



TERRASCEND CORP.

Unaudited Condensed Interim Consolidated Financial Statements

**For the three months ended March 31, 2019 and March 31, 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 March 31, 2019	As at December 31, 2018
ASSETS			
Current Assets			
Cash and cash equivalents		\$ 8,627	\$ 21,773
Receivables	4, 18	14,022	9,641
Note receivable	5	14,448	1,561
Investments	6	2,289	7,690
Biological assets	9	528	545
Inventory	10	11,618	14,844
Prepaid expenses and deposits	11	3,014	2,427
Deferred costs	11	337	313
Deferred tax asset	8	372	—
		55,255	\$ 58,794
Non-Current Assets			
Investment in joint venture	7	3,183	2,732
Property, plant and equipment	12	39,901	25,427
Intangible assets	13	18,434	2,025
Total Assets		\$ 116,773	\$ 88,978
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 9,772	\$ 17,677
Deferred revenue		440	12
Loan payable	14	44,974	12,683
Contingent consideration payable	8	383	—
Lease liability	15	353	—
Corporate income tax payable		16	16
Deferred income tax liability		688	688
		56,626	31,076
Non-Current Liabilities			
Contingent consideration payable	8	398	—
Lease liability	15	3,012	—
Total Liabilities		60,036	31,076
Shareholders' Equity			
Share capital	16	72,373	64,883
Warrants reserve	16	14,554	14,335
Share-based payments reserve	16	10,175	7,849
Accumulated other comprehensive income		(510)	—
Deficit		(41,126)	(30,596)
Non-controlling interest	17	1,271	1,431
Total Shareholders' Equity		56,737	57,902
Total Liabilities and Shareholders' Equity		\$ 116,773	\$ 88,978
Total Number of Common Shares Outstanding	16	42,562,941	41,147,636
Subsequent events (<i>note 25</i>)			

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)

		For the three months ended	
	Notes	March 31, 2019	March 31, 2018
Sales	18, 19	\$ 14,582	\$ —
Cost of Sales:			
Cost of goods sold		12,263	—
Impairment of inventory	10	307	—
Production salaries and wages	10	274	226
Production amortization and depreciation	10, 12	102	81
Production supplies and expenses	10	129	105
Gross profit (loss) before gain on fair value of biological assets		1,507	(412)
Unrealized gain on changes in fair value of biological assets	9	444	577
Realized fair value amounts included in inventory sold	10	(17)	—
Gross Profit		1,934	165
Expenses:			
Share-based payments	16	1,907	998
General and administrative		8,821	1,527
Research & development		124	—
Amortization and depreciation	12, 13	752	87
Finance expense (income)	5, 14	732	(101)
Unrealized loss on investments	6, 7	618	—
Unrealized foreign exchange loss		40	—
Total operating expenses		12,994	2,511
Future income taxes (benefit)	8	(370)	—
Net Loss		(10,690)	(2,346)
Other comprehensive loss		510	—
Net Loss and Comprehensive Loss after Income Tax		\$ (11,200)	\$ (2,346)
Less: Net loss attributable to non-controlling interest	17	160	—
Net loss attributable to controlling interest		\$ (11,040)	\$ (2,346)
Net Loss Per Share, Basic and Diluted			
Net loss per share – basic and diluted		\$ (0.26)	\$ (0.02)
Weighted average shares outstanding		42,310,828	94,437,399

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)

	Share Capital	Warrants Reserve	Share-based Payments Reserve	Accumulated Other Comprehensive Income	Deficit	Non-controlling Interest	Total
Three months ended March 31, 2019							
Balance at January 1, 2019	\$ 64,883	\$ 14,335	\$ 7,849	\$ —	\$ (30,596)	\$ 1,431	\$ 57,902
Shares issued - warrant exercises	103	(15)	—	—	—	—	88
Shares issued - stock option exercises	15	—	(6)	—	—	—	9
Shares issued- Acquisition of Grander	7,372	—	—	—	—	—	7,372
Warrants issued for services	—	234	—	—	—	—	234
Share-based compensation expense	—	—	2,332	—	—	—	2,332
Net loss for the period	—	—	—	(510)	(10,530)	(160)	(11,200)
Balance at March 31, 2019	\$ 72,373	\$ 14,554	\$ 10,175	\$ (510)	\$ (41,126)	\$ 1,271	\$ 56,737
Three months ended March 31, 2018							
Balance at January 1, 2018	\$ 50,344	\$ 23,460	\$ 2,336	\$ (8,771)	\$ —	\$ —	\$ 67,369
Shares issued - warrant exercises	516	(85)	—	—	—	—	431
Shares issued - stock option exercises	230	—	(153)	—	—	—	77
Share-based compensation expense	—	—	1,160	—	—	—	1,160
Net loss for the period	—	—	—	—	(2,346)	—	(2,346)
Balance at March 31, 2018	\$ 51,090	\$ 23,375	\$ 3,343	\$ (11,117)	\$ —	\$ —	\$ 66,691

