	—	(3,130)	—
Net loss		\$ (17,321)	\$ (2,834)	\$ (47,147)	\$ (10,379)
Currency translation adjustment - subsequently reclassified to profit or loss		(12)	—	2,894	—
Comprehensive loss		\$ (17,309)	\$ (2,834)	\$ (50,041)	\$ (10,379)
Net loss attributable to:					
TerrAscend Corp.		(17,056)	(2,763)	(46,290)	(10,308)
Non-controlling interests	17	(265)	(71)	(857)	(71)
Comprehensive loss attributable to:					
TerrAscend Corp.		(17,044)	(2,763)	(49,184)	(10,308)
Non-controlling interests		(265)	(71)	(857)	(71)
Net loss per share, basic and diluted					
Net loss per share – basic and diluted		\$ (0.33)	\$ (0.03)	\$ (0.99)	\$ (0.11)
Weighted average number of outstanding common shares		53,140,274	95,870,702	47,556,603	95,218,013

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

TerrAscend Corp.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

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

For the nine months ended September 30, 2019	Share Capital	Warrants Reserve	Share-based Payments Reserve	Accumulated Other Comprehensive Income	Deficit	Non-controlling Interest	Total
Balance at January 1, 2019	\$ 64,883	\$ 14,335	\$ 7,849	\$ —	\$ (30,596)	\$ 1,431	\$ 57,902
Shares issued - warrant exercises	46,880	(13,700)	—	—	—	—	33,180
Shares issued - stock option exercises	3,860	—	(1,712)	—	—	—	2,148
Shares issued- Acquisition of Grander	7,372	—	—	—	—	—	7,372
Shares issued- Acquisition of Apothecarium	42,042	—	—	—	—	—	42,042
Shares issued- Acquisition of Ilera	26,318	—	—	—	—	—	26,318
Private placement net of share issuance costs	67,177	—	—	—	—	—	67,177
Issuance of proportionate voting warrants	(29,557)	29,557	—	—	—	—	—
Warrants expired	—	(2)	—	—	2	—	—
Options expired/forfeited	—	—	(235)	—	235	—	—
Share-based compensation expense	—	517	11,984	—	—	—	12,501
Non-controlling interest on acquisition of Solace Rx	—	—	—	—	—	2,407	2,407
Non-controlling interest on acquisition of Ilera	—	—	—	—	—	565	565
Capital contributions	—	—	—	—	—	381	381
Unrealized foreign exchange on translation of NCI	—	—	—	—	—	17	17
Net loss for the period	—	—	—	(2,894)	(46,290)	(857)	(50,041)
Balance at September 30, 2019	\$ 228,975	\$ 30,707	\$ 17,886	\$ (2,894)	\$ (76,649)	\$ 3,944	\$ 201,969

For the nine months ended September 30, 2018	Share Capital	Warrants Reserve	Share-based Payments Reserve	Deficit	Non-controlling Interest	Total
Balance at January 1, 2018	\$ 50,344	\$ 23,460	\$ 2,336	\$ (8,771)	\$ —	\$ 67,369
Shares issued - warrant exercises	1,883	(310)	—	—	—	1,573
Shares issued - stock option exercises	1,560	—	(786)	—	—	774
Warrants issued for services	—	394	—	—	—	394
Share-based compensation expense	—	—	4,084	—	—	4,084
Options expired	—	—	(67)	67	—	—
Net loss for the period	—	—	—	(10,308)	—	(10,308)
Non-controlling interest (Note 17)	—	—	—	—	1,476	1,476
Balance at September 30, 2018	\$ 53,787	\$ 23,544	\$ 5,567	\$ (19,012)	\$ 1,476	\$ 65,362

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

TerrAscend Corp.

Unaudited Condensed Interim Consolidated Statements of Cash Flow

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

	Notes	For the nine months ended September 30, 2019	September 30, 2018
Operating activities			
Net loss		\$ (47,147)	\$ (10,379)
Add (deduct) items not involving cash			
Unrealized gain on changes in fair value of biological assets	10	(3,736)	(1,593)
Realized loss on changes in fair value of biological assets	11	464	69
Impairment of inventory	11	1,744	1,704
Impairment of intangible assets	13	58	—
Accretion and accrued interest		4,026	—
Depreciation of property, plant and equipment	12	1,401	549
Amortization of intangible assets	13	4,317	75
Share-based payments	16	12,113	4,478
Unrealized loss (gain) on investments	6, 7	2,840	(5,079)
Current income tax recovery		(889)	—
Deferred income tax recovery		(3,130)	—
Changes in non-cash working capital items	22	(16,387)	(16,421)
Cash outflow from operating activities		(44,326)	(26,597)
Financing activities			
Proceeds from warrants exercised		33,180	1,573
Proceeds from options exercised		2,148	774
Proceeds from loan including interest accrued		47,085	—
Proceeds from non-controlling interests		—	1,130
Loan interest paid		(2,278)	—
Loan origination fee paid		(770)	—
Proceeds from private placement, net of share issuance costs		67,177	—
Proceeds from mortgage		6,500	—
Principal payments on mortgage		(41)	—
Lease payments	15	(778)	—
Notes receivable issued		(4,449)	—
Cash inflow from financing activities		147,774	3,477
Investing activities			
Investment in property, plant and equipment		(23,599)	(8,713)
Investment in intangible assets		(1,720)	(825)
Issuance of note receivable including accrued interest		—	(1,538)
Purchase of investments		—	(2,500)
Investment in joint operations		(818)	—
Cash portion of consideration paid in acquisition of Grander, net of cash acquired		(9,187)	—
Cash portion of consideration paid in acquisition of Apothecarium, net of cash acquired		(47,701)	—
Cash portion of consideration paid in acquisition of Ilera, net of cash acquired		(32,109)	—
Contributions by non-controlling interests		381	—
Cash outflow from investing activities		(114,753)	(13,576)
Decrease in cash and cash equivalents during the period		(11,305)	(36,696)
Net effects of foreign exchange		(3,615)	—
Cash and cash equivalents, beginning of period		21,773	51,817
Cash and cash equivalents, end of period		\$ 6,853	\$ 15,121

Supplemental cash flow information (note 22)

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

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

1. Nature of operations

TerrAscend Corp. (“TerrAscend” or the “Company”) was incorporated under the Ontario Business Corporations Act. on March 7, 2017. The Company’s wholly owned subsidiary, TerrAscend Canada Inc. is a Licensed Producer of medical and adult use cannabis (as such term is defined in the *Cannabis Act*) and its current principal business activities include cultivation, processing and sale of medical and adult use cannabis. TerrAscend Canada Inc. applied to Health Canada to become a Licensed Producer under the *Access to Cannabis for Medical Purposes Regulations* (the “ACMPR”) and on July 10, 2017, was granted that license (the “License”) for its 67,300 square foot Mississauga facility (the “Facility”). On February 5, 2018, TerrAscend Canada Inc. was granted an amendment to the License by Health Canada to allow for cannabis oil production pursuant to the ACMPR. A further amendment to the License was granted on March 9, 2018 and July 8, 2019 to allow for sales of dried cannabis and cannabis oil. The License expires on July 10, 2020. A further amendment to the License was granted on October 22, 2019 to allow for sales of cannabis extracts, topicals and edibles. Effective October 17, 2018, ACMPR was transitioned to The Cannabis Act. Additional activities include physician consultations, patient education and support programs carried out by the Company’s wholly owned subsidiary, Solace Health Network Inc.

On December 18, 2018, the Company’s majority owned subsidiary, TerrAscend NJ, LLC was awarded the right to apply for a vertically integrated permit in Phillipsburg, NJ, and its operations will include cultivation, processing and retail. On January 15, 2019, the Company purchased Arise Bioscience Inc. (previously known as Grander Distribution), a producer and distributor of hemp-derived wellness products to retail locations nationwide. On June 6, 2019, the Company acquired the California operations of a retail dispensary brand known as “The Apothecarium” and Valhalla Confections (“Valhalla”), a premier manufacturer of cannabis infused artisan edibles. On September 16, 2019, the Company acquired Ilera Healthcare Inc., a vertically integrated cannabis cultivator, processor, and dispensary operator in Pennsylvania. These entities comprise the Company’s U.S. operations.

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

2. Basis of presentation

(a) Statement of compliance

These condensed interim consolidated financial statements for the three and nine months ended September 30, 2019 and September 30, 2018 of the Company were prepared in accordance with International Accounting Standard 34, Interim Financial Reporting [“IAS 34”] as issued by the International Accounting Standards Board [“IASB”]. The same accounting policies and methods of computation were followed in the preparation of these condensed interim consolidated financial statements as were followed in the preparation of the annual consolidated financial statements for the year ended December 31, 2018 prepared in accordance with International Financial Reporting Standards [“IFRS”] as issued by the IASB. Effective January 1, 2019, the Company adopted IFRS 16.

