TERRASCEND CORP.
MANAGEMENT DISCUSSION & ANALYSIS
Amounts in thousands of Canadian dollars, except for per share amounts
For the year ended December 31, 2020

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") relates to the performance, financial condition and future prospects of TerrAscend Corp. ("TerrAscend", or the "Company") and should be read in conjunction with the Audited Consolidated Financial Statements for the years ended December 31, 2020 and 2019 (the "Annual Financial Statements") including the notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). References in this MD&A to TerrAscend or the Company include its subsidiaries, as the context requires. Readers are cautioned that the MD&A contains forward-looking statements and that actual events may vary from management's expectations. This discussion addresses matters the Company considers important for an understanding of its financial condition and results of operations as of December 31, 2020 and for the year ended December 31, 2019. Readers are encouraged to read the Company's public filings with Canadian securities regulators which can be accessed and viewed via the System for Electronic Data Analysis and Retrieval (SEDAR) at www.sedar.com.

This MD&A was approved by the Board of Directors of TerrAscend on March 22, 2021 and reflects all material events up to that date.

Other than per share, per unit or per warrant amounts, all dollar amounts in this MD&A are in thousands of Canadian dollars unless otherwise stated. All percentages are calculated using the rounded numbers as they appear in the tables.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements with respect to expected financial performance, strategy and business conditions. The words "believe", "anticipate", "estimate", "plan", "expect", "intend", "may", "project", "will", "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management.

The forward-looking statements contained herein are based on certain key expectations and assumptions, relating to:

- the ability of the Company to generate cash flow from operations and obtain necessary financing on acceptable terms, and the use of net proceeds from private placements;
- the Company's expectations regarding its consolidated sales, expenses and operations;
- the Company's plans for developing its business and its operations;
- expectations with respect to future production costs and capacity;
- the general economic, financial market, regulatory and political conditions in which the Company operates;
- consumer interest in the Company's products;
- the timely receipt of any required regulatory approvals for the conduct of the Company's businesses from the applicable authorities
- competition;
- the ability of the Company to obtain qualified staff, equipment and services in a timely and cost-efficient manner; and
- the ability of the Company to conduct operations in a safe, efficient and effective manner.

If any of these risks or uncertainties materialize, or if assumptions underlying the forward-looking statements prove incorrect, actual results might vary materially from those anticipated in those forward-looking statements.

Certain information of the forward-looking statements and forward-looking information and other information contained in this MD&A concerning the Company's industry and the markets in which it operates is based on estimates prepared by the Company using data from publicly available governmental sources as well as from market research

and industry analysis and on assumptions based on data and knowledge of this industry which the Company believes to be reasonable. While the Company is not aware of any misstatement regarding any data presented herein, the medical and recreational cannabis industry involves risks and uncertainties that are subject to change based on various factors and the Company has not independently verified such third-party information (see "Risk Factors" in this MD&A). Given these risks, uncertainties and assumptions, the reader should not place undue reliance on any forward-looking statements or information. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors.

SUMMARY OF FINANCIAL PERFORMANCE

The following table summarizes results of operations for the years and three months ended December 31, 2020 and 2019. See "Results From Operations" for additional details.

	For the three months ended		For the year ended	
	December 31, 2020	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**
Sales, net	**$ 65,322**	$ 25,883	**$ 198,318**	$ 84,868
Gross profit before gain on fair value of biological assets	**36,151**	(4,243)	**108,249**	3,573
Gross margin before gain on fair value of biological assets	***55%***	*-16%*	***55%***	*4%*
Gross profit	**55,785**	(2,760)	**145,191**	8,328
Other data: [1]				
EBITDA	**$ (89,443)**	$ (162,938)	**$ (96,052)**	$ (204,199)
Adjusted EBITDA	**$ 25,903**	$ (5,737)	**$ 60,061**	$ (26,557)
Adjusted EBITDA margin	***40%***	*(22%)*	*30%*	*(31%)*
Adjusted net income (loss)	**19,861**	(109,954)	**16,857**	(157,101)

(1) EBITDA, Adjusted EBITDA and adjusted net income (loss) are non-IFRS financial measures. See "Non-IFRS Financial Measures" for a description of these measures and a reconciliation to the nearest IFRS measure.

Fourth Quarter 2020 Financial Highlights

- For the three months ended December 31, 2020, TerrAscend generated net sales of $65,322, compared to $50,968 in the third quarter of 2020, an increase of 28.2%, and compared to $25,883 for the three months ended December 31, 2019, an increase of 152.4%. The increase in net sales during the three months ended December 31, 2020, was mainly driven by the Company's Ilera and State Flower operations. Refer to Results from Operations section for further details regarding the drivers of the changes.
- For the three months ended December 31, 2020, EBITDA was $(89,443) compared with $(12,187) for the three months ended September 30, 2020 and $(162,938) for the three months ended December 31, 2019. Refer to Results from Operations section for further details regarding the drivers of the changes.
- For the three months ended December 31, 2020, Adjusted EBITDA was $25,903, compared to $17,786 in the three months ended September 30, 2020 and compared to $(5,737) for the three months ended December 31, 2019. For the three months ended December 31, 2020, Adjusted EBITDA margin was 40%, compared to 35% for the three months ended September 30, 2020 and compared to (22%) for the three months ended December 31, 2019. Refer to Results from Operations section for further details regarding the drivers of the changes.

BUSINESS OVERVIEW

TerrAscend provides quality products, brands, and services to the North American cannabinoid market. As the first North American Operator (NAO), with scale operations in both the US and Canada, TerrAscend participates in the medical and legal adult use market across several US states where cannabis has been legalized for therapeutic or adult use and in Canada.

TerrAscend's portfolio of operating businesses and brands include:

- Ilera Healthcare ("Ilera"), a vertically integrated cannabis cultivator, processor and dispensary operator in Pennsylvania;
- TerrAscend NJ LLC ("TerrAscend NJ"), a majority owned subsidiary that holds a permit to operate as an alternative treatment center in New Jersey with the ability to cultivate and process cannabis and operate up to three alternative treatment centers.
- The Apothecarium ("Apothecarium"), consisting of Architectural Digest award-winning retail dispensaries in San Francisco, Pennsylvania and New Jersey.
- Valhalla Confections ("Valhalla"), a leading provider of premium edible products;
- State Flower, a California-based cannabis producer operating a licensed cultivation facility in San Francisco, California.
- Arise Bioscience ("Arise"), a manufacturer and distributor of hemp-derived products, located in Boca Raton, Florida; and
- TerrAscend Canada Inc. ("TerrAscend Canada"), a Licensed Producer (as such term is defined in the Cannabis Act) of cannabis, with its current principal business activities including processing and sale of cannabis flower and oil products in Canada.

The Company is listed on the Canadian Stock Exchange (the "CSE"), 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, Canada, L5C 1W2.

Ilera Healthcare

Ilera is one of the initial five permitted vertically integrated cannabis cultivator, processor, and dispensary operators in the State of Pennsylvania. The grower/processor operation began as a 67,000 sq. ft. site in Waterfall, PA in January 2018. In Q1 2020, it tripled its capacity, now spanning an approximate 150,000 sq. ft. footprint including a double-stack indoor grow and one of the largest branded manufacturers in the market. Ilera distributes its broad product line, which includes dried flower, vaporizables, concentrates, tinctures, and topicals to all dispensaries throughout Pennsylvania.

In addition, Ilera operates three Apothecarium-branded retail dispensaries, one in Plymouth Meeting, PA opened in March 2018, a second in Lancaster, PA opened in April 2020, with a third dispensary in Thorndale, PA opened in July 2020. Ilera's dispensaries offer a variety of products and formats, produced by Ilera and other manufacturers, to ensure its pharmacists and wellness associates can provide an appropriate product to meet a particular patient's needs. In April 2020, to mitigate patient and caregiver concerns during the COVID crisis, Ilera implemented a smooth-running curbside service at its dispensaries to promote social distancing, which has led to increased patient usage of the on-line ordering and drive-through service with approximately one-half of patients now using this service since inception in mid-April.

On September 16, 2019, the Company through a wholly owned subsidiary, WDB Holding PA, Inc., acquired Ilera pursuant to a Securities Purchase and Exchange Agreement (the "Ilera Purchase Agreement"). The Company acquired the following group of entities.

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

TerrAscend acquired 100% of the equity of Ilera for total consideration between $160,764-$293,244 (US$125-$225 million), paid in a combination of cash and TerrAscend shares. At closing, TerrAscend paid to the sellers $33,120 (US$25 million) in cash, subject to customary closing adjustments, an additional $27,488 (US$25 million) worth of proportionate voting shares in the equity of TerrAscend equivalent to approximately 5,059.102 proportionate voting shares (which are each exchangeable for 1,000 TerrAscend common shares), and $796 (US$0.6 million) in working capital adjustments. Additional cash consideration of $99,360 (US$75 million) to $231,840 (US$175 million) in aggregate may be paid to the sellers based on Ilera achieving certain specified sales and profitability targets, with

staged payments being made in 2020 and 2021. The fair value of the contingent consideration at acquisition was $144,312.