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)

	For the three months ended	
	March 31, 2019	March 31, 2018
Operating activities		
Net Loss and Comprehensive Loss after Income Tax	\$ (11,200)	\$ (2,346)
Add (deduct) items not involving cash		
Unrealized gain on changes in fair value of biological assets	(444)	(577)
Realized loss on changes in fair value of biological assets	17	—
Impairment of inventory	307	—
Accretion and accrued interest	732	—
Depreciation of property, plant and equipment	290	148
Amortization of intangible assets	565	19
Share-based payments	2,566	1,160
Unrealized gain on investments	617	—
Future income taxes	(372)	—
Change in working capital		
Receivables	(3,832)	(259)
Biological assets	—	(202)
Inventory	4,685	(3,732)
Prepaid expense and deposits	(101)	(728)
Deferred costs	(24)	—
Accounts payable and accrued liabilities	(8,577)	2,433
Deferred revenue	293	—
Cash outflow from operating activities	(14,478)	(4,084)
Financing activities		
Proceeds from warrants exercised	88	431
Proceeds from options exercised	9	77
Proceeds from loan including interest accrued	31,815	—
Loan interest paid	(313)	—
Loan origination fee paid	(266)	—
Cash inflow from financing activities	31,333	508
Investing activities		
Investment in property, plant and equipment	(11,283)	(2,560)
Investment in intangible assets	(619)	—
Issuance of note receivable including accrued interest	(8,017)	—
Investment in joint operations	(475)	—
Advances to joint venture partner	(420)	—
Consideration paid in acquisition of Grander net of cash acquired	(9,187)	—
Cash outflow from investing activities	(30,001)	(2,560)
Increase (Decrease) in cash and cash equivalents during the period	(13,146)	(6,136)
Cash and cash equivalents, beginning of period	21,773	51,817
Cash and cash equivalents, end of period	\$ 8,627	\$ 45,681

Supplemental cash flow information (note 21)

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 months ended March 31, 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 to allow for sales of dried cannabis. The License expires on July 10, 2020. 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.

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 three months ended March 31, 2019 and March 31, 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.

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

The condensed interim consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Accordingly, these condensed interim consolidated financial statements for the three months ended March 31, 2019 and March 31, 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.

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 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. These condensed interim consolidated financial statements were authorized for issue by the Board of the Directors on May 22, 2019.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 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 for Canadian subsidiaries and US dollars for foreign subsidiaries. These condensed interim consolidated financial statements are presented in Canadian dollars unless otherwise specified.

(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%
2680982 Ontario Inc.	Canada	100%
Ascendant Laboratories Inc. ("Ascendant Lab")	Canada	60%
Solace Rx Inc. ("Solace Rx")	Canada	50%
Well and Good Inc. ("Well & Good")	US	100%
TerrAscend USA Inc.	US	100%
Torrey Holdco Inc.	US	100%
Neta NJ LLC ("NNJ")	US	75%
TerrAscend America, Inc.	US	100%
Arise Bioscience Inc. ("Arise")	US	100%
WDB Holding NV, Inc.	US	100%
WDB Holding CA South, Inc.	US	100%
WDB Holding CA, Inc.	US	100%
WDB Management CA LLC	US	100%

The Company 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 Ascendant Lab and NNJ. As at March 31, 2019, there is a non-controlling interest of \$1,271 (note 17).

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

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

2. Basis of presentation (continued)

The Company jointly controls Solace Rx along with Theomar Ltd. The Company's investment in Solace Rx is a joint venture and therefore in accordance with *IFRS 11 Joint Arrangements*, these condensed interim consolidated financial statements have not been consolidated with Solace Rx. The Company's share of the net assets of Solace Rx has been recorded on the statement of financial position as an Investment in Joint Venture. All intercompany balances and transactions have been eliminated.

(e) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

i) *Biological assets and inventory*

Management is required to make a number of estimates in calculating the fair value of biological assets and harvested cannabis inventory. These estimates include a number of assumptions, such as estimating the stage of growth of the cannabis, harvesting costs, sales price and expected yields.

Inventories of harvested finished goods and packing materials are valued at the lower of cost and net realizable value. Management determines net realizable value, which is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Company estimates the net realizable value of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices. A change to these assumptions could impact the Company's inventory valuation and impact gross profit.

ii) *Stock based compensation*

In calculating the share-based compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price, the vesting period of the option and the risk-free interest rate are used.

iii) *Warrants*

In calculating the fair value of the warrants issued, the Company includes key estimates such as the volatility of the Company's stock price, the value of the Common Shares, and the risk-free interest rate.