Certain comparative figures have been reclassified to conform to the current period’s presentation.

These condensed interim consolidated financial statements do not include all the disclosures required in the annual consolidated financial statements. Accordingly, these condensed interim consolidated financial statements for the three and nine months ended September 30, 2019 and September 30, 2018 should be read together with the annual consolidated financial statements for the year ended December 31, 2018, which are available on SEDAR at www.sedar.com.

These condensed interim consolidated financial statements were authorized for issue by the Board of the Directors on November 19, 2019.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

2. Basis of presentation (continued)

(b) Basis of measurement

These condensed interim consolidated financial statements have been prepared on the going concern basis which assumes that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. In accordance with the going concern basis, these condensed interim consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments that are measured at fair value and biological assets that are measured at fair value less costs to sell, as detailed in the Company's accounting policies.

(c) Functional and presentation currency

The Company's functional currency, as determined by management, is the Canadian dollar. Management has determined that the functional currency of its Canadian subsidiaries is the Canadian dollar and the functional currency of its US subsidiaries is the US dollar. These condensed interim consolidated financial statements are presented in Canadian dollars unless otherwise specified.

TerrAscend Corp.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

2. Basis of presentation (continued)

(d) Principles of consolidation

The Company has the following subsidiaries:

Subsidiary	Jurisdiction	Ownership %
TerrAscend Canada Inc. ("TerrAscend Canada", formerly "Solace Health Inc.")	Canada	100%
Solace Health Network Inc. ("SHN", formerly "Terra Health Network Inc.")	Canada	100%
TerrAscend Medical Holdings Inc.	Canada	100%
2151924 Alberta Ltd.	Canada	100%
2627685 Ontario Inc.	Canada	100%
2666999 Ontario Inc.	Canada	100%
2671983 Ontario Inc.	Canada	100%
Ascendant Laboratories Inc. ("Ascendant Lab")	Canada	60%
Solace Rx Inc. ("Solace Rx")	Canada	65%
Well and Good, Inc. ("Well & Good")	US	100%
TerrAscend USA Inc.	US	100%
TerrAscend NJ LLC (formerly, "Neta NJ LLC") ("NJ")	US	75%
TerrAscend America, Inc.	US	100%
Arise Bioscience Inc. ("Arise")	US	100%
WDB Holding PA, Inc.	US	100%
WDB Holding NV, Inc.	US	100%
WDB Holding CA South, Inc.	US	100%
TerrAscend Utah, LLC	US	90%
WDB Management CA, LLC	US	100%
WDB Holding CA, Inc.	US	100%
RHMT, LLC	US	49.9%
Deep Thought, LLC	US	49.9%
Howard Street Partners, LLC	US	49.9%
BTHHM Berkeley, LLC	US	100%
PNB Noriega, LLC	US	100%
V Products, LLC	US	100%
Capitola Caring Project, LLC	US	75%
Ilera Healthcare LLC	US	100%
Ilera Dispensing LLC	US	100%
IHC Real Estate GP, LLC	US	100%
Ilera Security LLC	US	100%
235 Main Street Mercersburg LLC	US	100%
Ilera InvestCo I LLC	US	100%
IHC Real Estate LP	US	50%
Guadco LLC	US	10%
KCR Holdings LLC	US	10%

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

2. Basis of presentation (continued)

The Company consolidates its interest in entities which it controls. Control is defined by the power to govern an entity's financial and operating policies so as to be able to obtain benefits from its activities. Management has assessed that the Company is deemed to control all entities it has ownership interest in, excluding IHC Real Estate LP, Guadco LLC and KCR Holdings LLC. As at September 30, 2019, there is a non-controlling interest of \$3,944 (note 17).

Prior to June 3, 2019, the Company had 50% ownership of Solace Rx and in accordance with *IFRS 11 Joint Arrangements*, the Company's share of the net assets of Solace Rx was recorded on the statement of financial position as an Investment in Joint Venture. On June 3, 2019 the Unanimous Shareholder Agreement was amended resulting in the Company having 65% ownership in Solace Rx. Subsequent to the amendment, Management assessed that the Company controls Solace Rx and in accordance with IFRS, consolidated the financial results of Solace Rx from June 3, 2019 onwards in these condensed interim consolidated financial statements.

All intercompany balances and transactions have been eliminated.

(e) Use of significant estimates and judgments

The preparation of condensed interim consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. 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.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2018, except as described below.

Management has applied significant estimates and judgements related to the following:

i) *Acquisitions*

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. In certain circumstances where estimates have been made, the Company may obtain third-party valuations of certain assets, which could result in further refinement of the fair-value allocation of certain purchase prices and accounting adjustments.

ii) *Contingent Consideration*

Contingent consideration payable as the result of a business combination is recorded at the date of acquisition at fair value. The fair value of contingent consideration is subject to significant judgement and estimates. Subsequent changes to the fair value of contingent consideration are measured at each reporting date, with changes recognized through profit or loss.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

2. Basis of presentation (continued)

iii) *Incremental borrowing rates*

In determining the appropriate measurement of our lease liabilities, estimates are required with respect to the discount rate applied. The discount rate applied reflects the interest rate that we would have to pay to borrow a similar amount at a similar term and with a similar security.

3. Significant accounting policies

Business Combinations

The Company accounts for business combinations using the acquisition method when control is obtained by the Company (see Note 2(d)). The Company measures the consideration transferred, the assets acquired and the liabilities assumed in a business combination at their acquisition-date fair values. Acquisition related costs are recognized as expenses in the periods in which the costs are incurred and the services are received, except for the costs to issue debt or equity securities which are recognized according to specific requirements. The excess of the consideration transferred to obtain control, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

Contingent consideration for a business combination is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as an asset or liability is measured at subsequent reporting dates in accordance with IFRS 9 *Financial Instruments*, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Investment in associates

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Significant influence is usually evidenced by but not limited to, the ability to exercise significant influence through board representation, material transactions with the investee, provision of technical information, and the interchange of managerial personnel. Whether an investment is classified as an investment in associate can have a significant impact on the entries made on and after acquisition.

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost, inclusive of transaction costs. Subsequent to initial recognition, the Company includes in its consolidated financial statements the Company's share of the income and expenses of the equity accounted investees until the date on which significant influence ceases. In accordance with IFRS, the investee's most recent available financial statements are used in the application of the equity method. The Company does not recognize losses exceeding the carrying value of its interest in the associate.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***3. Significant accounting policies (continued)**Intangible assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets are acquired at fair value at the acquisition date. Amortization is provided on a straight-line basis over the assets' estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values and amortization methods are reviewed at each period end and any changes in estimates are accounted for prospectively. Amortization is calculated on a straight-line basis over the following terms:

Software and licenses	3 - 5 years
Intellectual property	4 - 10 years
Website costs	5 years
Packaging designs	5 years
Distribution agreements	4 years
Customer relationships	5 years
Non-compete agreements	3 years
Domain names	15 years
Patient lists	5 years

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

New standards, amendments and interpretations adopted

On January 1, 2019, the Company adopted IFRS 16 Leases. The impact of adoption was not material. See Note 15 for additional information.

4. Receivables, net of expected credit losses

	September 30, 2019	December 31, 2018
Trade receivables	\$ 16,118	\$ 5,441
Sales tax receivables	2,105	1,454
Other	2	2,746
	\$ 18,225	\$ 9,641

Sales tax receivable represents input tax credits arising from sales tax levied on the supply of goods purchased or services received in Canada. Other receivables at December 31, 2018 are related to amounts receivable from Solace Rx joint venture partner. This amount became part of the consideration paid in the acquisition of Solace Rx (note 7).

Provisions for credit loss have been recorded in the amount of \$126 (December 31, 2018 – \$nil) and are included in trade receivables.