On December 27, 2019, the Company and the sellers of Ilera amended the terms of the transaction to reduce the amount deposited into escrow from $16,237 (US$12.5 million) to $649 (US$0.5 million), which is deferred until the final earnout payment is due on March 15, 2021. The Company also agreed to pay to the sellers of Ilera an amount equal to $2,269 (US$1.75 million), payable in five installments, due every three months beginning April 15, 2020. On September 4, 2020, the Company and the sellers of Ilera amended the Ilera Purchase Agreement to allow the Company to utilize cash flow generated by the Ilera business to prepay up to US $30 million (the "Pre-Payment Amount") towards the final earnout payment. The amendment also allows the Company to defer up to an amount equal to the actual Pre-Payment Amount paid to the sellers of Ilera until June 30, 2021.

The contingent consideration was calculated based on fiscal year 2019 and 2020 performance. During the year ended December 31, 2020, the Company made payments to the sellers of Ilera totaling $189,916 (US$147,184). As of December 31, 2020, the final earnout has been calculated and the remaining amount of $35,570 (US$27,937) will be paid by the due date.

New Jersey

In December 2018, TerrAscend NJ was awarded a permit by the New Jersey Department of Health for a vertically integrated license to cultivate, process and dispense medical cannabis in its north region. TerrAscend NJ is a majority-owned subsidiary of TerrAscend, whose minority partners are BWH NJ, LLC and Blue Marble Ventures, LLC. TerrAscend NJ has secured a 16-acre site in Boonton Township, Morris County. During the year ended December 31, 2020, the Company completed construction of its cultivation and manufacturing facility for a total current footprint of approximately 140,000 sq. ft. The Company has the ability to further increase the Boonton facility to 240,000 sq. ft. The Company holds a permit to operate as an alternative treatment center in New Jersey. Under New Jersey law, alternative treatment centers are able to cultivate and process cannabis, and are able to operate up to three dispensaries. Upon regulatory approval, the Company opened an Apothecarium-branded alternative treatment center in Phillipsburg, which will be followed by two additional alternative treatment centers which the Company plans to open during the second and third quarters of 2021.

The Apothecarium, Valhalla and State Flower

The Apothecarium is a group of licensed, full-service dispensaries in Northern California that provide quality cannabis to both medical patients and adult-use customers. The dispensaries are known for emphasizing education and customer service for seniors, first-time dispensary visitors, and patients with serious medical conditions. The focus is on providing guests with in-depth, one-on-one consultations from highly trained cannabis consultants. The Apothecarium also provides free cannabis education events that are open to the public. Guests may purchase their cannabis in the dispensaries or order online for pickup.

The Apothecarium currently operates three dispensaries in San Francisco, California. The flagship dispensary located in the Castro district of San Francisco was named the best-designed dispensary in the country by Architectural Digest. In July 2020, The Apothecarium opened a fourth California dispensary in Berkeley. In November 2020, The Apothecarium opened a fifth California dispensary in Capitola.

Valhalla is a premier manufacturer of select cannabis-infused artisan edibles that are gluten free, and made with ingredients free of chemically formulated fertilizers, growth stimulants, antibiotics, or pesticides, all while maintaining eco-friendly practices.

On June 6, 2019, a wholly owned subsidiary of TerrAscend, WDB Holdings CA ("WDB CA"), acquired 49.9%, which comprises 100% of the common shares, of the following group of entities. The assets included three entities operating the San Francisco locations of The Apothecarium, two additional retail locations, and Valhalla.

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

- As consideration, TerrAscend paid $95,990 (US$71.8 million), comprising $49,281 (US$36.8 million) in cash, $1,399 (US$1.1 million) in the form of a working capital adjustment, contingent consideration of $4,051 (US$3 million) and 6,700 proportionate voting shares of TerrAscend. The fair value of the share consideration at June 6, 2019 was $41,259 (US$30.9 million). The contingent consideration is the expected consideration payable to acquire the remaining 50.1% of the SF Entities, which comprises 100% of its preferred shares, subject to regulatory approval.

On January 23, 2020, the Company, through WDB CA, acquired ABI SF LLC ("State Flower"), which operates a California cannabis cultivation facility and the State Flower brand. As consideration, the Company converted its previously issued note receivable and accrued interest in the amount of $3,985 (US$3.03 million) into a 49.9% equity interest in State Flower. The Company also recorded contingent consideration payable of $8,714 (US$6.6 million), representing the expected consideration payable to acquire the remaining 50.1% of State Flower, which comprises 100% of its preferred shares, subject to regulatory approval. Effective with the conversion of its note into equity interest, the Company controls the appointment of three out of five seats on the board of directors and controls strategic and financial operations of State Flower.

TerrAscend has agreed to continue licensing The Apothecarium, State Flower and Valhalla names and related intellectual property to Gravitas Nevada Ltd. and its related operations in Nevada. Gravitas Nevada Ltd. is a vertically-integrated business engaged in the cultivation, processing, packaging and dispensing of cannabis and cannabis related products in Nevada.

Arise

Arise is a wholly owned subsidiary incorporated in the state of Delaware. On January 15, 2019, Arise completed the acquisition of substantially all of the assets from Grander Distribution, LLC ("Grander") and is an industry leader in the production and distribution of innovative hemp-derived wellness products. Arise's whole-plant hemp extract products are made in the US and are available for sale in retail locations nationwide.

As consideration, the Company paid $16,797 (US$12.7 million), comprising $8,623 (US$6.5 million) in cash, $669 (US$0.5 million) in the form of a working capital adjustment and 1,362,343 common shares of TerrAscend. The fair value of the common shares was $6,729 (US$5.1 million) at January 15, 2019. Subject to meeting certain sales milestones, the Company will pay up to an additional $12,988 (US$10 million) in cash or share considerations. The total value of the potential purchase consideration payable by the Company of the agreement was approximately $29,785 (US$22.7 million), and the fair value of the contingent consideration was $776 (US$0.6 million) at acquisition.

TerrAscend Canada

TerrAscend Canada is a Licensed Producer (as such term is defined in the *Cannabis Act*) of cannabis in Canada, and its current principal business activities include the sale of recreational cannabis to the provincial cannabis retailers.

TerrAscend Canada operates out of a 67,300 square foot facility (the "Facility" located in Mississauga, Ontario and is licensed to cultivate, process and sell cannabis for medical and non-medical purposes. These licenses allow for sales of dried cannabis, cannabis oil and extracts, topicals, and edibles.

TerrAscend Canada sells products nationally under the Haven Street and Legend brands in the dried flower, vapes, and edibles categories.

A strategic decision was made to cease the growing and cultivation of cannabis in Canada in order to focus on more profitable distribution opportunities. The final harvest from its manufacturing facility occurred in September 2020.

On November 18, 2020, TerrAscend Canada was issued a research license to possess cannabis for the purposes of research.

SELECTED ANNUAL INFORMATION

The following table includes selected financial information for the periods indicated that was derived from the Company's audited consolidated financial statements and the respective accompanying notes prepared in accordance with IFRS:

	Year ended December 31,		
	2020	**2019**	**2018**
Sales, net	$ **198,318**	$ 84,868	$ 6,826
Net loss	**(154,347)**	(218,952)	(22,144)
Comprehensive loss	**(167,194)**	(220,944)	(22,144)
Net loss per share -- basic and diluted	**(1.04)**	(2.17)	(0.23)
Other data: [1]			
EBITDA	**(96,052)**	(204,199)	(20,934)
Adjusted EBITDA	**60,061**	(26,557)	(16,355)
Adjusted Net Income	**16,857**	(157,101)	(22,144)

	December 31, 2020	**December 31, 2019**	**December 31, 2018**
Total assets	$ 603,881	$ 460,766	$ 88,978
Non-current liabilities	473,129	242,573	688

(1) EBITDA, Adjusted EBITDA and adjusted net income (loss) are non-IFRS financial measures. See "Non-IFRS Financial Measures" for a description of these measures and a reconciliation to the nearest IFRS measure.