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

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

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

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

2. Basis of presentation (continued)

v) *Depreciation and amortization of property, plant and equipment and intangible assets*

Depreciation and amortization rates are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

Management has applied significant judgements related to the following:

i) *Going concern*

The assumption that the Company will be able to continue as a going concern is subject to critical judgements of management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investment and financing activities and management's strategic planning. Should those judgements prove to be inaccurate, management's continued use of the going concern assumptions would be inappropriate.

ii) *Income taxes*

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Company generating future taxable income against which the deferred tax assets can be utilized. In addition, significant judgment is required in classifying transactions and assessing probable outcomes of tax positions taken, and in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

iii) *Functional currency*

The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. The Company has determined the functional currency of its Canadian subsidiaries is the Canadian dollar and foreign subsidiaries is the US dollar. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions that determined the primary economic environment.

iv) *Impairment of intangible assets*

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value in use and fair value less costs to sell. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. For the three months ended March 31, 2019, management has determined that there were no indicators of impairment for intangible assets.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

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

2. Basis of presentation (continued)

v) *Joint arrangements*

Judgement was required in determining whether the Company's investment in Solace Rx is a joint venture or a joint operation. In accordance with *IFRS 11 Joint Arrangements*, a joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require unanimous consent of parties sharing control. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Management has assessed that its investment in Solace Rx is a joint venture. Refer to Note 7 for additional information on the Company's joint venture.

vi) *Acquisition of Grander*

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

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

vii) *Operating segments*

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

3. Significant accounting policies

Inventory

Inventories of harvested finished goods and packing materials are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the standard cost method. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

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

3. Significant accounting policies (continued)

Biological assets

The Company measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the results of operations of the related period.

The Company does not recognize the mother plants used for cloning the cannabis plants on the consolidated statement of financial position, since such plants are in the scope of IAS 16 – Property, Plant and Equipment, but only have a useful life of less than one year.

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the following terms:

Building and Improvements	30 years
Irrigation & Lighting System	20 years
Security System	5 years
Machinery & Equipment	5 years
Office Furniture & Equipment	3-5 years

An asset's residual value, useful life and depreciation method are reviewed at each reporting period and adjusted if appropriate.

Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the items and are recognized in the statement of loss and comprehensive loss.

Assets in process are transferred to building and improvements when available for use and depreciation of the assets commences at that point.

Leases

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

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

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

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 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	3 years
Patient List	5 years
Intellectual property	10 years
Website costs	5 years
Distribution agreement	4 years
Customer relationship	5 years
Non-compete agreement	3 years
Domain name	15 years

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

Revenue Recognition

The Company adopted IFRS 15 – Revenue from Contracts with Customers on January 1, 2018.

IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps: i) identify the contract with a customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations in the contract; and v) recognize revenue when (or as) the entity satisfies a performance obligation.

Revenue is recognized when control of the goods has transferred to the purchaser and the collectability is reasonably assured. This is generally when goods have been delivered, which is also when the performance obligations have been fulfilled under the terms of the related sales contract. Revenues are recorded net of discounts and incentives but inclusive of freight. Excise taxes are a production tax which become payable when a cannabis product is delivered to the customer and are not directly related to the value of revenue. Excise taxes are netted against gross revenue on the statement of net (loss) income and comprehensive (loss) income.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

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

3. Significant accounting policies (continued)

Income taxes

Income tax expense, consisting of current and deferred tax expense, is recognized in the consolidated statements of operations. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to previous years. Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income (loss) in the period that substantive enactment occurs. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Operating segment

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

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

IFRS 9 - Financial instruments

Effective January 1, 2018, the Company adopted IFRS 9.

IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also amends the requirements around hedge accounting, and introduces a single, forward-looking expected loss impairment model.

The Company has elected to apply the limited exemption in IFRS 9 paragraph 7.2.15 relating to the transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. The adoption of IFRS 9 had no impact on the Company’s consolidated financial statements on the date of initial application. There was no change in the carrying amounts on the basis of allocation from original measurement categories under IAS 39 Financial Instruments: Recognition and Measurement to the new measurement categories under IFRS 9.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

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

3. Significant accounting policies (continued)

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories:

- i) those to be measured subsequently at fair value through profit or loss (FVTPL);
- ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI); and
- iii) those to be measured at amortized cost.

The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets if and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Financial assets at fair value through comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***3. Significant accounting policies (continued)***Impairment*

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

Summary of the Company's classification and measurements of financial assets and liabilities

	IFRS 9		IAS 39	
	Classification	Measurement	Classification	Measurement
Cash and cash equivalents	FVTPL	Fair value	Loans and receivables	Fair Value
Receivables	Amortized cost	Amortized cost	Loans and receivables	Amortized cost
Note receivable	FVTPL	Fair value	Loans and receivables	Amortized cost
Investments	FVTPL	Fair value	Held for trading	Fair value
Accounts payable and accrued liabilities	Amortized cost	Amortized cost	Other liabilities	Amortized cost
Deferred revenue	Amortized cost	Amortized cost	Other liabilities	Amortized cost
Loan payable	Amortized cost	Amortized cost	Other liabilities	Amortized cost
Contingent consideration payable	FVTPL	Fair value	Loans and receivables	Fair Value
Lease liability	Amortized cost	Amortized cost	Other liabilities	Amortized cost

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

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

3. Significant accounting policies (continued)

Joint Venture

The Company's investment in Solace Rx is a joint venture. In accordance with *IFRS 11 Joint Arrangements*, a joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require unanimous consent of parties sharing control. A joint venturer recognizes its interest in a joint venture as an investment and accounts for that investment using the equity method in accordance with *IAS 28 Investments in Associates and Joint Ventures*. Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. The investor's share of those changes is recognised in the investor's other comprehensive income.