TerrAscend Corp.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

5. Notes receivable

The reconciliation of the Company's notes receivable is as follows:

	Think AHLOT	F&F	Howard Street	RHMT	State Flower	Total
Carrying amount, December 31, 2017	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Issuance of note receivable	1,500	—	—	—	—	1,500
Increase in fair value	61	—	—	—	—	61
Carrying amount, December 31, 2018	1,561	—	—	—	—	1,561
Issuance of note receivable	—	4,808	6,381	1,595	4,449	17,233
Increase in fair value	120	—	—	—	—	120
Interest accrued	—	—	106	25	106	237
Principal and interest payments	—	—	(6,528)	(1,631)	—	(8,159)
Conversion of note receivable to common shares	—	(4,808)	—	—	—	(4,808)
Foreign exchange impact	—	—	41	11	54	106
Carrying amount, September 30, 2019	\$ 1,681	\$ —	\$ —	\$ —	\$ 4,609	\$ 6,290

Think AHLOT Corporation

On April 28, 2018, the Company issued \$1,500 in a convertible note to Think AHLOT Corporation ("AHLOT"), a cannabis innovation company that creates cannabis products and accessories. The proceeds of the convertible note are being utilized by AHLOT towards increasing sales & marketing, product development, operations and general corporate purposes. Additionally, the Company, through its wholly owned subsidiary, TerrAscend Canada, provides fulfillment and distribution services on behalf of AHLOT that enabled AHLOT to commence the development and sale of licensed cannabis products for AHLOT's product portfolio. The convertible note bears interest at 6% per annum, compounded annually and matured on July 16, 2019. Upon the maturity date, the principal and accrued interest was to be automatically converted into Class A common shares based on a conversion price that will vary depending on the total revenue earned by AHLOT as of the maturity date.

On July 16, 2019, the Company amended the terms of the convertible note to the following: (i) Upon the maturity date, the principal and accrued interest will be automatically converted into Class A common shares based on a conversion price that is \$8 million divided by the total number of common shares and Class A common shares outstanding of AHLOT on a fully diluted basis; (ii) Maturity date of the convertible note is April 16, 2020.

As at September 30, 2019, the note receivable from AHLOT has been recorded at its fair value of \$1,681 (December 31, 2018 - \$1,561).

Fire & Flower Inc.

On February 13, 2019, the Company converted its existing 3,125,000 common shares of Fire and Flower Inc. ("F&F"), a proposed private retailer for adult use cannabis sales in select provinces, for a \$2.5 million unsecured, interest free convertible debenture (the "Convertible Debenture") that will mature on November 30, 2019. Prior to the maturity date, F&F may convert, in whole or part, the outstanding principal of the Convertible Debenture into common shares of F&F calculated as the principal amount to be converted divided by the lesser of: (i) \$0.80; and (ii) the last closing price of the F&F common shares on the exchange immediately before the conversion date. On the maturity date, the Company may convert, in whole or in part, the outstanding principal of the convertible debenture into common shares of F&F calculated as the principal amount to be converted divided by \$0.80.

On June 6, 2019, the Company converted the convertible debenture back to 3,125,000 common shares of F&F (Note 6).

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

5. Notes receivable (continued)

RHMT, Howard Street

On February 11, 2019, the Company announced the signing of definitive securities purchase agreements (the “Purchase Agreements”) with RHMT, LLC (“RHMT”), Deep Thought, LLC (“Deep Thought”) and Howard Street Partners, LLC (“Howard Street”) to facilitate 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, which are expected to be completed in the fourth quarter of 2019. On March 1, 2019, as part of the Purchase Agreement, the Company issued a US\$4.8 million note receivable to Howard Street and a US\$1.2 million note receivable to RHMT. The notes receivable bear interest at 6% per annum, compounded annually and will mature at the earlier of:

- i) February 28, 2020;
- ii) Closing of the Purchase Agreement;
- iii) 90 days after the termination of the Apothecarium Purchase Agreements

On June 6, 2019, upon the closing of Apothecarium the outstanding principal amount and interest receivable from RHMT and Howard Street was repaid.

State Flower

On July 18, 2019, the Company issued a US\$2.85 million secured convertible note receivable to ABI SF LLC (“State Flower”), which operates a California cannabis cultivation facility and the State Flower brand. The note receivable bears interest at 12% per annum, compounded annually and will mature at the earlier of:

- i) July 15, 2023;
- ii) September 15, 2019, unless the Company and the members of the Company have executed a securities purchase agreement (“SPA”) with the Holder or its affiliate by such date;
- iii) 90 days after termination of the SPA or the receipt by the Company or Holder of notice from the California Bureau of Cannabis Control, California Department of Food and Agriculture, and/or the San Francisco Office of Cannabis that Regulatory Approval will not be obtained, and such decision cannot be further appealed

On August 28, 2019, the Company announced the signing of definitive agreements with State Flower to initially acquire 49.9% of the equity of State Flower for total consideration of US\$2.85 million from conversion of the above-mentioned convertible note receivable. The Company also extended a line of credit of up to US\$3.75 million to State Flower for cultivation facility improvements to expand production capacity. As at September 30, 2019, State Flower had drawn US\$550,000 on the line of credit.

As at September, the amounts receivable from State Flower have been recorded at their fair value of \$4,609 (December 31, 2018 - \$nil), including \$106 (December 31, 2018 - \$nil) of accrued interest receivable.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***6. Investments**

On April 20, 2018, the Company purchased 3,125,000 units of F&F for an aggregate of \$2,500 or \$0.80 per unit, amounting to approximately 5% of the outstanding F&F shares. Each unit is comprised of one common share and one common share purchase warrant in F&F. Each common share purchase warrant entitles the Company to purchase one additional common share of F&F at a price of \$1.05 within twenty-four months.

On February 13, 2019, the Company converted its existing 3,125,000 common shares of F&F for a \$2.5 million unsecured, interest free convertible debenture (the "Convertible Debenture") that will mature on November 30, 2019.

On June 6, 2019, the Company converted the convertible debenture back to 3,125,000 F&F common shares (Note 5). As at September 30, 2019, the investment in F&F warrants and shares has been recorded at its fair value of \$4,993 (December 31, 2018 - \$7,690).

	Number of Shares	Number of Warrants	\$
Fair value, December 31, 2017		—	—
Units purchased	3,125,000	3,125,000	2,500
Units sold/derecognized	—	—	—
Unrealized gain/(loss)	—	—	5,190
Fair value, December 31, 2018	3,125,000	3,125,000	7,690
Units converted to notes receivable - F&F	(3,125,000)	—	(4,188)
Units converted from notes receivable - F&F	3,125,000	—	3,594
Unrealized gain/(loss) - F&F	—	—	(2,103)
Fair value, September 30, 2019	3,125,000	3,125,000	4,993

The fair value of F&F warrants outstanding as at September 30, 2019 was estimated using the Black-Scholes valuation model based on the following weighted average assumptions:

	Weighted Average Assumptions Q3
Volatility	100%
Risk-free interest rate	1.59%
Expected life (years)	0.57
Dividend yield	Nil
Number of F&F warrants valued	3,125,000
F&F estimated share price	\$ 1.19
Value per F&F warrant	\$ 0.4078

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***7. Investment in Solace Rx**

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

Management assessed that the Company’s investment in Solace Rx was a joint venture in accordance with *IFRS 11 Joint Arrangements*. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venturer recognizes its interest in a joint venture as an investment and accounts for that investment using the equity method in accordance with *IAS 28 Investments in Associates and Joint Ventures*.

Carrying amount, December 31, 2017	\$	—
Investment in joint venture		2,742
Share of investee net loss		(10)
Carrying amount, December 31, 2018		2,732
Investment in joint venture		992
Share of investee net loss		(24)
Derecognition of investment in joint venture		(3,700)
Carrying amount, June 3, 2019	\$	—

As at September 30, 2019, the Company has a receivable of \$nil (December 31, 2018 - \$2,746) from Theomar for its portion of contributions to Solace Rx (note 4).

On June 3, 2019 the Unanimous Shareholder Agreement was amended resulting in the Company having 65% ownership in Solace Rx. Subsequent to the amendment, Management assessed that the Company controls Solace Rx and in accordance with IFRS, consolidated the financial results of Solace Rx from June 3, 2019 onwards in these condensed interim consolidated financial statements.

	\$
Receivables	32
Property, plant and equipment	6,478
Goodwill	2,407
Accounts payable and accrued liabilities	(26)
Non-controlling interest	(2,269)
Net assets acquired	6,622
Non-cash consideration	
Investment in Solace Rx	3,425
Other receivable	3,197
Total consideration	6,622

Goodwill arose on this acquisition because purchase consideration included a control premium. In addition, the consideration paid reflected the benefit of expected revenue growth and future market and product development. This benefit was not recognized separately from goodwill because it does not meet the recognition criteria for identifiable intangible assets. The goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***7. Investment in Solace Rx (continued)**

The accounting for this acquisition has been provisionally determined at September 30, 2019. The fair value of net assets acquired, specifically with respect to goodwill, and total consideration have been determined provisionally and subject to adjustment. Upon completion of a comprehensive valuation and finalization of the purchase price allocation, the amounts above may be adjusted retrospectively to the acquisition date in future reporting periods.

8. Investment in associate

The carrying value of the Company's investment in associate consists of:

	Note	% ownership	Balance, September 16, 2019	Share of net income	Balance, September 30, 2019
KCR Holdings LLC & Guadco LLC	9	10%	1,324	—	1,324

There was no material profit or loss activity for the period from acquisition on September 16, 2019 to September 30, 2019. The following is a summary of financial information for the Company's associate at acquisition on September 16, 2019 and as at September 30, 2019.