RESULTS FROM OPERATIONS

Three months ended December 31, 2020 as compared to the three months ended December 31, 2019

	December 31, 2020	December 31, 2019
	$	$
Sales, gross	**$ 69,749**	$ 29,158
Excise and cultivation taxes	**(4,427)**	(3,275)
Sales, net	**65,322**	25,883
Cost of sales	**29,171**	30,126
Gross profit before gain on fair value of biological assets	**36,151**	(4,243)
Unrealized gain on changes in fair value of biological assets	**45,757**	1,744
Realized loss on changes in fair value of biological assets	**(26,123)**	(261)
Gross profit	**55,785**	(2,760)
Operating expenses:		
General and administrative expense	**15,098**	18,497
Share-based payments	**5,610**	11
Amortization and depreciation	**2,539**	194
Research and development	**31**	215
Total operating expenses	**23,278**	18,917
Income (loss) from operations	**32,507**	(21,677)
Net increase in fair value of warrant and derivative liabilities	**123,931**	—
Revaluation of contingent consideration	**5,238**	61,851
Finance and other expenses (income)	**4,343**	1,507
Transaction and restructuring costs	**84**	4,922
Impairment of property, plant and equipment	**1,156**	2,305
(Reversal of) impairment of intangible assets	**(3,903)**	4,309
Unrealized loss (gain) on investments	**(168)**	2,724
Unrealized loss (gain) on note receivable	**—**	1,775
Impairment of goodwill	**—**	66,213
Realized gain on investments	**—**	(1,400)
Foreign exchange loss (gain)	**96**	279
Loss before income taxes	**(98,270)**	(166,162)
Current income tax expense	**12,053**	4,848
Deferred income tax expense (recovery)	**(1,015)**	795
Net loss	**$ (109,308)**	$ (171,805)
Currency translation adjustment	**9,297**	(902)
Comprehensive loss	**$ (118,605)**	$ (170,903)
Net loss attributable to:		
Shareholders of the Company	**(112,269)**	(169,498)
Non-controlling interests	**2,961**	(2,307)
Comprehensive loss attributable to:		
Shareholders of the Company	**(121,566)**	(168,482)
Non-controlling interests	**2,961**	(2,421)
Net loss per share – basic and diluted	**$ (0.73)**	$ (1.31)
Weighted average shares outstanding	**153,924,629**	129,088,071

Sales, net of excise and cultivation taxes

For the three months ended December 31, 2020, the Company generated sales, net of excise and cultivation taxes of $65,322 compared to $25,883 for the three months ended December 31, 2019. The increase was primarily due to operational scale up as well as a full year of operations from the Company's acquisitions. The Company acquired The Apothecarium in June 2019, Ilera in September 2019 and State Flower in January 2020. The Company continued to expand organically through an increase in production and branded manufacturing capacity in Pennsylvania and store expansions in Pennsylvania and California. In addition, the Company opened its first alternative treatment center in New Jersey during the three months ended December 31, 2020.

Cost of Sales

The cost of sales for the three months ended December 31, 2020 and three months ended December 31, 2019 are presented in the tables below:

For the three months ended	December 31, 2020 $	December 31, 2019 $
Cost of goods sold	**25,428**	22,686
Impairment of inventory	**3,743**	7,440
Cost of sales	**29,171**	30,126
Cost of sales before changes in biological assets as percentage of net sales	**45%**	116%
Unrealized gain on changes in fair value of biological assets	**(45,757)**	(1,744)
Realized loss on changes in fair value of biological assets	**26,123**	261
Cost of Sales after changes in biological assets	**9,537**	28,643
Cost of sales after changes in biological assets as percentage of net sales	**15%**	111%

The improvement in the ratio of cost of sales relative to net sales is a result of the Company becoming more cost efficient throughout their production process.

The impairment charges for the three months ended December 31, 2020 of $3,743 were due to the carrying value of inventory exceeding the estimated net realizable value of inventory held in Canada. The Company did not incur any crop failures in 2020 or 2019.

Fair value gains are sensitive to changes in the Company's average selling price and other changes in the Company's valuation estimates which include, but are not limited to, remaining costs to complete, the allocation rate and method of production costs, the stage of plant growth and cycles and expected yields. Any changes in underlying estimates and assumptions used to determine fair value gains on the transformation of biological assets could have a positive impact on expected gains.

General and Administrative Expense

General and Administrative ("G&A") expenses of $15,098 for the three months ended December 31, 2020 decreased by $3,399 compared to $18,497 for the same period last year. The decrease in G&A expenses was primarily due to decreases in salaries and wages associated with the Canada operations.

Share-based Payments

Share-based payments expense was $5,610 for the three months ended December 31, 2020 compared to $11 for the same period last year. The increase was primarily driven due to the greater number of options granted in 2020, the acceleration of vesting of certain options grants, and vesting of restricted stock unit grants (none during the three months ended December 31, 2019).

Amortization and Depreciation Expense

Amortization and depreciation expense were $2,539 for the three months ended December 31, 2020 compared to $194 for the same period last year. The increase in amortization and depreciation expenses is primarily related to additional acquisitions of property, plant, and equipment & intangible assets from the Company's acquisitions. The Company acquired The Apothecarium in June 2019, Ilera in September 2019 and State Flower in January 2020. Additionally, the Company completed construction of the cultivation facility in New Jersey during the three months ended December 31, 2020.

Net increase in fair value of warrant and derivative liabilities

For the three months ended December 31, 2020, the Company recorded a net increase in fair value of warrant and derivative liabilities of $123,931, including effects of the foreign exchange of the US denominated preferred shares and preferred share warrants. The preferred share derivative liability and warrant liability have been remeasured to fair value at December 31, 2020 using the Black Scholes model, resulting in the $101 decrease in the fair value of the preferred shares derivative liability to $nil at December 31, 2020 and the $124,032 increase in the warrant liability. The fair value of preferred share derivative liability decreased largely due to the increase in the Company's share price at December 31, 2020, making it less likely that the Company's next round of financing would be priced lower than the preferred share and warrant private placement and thus, making it less likely that the price protection feature would be invoked. The fair value of warrant liability increased largely due to an increase in the Company's share price making the preferred share warrants more valuable.

Revaluation of contingent considerations

Revaluation of contingent consideration was $5,238 for the three months ended December 31, 2020 compared to $61,851 for the same period last year. The revaluation was related to the accretion of the contingent consideration payable for Ilera and State Flower which were recorded at the present value of future payments upon initial recognition, adjusted for payments made during the three months ended December 31, 2020.

Finance Expense (Income)

Finance expense for the three months ended December 31, 2020 totaled $4,343 compared to $1,507 for the comparable period last year. The finance expense in the current period is due to accretion of lease liabilities and interest accrued on loans and convertible debt with Canopy Rivers Inc. The finance expense in the prior period was primarily related to borrowings on the US$75 million credit facility with JW Asset Management LLC. The JW Asset Management LLC credit facility was fully paid off in the first quarter of 2020 using proceeds received from the Canopy Growth financing.

Transaction and restructuring costs

Transaction and restructuring costs for the three months ended December 31, 2020 totaled $84 compared to $4,922 for the comparable period last year. The transaction and restructuring costs in the current period are primarily personnel related reorganization costs. The transaction and restructuring costs in the prior period are mainly due to a $3,896 termination fee paid to the sellers of Gravitas Nevada related to the termination of the Securities Purchase Agreement, pursuant to which the Company would have acquired all of the issued and outstanding equity interest of Gravitas Nevada.

Impairment of property, plant and equipment

The Company recorded impairment losses related to property, plant and equipment of $1,156 for the three months ended December 31, 2020 (December 31, 2019 $2,305). The impairment losses were a result of the Company's strategic decision to cease the growing and cultivation of cannabis in Canada. The Company performed an impairment analysis over the assets that could not be sold. As a result of the impairment analysis, the Company wrote down the net book value of the lighting and irrigation assets previously used in the Canadian cultivation business to $nil. During the three months ended December 31, 2019, the Company recorded impairment losses of $2,305 related to its Drug Preparation Premises ("DPP") in Canada as management deemed that market conditions could not support the business and it was determined to be no longer commercially viable.

Impairment of Intangible assets and goodwill

The Company recorded impairment of intangible assets net of reversals of $(3,903) for the three months ended December 31, 2020 as compared to charges of $4,309 in the same period for 2019. During the prior year period, the Company recognized impairment losses of $3,865 related to the brand intangible asset at Apothecarium. During the year ended December 31, 2020, the Company assessed whether there is an indication that impairment loss recognized in prior periods should be reversed as the brand intangible is now being used at the dispensaries in Pennsylvania and alternative treatment centers in New Jersey and therefore provides favorable changes to the cash flow forecasts. As a result of the assessment performed, the Company recorded a reversal of impairment loss of $3,928 which is included in impairment of intangible assets on the Consolidated Statements of Loss and Comprehensive Loss. The reversal of impairment in the current period is offset by impairment losses of $25 recorded related to intellectual property related to packaging designs that were written down to its recoverable value.

In the prior year period, the Company recorded impairment losses of goodwill of $63,806 and brand intangible assets of $3,865 related to the California cash generating unit ("CGU") as a result of change in performance and future expectations from the Company's initial valuation of the Apothecarium business. Additionally, during the three months ended December 31, 2019, the Company recorded impairment of goodwill of $2,407 and intangible assets of $502 for the software, licenses and intellectual property as part of the drug preparation premise in the Canadian Pharmaceutical Research CGU as management deemed that market conditions could not support this business and it was determined to no longer be commercially viable.

Unrealized (Gain) Loss on Investments

For the three months ended December 31, 2020, the Company recorded unrealized gain on investments of $168 compared to a loss of $2,724 in the same period for 2019. The unrealized gain in the current period relates to the equity income pick up from the Company's 10% investment in Guadco LLC and KCR Holdings LLC. During 2018, the Company purchased 3,125,000 units of Fire and Flower Inc. (F&F) for an aggregated of $2,500 or $0.80 per unit. The unrealized loss on investments in the prior period in Canada relates to the decrease in fair value of the Company's investment in F&F shares and warrants.

Foreign Exchange Loss

For the three months ended December 31, 2020, the Company recorded foreign exchange loss of $96 compared to a loss of $279 for the same period last year. The exchange loss relates to foreign currency transactions in the normal course of operations.