Share capital

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

Equity units

Proceeds received on the issuance of units, comprised of common shares and warrants are allocated to common shares and warrants based on the relative fair value method.

Share-based compensation

The Company has a stock option plan in place. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Fair value is measured using the Black-Scholes option pricing model. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. Any revisions are recognized in the consolidated statements of loss and comprehensive loss such that the cumulative expense reflects the revised estimate.

Upon exercise of stock options and warrants any historical fair value in the warrants and share-based payment reserve are allocated to share capital. Upon cancellation or forfeitures of stock options and warrants any historical fair value in the warrants and share-based payment reserve are adjusted to the consolidated statements of loss and comprehensive loss. Upon expiry of stock options and warrants, any historical fair value in the warrants and share-based payment reserve are allocated to deficit.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***3. Significant accounting policies (continued)**New standards, amendments and interpretations adopted

The following new standard became effective January 1, 2019 and has been adopted in preparing these condensed interim consolidated financial statements.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low value assets; however, this exemption can only be applied by lessees. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application if IFRS 15 is also applied.

The Company has assessed the impact that IFRS 16 will have on its condensed interim consolidated financial statements and determined that all of the operating leases, as currently disclosed in note 24, will be reflected as right-of-use assets on consolidated statement of financial position as at January 1, 2019.

4. Receivables

	March 31, 2019	December 31, 2018
	\$	\$
Trade receivable	10,339	5,441
Interest receivable	—	6
Sales tax receivable	523	1,454
Other	3,160	2,740
	14,022	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 are related to amounts receivable from Solace Rx joint venture partner.

No provisions for credit loss have been recorded as Management has assessed all receivables to be collectible.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

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

5. Note receivable

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 will be utilized by AHLOT towards increasing sales & marketing, product development, operations and general corporate purposes. Additionally, the Company, through its wholly-owned subsidiary, TerrAscend Canada, will provide fulfillment and distribution services on behalf of AHLOT that will enable AHLOT to commence the development and sale of licensed cannabis products for AHLOT’s product portfolio. The convertible note will accrue interest at 6% per annum, compounded annually and will mature on July 16, 2019. Upon the maturity date, the principal and accrued interest will 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 February 13, 2019, the Company converted its existing 3,125,000 common shares of Fire and Flower Inc. (“F&F”) 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 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. On March 1, 2019, as part of the Purchase Agreement, the Company issued US\$4.8 million note receivable to Howard Street and US\$1.2 million note receivable to RHMT. The note receivables 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 Purchase Agreement

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

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

5. Note receivable (continued)

As at March 31, 2019, the note receivables have been recorded at their fair value of \$14,448 (December 31, 2018- \$1,561).

Carrying amount, December 31, 2017	—
Note receivable issued- Think AHLOT	1,500
Interest accrued- Think AHLOT	61
Carrying amount, December 31, 2018	1,561
Note receivable issued- F&F	4,808
Note receivable issued- Howard Street	6,381
Note receivable issued- RHMT	1,595
Interest accrued- Think AHLOT	22
Interest accrued- Howard Street	33
Interest accrued- RHMT	7
Foreign exchange impact	41
Carrying amount, March 31, 2019	14,448

6. Investments

On April 20, 2018, the Company purchased 3,125,000 units of Fire & Flower Inc. (“F&F”), a proposed private retailer for adult use cannabis sales in select provinces 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 Fire and Flower Inc. (“F&F”) for a \$2.5 million unsecured, interest free convertible debenture (the “Convertible Debenture”) that will mature on November 30, 2019.

As at March 31, 2019, the investment in F&F warrants have been recorded at its fair value of \$2,289 (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 purchased	—	—	—
Units sold/ derecognized	(3,125,000)	—	(4,188)
Unrealized gain/ (loss)	—	—	(1,213)
Fair value, March 31, 2019	—	3,125,000	2,289

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***6. Investments (continued)**

The fair value of F&F warrants outstanding as at March 31, 2019 was estimated using the Black-Scholes valuation model based on the following weighted average assumptions:

	Quarterly Weighted Average Assumptions
Volatility	125%
Risk-free interest rate	2.72%
Expected life (years)	1.06
Dividend yield	Nil
Number of F&F warrants valued	3,125,000
F&F estimated share price	\$ 1.34
Value per F&F warrant	\$ 0.7325

7. Investment in joint venture

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 own 50% of Solace Rx and both parties in various capacities will assist 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 has assessed that the Company’s investment in Solace Rx is a joint venture in accordance with *IFRS 11 Joint Arrangements*. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. 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	475
Share of investee net loss	(24)
Carrying amount, March 31, 2019	3,183

As at March 31, 2019, the Company has a receivable of \$3,160 (December 31, 2018 - \$2,740) from Theomar for its portion of contributions to Solace Rx (note 4).