	As at September 30, 2019	As at September 16, 2019
Assets		
Current assets	\$ 1,726	\$ 1,726
Non-current assets	3,386	3,386
Total assets	5,112	5,112
Liabilities		
Current liabilities	—	—
Non-current liabilities	1,463	1,463
Total liabilities	1,463	1,463

9. AcquisitionsAcquisition of Grander Distribution, LLC

On January 15, 2019, the Company through a wholly owned subsidiary, Arise Bioscience Inc. ("Arise"), completed the acquisition of substantially all of the assets of Grander Distribution, LLC ("Grander"), a producer and distributor of innovative hemp-derived wellness products. As consideration, TerrAscend paid US\$12.4 million (\$16,700), comprising US\$6.9 million in cash (\$9,348) and 1,362,343 common shares of TerrAscend. The fair value of the common shares was US\$5.5 million (\$7,372) as at January 15, 2019. Subject to meeting certain revenue milestones, the Company will pay up to an additional US\$10 million (\$13,300) in cash or share considerations. The total value of the potential purchase consideration payable by the Company under the terms of the agreement is approximately US\$22.4 million (\$29,700), and the fair value of the contingent consideration was US\$0.6 million (\$781) as at January 15, 2019.

On a standalone basis, had the Company acquired the business on January 1, 2019, revenue estimates would have been \$6,866 for the first quarter and a net loss of \$1,180. Since the date of acquisition, revenue of \$19,655 and a net loss of \$4,248 have been contributed.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***9. Acquisitions (continued)**

	\$
Cash and cash equivalents	161
Receivables	130
Inventory	1,322
Prepaid expenses and deposits	559
Right-of-use asset	187
Property, plant and equipment	29
Intangible assets	9,674
Goodwill	6,681
Accounts payable and accrued liabilities	(938)
Deferred revenue	(135)
Lease liabilities	(169)
Net assets acquired	17,501
Consideration paid in cash	9,348
Consideration paid in shares	7,372
Contingent consideration payable	781
Total consideration	17,501
Consideration paid in cash	9,348
Less: cash and cash equivalents acquired	161
Net cash outflow	9,187
Acquisition related expense	61

Goodwill arose in this acquisition because purchase consideration included a control premium. In addition, the consideration paid reflected the benefit of expected revenue growth and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The goodwill arising on these acquisitions is expected to be deductible for tax purposes.

The accounting for this acquisition has been provisionally determined at September 30, 2019. The fair value of net assets acquired, specifically with respect to inventory, intangible assets and goodwill, and total consideration have been determined provisionally and subject to adjustment. Upon completion of a comprehensive valuation and finalization of the purchase price allocation, the amounts above may be adjusted retrospectively to the acquisition date in future reporting periods.

Acquisition of The Apothecarium

On June 6, 2019, the Company acquired 49.9%, comprising 100% of the common shares, of the following group of entities (collectively the “California Apothecarium Entities”).

- RHMT, LLC, Deep Thought, LLC, and Howard Street Partners, LLC. (collectively the “SF Entities”) – 49.9%; and
- BTHHM Berkeley, LLC, PNB Noriega, LLC, and V Products, LLC (collectively the “NoCal Entities”) – 100%

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***9. Acquisitions (continued)**

As consideration, TerrAscend paid US\$72.45 million (\$96,924), comprising US\$36.8 million (\$49,283) in cash, US\$0.8 million (\$1,100) in the form of a working capital adjustment, contingent consideration of US\$3.4 million (\$4,499) and 6,700 proportionate voting shares of TerrAscend. The fair value of the share consideration as at June 6, 2019 was US\$31.4 million (\$42,042). The contingent consideration is the expected consideration payable to acquire the remaining 50.1% of the SF Entities, which comprises 100% of its preferred shares, subject to regulatory approval.

On a standalone basis, had the Company acquired the business on January 1, 2019, revenue estimates would have been \$19,192 for the first six months ended June 30, 2019 and a net loss of \$7,877. Since the date of acquisition, revenue of \$12,499 and net income of \$717 have been contributed.

	\$
Cash and cash equivalents	2,682
Receivables	25
Inventory	2,742
Prepaid expenses and deposits	1,579
Right-of-use asset	13,436
Property, plant and equipment	3,418
Intangible assets	44,281
Goodwill	77,901
Accounts payable and accrued liabilities	(2,723)
Deferred revenue	(746)
Lease liabilities	(14,368)
Deferred tax liability	(9,181)
Other liability	(22,122)
Net assets acquired	96,924
Consideration paid in cash	50,383
Consideration paid in shares	42,042
Contingent consideration	4,499
Total consideration	96,924
Consideration paid in cash	50,383
Less: cash and cash equivalents acquired	2,682
Net cash outflow	47,701
Acquisition related expense	1,837

Goodwill arose in this acquisition because purchase consideration included a control premium. In addition, the consideration paid reflected the benefit of expected revenue growth and future market and product development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

9. Acquisitions (continued)

Costs related to this transaction were \$1,837, including legal, accounting, due diligence and other transaction-related expenses. As part of the transaction, the Company entered into a put/call arrangement with the non-controlling shareholders of the Apothecarium principals. As a result, the non-controlling interest in The Apothecarium does not qualify for equity treatment under IAS 32, Financial Instruments: Presentation. Under the put/call arrangement, the non-controlling interest is redeemable by either party to the agreement after certain regulatory approvals are met. The Company has classified the non-controlling interest as a liability on the consolidated statements of financial position as other contingent consideration payable. The initial 50.1% non-controlling interest liability was recorded at a fair value of \$4,499 million. Any fair value adjustments to the liability are recorded in the consolidated statements of operations. No profit or loss with respect to the Apothecarium operations is allocated to the non-controlling interest.

The accounting for this acquisition has been provisionally determined at September 30, 2019. The fair value of net assets acquired, specifically with respect to inventory, intangible assets and goodwill, and total consideration have been determined provisionally and subject to adjustment. Upon completion of a comprehensive valuation and finalization of the purchase price allocation, the amounts above may be adjusted retrospectively to the acquisition date in future reporting periods.

Acquisition of Ilera Healthcare

On September 16, 2019, the Company through a wholly owned subsidiary, WDB Holding PA, Inc. (“WDB PA”), acquired Ilera Healthcare (“Ilera”), one of five vertically integrated cannabis cultivator, processor, and dispensary operators in Pennsylvania. The Company acquired the following group of entities (collectively the “Pennsylvania Ilera Entities”).

- Ilera Healthcare LLC, Ilera Dispensing LLC, IHC Real Estate GP, LLC, Ilera Security LLC, 235 Main Mercersburg LLC, and Ilera InvestCo I LLC – 100%; and
- IHC Real Estate LP – 50%; and
- Guadco LLC and KCR Holdings LLC – 10%

TerrAscend acquired 100% of the equity of Ilera for total consideration between US\$125-\$225 million (\$165,600-\$298,100), paid in a combination of cash and TerrAscend shares. At closing, TerrAscend paid to the sellers US\$25 million (\$33,120) in cash, subject to customary closing adjustments, and an additional US\$20 million (\$26,535) worth of proportionate voting shares in the equity of TerrAscend equivalent to approximately 5,059.102 proportionate voting shares (which are each exchangeable for 1,000 TerrAscend common shares), including US\$163 thousand (\$217) in working capital adjustments. Additional cash consideration of US\$75 million (\$99,360) to US\$175 million (\$231,840) million in aggregate may be paid to the sellers based on Ilera achieving certain specified revenue and profitability targets, with staged payments being made in 2020 and 2021. The fair value of the contingent consideration at acquisition and as at September 30, 2019 is \$161,200 and \$161,140, respectively.

On a standalone basis, had the Company acquired the business on January 1, 2019, revenue estimates would have been \$34,016 for the nine months ended September 30, 2019 and net income of \$17,067. Since the date of acquisition, revenue of \$1,794 and a net loss of \$51 have been contributed.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***9. Acquisitions (continued)**

	\$
Cash and cash equivalents	1,011
Receivables	1,961
Investment	1,325
Biological assets	3,546
Inventory	4,906
Prepaid expenses and deposits	1,386
Right-of-use asset	2,916
Property, plant and equipment	20,043
Intangible assets	91,213
Goodwill	115,033
Accounts payable and accrued liabilities	(1,245)
Deferred tax liability	(17,778)
Lease liabilities	(2,897)
Non-controlling interest	(565)
Net assets acquired	220,855
Consideration paid in cash	33,120
Consideration paid in shares	26,318
Contingent consideration payable	161,200
Working capital adjustment	217
Total consideration	220,855
Consideration paid in cash	33,120
Less: cash and cash equivalents acquired	1,011
Net cash outflow	32,109
Acquisition related expense	617

Goodwill arose in this acquisition because purchase consideration included a control premium. In addition, the consideration paid reflected the benefit of expected revenue growth and future market and product development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The goodwill arising on these acquisitions is expected to be deductible for tax purposes. Costs related to this transaction were \$617, including legal, accounting, due diligence and other transaction-related expenses.