Current and deferred income tax expense

For the three months ended December 31, 2020, the Company recorded current income tax expense of $12,053 and deferred income tax recovery of $(1,015), respectively. For the comparable period last year, the Company recorded a current income tax recovery of $4,848 and deferred income tax recovery of $795. The increase in tax expense is related to operational scale up and from the Company's acquisitions. The Company acquired The Apothecarium in June 2019, Ilera in September 2019 and State Flower in January 2020. The deferred income tax recovery during the current period primarily relates to temporary differences resulting from unrealized gain on biological assets and the recording of a deferred tax recovery related to convertible debt.

Year ended December 31, 2020 as compared to the year ended December 31, 2019

	December 31, 2020	December 31, 2019
	$	$
Sales, gross	**211,830**	90,375
Excise and cultivation taxes	**(13,512)**	(5,507)
Sales, net	**198,318**	84,868
Cost of sales	**90,069**	81,295
Gross profit (loss) before gain on fair value of biological assets	**108,249**	3,573
Unrealized gain (loss) on changes in fair value of biological assets	**108,964**	5,480
Realized loss on changes in fair value of biological assets	**(72,022)**	(725)
Gross profit (loss)	**145,191**	**8,328**
Operating expenses:		
General and administrative expense	**59,140**	50,073
Share-based payments	**16,030**	11,604
Amortization and depreciation	**9,890**	5,499
Research & development	**426**	709
Total operating expenses	**85,486**	**67,885**
Income (loss) from operations	**59,705**	**(59,557)**
Net increase in fair value of warrant and derivative liabilities	**146,105**	—
Revaluation of contingent consideration	**25,099**	61,851
Finance and other expenses (income)	**14,091**	5,675
Transaction and restructuring costs	**2,642**	11,146
Impairment of property, plant and equipment	**1,156**	2,305
(Reversal of) impairment of intangible assets	**(2,901)**	4,367
Unrealized loss (gain) on investments	**(249)**	5,546
Unrealized loss (gain) on note receivable	**—**	1,655
Impairment of goodwill	**—**	66,213
Realized gain on investments	**—**	(1,400)
Foreign exchange loss (gain)	**235**	413
Loss before income taxes	**(126,473)**	**(217,328)**
Current income tax expense (recovery)	**30,464**	3,959
Deferred income tax expense (recovery)	**(2,590)**	(2,335)
Net loss	**(154,347)**	**(218,952)**
Currency translation adjustment	**12,847**	1,992
Comprehensive loss	**(167,194)**	**(220,944)**
Net loss attributable to:		
Shareholders of the Company	**(155,123)**	(215,788)
Non-controlling interests	**776**	(3,164)
Comprehensive loss attributable to:		
Shareholders of the Company	**(167,970)**	(217,666)
Non-controlling interests	**776**	(3,278)
Net loss per share – basic and diluted	**(1.04)**	**(2.17)**
Weighted average shares outstanding	**149,740,210**	**99,592,007**

Sales, net of excise and cultivation taxes

For the year ended December 31, 2020, the Company generated net sales of $198,318 compared to $84,868 for the year ended December 31, 2019. The increase was primarily due to operational scale up as well as a full year of operations from the Company's acquisitions. The Company acquired the Apothecarium in June 2019, Ilera in September 2019, and State Flower in January 2020. The Company continued to expand organically through an increase in production and branded manufacturing capacity in Pennsylvania and store expansions in Pennsylvania and California. In addition, the Company opened its first alternative treatment center in Phillipsburg, New Jersey during the year ended December 31, 2020.

Cost of Sales

For the year ended	December 31, 2020 $	December 31, 2019 $
Cost of goods sold	**84,554**	72,111
Impairment of inventory	**5,515**	9,184
Cost of sales	**90,069**	81,295
Cost of sales before changes in biological assets as percentage of net sales	**45%**	96%
Unrealized gain on changes in fair value of biological assets	**(108,964)**	(5,480)
Realized loss on changes in fair value of biological assets	**72,022**	725
Cost of Sales after changes in biological assets	**53,127**	76,540
Cost of sales after changes in biological assets as percentage of net sales	**27%**	90%

The increase in cost of sales was due to operational scale up as well as a full year of operations as a result of the Company's acquisitions of The Apothecarium in June 2019, Ilera in September 2019 and State Flower in January 2020. In addition, the Company has continued to expand production capacity and branded manufacturing and retail sale presence. The Company's production facility in Pennsylvania tripled production capacity in the first quarter of 2020, resulting in a significant increase in unrealized gains on changes in the fair value of biological assets. The improvement in the ratio of cost of sales relative to net sales is a result of the Company becoming more cost efficient throughout their production process.

The impairment charges for the year ended December 31, 2020 of $5,515 (December 31, 2019 - $9,184) were due to the carrying value of inventory exceeding the estimated net realizable value of inventory held in Canada. Of the impairment charges during the twelve months ended year ended December 31, 2020, $2,414 of the charges were related to write down of inventory purchased from a third-party supplier, during the current period, at prices per prior signed agreements. The Company did not incur any crop failures in 2020 or 2019.

Fair value gains are sensitive to changes in the Company's average selling price and other changes in the Company's valuation estimates which include, but are not limited to, remaining costs to complete, the allocation rate and method of production costs, the stage of plant growth and cycles and expected yields. Any changes in underlying estimates and assumptions used to determine fair value gains on the transformation of biological assets could have a positive impact on expected gains.

General and Administrative Expense

G&A expenses of $59,140 for the year ended December 31, 2020 increased by $9,067 compared to $50,073 for the same period last year. The increase is primarily driven by salaries and wages and office and general expenses as a result of US acquisitions of The Apothecarium, Ilera and State Flower in June 2019, September 2019 and January 2020, respectively. This increase is partially offset by a reduction in sales and marketing expenses during the current period and by cost reductions in Canada as the Company continues to refine its cost structure in the Canadian business unit.

Share-based Payments

Share-based payments expense was $16,030 for the year ended December 31, 2020 compared to $11,604 for the same period last year. The increase in the current year period was due to the greater number of options granted in 2020 and vesting of RSU grants (none during the twelve months ended December 31, 2019).

Amortization and Depreciation Expense

Amortization and depreciation expense were $9,890 for the year ended December 31, 2020 compared to $5,499 for the same period last year. The increase was primarily driven by acquisitions of the Apothecarium, Ilera and State Flower in June 2019, September 2019 and January 2020, respectively. Additionally, the Company completed construction of the cultivation facility in New Jersey during the year ended December 31, 2020.

Net increase in fair value of warrant and derivative liabilities

For the year ended December 31, 2020, the Company recorded a net increase in fair value of warrant and derivative liabilities of $146,105, including effects of the foreign exchange of the US denominated preferred shares and preferred share warrants. The preferred share derivative liability and warrant liability have been remeasured to fair value at December 31, 2020 using a Black Scholes model, resulting in the $7,464 decrease in the fair value of the preferred share derivative liability and the $153,569 increase in the fair value of warrant liability. The fair value of preferred share derivative liability decreased largely due to the increase in the Company's share price at December 31, 2020 making it less likely that the Company's next round of financing would be priced lower than the preferred share and warrant private placement and thus, making it less likely that the price protection feature would be invoked. The fair value of warrant liability increased largely due to increase in the Company's share price making preferred share warrants more valuable.

Revaluation of contingent considerations

Revaluation of contingent consideration was $25,099 for the year ended December 31, 2020 compared to $61,851 for the year ended December 31, 2019. The revaluation was related to the accretion of the contingent consideration payable for Ilera and State Flower which were recorded at the present value of future payments upon initial recognition, adjusted for payments made during the twelve months ended December 31, 2020.

Finance Expense (Income)

For the year ended December 31, 2020, finance expense totaled $14,091 compared to $5,675 for the same period last year. The finance expense in the current period is due to accretion of lease liabilities and interest accrued on loans and convertible debt. The finance expense in the prior period was primarily related to borrowings on the US$75 million credit facility with JW Asset Management LLC. The JW Asset Management LLC credit facility was fully paid off in the first quarter of 2020 using proceeds received from the Canopy Growth financing.

Transaction and restructuring costs

Transaction and restructuring costs for the year ended December 31, 2020 totaled $2,642 compared to $11,146 for the comparable period last year. The transaction and restructuring costs in the current period are related to acquisition costs for State Flower and preferred share issuance costs that were expensed. The transaction and restructuring costs in the prior period are related to acquisition costs for the asset acquisition of Grander in the first quarter of 2019, the acquisition of Apothecarium in the second quarter of 2019, and the acquisition of Ilera in the third quarter of 2019.

Impairment of property, plant and equipment

The Company recorded impairment losses related to property, plant and equipment of $1,156 for the year ended December 31, 2020 (December 31, 2019 - $2,305). The impairment losses were a result of the Company's strategic decision to cease the growing and cultivation of cannabis in Canada. The Company performed an impairment analysis over the assets that could not be sold. As a result of the impairment analysis, the Company wrote down the net book value of the lighting and irrigation assets previously used in the Canadian cultivation business to $nil. During the year ended December 31, 2019, the Company shut down its proposed DPP business as management deemed that market conditions could not support this business and was determined to be no longer commercially viable. As a result, the Company recorded impairment losses of $2,305 during the year ended December 31, 2019.