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***7. Investment in joint venture (continued)**

For the period ended March 31, 2019 and year ended December 31, 2018, Solace Rx key financial information is as follows:

	March 31, 2019	December 31, 2018
	\$	\$
Current assets	32	3
Non-current assets	6,457	5,603
Current liabilities	(167)	(145)
Net loss	(49)	(20)

8. Acquisition 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 from Grander Distribution, LLC ("Grander"). As consideration, TerrAscend paid US\$12.4 million, comprising US\$6.9 million in cash and 1,362,343 common shares of TerrAscend. The fair value of the common shares was US\$5.5 million as at January 15, 2019. Subject to meeting certain revenue milestones, the Company will pay up to an additional US\$10 million 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, and the fair value of the contingent consideration was US\$0.6 million as at January 15, 2019.

On a standalone basis, had the Company acquired the business on January 1, 2019, revenues estimates would have been \$6,866 for the first quarter and a net loss of \$1,180.

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

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***8. Acquisition of Grander Distribution, LLC (continued)**

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 these acquisitions has been provisionally determined at March 31, 2019. The fair value of net assets acquired and total consideration have been determined provisionally and subject to adjustment. Upon completion of a comprehensive valuation and finalization of the purchase price allocation, goodwill may be adjusted retrospectively to the acquisition date in future reporting periods.

9. Biological assets

The Company's biological assets consist of 4,217 cannabis plants as at March 31, 2019. The continuity of biological assets is as follows:

	March 31, 2019	December 31, 2018
	\$	\$
Opening amount	545	—
Increase in fair value less costs to sell due to biological transformation	444	1,657
Transferred to inventories upon harvest	(461)	(1,396)
Fair value less costs to sell of cultivated plants	528	261
Cannabis seeds purchased	-	284
Ending amount	528	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 of the fair values 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.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***9. Biological assets (continued)**Dry bud

The dry bud model utilizes the following significant assumptions:

	Weighted Average March 31, 2019	Weighted Average December 31, 2018
Weighted average of expected loss of plants until harvest	18%	21%
Expected yields for cannabis plants (average grams per plant)	57	52
Expected number of growing weeks	13	15
Weighted average number for growing weeks completed as a percentage of total growing weeks	41%	45%
Estimated selling price (per gram)	\$ 7.02	\$ 8.20
Post harvest cost to complete and sell (per gram)	\$ 3.42	\$ 4.43
Reasonable margin on after harvest costs to complete and sell (per gram)	\$ 3.60	\$ 3.81

Trim

The trim model utilizes the following significant assumptions:

	Weighted Average March 31, 2019	Weighted Average December 31, 2018
Weighted average of expected loss of plants until harvest	18%	18%
Expected yields for cannabis plants (average grams per plant)	55	62
Expected number of growing weeks	13	15
Weighted average number for growing weeks completed as a percentage of total growing weeks	34%	52%
Estimated selling price (per gram)	\$ 3.38	\$ 3.20
Post harvest cost to complete and sell (per gram)	\$ 2.23	\$ 1.75
Reasonable margin on after harvest costs to complete and sell (per gram)	\$ 1.15	\$ 1.84

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 March 31, 2019 and December 31, 2018 which would be reported as part of the gross profit on the statement of loss and comprehensive loss.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***9. Biological assets (continued)**

	10% change as at March 31, 2019	10% change as at December 31, 2018
	\$	\$
Weighted average of expected loss of plants until harvest	26	26
Expected yields for cannabis plants (average grams per plant)	26	26
Expected number of growing weeks	4	12
Weighted average number for growing weeks completed as a percentage of total growing weeks	4	5
Estimated selling price (per gram)	53	57
Post harvest cost to complete and sell (per gram)	27	25

10. 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:

	March 31, 2019	December 31, 2018
	\$	\$
Dry cannabis		
Packaged goods	870	610
Dry bud	3,836	4,493
Trim	832	503
Oil inventory	3,443	9,020
Hemp-based products	2,365	—
Accessories	46	33
Supplies and consumables	226	185
	11,618	14,844

During the three months ended March 31, 2019, management assessed that the net book value of inventory exceeded the net realizable value and thus recorded an impairment of \$307 (March 31, 2018 -\$nil). 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.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***10. Inventory (continued)**

Cost of goods sold – production costs for the period ended March 31, 2019 and 2018 is comprised of:

	March 31, 2019	March 31, 2018
	\$	\$
Production salaries including stock-based compensation expense	274	226
Material and utilities	44	45
Production amortization and depreciation	102	81
Other overhead including: facility & equipment maintenance, property tax, cleaning, personal protective equipment, quality testing and other	85	60
Impairment of inventory	307	—
	<u>812</u>	<u>412</u>

The Company does not capitalize any production costs including overheads 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.