The accounting for this acquisition has been provisionally determined at September 30, 2019. The fair value of net assets acquired, specifically with respect to inventory, intangible assets and goodwill, and total consideration have been determined provisionally and subject to adjustment. Upon completion of a comprehensive valuation and finalization of the purchase price allocation, the amounts above may be adjusted retrospectively to the acquisition date in future reporting periods.

Contingent consideration as at September 30, 2019 related to the above transactions is as follows:

	Grander	Apothecarium	Ilera	Total
Carrying amount, December 31, 2018	\$ —	\$ —	\$ —	\$ —
Contingent consideration recognized on acquisition	781	4,499	161,200	166,480
Effects of movements in foreign exchange	(7)	(45)	(60)	(112)
Carrying amount, September 30, 2019	774	4,454	161,140	166,368
Less: current portion	(380)	(4,454)	(42,968)	(47,802)
Non-current contingent consideration	\$ 394	\$ —	\$ 118,172	\$ 118,566

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***10. Biological assets**

The Company's biological assets consist of 23,816 cannabis plants as at September 30, 2019. The reconciliation of biological assets is as follows:

	TerrAscend Canada	Ilera	September 30, 2019	December 31, 2018
Opening amount	\$ 545	\$ —	\$ 545	\$ —
Increase in fair value less costs to sell due to biological transformation	2,768	968	3,736	1,657
Additions on Ilera Acquisition	—	3,546	3,546	—
Transferred to inventories upon harvest	(2,349)	(561)	(2,910)	(1,396)
Fair value less costs to sell of cultivated plants	964	3,953	4,917	261
Cannabis seeds purchased (planted)	(1)	—	(1)	284
Ending balance	\$ 963	\$ 3,953	\$ 4,916	\$ 545

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

The fair value measurements for biological assets have been categorized as Level 3 in the fair value hierarchy based on the inputs to the valuation technique used. The fair value was determined using an expected cash flow model which assumes the biological assets at the balance sheet date will grow to maturity, be harvested and converted into finished goods inventory and sold in the retail recreational or medical cannabis market. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

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

Dry bud

The dry bud model utilizes the following significant assumptions:

	Canada		United States	
	Weighted Average September 30, 2019	Weighted Average December 31, 2018	Weighted Average September 30, 2019	Weighted Average December 31, 2018
Weighted average of expected loss of plants until harvest	18%	21%	5%	N/A
Expected yields for cannabis plants (average grams per plant)	90 grams	52 grams	50 grams	N/A
Expected number of growing weeks	14 weeks	15 weeks	13 weeks	N/A
Weighted average number for growing weeks completed as a percentage of total growing weeks	57%	45%	50%	N/A
Estimated selling price (per gram)	\$ 5.28	\$ 8.20	\$ 7.64	N/A
Post-harvest cost to complete and sell (per gram)	\$ 0.84	\$ 4.43	\$ 1.62	N/A

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***10. Biological assets (continued)**Trim

The trim model utilizes the following significant assumptions:

	Canada		United States	
	Weighted Average September 30, 2019	Weighted Average December 31, 2018	Weighted Average September 30, 2019	Weighted Average December 31, 2018
Weighted average of expected loss of plants until harvest	18%	18%	5%	N/A
Expected yields for cannabis plants (average grams per plant)	70 grams	62 grams	50 grams	N/A
Expected number of growing weeks	14 weeks	15 weeks	13 weeks	N/A
Weighted average number for growing weeks completed as a percentage of total growing weeks	57%	52%	50%	N/A
Estimated selling price (per gram)	\$ 3.19	\$ 3.20	\$ 2.20	N/A
Post-harvest cost to complete and sell (per gram)	\$ 0.25	\$ 1.75	\$ 0.13	N/A

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

The following table presents the effect of a 10% change on the fair valuation of biological assets as at September 30, 2019 and December 31, 2018 which would be reported as part of the gross (loss) profit on the statement of loss and comprehensive loss.

	Canada		United States	
	10% change as at September 30, 2019	10% change as at December 31, 2018	10% change as at September 30, 2019	10% change as at December 31, 2018
Weighted average of expected loss of plants until harvest	\$ 68	\$ 26	15	N/A
Expected yields for cannabis plants (average grams per plant)	68	26	299	N/A
Expected number of growing weeks	26	12	272	N/A
Weighted average number for growing weeks completed as a percentage of total growing weeks	4	5	299	N/A
Estimated selling price (per gram)	101	57	439	N/A
Post-harvest cost to complete and sell (per gram)	14	25	78	N/A

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***11. Inventory**

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

	TerrAscend				September 30,	December 31,
	Canada	Arise	Apothecarium	Ilera	2019	2018
Raw materials	\$ 19,247	\$ -	\$ 310	\$ 563	\$ 20,120	\$ 14,016
Finished goods	2,566	2,542	596	1,004	6,708	610
Work in process	157	100	-	3,365	3,622	—
Accessories	32	174	-	-	206	33
Supplies and consumables	685	235	560	46	1,526	185
	\$ 22,687	\$ 3,051	\$ 1,466	\$ 4,978	\$ 32,182	\$ 14,844

During the nine months ended September 30, 2019, management assessed that the net book value of inventory exceeded the net realizable value and thus recorded an impairment of \$1,744 (September 30, 2018 - \$1,704). Management determined net realizable value as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Total inventory acquired through business combinations for the nine months ended September 30, 2019 was \$8,970.

Cost of goods sold – production costs for the period ended September 30, 2019 and 2018 is comprised of:

	September 30,	September 30,
	2019	2018
Production salaries including stock-based compensation expense	\$ 1,635	\$ 543
Material and utilities	161	45
Production amortization and depreciation	316	280
Other overhead, including facility & equipment maintenance, property tax, cleaning, personal protective equipment, quality testing and other	744	411
Impairment of inventory	1,744	1,704
	\$ 4,600	\$ 2,983

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

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***12. Property, plant and equipment**

	Land	Assets in Process	Building and Improvements	Irrigation & Lighting Systems	Security System	Machinery & Equipment	Office Furniture & Equipment	Right of Use Asset	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost									
Balance at December 31, 2018	994	6,786	14,715	809	703	1,083	1,350	—	26,440
Additions	3,425	15,601	486	39	27	3,536	488	4,344	27,946
Additions on Grander acquisition	—	—	—	—	—	10	19	187	216
Additions on Apothecarium acquisition	—	—	2,714	—	—	29	675	13,436	16,854
Additions on Solace Rx acquisition	—	5,963	—	—	—	515	—	—	6,478
Additions on Ilera Acquisition	2,243	—	13,933	—	—	3,488	379	2,916	22,959
Disposal	—	—	—	—	—	(16)	—	—	(16)
Effects of movements in foreign exchange	(14)	(11)	31	—	—	(3)	7	(243)	(233)
Balance at September 30, 2019	6,648	28,339	31,879	848	730	8,642	2,918	20,640	100,644
Accumulated Depreciation									
Balance at December 31, 2018	—	—	644	46	105	—	218	—	1,013
Depreciation	—	—	411	31	106	35	319	499	1,401
Effects of movements in foreign exchange	—	—	(3)	—	—	(1)	—	(9)	(13)
Balance at September 30, 2019	—	—	1,052	77	211	34	537	490	2,401
Net book value at September 30, 2019	6,648	28,339	30,827	771	519	8,608	2,381	20,150	98,243

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***12. Property, plant and equipment (continued)**

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

As at September 30, 2019, assets in process of \$28,339 (December 31, 2018 – \$6,786) are not being depreciated. Depreciation will commence when the construction of the second phase of the Mississauga facility is complete and ready for use. During the nine months ended September 30, 2019, the Company capitalized \$545 of borrowing costs in assets in process using a weighted average capitalization rate of 11.88%.

Right of use assets are comprised entirely of the Company's leased premises and offices and are depreciated on a straight-line basis over each respective lease term.