Impairment of intangible assets and goodwill

The Company recorded impairment of intangible assets net of reversals of $(2,901) for the year ended December 31, 2020 as compared to $4,367 in the same period for 2019. During the prior period, the Company recognized impairment losses of $3,865 related to the brand intangible asset at Apothecarium. During the year ended December 31, 2020, the Company assessed whether there is an indication that impairment loss recognized in prior periods should be reversed as the brand intangible is now being used at the dispensaries in Pennsylvania and alternative treatment centers in New Jersey and therefore provides favorable changes to the cash flow forecasts. As a result of the assessment performed, the Company recorded a reversal of impairment loss of $3,928 which is included in impairment of intangible assets on the Consolidated Statements of Loss and Comprehensive Loss. The reversal of impairment in the current period is offset by impairment losses of $1,027 recorded related to intellectual property related to packaging designs that were written down to its recoverable value.

In the prior year period, the Company recorded impairment losses of goodwill of $63,806 and brand intangible assets of $3,865 related to the California CGU as a result of change in performance and future expectations from the Company's initial valuation of the Apothecarium business. Additionally, during the year ended December 31, 2019, the Company recorded impairment of goodwill of $2,407 and intangible assets of $502 for the software, licenses and intellectual property as part of the drug preparation premise in the Canadian Pharmaceutical Research CGU as management deemed that market conditions could not support this business and it was determined to no longer be commercially viable.

Unrealized (Gain) Loss on Investments

For the year ended December 31, 2020, the Company recorded unrealized gain on investments of $249 compared to a loss of $5,546 in 2019. The unrealized gain in the current period relates to expiry of the F&F warrants offset by the unrealized gain related to the equity income pick up from the Company's 10% investment in Guadco LLC and KCR Holdings LLC. The unrealized loss on investments in the prior period relates to the decrease in fair value of the Company's investment in F&F shares and warrants. The fair value of the investment was based on Level 3 of the fair value hierarchy.

Foreign Exchange Loss

For the year ended December 31, 2020, the Company recorded unrealized foreign exchange loss of $235 compared to $413 for the same period last year. The exchange loss relates to foreign currency transactions in the normal course of operations.

Current and deferred income tax expense

For the year ended December 31, 2020, the Company recorded current income tax expense of $30,464 and deferred income tax recovery of $(2,590), respectively. For the comparable period last year, the Company recorded a current income tax expense of $3,959 and deferred income tax recovery of $(2,335). The increase in tax expense is related to operational scale up and from the Company's acquisitions. The Company acquired The Apothecarium in June 2019, Ilera in September 2019 and State Flower in January 2020. The current expense was impacted by a recovery resulting from the expiration of the statute of limitations to assess tax. The deferred income tax recovery during the current period primarily relates to temporary differences resulting from unrealized gain on biological assets and the recording of a deferred tax recovery related to convertible debt.

SUMMARY OF QUARTERLY RESULTS

The following table sets forth information regarding TerrAscend's Consolidated Financial Statements including sales, net of excise and cultivation taxes, loss from operations and other information for the periods presented, which were prepared in accordance with IFRS and should be read in conjunction with the corresponding audited annual consolidated financial statements and related notes.

	Q4 2020 $	Q3 2020 $	Q2 2020 $	Q1 2020 $	Q4 2019 $	Q3 2019 $	Q2 2019 $	Q1 2019 $
Sales, gross	69,749	54,018	50,214	37,849	29,158	27,233	19,019	14,965
Excise and cultivation taxes	(4,427)	(3,050)	(2,984)	(3,051)	(3,275)	(402)	(1,447)	(383)
Sales, net	65,322	50,968	47,230	34,798	25,883	26,831	17,572	14,582
Cost of sales	29,171	20,880	20,766	19,252	30,126	22,031	16,063	13,075
Gross profit (loss) before gain on fair value of biological assets	36,151	30,088	26,464	15,546	(4,243)	4,800	1,509	1,507
Unrealized gain (loss) on changes in fair value of biological assets	45,757	25,267	23,051	14,889	1,744	2,283	1,009	444
Realized loss on changes in fair value of biological assets	(26,123)	(20,793)	(18,862)	(6,244)	(261)	(87)	(360)	(17)
Gross profit (loss)	**55,785**	**34,562**	**30,653**	**24,191**	**(2,760)**	**6,996**	**2,158**	**1,934**
Operating expenses:								
General and administrative expense	15,098	13,736	15,706	14,600	18,497	12,187	11,376	8,013
Share-based payments	5,610	4,164	3,439	2,817	11	7,227	2,459	1,907
Amortization and depreciation	2,539	2,550	3,164	1,637	194	3,312	1,241	752
Research & development	31	20	168	207	215	197	173	124
Total operating expenses	**23,278**	**20,470**	**22,477**	**19,261**	**18,917**	**22,923**	**15,249**	**10,796**
Income (loss) from operations	**32,507**	**14,092**	**8,176**	**4,930**	**(21,677)**	**(15,927)**	**(13,091)**	**(8,862)**
Net increase in fair value of warrant and derivative liabilities	123,931	22,174	—	—	—	—	—	—
Revaluation of contingent consideration	5,238	8,094	6,192	5,575	61,851	—	—	—
Finance and other expenses (income)	4,343	3,301	3,143	3,304	1,507	2,099	1,337	732
Transaction and restructuring costs	84	245	1,737	576	4,922	2,419	2,997	808
Impairment of property, plant and equipment	1,156	—	—	—	2,305	—	—	—
(Reversal of) impairment of intangible assets	(3,903)	—	540	462	4,309	—	58	—
Unrealized loss (gain) on investments	(168)	(414)	(132)	465	2,724	236	1,968	618
Unrealized loss (gain) on note receivable	—	—	—	—	1,775	(120)	—	—
Impairment of goodwill	—	—	—	—	66,213	—	—	—
Realized gain on investments	—	—	—	—	(1,400)	—	—	—
Foreign exchange loss (gain)	96	36	49	54	279	32	62	40
Loss before income taxes	**(98,270)**	**(19,344)**	**(3,353)**	**(5,506)**	**(166,162)**	**(20,593)**	**(19,513)**	**(11,060)**
Current income tax expense (recovery)	12,053	2,748	9,798	5,865	4,848	(928)	39	—
Deferred income tax expense (recovery)	(1,015)	(4,542)	474	2,493	795	(2,344)	(416)	(370)
Net loss	**(109,308)**	**(17,550)**	**(13,625)**	**(13,864)**	**(171,805)**	**(17,321)**	**(19,136)**	**(10,690)**
Currency translation adjustment	9,297	3,621	5,636	(5,707)	(902)	(12)	2,396	510
Comprehensive loss	**(118,605)**	**(21,171)**	**(19,261)**	**(8,157)**	**(170,903)**	**(17,309)**	**(21,532)**	**(11,200)**
Net loss attributable to:								
Shareholders of the Company	(112,269)	(16,917)	(12,731)	(13,206)	(169,498)	(17,056)	(18,704)	(10,530)
Non-controlling interests	2,961	(633)	(894)	(658)	(2,307)	(265)	(432)	(160)
Comprehensive loss attributable to:								
Shareholders of the Company	(121,566)	(20,538)	(18,367)	(7,499)	(168,482)	(17,044)	(21,100)	(11,040)
Non-controlling interests	2,961	(633)	(894)	(658)	(2,421)	(265)	(432)	(160)
Net loss per share – basic and diluted	**(0.73)**	**(0.11)**	**(0.09)**	**(0.09)**	**(1.31)**	**(0.16)**	**(0.22)**	**(0.14)**

NON-IFRS FINANCIAL MEASURES

Management uses certain non-IFRS measures to evaluate the performance of the Company's business as it reflects its ongoing profitability. Non-IFRS measures used by management do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The Company believes that certain investors and analysts use these measures to measure a company's ability to service debt and to meet other payment obligations or as a common measurement to value companies in the biopharmaceutical industry. Such information is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The Company calculates Adjusted EBITDA as EBITDA less unrealized gain on changes in fair value of biological assets and other income, plus fair value changes in biological assets included in inventory sold, impairments, restructuring costs, purchase accounting adjustments, transaction costs, share based compensation, revaluation of warrants and derivative liabilities, and unrealized loss on investments. The Company calculates adjusted net income (loss) as net loss less revaluation of contingent consideration and revaluation of warrants and derivative liabilities. The Company believes these definitions are suited to measure the Company's ability to service debt and to meet other payment obligations.

The table below reconciles net loss to EBITDA and Adjusted EBITDA for the three and twelve months ended December 31, 2020 and December 31, 2019.