11. Deposits and deferred costs

Deferred costs include legal and consulting fees related to obtaining a vertically integrated Alternative Treatment Center license in New Jersey.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 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	—	10,859	183	—	—	124	30	240	11,436
Additions on Grander acquisition	—	—	—	—	—	10	62	3,212	3,284
Unrealized foreign exchange	—	31	—	—	—	—	—	13	44
Balance at March 31, 2019	994	17,676	14,898	809	703	1,217	1,442	3,465	41,204
Accumulated Depreciation									
Balance at December 31, 2018	—	—	644	46	105	—	218	—	1,013
Depreciation	—	—	122	9	35	7	86	31	290
Unrealized foreign exchange	—	—	—	—	—	—	—	—	—
Balance at March 31, 2019	—	—	766	55	140	7	304	31	1,303
Net book value at March 31, 2019	994	17,676	14,132	754	563	1,210	1,138	3,434	39,901

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 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 March 31, 2019, assets in process of \$17,676 (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.

For the three months ended March 31, 2019, \$102 (March 31, 2018 – \$81) of depreciation was allocated to production amortization and depreciation.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***13. Intangible Assets**

	Software	Patient List	Intellectual 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	415	—	—	—	193	—	—	—	—	—	—	608
Additions on Grander acquisition	—	—	—	—	—	1,861	665	5,317	1,794	10	6,655	16,302
Unrealized foreign exchange	—	—	—	—	—	6	3	21	7	3	26	66
Balance at March 31, 2019	2,009	—	417	104	193	1,867	668	5,338	1,801	13	6,681	19,091
Accumulated Depreciation												
Balance at December 31, 2018	68	—	21	1	—	—	—	—	—	—	—	90
Amortization	92	—	10	5	—	—	42	266	150	—	—	565
Unrealized foreign exchange	—	—	—	—	—	—	—	1	1	—	—	2
Balance at March 31, 2019	160	—	31	6	—	—	42	267	151	—	—	657
Net book value at March 31, 2019	1,849	—	386	98	193	1,867	626	5,071	1,650	13	6,681	18,434

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***13. Intangible Assets (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 (Note 8)	—	—	417	—	417
Impairment	—	(250)	—	—	(250)
Balance at December 31, 2018	1,594	—	417	104	2,115
Accumulated Depreciation					
Balance at December 31, 2017	8	12	21	1	20
Amortization	60	50	21	1	132
Impairment	1,526	(62)	—	103	(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 Payable

On December 14, 2018, the Company agreed to terms on a \$75 million United States dollars (“USD”) 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 \$750 thousand USD 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 \$375 thousand USD has been paid as of March 31, 2019.

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

	March 31, 2019 \$	December 31, 2018 \$
Opening carrying amount	12,683	—
Loan principal	31,907	13,566
Loan discount- origination fee paid	—	(1,017)
Fair value of loan at inception	44,590	12,549
Interest accretion	789	62
Interest paid	(313)	-
Unrealized foreign exchange loss	(92)	72
Ending carrying amount	44,974	12,683

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***15. Leases**

On January 1, 2019, the Company applied IFRS 16 Leases for the first time and elected to not restate comparative figures in accordance with the transitional provisions in the standard. As a result of the initial application 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

For the three-month period ended March 31, 2019, the Company had total cash outflows of \$77 related to its leases, of which \$7.4 was interest incurred on lease liabilities. The Company recognized a total of \$35 as expenses related to short-term leases and leases of low-value assets for the three-month period ended March 31, 2019.

As at March 31, 2019 the current portion of lease liability is \$353 and long-term portion of lease liability is \$3,012. Refer to note 24 for annual lease payments due.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 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, unlisted exchangeable shares.

Outstanding share capital

	Class A Shares	Class B Shares	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	—	—	50,131	—	—	88
Shares issued – stock option exercises	—	—	2,831	—	—	9
Shares issued- Acquisition of Grander	—	—	1,362,343	—	—	7,372
Reallocation from warrants reserve	—	—	—	—	—	15
Reallocation from share-based payment reserve	—	—	—	—	—	6
Outstanding, March 31, 2019	—	—	42,562,941	38,890,571	35,022	72,373

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”);

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***16. Share Capital (continued)**

- 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;
- 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.