For the nine months ended September 30, 2019, \$316 (September 30, 2018 – \$280) of depreciation was allocated to production amortization and depreciation.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***13. Intangible assets and goodwill**

	Software & Intellectual Licenses	Property	Website	Packaging Design	Brand Name	Distribution Agreement	Customer Relationships	Non- Compete Agreements	Domain Name	Goodwill	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost											
Balance at December 31, 2018	1,594	417	104	—	—	—	—	—	—	—	2,115
Additions	998	30	—	719	—	—	—	—	—	—	1,747
Additions on Grander acquisition	—	—	—	—	1,861	665	5,317	1,794	10	6,681	16,328
Additions on Apothecarium acquisition	—	25,218	—	—	19,063	—	—	—	—	77,901	122,182
Additions on Solace Rx acquisition	—	—	—	—	—	—	—	—	—	2,407	2,407
Additions on Ilera acquisition	—	73,858	—	—	17,355	—	—	—	—	115,033	206,246
Impairment	(110)	—	—	—	—	—	—	—	—	—	(110)
Effects of movements in foreign exchange	2	(283)	—	—	(207)	(3)	(19)	(7)	3	(878)	(1,392)
Balance at September 30, 2019	2,484	99,240	104	719	38,072	662	5,298	1,787	13	201,144	349,523
Accumulated Amortization											
Balance at December 31, 2018	68	21	1	—	—	—	—	—	—	—	90
Amortization	286	2,644	16	—	—	125	797	449	—	—	4,317
Impairment	(52)	—	—	—	—	—	—	—	—	—	(52)
Effects of movements in foreign exchange	—	(108)	—	—	—	—	(2)	(2)	—	—	(112)
Balance at September 30, 2019	302	2,557	17	—	—	125	795	447	—	—	4,243
Net book value at September 30, 2019	2,182	96,683	87	719	38,072	537	4,503	1,340	13	201,144	345,280

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***13. Intangible assets and goodwill (continued)**

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

14. Loan payableCredit Facility

On December 14, 2018, the Company entered into a US\$75 million credit facility (the “Credit Facility”) with certain funds managed by JW Asset Management LLC, where Jason Wild, Chairman of the Board of TerrAscend, is the President and Chief Investment Officer. The Credit Facility bears interest at 8.75% per annum, with a US\$750,000 origination fee payable. Any principal amount drawn will be due in one year and interest will be payable monthly. The origination fee will be payable on a quarterly basis of which US\$563,000 has been paid as of September 30, 2019.

The Credit Facility was recorded at its fair value at inception and subsequently carried at amortized cost.

	September 30, 2019	December 31, 2018
Opening carrying amount	\$ 12,683	\$ —
Loan principal	47,085	13,566
Loan discount- origination fee paid	—	(1,017)
Fair value of loan at inception	59,768	12,549
Interest accretion	3,370	62
Interest paid	(2,278)	-
Effects of movements in foreign exchange	(442)	72
Ending carrying amount	\$ 60,418	\$ 12,683

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***14. Loan payable (continued)**Mortgage Payable

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.

The mortgage payable is recorded at its fair value at inception and subsequently carried at amortized cost. As at September 30, 2019, the carrying value of the current portion of the mortgage payable is \$128, while the long-term portion is \$6,331.

15. Leases

On January 1, 2019, the Company adopted IFRS 16 Leases and elected to not restate comparative figures in accordance with the transitional provisions in the standard. 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. As a result of the adoption of IFRS 16, the Company recognized right-of-use assets of \$240 and lease liabilities of \$234 as of January 1, 2019. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019, the weighted average of which is 8.75%. In the initial application of the standard, the Company used the following practical expedients available under the standard:

- using a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- accounting for operating leases with a remaining lease term of 12 months or less as at the date of initial application as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application,
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease, and
- not to reassess whether a contract is or contains a lease at the date of initial application.

Below is a reconciliation between the Company's operating lease commitments disclosed as at December 31, 2018 and lease liabilities recognized as at January 1, 2019:

Operating lease commitments disclosed as at December 31, 2018	\$	287
Less: short-term leases recognized as expenses on a straight-line basis		(8)
Less: Impact of discounting		(45)
Lease liabilities recognized as at January 1, 2019	\$	234

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***15. Leases (continued)**

The lease liability is recorded and subsequently carried at amortized cost.

	September 30, 2019
Opening lease liability	\$ —
Effect of adoption of IFRS 16, January 1, 2019	234
Additions on Grander acquisition	168
Additions on Apothecarium acquisition	14,369
Additions on Ilera acquisition	2,897
Additions	4,057
Lease payments	(778)
Interest expense	762
Effects of movements in foreign exchange	(160)
Ending lease liability	\$ 21,549
Less: current portion	(983)
Non-current lease liability	\$ 20,566

The Company recognized a total of \$168 expenses related to short-term leases and leases of low-value assets for the nine months ended September 30, 2019.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***16. Share capital**Authorized share capital

The authorized share capital of the Company consists of an unlimited number of common shares, unlisted proportionate voting shares, and unlisted exchangeable shares.

Outstanding share capital

	Common Shares	Exchangeable Shares	Proportionate Voting Shares	Amount \$
Outstanding, December 31, 2017	94,351,198	—	—	50,344
Shares issued – warrant exercises	3,193,138	—	—	2,784
Shares issued – stock option exercises	1,195,741	—	—	800
Shares issued – warrant exercises Plan of Arrangement	16,319,659	—	—	8,909
Exchangeable shares issued- Plan of Arrangement	(38,890,571)	38,890,571	—	—
Proportionate voting shares issued- Plan of Arrangement	(35,021,529)	—	35,022	—
Reallocation from warrants reserve	—	—	—	849
Reallocation from share-based payment reserve	—	—	—	1,197
Outstanding, December 31, 2018	41,147,636	38,890,571	35,022	64,883
Shares issued – warrant exercises	959,772	—	28,636	33,180
Shares issued – stock option exercises	874,790	—	—	2,148
Shares issued – acquisition of Grander	1,362,343	—	—	7,372
Shares issued – acquisition of Apothecarium	—	—	6,700	42,042
Shares issued – acquisition of Ilera	—	—	5,059	26,318
Shares issued – private placement net of share issue costs	9,023,684	—	—	67,177
Warrants issued	—	—	—	(29,557)
Reallocation from warrants reserve	—	—	—	13,700
Reallocation from share-based payment reserve	—	—	—	1,712
Outstanding, September 30, 2019	53,368,225	38,890,571	75,417	228,975

Plan of Arrangement

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

- i. each of Canopy Growth Corporation (“Canopy Growth”) and Canopy Rivers Corporation (“Canopy Rivers”) exchanged each of their existing warrants to acquire Common Shares (“Warrants”) for 0.8548 of a Common Share, based on the difference between the five day volume-weighted average trading price of the Common Shares as of October 5, 2018, being \$7.5778, and the warrant exercise price of \$1.10 (the “Cashless Warrant Exercise”);
- ii. each of Canopy Growth and Canopy Rivers then exchanged all of their Common Shares (including those received in the Cashless Warrant Exercise) for Exchangeable Shares, that are non-voting and non-participating and may not be exchanged into Common Shares until:
 - (a) the applicable stock exchange restrictions applicable to Canopy Growth or Canopy Rivers that restrict their ability to have an investment in an entity with cannabis operations in the United States are lifted or cannabis becomes legal under U.S. federal law; and
 - (b) any necessary stock exchange approvals are received, at which point the Exchangeable Shares will become convertible into Common Shares on a one-for-one basis;

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***16. Share capital (continued)**

- iii. entities (the “JW Entities”) controlled by Jason Wild, the Chairman of the Company, exchanged their Common Shares for Proportionate Voting Shares on the basis of one Proportionate Voting Share for each 1,000 Common Shares held, which Proportionate Voting Shares carry 1,000 votes per share, are entitled to participate in dividends and in the distribution of proceeds on a wind-up of the Company on a \$1,000-to-\$1.00 basis relative to the Common Shares and are exchangeable into Common Shares on a basis of 1,000 Common Shares per Proportionate Voting Share;
- iv. the outstanding Warrants held by the JW Entities were amended such that they became exercisable for 0.001 of a Proportionate Voting Share instead of one Common Share; and
- v. the JW Entities, Canopy Growth and Canopy Rivers each waived the negative covenant in their respective subscription agreements entered into with the Company which prevented the Company from conducting business in the United States.

Private Placement

On May 15, 2019, the Company completed the first tranche of a private placement and issued 5,257,662 common shares at a price of \$7.64 per common share for total proceeds of \$40,169. On May 27, 2019 the Company completed the second tranche and issued 3,766,022 common shares at a price of \$7.64 per common share for total proceeds of \$28,722. Total gross proceeds of the private placement were \$67,177, net of share issue costs of \$1,714.