		For the three months ended		For the year ended	
Summary of Quarterly EBITDA and Adjusted EBITDA	**Notes**	**December 31, 2020**	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**
Net loss		**(109,308)**	(171,805)	**(154,347)**	(218,952)
Add (deduct) the impact of:					
Current income tax expense (recovery)		**12,053**	4,848	**30,464**	3,959
Deferred income tax expense (recovery)		**(1,015)**	795	**(2,590)**	(2,335)
Finance expense		**4,141**	1,626	**13,850**	5,813
Amortization and depreciation		**4,686**	1,598	**16,571**	7,316
EBITDA	(a)	**(89,443)**	(162,938)	**(96,052)**	(204,199)
Add (deduct) the impact of:					
Unrealized gain on changes in fair value of biological assets	(b)	**(45,757)**	(1,744)	**(108,964)**	(5,480)
Realized fair value amounts included in inventory sold	(c)	**26,123**	261	**72,022**	725
Revaluation of contingent consideration	(d)	**5,238**	61,851	**25,099**	61,851
Share-based payments	(e)	**5,612**	691	**16,576**	12,804
Non-cash write downs of inventory	(f)	**3,030**	14,262	**4,937**	14,262
Restructuring costs	(g)	**84**	160	**1,369**	160
Unrealized loss (gain) on investments	(h)	**(168)**	2,724	**(249)**	5,546
(Reversal of) impairment of intangible assets	(i)	**(3,903)**	4,309	**(2,901)**	4,367
Impairment of goodwill	(i)	**—**	66,213	**—**	66,213
Relief of fair value of inventory upon acquisition	(j)	**—**	1,032	**(310)**	3,648
Transaction costs	(k)	**—**	4,762	**1,273**	10,986
Impairment of property, plant and equipment	(i)	**1,156**	2,305	**1,156**	2,305
Unrealized gain on note receivable	(h)	**—**	1,775	**—**	1,655
Realized gain on investments		**—**	(1,400)	**—**	(1,400)
Net increase in fair value of warrant and derivative liabilities	(l)	**123,931**	**—**	**146,105**	**—**
Adjusted EBITDA		**25,903**	(5,737)	**60,061**	(26,557)

The table below reconciles net loss to adjusted net income (loss) for the three and twelve months ended December 31, 2020 and December 31, 2019.

		For the three months ended		For the year ended	
Summary of Quarterly Adjusted Net Income	**Notes**	**December 31, 2020**	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**
Net loss		**(109,308)**	(171,805)	**(154,347)**	(218,952)
Add (deduct) the impact of:					
Revaluation of contingent consideration	(d)	**5,238**	61,851	**25,099**	61,851
Net increase in fair value of warrant and derivative liabilities	(l)	**123,931**	**—**	**146,105**	**—**
Adjusted Net Income (Loss)		**19,861**	(109,954)	**16,857**	(157,101)

(a) EBITDA is a non-IFRS measure and is calculated as earnings before interest, tax, depreciation and amortization.
(b) Represents fair value changes of biological assets based on the average stage of growth of plants compared to expected growth period of plants from planting to harvesting.
(c) Represents the portion of inventory harvested and sold in the period that is related to the changes in fair value of biological assets.
(d) Represents the loss on period end revaluation of the Company's contingent consideration liabilities.
(e) Represents non-cash share-based compensation expense.
(f) Represents inventory write downs outside the normal course of operations.
(g) Represents costs associated with severance and winding down of business units.
(h) Represents unrealized and realized loss and gains on fair value changes on strategic investments and note receivables held.
(i) Represents impairment charges taken on the Company's intangible assets and goodwill.
(j) In connection with the Company's acquisitions, inventory was acquired at fair value, which included a markup or markdown for profit. Recording inventory at fair value in purchase accounting has the effect of increasing or decreasing inventory and thereby increasing or decreasing cost of sales as compared to the amounts the Company would have recognized if the inventory was sold through at cost. The write-up or write-down of acquired inventory represents the incremental cost of sales that were recorded as a result of purchase accounting.
(k) In connection with the Company's acquisitions, the Company incurred expenses related to professional fees, consulting, legal and accounting that would otherwise not have been incurred. These fees are not indicative of the Company's ongoing costs and are expected to be incurred only as additional acquisitions are completed.
(l) Represents the net increase in fair value of warrant and derivative liabilities, including effects of the foreign exchange of the US denominated preferred shares and preferred share warrants.

The increase in Adjusted EBITDA and adjusted net income (loss) was primarily due to operational scale up as well as a full year of operations from the Company's acquisitions. The Company acquired the Apothecarium in June 2019, Ilera in September 2019, and State Flower in January 2020. The Company continued to expand in the US organically through an increase in production and branded manufacturing capacity in Pennsylvania, store expansions in Pennsylvania and California, and operations in New Jersey. The growth in the US was offset by the reduction of operations in Canada in 2020, which was driven by a shift in focus towards more profitable and sustainable sales and a strategic decision was made to cease the growing and cultivation of cannabis in Canada and the final harvest occurred in September 2020.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated	December 31, 2020 $	December 31, 2019 $
Cash and cash equivalents and restricted cash	**75,407**	11,900
Current assets	**162,689**	89,830
Non-current assets	**441,192**	370,936
Current liabilities	**119,635**	142,864
Non-current liabilities	**473,129**	242,573
Working capital	**43,054**	(53,034)
Total shareholders' equity	**11,117**	75,329

As at December 31, 2020, TerrAscend had cash and cash equivalents of $75,407, which is sufficient to fund the Company's ongoing operations. Any additional future requirements will be funded through the following sources of capital:

i) Cash from ongoing operations
ii) Market offering – the Company has the ability to offer equity in the market for significant potential proceeds to a large investor base, as evidenced by oversubscriptions on previous recent private placements;
iii) Debt – the Company has the ability to obtain additional debt from additional debtors.
iv) Sale leaseback – the Company has the ability to sell and lease back its capital properties.
v) Exercise of options and warrants – the Company has the ability to obtain funds from exercise of options and warrant holders from securities that are in the money.

See "Challenges to Access Public and Private Capital Markets" section under "Risks Related to the Common Shares" for further information.

The Company's objective with respect to its capital management is to ensure it has sufficient cash resources to maintain its ongoing operations and finance its research and development activities, corporate and administration expenses, working capital and overall capital expenditures. Since inception, the Company has primarily financed its liquidity needs through the issuance of shares and utilization of borrowings. The Company expects that its cash on hand and cash flows from operations, along with financing transactions, will be adequate to meet its capital requirements and operational needs for the next 12 months.

Recent Financing Transactions

The Company's ability to realize its assets and discharge its liabilities is dependent on its ability to secure additional financing. The Company has been successful in obtaining financing to date.

On March 10, 2020, TerrAscend Canada entered into a loan financing agreement with Canopy Growth in the amount of $80,526 pursuant to a secured debenture. The secured debenture bears interest at a rate of 6.10% per annum, with an effective interest rate of 11.9%, and matures on March 10, 2030. The debenture is secured by the assets of TerrAscend Canada, is not convertible and is not guaranteed by the Company. In connection with the funding of the loan, the Company issued 17,805,975 common share purchase warrants to Canopy Growth. The warrants are comprised of 15,625,242 common share purchase warrants entitling Canopy Growth to acquire one common share of TerrAscend at an exercise price of $5.14 per share, expiring on March 10, 2030, and 2,152,733 common share purchase warrants entitling Canopy Growth to acquire one common share of TerrAscend at an exercise price of $3.74 per share, expiring on March 10, 2031. All warrants will be exercisable following changes in US federal laws permitting the cultivation, distribution, and possession of marijuana or to remove the regulation of such activities from the federal laws of the US.

In May of 2020, the Company closed a non-brokered private placement, issuing 18,679 units at an issue price of US$2,000 per unit, resulting in proceeds of $52,005 (US$37,358). Each unit consists of one non-voting preferred share and one preferred share warrant. Each preferred share will be convertible to 1,000 common shares of the Company (or the economic equivalent in proportionate voting shares for US investors) at the option of the holder, subject to customary anti-dilution provisions. If the Company completes a qualified financing for gross proceeds in excess of US$30 million at a price that in the good faith determination of the Company's board of directors is less than the average price paid in the private placement, the Company's board of directors may increase the conversion ratio of the preferred shares to an amount that it considers equitable in the circumstances to provide equivalent value to participants in the private placement. This price protection will be in effect until May 22, 2021. Each warrant can be used to acquire one preferred share at an exercise price of US$3,000, subject to customary anti-dilution provisions. Warrants have a term of three years and can be exercised cashless.

On June 19, 2020, the Company completed a $7,250 loan financing secured by its manufacturing facility in Mississauga, bearing interest of 8.25% and a balance due date of July 1, 2023.

On December 10, 2020, Arise entered into a loan financing agreement with Canopy Growth in the amount of $25,464 (US$20,000) pursuant to a secured debenture. The secured debenture bears interest at a rate of 6.10% per annum commencing four years from the effective date, with an effective interest rate of 12.76% and matures on December 9, 2030. The debenture is secured by the assets of Arise, is not convertible and is not guaranteed by the Company. In connection with the funding of the loan, the Company issued 2,105,718 common share purchase warrants to Canopy Growth. The warrants are comprised of 1,926,983 common share purchase warrants entitling Canopy Growth to acquire one common share of TerrAscend at an exercise price of $15.28 per share, expiring on December 9, 2030, and 178,735 common share purchase warrants entitling Canopy Growth to acquire one common share of TerrAscend at an exercise price of $17.19 per share, expiring on December 9, 2030.

On December 18, 2020, Ilera Healthcare entered into a senior secured term loan with a syndicate of lenders in the amount of $152,784 (US$120,000). The term loan bears interest at 12.875% per annum and matures on December 17, 2024. The Company has the ability to increase the facility by up to US$30,000. The term loan is secured by the Ilera Healthcare Division. The loan is callable after 18 months from the closing date subject to a premium payment due.