Warrants reserve

The fair value of warrants outstanding as at March 31, 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	June 6, 2018	August 9, 2018
Volatility	100%	100%
Risk-free interest rate	2.00%	2.24%
Expected life (years)	5.00	5.00
Dividend yield	Nil	Nil
Forfeiture rate	0%	0%
Number of Warrants issued	320,000	70,000
Share price	\$ 4.59	\$ 4.23
Value per warrant	\$ 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.

During the three months ended March 31, 2019, 50,131 warrants were exercised for total gross proceeds of \$88.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 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 warrants for common shares as at March 31, 2019.

Number Outstanding as at March 31, 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	807,022	807,022	07/31/17	07/31/19	1.75	0.33
Issued during private placement	107,619	107,619	08/16/17	08/16/19	1.75	0.38
Issued in payment for services	320,000	—	06/06/18	06/06/23	4.16	4.19
Issued in payment for services	70,000	35,000	08/09/18	08/09/23	4.25	4.36
	1,304,641	949,641			2.48	1.50

The following is a summary of the outstanding warrants for common shares as at December 31, 2018.

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 March 31, 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 March 31, 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	28,636,361	28,636,361	12/08/17	12/08/20	1.10	1.69

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 months ended March 31, 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 three months ended March 31, 2019 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions: Stock price volatility – 97%; Risk-free interest rate – 1.44% 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 three months ended March 31, 2019 and year ended December 31, 2018.

	Number of Options	Weighted Average Exercise Price \$
Balance Outstanding at December 31, 2017	4,063,334	1.41
Options Granted	6,680,000	7.64
Options Exercised	(1,225,613)	0.63
Options Forfeited/Cancelled	(1,044,592)	3.98
Balance Outstanding at December 31, 2018	8,473,129	4.28
Options Granted	710,000	7.69
Options Exercised	(2,831)	3.20
Options Forfeited/Cancelled	(561,667)	3.11
Balance Outstanding at March 31, 2019	8,618,631	4.64

During the three months ended March 31, 2019, \$2,566 of share-based payment was recorded on the statement of loss and comprehensive loss (March 31, 2018 - \$1,160) of which \$98 (March 31, 2018 - \$158) is included in production salaries and wages.

During the three months ended March 31, 2019, 2,831 options were exercised for total gross proceeds of \$9.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 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 March 31, 2019 and December 31, 2018.

Number Outstanding at March 31, 2019	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable at March 31, 2019
8,618,631	\$ 4.64	4.52	1,631,936

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 March 31, 2019, the weighted average exercise price of options outstanding and options exercisable was \$4.64 (December 31, 2018 - \$4.28) and \$1.65 (December 31, 2018 - \$1.57) respectively.

17. Non-controlling interest

Non-controlling interest at March 31, 2019 was \$1,271 (December 31, 2018 - \$1,431) and consisted of the following amounts:

	March 31, 2019 \$	December 31, 2018 \$
Opening carrying amount balance - Ascendant Lab	365	—
Common shares issued to non-controlling interest	—	417
Less: Net loss attributable to non-controlling interest	(49)	(52)
Non-controlling interest - Ascendant Lab	316	365
Opening carrying amount balance - NNJ	1,066	—
Common shares issued to non-controlling interest	—	1,130
Less: Net loss attributable to non-controlling interest	(111)	(64)
Non-controlling interest - NNJ	955	1,066
Total non-controlling interest	\$ 1,271	\$ 1,431

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 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 three months ended March 31, 2019 and March 31, 2018 respectively were as follows:

	March 31, 2019	March 31, 2018
	\$	\$
Salaries	416	110
Share-based payments	17	930
Total	433	1,040

- (b) During the three months ended March 31, 2019, the Company had sales of \$6,732 (March 31, 2018 - \$nil) to Canopy Growth Corp. and other income of \$3 (March 31, 2018 - \$ nil) related to patient referral fees.

At March 31, 2019, there is a \$6,735 (March 31, 2018 - \$ nil) receivable from Canopy Growth Corp. There are no amounts payable to Canopy Growth Corp. at March 31, 2019 or 2018.

- (c) On December 14, 2018, the Company agreed to terms on a \$75 million USD credit facility with certain funds managed by JW Asset Management LLC, where Jason Wild, Chairman of the Board of TerraAscend, is the President and Chief Investment Officer. Refer to note 14 for additional details.