Warrants reserve

The fair value of warrants outstanding as at September 30, 2019 and December 31, 2018 was estimated on their respective grant dates using the Black-Scholes valuation model based on the following assumptions:

Issue date	August 26, 2019		June 6, 2018		August 9, 2018	
Volatility	89.36%		100%		100%	
Risk-free interest rate	1.34%		2.00%		2.24%	
Expected life (years)	3.00		5.00		5.00	
Dividend yield	Nil		Nil		Nil	
Forfeiture rate	0%		0%		0%	
Number of Warrants issued	8,590,908		320,000		70,000	
Share price	\$	6.25	\$	4.59	\$	4.23
Value per warrant	\$	3.3643	\$	3.4967	\$	3.1737

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

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

On August 26, 2019, the Company issued 8,590,908 Proportionate Voting Share purchase warrants as incentive compensation. Each warrant is exercisable at \$7.21 per 0.001 share and expires at 36 months from the respective closing date. These warrants resulted in a reduction of share capital of \$28,903.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***16. Share capital (continued)**

During the nine months ended September 30, 2019, 959,772 Common Share purchase warrants were exercised for gross proceeds of \$1,680 and 28,636,361 Proportionate Voting Share purchase warrants were exercised for gross proceeds of \$31,500. Total gross proceeds from warrant exercises during the nine months ended September 30, 2019 amounted to \$33,180.

The following is a summary of the outstanding warrants for Common Shares as at September 30, 2019 and December 31, 2018.

Number outstanding as at September 30, 2019	Number of Warrants Outstanding	Number of Warrants Exercisable	Issue Date	Expiry Date	Weighted Average Exercise Price \$	Weighted Average Remaining Life (years)
Issued during private placement	—	—	07/31/17	07/31/19	—	—
Issued during private placement	—	—	08/16/17	08/16/19	—	—
Issued in payment for services	320,000	160,000	06/06/18	06/06/23	4.16	3.68
Issued in payment for services	70,000	70,000	08/09/18	08/09/23	4.25	3.86
	390,000	230,000			4.18	3.72

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

The following is a summary of the outstanding warrants for Proportionate Voting Shares as at September 30, 2019 and December 31, 2018. These warrants are exercisable for 0.001 of a Proportionate Voting Share. The Proportionate Voting Shares are exchangeable into Common Shares on a basis of 1,000 Common Shares per Proportionate Voting Share.

Number outstanding as at September 30, 2019	Number of Warrants Outstanding	Number of Warrants Exercisable	Issue Date	Expiry Date	Weighted Average Exercise Price \$	Weighted Average Remaining Life (years)
Issued during private placement	—	—	12/08/17	12/08/20	—	—
Issued as incentive compensation	8,590,908	8,590,908	08/26/19	08/23/23	7.21	2.90
	8,590,908	8,590,908			7.21	2.90

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

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***16. Share capital (continued)**Options

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

The fair value of the various stock options granted during the nine months ended September 30, 2019 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Stock price volatility – 89.36% to 96.98%; Risk-free interest rate – 1.15% to 1.96%; Dividend yield – 0%; and Expected lives – 5 years.

The following is a summary of the changes in the Company's options for the nine months ended September 30, 2019, and year ended December 31, 2018.

	Number of Options	Weighted Average Remaining Life in Years	Weighted Average Exercise Price \$
Balance Outstanding at December 31, 2017	4,063,334	3.16	1.41
Options Granted	6,680,000	N/A	7.64
Options Exercised	(1,225,613)	N/A	0.63
Options Forfeited/Cancelled	(1,044,592)	N/A	3.98
Balance Outstanding at December 31, 2018	8,473,129	5.88	4.28
Options Granted	5,646,500	N/A	7.16
Options Exercised	(891,164)	N/A	2.55
Options Forfeited/Cancelled	(1,935,342)	N/A	5.35
Balance Outstanding as at September 30, 2019	11,293,123	4.25	5.67

During the nine months ended September 30, 2019, \$12,501 (September 30, 2018 - \$2,287) of option related share-based payments expense was incurred of which \$210 (September 30, 2018 - \$285) is included in production salaries and wages, \$307 (September 30, 2018 - \$3) is included in cost of goods sold and \$391 (September 30, 2018 - \$23) is included in inventory.

During the nine months ended September 30, 2019, 891,164 options were exercised for total gross proceeds of \$2,148.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***16. Share capital (continued)**

The following is a summary of the outstanding stock options as at September 30, 2019 and December 31, 2018.

Number Outstanding as at September 30, 2019	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable as at September 30, 2019
11,293,123	\$ 5.67	4.25	1,974,102

Number Outstanding at December 31, 2018	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable at December 31, 2018
8,473,129	\$ 4.28	5.88	1,480,189

At September 30, 2019, the weighted average exercise price of options outstanding and options exercisable was \$5.67 (December 31, 2018 – \$4.28) and \$2.52 (December 31, 2018 – \$1.57) respectively.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***17. Non-controlling interest**

Non-controlling interest at September 30, 2019 was \$3,944 (December 31, 2018 - \$1,431) and consisted of the following amounts:

	September 30, 2019	December 31, 2018
Opening carrying amount balance – Ascendant Lab	\$ 365	\$ —
Common shares issued to non-controlling interest	—	417
Net loss attributable to non-controlling interest	(207)	(52)
Non-controlling interest – Ascendant Lab	\$ 158	\$ 365
Opening carrying amount balance – NJ	\$ 1,066	\$ —
Common shares issued to non-controlling interest	—	1,130
Capital contributions	371	—
Net loss attributable to non-controlling interest	(456)	(64)
Unrealized foreign exchange	17	—
Non-controlling interest – NJ	\$ 998	\$ 1,066
Opening carrying amount balance – Solace Rx	\$ —	\$ —
Non-controlling interest on acquisition date	2,407	—
Loan payable to non-controlling interest	10	—
Net loss attributable to non-controlling interest	(116)	—
Non-controlling interest – Solace Rx	\$ 2,301	\$ —
Opening carrying amount balance – TerrAscend Utah	\$ —	\$ —
Net loss attributable to non-controlling interest	(78)	—
Non-controlling interest – TerrAscend Utah	\$ (78)	\$ —
Opening carrying amount balance – Ilera	\$ —	\$ —
Non-controlling interest on acquisition date	565	—
Non-controlling interest – Ilera	\$ 565	\$ —
Total non-controlling interest	\$ 3,944	\$ 1,431

As at September 30, 2019, the Company's subsidiary has a shareholder loan payable of \$10 (December 31, 2018 - \$nil) to the non-controlling interest. The loan bears interest at prime plus 1%.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***18. Related parties**

- (a) Key management includes directors and officers of the Company. Total compensation, comprised of salaries and share-based payments, awarded to key management for the nine months ended September 30, 2019 and September 30, 2018 respectively were as follows:

	September 30, 2019	September 30, 2018
Salaries	\$ 982	\$ 528
Share-based payments	5,141	2,336
Total	\$ 6,123	\$ 2,864

- (b) On August 26, 2019, the Company issued 8,590,908 Proportionate Voting Share purchase warrants as incentive compensation to entities controlled by certain key management of the Company. Each warrant is exercisable at \$7.21 per 0.001 share and expires at 36 months from the respective closing date. These warrants resulted in a reduction in share capital of \$28,903.
- (c) During the three months ended September 30, 2019, the Company purchased dried flower inventory in the amount of \$326 from State Flower. See note 5 for details on note receivable held from State Flower.
- (d) During the nine months ended September 30, 2019, the Company paid for licensing development and maintenance fees in the amount of \$2 (September 30, 2018 - \$59) to RX Infinity Inc. a Corporation that Dr. Michael Nashat is a director and managing partner and, together with a family member, owns 33%. There are no amounts payable or receivable to or from RX Infinity Inc. at September 30, 2019 or 2018.
- (e) During the nine months ended September 30, 2019, the Company had sales of \$7,116 (September 30, 2018 - \$785) to Canopy Growth and other income of \$6 (September 30, 2018 - \$ nil) related to patient referral fees. There are no amounts payable or receivable to or from Canopy Growth at September 30, 2019 or 2018.
- (f) On December 14, 2018, the Company agreed to terms on a US\$75 million credit facility with certain funds managed by JW Asset Management LLC, where Jason Wild, Chairman of the Board of TerrAscend, is the President and Chief Investment Officer. Refer to note 14 for additional details.
- (g) During the nine months ended September 30, 2019, the Company paid for marketing and branding services in the amount of \$23 to Ilyse Terri LLC and \$6 to Mothership Transports LLC. These entities are related parties to the Company's subsidiary Arise. There are no amounts payable or receivable to or from these entities at September 30, 2019 or 2018.