On January 28, 2021, the Company closed on a non-brokered private placement announced on January 12, 2021, issuing 18,115,656 common shares at an issue price of $12.35 per unit resulting in proceeds of $224,000 with 80% coming from four large US institutional investors.

Cash Flows

	For the year ended	
	December 31, 2020	**December 31, 2019**
Cash inflow (outflow) from operating activities	**$ 33,013**	$ (47,913)
Cash inflow from financing activities	**284,709**	176,984
Cash outflow from investing activities	**(251,602)**	(138,219)
Increase (decrease) in cash and cash equivalents during the year	**66,120**	(9,148)
Net effects of foreign exchange	**(2,613)**	(725)
Cash and cash equivalents, beginning of year	**11,900**	21,773
Cash and cash equivalents, end of year	**$ 75,407**	$ 11,900

Cash flows from operating activities

For the year ended December 31, 2020, the Company's cash inflows from operating activities were $33,013 compared to outflows of $47,913 for year ended December 31, 2019. The improvement in cash inflow is primarily due to the ramp up of the US operations, partially offset by income tax payments of $14,587.

Cash flows from financing activities

Cash inflow provided by financing activities for the year ended December 31, 2020 was $284,709 compared to $176,984 for the year ended December 31, 2019. During the year ended December 31, 2020, the Company received loans in the amount of $262,937. Additionally, the Company paid $76,867 in principal and interest payments. Included in this were payments made of $64,718 and $5,451 to pay off the remaining balance of the JW Asset Management credit facility and the loans from management of Ilera, along with $6,698 to pay off a financing loan held by Canada. The Company received total private placement net of shares issuance proceeds $95,611 during the year ended December 31, 2020. Additionally, 829,050 common share warrants were exercised for total gross proceeds of $2,695 and 1,816,496 stock options were exercised at $0.60 - $8.35 per unit for total gross proceeds of $5,767. In addition, 250 preferred share warrants were exercised at $3,000 US per unit for total gross proceeds of $1,003 (US$750).

During the year ended December 31, 2019, 959,772 common share warrants and 28,636 proportionate share warrants were exercised for total gross proceeds of $33,179 and 1,117,936 stock options were exercised at a weighted average exercise price of $2.45 per unit for gross proceeds of $2,620. The Company received loans including accrued interest in the amount of $50,383 from JW Partners L.P., JW Opportunities Master Fund Ltd., and management of Ilera. Total private placement net of shares issuance proceeds amounted to $66,636, proceeds from convertible debt amounted to $20,343 and proceeds from mortgage assumed on the Canadian facility was $6,500.

Cash flows from investing activities

Cash outflow from investing activities during the year ended December 31, 2020 totaled $251,602, resulting primarily from payments of contingent consideration of $189,916 related to Ilera and from investments in property, plant and equipment of $59,573 primarily relating to the buildout of the New Jersey operations and expansions in Pennsylvania and California cultivation. In comparison, the cash outflow from investing activities during the year ended December 31, 2019 amounted to $138,219. This was primarily due to the acquisition of Arise, Ilera and the Apothecarium for the total cash consideration of $89,956 and investments in property plant and equipment of $43,341.

USE OF PROCEEDS

The following table discusses the previously disclosed anticipated use of proceeds for each of the financing transactions:

Financing	Disclosed Intent of Proceeds
Ilera term loan December 18, 2020	Loan proceeds of $152,784 (US$120,000) will be used to satisfy the remaining 2021 Ilera earn-out payments.
Canopy Growth- Arise loan December 10, 2020	Loan proceeds of $25,464 (US$20,000) to be used by Arise for general corporate purposes, the repayment of indebtedness and/or for other permitted purposes under the terms of the debenture.
Private placements: June 8, 2020 June 5, 2020 May 28, 2020 May 25, 2020	Total proceeds of $52,005 to be used to fund its growth initiatives including its US expansion strategy, capital expenditures, working capital, and general corporate purposes.
Canopy Growth- TerrAscend Canada loan March 10, 2020	Loan proceeds of $80,526 to be used by Canada Inc. for general corporate purposes and the funding of its Canadian operations, its Arise US hemp division, international expansion and the repayment of indebtedness.
Private placements: January 27, 2020 (tranche 3) January 10, 2020 (tranche 2) December 30, 2019 (tranche 1)	The total proceeds of $44,554 to be used to accelerate the completion of the New Jersey cultivation and processing facilities, to satisfy the previously announced January 2020 contingent consideration price payment related to the acquisition of Ilera, and for working capital and general corporate purposes.
Private Placement of convertible debentures and warrants: November 26, 2019 (tranche 3) November 16, 2019 (tranche 2) October 2, 2019 (tranche 1)	The proceeds of $20,660 to be used by TerrAscend to fund its various growth initiatives, capital expenditures, working capital and general corporate purposes.
Early warrant exercise on August 27, 2019	Proceeds of $31,500 to be used to fund the Company's announced growth initiatives and for general working capital purposes.
Private placement: May 27, 2019 (tranche 2) May 15, 2019 (tranche 1)	Proceeds of $67,176 million to fund the Company's US acquisition strategy, working capital, and general corporate purposes.
Credit Facility December 14, 2018	Proceeds of $97,400 to be used for access non-dilutive capital for acquisitions in the US, as well as for general corporate and working capital purposes.

The Company's actual use of proceeds is consistent with previously disclosed anticipated uses. During the year ended December 31, 2020, the Company made payments of $189,916 to the sellers of Ilera using the funds obtained through the Ilera term loan and private placements. The Company will use the remaining proceeds to pay the outstanding balance of contingent consideration of $35,570 by the due date. The Company made capital expenditures of $59,573 to expand its New Jersey, Pennsylvania, and California operations. During the year ended December 31, 2020, the Company made loan and interest payments of $76,867 to pay down its previous indebtedness. Additionally, the Company made working capital payments of $14,751 and tax payments of $14,587.

PROPOSED TRANSACTIONS

Acquisition of HMS

On November 6, 2020, the Company announced the signing of a definitive agreement to acquire HMS Health, LLC ("HMS Health") and HMS Processing, LLC ("HMS Processing" and together with HMS Health "HMS"). HMS is a cultivator and processor of medical cannabis products in the state of Maryland. TerrAscend has agreed to acquire 100% of the equity of HMS for total consideration of CAD $35,013 (US$27,500), comprised of CAD $31,830 (US$25,000) in cash and a CAD $3,183 (US$2,500) note, which bears 5.0% annual interest, due April 2022. Upon closing in 2021, 100% of HMS' economics will be retained by the Company through full ownership of HMS Health, and a master services agreement with HMS Processing. The transfer of 100% equity of HMS Processing is expected to close in April 2022. The Company made an initial deposit of $1,291 (US$1,014) during the year ended December 31, 2020 and is included in other assets.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following represents the Company's significant contractual obligations at December 31, 2020:

	2021	2022	2023	2024	2025	Thereafter	Total
Contractual Obligations							
Loans payable	26,676	25,976	32,924	192,064	6,465	138,317	**422,422**
Lease liabilities	4,497	4,460	4,482	4,568	4,686	40,357	**63,050**
Contingent consideration payable	39,426	8,390	-	-	-	-	**47,816**
Acquisition of HMS	33,722	-	-	-	-	-	**33,722**
Total	104,321	38,826	37,406	196,632	11,151	178,674	**567,010**

Loans payable represent the contractually required principal and interest payments payable on borrowings as of December 31, 2020. The various borrowings bear interest rates at 6% to 12.875% per annum.

Lease liabilities include obligations due related to the company's leased premises and offices.

The contingent consideration payable relates to the Company's business acquisitions of Apothecarium, Ilera and State Flower. Contingent consideration is based upon the potential earnout of the underlying business unit and is measured at fair value using a projection model for the business and the formulaic structure for determining the consideration under the agreement. The contingent consideration is revalued at the end of each reporting period using a probability weighted model based on the likelihood of achieving certain revenue and EBITDA scenario outcomes.

The Company continues to execute its expansion plans in State Flower in California, Ilera in Pennsylvania, and in New Jersey. The Company will continue to build out its New Jersey operations to include a second and third alternative treatment center with total estimated costs of approximately US$4,000 to be incurred in 2021. Additionally, the Company anticipates spending approximately US$18,000 towards the potential buildout expansion of the Company's cultivation capacity at its Boonton facility. The Company will look to spend approximately US$22,000 to expand its indoor and greenhouse cultivation capacity.