19. Significant Customers

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

	March 31, 2019	March 31, 2018
	\$	\$
Customer A	6,916	—

The customers are major Canadian corporations and provincial retailers who have displayed a pattern of consistent timely payment of amounts owing from sales.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***20. Segment Disclosure**

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

For the period ended March 31, 2019	Canada	USA	Total
Current assets	40,614	14,641	55,255
Non-current assets	36,264	25,254	61,518
Current liabilities	8,184	48,442	56,626
Non-current liabilities	136	3,274	3,410
Revenue	8,860	5,722	14,582
Gross profit (losses)	299	1,635	1,934
Net loss attributable to controlling interest	(7,591)	(3,449)	(11,040)

For the period ended March 31, 2018	Canada	USA	Total
Current assets	53,054	—	53,054
Non-current assets	17,761	—	17,761
Current liabilities	4,125	—	4,125
Non-current liabilities	—	—	—
Revenue	—	—	—
Gross profit (losses)	165	—	165
Net loss attributable to controlling interest	(2,346)	—	(2,346)

21. Supplemental cash flow information

Non-cash transactions during the three months ended March 31, 2019 and March 31, 2018 are as follows:

	March 31, 2019 \$	March 31, 2018 \$
Shares issued as consideration for acquisition of Grander	7,372	—
Right of use assets additions	3,465	—
Fair value of harvested plants transferred to inventory	461	—

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
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22. 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 \$75 million USD credit facility of which the Company had borrowed \$34 million USD at March 31, 2019.

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

23. Financial instruments and risk management

Financial instruments

The Company has classified its cash and cash equivalents, investments and note receivable as fair value through profit and loss ("FVTPL"), receivables (excluding sales tax receivable) as loans and receivables, and accounts payable and accrued liabilities, deferred revenue and loan payable as other financial liabilities.

Fair value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The hierarchy is summarized as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2 – inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data

Level 3 – inputs for assets and liabilities not based upon observable market data

The carrying values of cash and cash equivalents, note receivable, other receivables, accounts payable and accrued liabilities, deferred revenue and loan payable approximate their fair values due to their short periods to maturity. The fair value of the investment has been determined based on Level 3 of the fair value hierarchy.

Financial risk factors

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, other receivables and note receivable. The Company's cash and cash equivalents are held at a major Canadian bank. Management has reviewed the items comprising the accounts receivable balance and determined that all accounts are collectible; accordingly, there has been no allowance for doubtful accounts recorded. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements*For the three months ended March 31, 2019 and 2018**(Amounts expressed in thousands of Canadian dollars, except for per share amounts)***23. Financial instruments and risk management (continued)****(b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The Company monitors and manages its cash flows to assess the liquidity necessary to fund operations. As at March 31, 2019, the Company had cash and cash equivalents and receivables balance of \$37,097 (December 31, 2018 - \$32,975) to settle current liabilities of \$56,626 (December 31, 2018 -\$31,076). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms with the exception of loan payable which has a maturity of one year.

(c) Market Risk

The significant market risks 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 is exposed to currency risk for its Canadian dollar equivalent of assets and liabilities denominated in currencies other than Canadian dollars as follows:

	Stated in Canadian Dollars	
	March 31, 2019	December 31, 2018
	\$	\$
Cash	2,263	14,461
Receivables	89	—
Prepaid expenses	877	27
Note receivable	8,057	—
Deposits	297	870
Deferred costs	307	283
Accounts payable and accrued liabilities	(2,477)	(1,010)
Loan payable	(44,974)	(12,683)
Contingent consideration payable	(781)	—
Lease liability	(3,148)	—
Net Financial Assets (Liabilities)	(39,490)	1,948

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

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

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

23. Financial instruments and risk management (continued)

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

ii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. In respect of financial assets, the Company's policy is to invest excess cash at floating rates of interest in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return. Fluctuations in interest rates impact on the value of cash equivalents. The Company's investments in guaranteed investment certificates bear a fixed rate and are cashable at any time prior to maturity date. The company does not have significant cash equivalents at period-end. The Company's note receivables bear interest at a fixed rate of 6% per annum.

In respect of financial liabilities, the Company's loan payable has a fixed interest rate of 8.75% per annum. All other financial liabilities are non-interest-bearing instruments.

iii) Other price risk:

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Company's other price risk includes equity price risk, whereby investment in F&F and Think 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 March 31, 2019 and assuming all other variables remain constant, a net increase or decrease of 20% (2018 - 20%) in the market prices of the underlying securities would increase or decrease respectively net (loss) income by \$1,736 (2018 - \$nil).

24. Commitment

The Company has the following rental commitments for office premises:

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

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

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

24. Commitment (continued)

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.

25. Subsequent events

i) Definitive purchase agreement for Apothecarium

On February 11, 2019, the Company announced the signing of definitive securities purchase agreements facilitating a significant investment in three entities in California operating the award-winning retail dispensary brand known as "The Apothecarium". The purchase agreements also include the acquisitions of a vertically integrated operation in Nevada with cultivation, edible manufacturing and an Apothecarium retail location, as well as Valhalla Confections, a provider of leading premium edible products. The transaction is subject to normal course closing conditions which are currently in process.

ii) Mortgage financing

On April 23, 2019, the Company completed a \$6,500 mortgage financing secured by its manufacturing facility in Mississauga, bearing interest of 5.5% and a balance due date of May 1, 2022.

iii) Private placement

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

iv) GMP Certification

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

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2019 and 2018

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

25. Subsequent events (continued)

v) Option and warrant issuances, exercises and forfeitures

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

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

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