19. Significant customer

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

	September 30, 2019	September 30, 2018
Customer A	7,122	—

The customer is a major Canadian corporation who has displayed a pattern of consistent timely payment of amounts owing from sales.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***20. General and administrative expenses by nature**

	For the three months ended		For the nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Office and general	\$ 1,906	\$ 708	\$ 5,794	\$ 1,415
Professional fees	3,296	1,727	11,204	2,897
Occupancy costs	728	88	937	142
Salaries and wages	7,111	1,366	15,340	2,355
Sales and marketing	1,291	1,035	3,736	2,965
Travel	274	105	789	256
Total	\$ 14,606	\$ 5,029	\$ 37,800	\$ 10,030

21. Segment disclosure

The Company has one operating segment, being the cultivation and sale of cannabis, with subsidiaries located in Canada and the United States.

	Canada	United States	Total
As at September 30, 2019			
Current assets	\$ 47,410	\$ 37,279	\$ 84,689
Non-current assets	49,325	396,687	446,012
Current liabilities	18,039	121,939	139,978
Non-current liabilities	6,715	182,039	188,754
For the nine months ended September 30, 2019			
Sales	\$ 25,038	\$ 33,947	\$ 58,985
Gross (loss) profit	(1,267)	12,355	11,088
Net loss attributable to controlling interest	322	535	857

	Canada	United States	Total
As at September 30, 2018			
Current assets	\$ 44,674	\$ —	\$ 44,674
Non-current assets	24,700	—	24,700
Current liabilities	4,012	—	4,012
Non-current liabilities	—	—	—
For the nine months ended September 30, 2018			
Sales	\$ 1,795	\$ —	\$ 1,795
Gross loss	(1,377)	—	(1,377)
Net loss attributable to controlling interest	(71)	—	(71)

	Canada	USA	Total
As at December 31, 2018			
Current assets	\$ 43,153	\$ 15,641	\$ 58,794
Non-current assets	30,184	—	30,184
Current liabilities	17,383	13,693	31,076
Non-current liabilities	—	—	—

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***22. Supplemental cash flow information**

Non-cash transactions during the nine months ended September 30, 2019 and September 30, 2018 are as follows:

	For the nine months ended	
	September 30,	September 30,
	2019	2018
Intangibles acquired through issuance of Ascendant Lab common shares	\$ —	\$ 417
Shares issued as consideration for acquisition of Grander	7,372	—
Shares issued as consideration for acquisition of Apothecarium	42,042	—
Shares issued as consideration for acquisition of Ilera	26,318	—
Right of use assets additions	20,640	—
Fair value of harvested plants transferred to inventory	2,910	950

The changes in non-cash working capital items during the nine months ended September 30, 2019 and September 30, 2018 are as follows:

	For the nine months ended	
	September 30,	September 30,
	2019	2018
Receivables	\$ (9,634)	\$ (5,606)
Notes receivable	—	—
Biological assets	—	(202)
Inventory	(7,278)	(11,771)
Prepaid expenses and deposits	(5,061)	(889)
Deferred costs	22	(272)
Accounts payable and accrued liabilities	5,006	2,311
Corporate income tax payable	(157)	—
Other liability	352	—
Deferred revenue	363	8
	(16,387)	(16,421)

23. Capital management

The Company's objective in managing capital is to ensure a sufficient liquidity position to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to achieve this objective, the Company prepares a capital budget to manage its capital structure. The Company defines capital as borrowings, equity comprised of issued share capital, share-based payments, accumulated deficit, as well as funds borrowed from related parties.

Since inception, the Company has primarily financed its liquidity needs through the issuance of Common Shares. On December 14, 2018, the Company agreed to terms on a US\$75 million credit facility of which the Company had borrowed US\$45 million at September 30, 2019.

There have been no changes to the Company's objectives as at September 30, 2019 or during the year ended December 31, 2018. The Company is not subject to externally imposed capital requirements.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

24. Financial instruments and risk management

Financial instruments

The Company has classified its cash and cash equivalents, investments and notes receivable as fair value through profit and loss (“FVTPL”), receivables (excluding sales tax receivable) as loans and receivables, and accounts payable and accrued liabilities, 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 notes 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 the majority of accounts are collectible; accordingly, allowance for doubtful accounts of \$126 have been 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 September 30, 2019, the Company had cash and cash equivalents and receivables balance of \$31,368 (December 31, 2018 - \$32,975) to settle current liabilities of \$139,978 (December 31, 2018 - \$30,388). All of the Company's financial current liabilities have contractual maturities of less than one year with trade accounts payable being due within 30 days on average. The loan payable has a maturity of one year. Contingent consideration arising from acquisitions are due as specified and as per conditions in the various acquisition agreements. The Company manages liquidity risk through access to public capital markets and subsequent to the third quarter the Company announced a non-brokered private placement in the amount of US\$25 million and successfully closed two tranches for total proceeds of \$18,006 (note 26(i)).

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

24. Financial instruments and risk management (continued)

(c) Market Risk

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

i) Foreign currency risk:

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

The Company and its subsidiaries do not hold significant monetary assets or liabilities in currencies other than their functional currency and as a result the Company is not exposed to significant currency risk. Therefore, 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 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 period-end. The Company's notes receivable bear interest at fixed rates of 6%-12% per annum.

In respect of financial liabilities, the Company's loan payable has a fixed interest rate of 8.75% per annum. The mortgage payable bears interest at a fixed rate of 5.5% 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 investments in F&F and Think AHL0T 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 September 30, 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 \$2,257 (2018 - \$nil).

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three and nine months ended September 30, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***25. Commitments**

The Company has the following rental commitments for office premises:

	\$
2019	160
2020	715
2021	772
2022	720
2023 and onwards	2,648
Total	5,015

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

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

26. Subsequent events

- i) On October 2, 2019, the Company announced it intends to complete a non-brokered private placement offering to raise approximately US\$25 million (functional currency of the Company is CAD) through the issuance of Units of TerrAscend Corp. (the "Enterprise Offering") and TerrAscend Canada (the "Canadian Offering"). Each unit in the Enterprise Offering is comprised of one unsecured convertible debenture of the Company and 25.2 common share purchase warrants of the Company. Each unit in the Canadian Offering is comprised of one unsecured convertible debenture of TerrAscend Canada and 25.2 common share purchase warrants of TerrAscend Canada. The first tranche of the Canadian Offering, a US\$10 million (\$13,243) lead order from Canopy Rivers, was completed on October 2, 2019. The second tranche of the non-brokered private placement was completed on November 7, 2019, with additional gross proceeds received of \$4,763.

Following the closing of the first tranche of the Canadian Offering with Canopy Rivers, the Company intends to make certain amendments to the terms of the transaction regarding the conversion rights, form of interest payments, and guarantee provisions based on discussions with Canopy Rivers and the Toronto Stock Exchange.

The convertible debentures issued pursuant to the Enterprise Offering and the Canadian Offering have a maturity date of five years from the date of issue and bear interest from the date of issue at 6% per annum, compounded and payable annually, with an option, at the discretion of the Company, to pay in cash or the equivalent value on the date of payment in common shares of the Company (or in the case of the Canadian Offering, in exchangeable shares of the Company). The debentures are convertible into common shares of the Company (or in the case of the Canadian Offering, into exchangeable shares of the Company), at the option of the holders, at a conversion price of \$5.95, being approximately a 27% premium to the closing price of the common shares of the Company as of October 1, 2019.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

26. Subsequent events (continued)

- ii) On October 21, 2019, the Company received an additional amendment to the License to allow for sales of cannabis extracts, topicals and edibles.
- iii) On October 23, 2019, the Company announced that it formed a strategic partnership with Kindred Partners Inc. (“Kindred”), a specialty cannabis brokerage and services company, where Kindred will serve as the exclusive broker for TerrAscend’s adult-use cannabis products in Canada.
- iv) On October 30, 2019, the Company sold 500,000 shares of F&F at a price per share of \$1.15 for total proceeds of \$575, less \$5 in brokerage commission charges.
- v) On November 4, 2019, the Company announced the appointment of Jason Ackerman to the Board of Directors in the role of Executive Chairman.
- vi) On November 4, 2019, the Company’s wholly owned subsidiary, Ilera, entered into a loan agreement with a related party to borrow up to US\$4 million, bearing interest at 12% per annum, payable monthly, and due on or before June 30, 2020, with no prepayment penalty. US\$2 million has been subsequently drawn to fund the expansion of the Pennsylvania facility.
- vii) Subsequent to September 30, 2019, the Company granted 535,000 options to employees, consultants and directors of the Company. The options have a weighted average exercise price of \$4.79.

Subsequent to September 30, 2019, the Company issued 453,750 warrants within non-brokered private placement offerings. The warrants have a weighted average exercise price of \$6.49.

Subsequent to September 30, 2019, 125,000 options were exercised at an average exercise price of \$3.05 for gross proceeds of \$381. Subsequent to September 30, 2019, 829,445 unvested options were forfeited.