CLAIMS AND LITIGATION

On October 15, 2018, the Company's wholly owned subsidiary TerrAscend Canada entered into a multi-year cultivation agreement (the "PharmHouse Agreement") with PharmHouse Inc. ("PharmHouse"), a joint venture between Canopy Rivers Inc. and 2615975 Ontario Inc., the operators of a leading North American greenhouse produce company ("261"). Under the terms of the PharmHouse Agreement, it was expected that PharmHouse would grow and supply cannabis to TerrAscend Canada from its existing 1.3 million square foot greenhouse located in Leamington, Ontario. Once fully licensed, the production of flower, trim and clones from up to 20% of the dedicated flowering space planted at the greenhouse was expected to be made available to TerrAscend Canada. To date, PharmHouse has not yet delivered product in accordance with the terms of the PharmHouse Agreement. On September 11, 2020, the Company and TerrAscend Canada were informed that a statement of claim was issued on August 31, 2020 in the Ontario Superior Court of Justice by 261 against Canopy Rivers Inc., Canopy Growth Corporation, the Company and TerrAscend Canada (the "261 Claim"). In the 261 Claim, 261 seeks damages from the defendants in the amount of $500 million and alleges certain causes of action, including bad faith, fraud, civil conspiracy, breach of the duty of honesty and good faith in contractual relations and breach of fiduciary duty. The 261 Claim, as against the Company and TerrAscend Canada, is completely baseless and without merit, and the Company will vigorously defend itself, if necessary, in the appropriate forum. On September 16, 2020, PharmHouse obtained an order from the Ontario Superior Court of Justice granting PharmHouse creditor protection under the Companies' Creditors Arrangement Act ("CCAA"). Pursuant to the CCAA order, the 261 Claim has been stayed. During a CCAA hearing in November, 261 objected to the stay of the 261 Claim. The judge presiding over the CCAA process agreed to allow 261 to discontinue the 261 Claim against the defendants 'without prejudice' to its right to recommence the 261 Claim against all parties except PharmHouse Inc., provided that such recommenced claim can only be brought after January 1, 2021. This does not affect any of the defendants' ability to move for a stay of the recommenced 261 Claim. On February 10, 2021, 261 served the Issuer and TerrAscend Canada with the recommenced 261 Claim.

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 $2,764 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 and no amount has been accrued in the condensed interim consolidated statements of loss.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements at December 31, 2020 and 2019.

RELATED PARTY TRANSACTIONS

(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 year ended December 31, 2020 and December 31, 2019 respectively were as follows:

		December 31, 2020		**December 31, 2019**
Salaries and wages	**$**	**2,362**	$	**1,688**
Share-based payments		**7,882**		**5,472**
Total	**$**	**10,244**	$	7,160

(b) On March 25, 2020, the Company issued 1,625,701 common shares to Regulatory Consulting Group Inc. an entity controlled by the minority shareholders of TerrAscend NJ, pursuant to a success fee surrounding the granting of certain licenses in the state of New Jersey to TerrAscend NJ.

(c) A small number of related persons participated in the Ilera term loan, which makes up $4,520 of the total loan principal balance.

(d) Refer to Note 10 *Loans Payable* of the Audited Consolidated Financial Statements of the Company for the year ended December 31, 2020 and 2019 for discussion regarding related party loan balances.

(e) During the year ended December 31, 2020, the Company paid a total of $183 and granted stock options totaling 500,000 to a current member of the Company's Board of Directors for consulting services performed in the Canadian business on an interim basis. The consulting agreement ended on June 30, 2020.

(f) Through the private placements during the year ended December 31, 2020 (Note 13), the Company issued 1,159,805 common shares, 1,159,805 common share purchase warrants, 10,000 preferred shares and preferred share warrants to entities controlled by Jason Wild, Chairman of the Board of TerrAscend. On August 26, 2019, the Company issued 8,590,908 Proportionate Voting Share purchase warrants as incentive compensation to entities controlled by Jason Wild, Chairman of the Board of TerrAscend. Each warrant is exercisable at $7.21 per 0.001 share and expires at 36 months from the respective closing date. These warrants resulted in a reduction in share capital of $29,820.

(g) During the year ended December 31, 2019, the Company purchased dried flower inventory in the amount of $827 from State Flower. Refer to *Note 5 Acquisitions* of the Audited Consolidated Financial Statements of the Company for details on the note receivable held from State Flower at December 31, 2019.

FINANCIAL INSTRUMENTS

The Company has classified its cash and cash equivalents, notes receivable, lease receivable, investments, and contingent consideration payable as fair value through profit and loss, and receivables (excluding sales tax receivable), accounts payable and accrued liabilities, income tax payable, loans payable, and convertible debentures as amortized cost.

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, lease receivable, receivables, F&F warrants, accounts payable and accrued liabilities, income tax payable, convertible debentures, contingent consideration payable and loan payable approximate their fair values due to their short periods to maturity. The fair value of the F&F warrants and contingent consideration have been determined based on Level 3 of the fair value hierarchy. See Note 22 of the consolidated financial statements for significant assumptions and techniques used in determining the fair value of these financial instruments.

FINANCIAL RISK FACTORS

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

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, other receivables and notes receivable. Company assesses the credit risk of trade receivables by evaluating the aging of trade receivables based on the

invoice date. The carrying amounts of trade receivables is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of loss and comprehensive loss. When a trade receivable balance is considered uncollectible, it is written off against the allowance for expected credit losses. Management has reviewed the items comprising the accounts receivable balance and determined that the majority of accounts are collectible; accordingly, allowance for doubtful accounts of $227 (December 31, 2019 – $607) have been recorded. Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of loss and comprehensive loss. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss. The Company has no customers whose balance is greater than 10% of total trade receivables as of December 31, 2020 and 2019.

(b) Liquidity risk

The Company is exposed to liquidity risk, or the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages liquidity risk through ongoing review of its capital requirements. The Company's objective with respect to its capital management is to ensure it has sufficient resources to maintain its ongoing operations.

(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 US dollar and other foreign currencies will affect the Company's operations and financial results.

The Company and its subsidiaries do not hold significant monetary assets or liabilities in currencies other than their functional currency and as a result the Company is not exposed to significant currency risk. Therefore, the Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

ii) Interest rate risk:
Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. In respect of financial assets, the Company's policy is to invest excess cash at floating rates of interest in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return. Fluctuations in interest rates impact 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.

In respect of financial liabilities, the Company's loans payable have fixed interest rates of 12% to 12.875% per annum. The mortgage payable bears interest at a fixed rate of 5.5% per annum. All other financial liabilities are non-interest-bearing instruments.

SUBSEQUENT EVENTS

i) On January 11, 2021, the Company completed the second phase of construction at its cultivation and manufacturing facility located in Boonton, New Jersey. The phase of construction added approximately 80,000 square feet of indoor cultivation to the existing on-site greenhouse and post-harvest manufacturing facilities, bringing the Boonton's facility's total current footprint to approximately 140,000 square feet.

ii) On January 28, 2021, the Company closed on a non-brokered private placement announced on January 12, 2021, issuing 18,115,656 common shares at an issue price of $12.35 per unit resulting in proceeds of $224,000 with 80% coming from four large US institutional investors.

iii) In January 2021, the Company received notice that its request for forgiveness on Arise's Paycheck Protection Program loan in the amount of $976 was fully approved by the Small Business Administration and is now paid in full (including applicable interest).

iv) Effective February 1, 2021, Dr. Michael Nashat stepped down from the Board of Directors of the Company.

v) On March 11, 2021, the Ontario Superior Court of Justice approved a settlement agreement (the "Settlement Agreement") between the Company, TerrAscend Canada and PharmHouse Agreement. The Settlement Agreement provides the Company make a one-time purchase of a specific quantity of cannabis that was grown under the PharmHouse Agreement for a set price per gram, and for a one-time cash payment to PharmHouse for full and final satisfaction of any claims or obligations between the Company, TerrAscend and PharmHouse. Both payments are immaterial to the Company and the Company plans to monetize the purchased cannabis. The Settlement Agreement does not affect the statement of claim issued on February 10, 2021 by 2615975 Ontario Inc. against Canopy Rivers Inc., Canopy Growth Corporation, the Company and TerrAscend Canada, which the Company believes is completely baseless and without merit.

vi) Subsequent to December 31, 2020, the Company awarded 631,500 options to employees of the Company pursuant to employment agreements and such awarded options will be granted in the first half of 2021. Subsequent to December 31, 2020, 152,477 unvested options were forfeited and 8,331 vested options expired. In addition, 374,648 options were exercised at the average exercise price of $5.02 for total cash proceeds of $1,889.

Subsequent to December 31, 2020, 955,146 warrants were exercised for common shares at the average exercise price of $3.29 for total cash proceeds of $3,139. In addition, 325 preferred share warrants were exercised cashless and 1,245 preferred share warrants were exercised at the average exercise price of US$3,000 for total proceeds of $4,758 (US$3,735).

vii) Effective March 23, 2021, Jason Ackerman will step down from his role as Chief Executive Officer and Executive Chairman of the Company. Jason Wild, current Chairman of the Board of Directors, will assume the position of Executive Chairman. Ed Shutter, current board member, has been appointed Lead Independent Director.

OUTSTANDING SHARE DATA

As at December 31, 2020, TerrAscend had 155,834,272 common shares outstanding. As at the date of this MD&A, fully diluted share capital outstanding was as follows:

	Number outstanding on a basic unconverted basis	Number outstanding on a fully diluted converted basis	Weighted average exercise price
			$
Common shares	178,411,593	178,411,593	N/A
Exchangeable shares	38,890,571	38,890,571	N/A
Proportionate voting shares		-	N/A
Preferred shares	14,618	14,618,000	N/A
Warrants for common shares		39,548,952	4.88
Warrants for proportionate voting shares		8,590,908	7.21
Warrants for preferred shares		16,454,000	3.75
Options		16,792,895	4.40
Total outstanding at date of this MD&A	217,316,782	313,306,919	

USE OF ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The areas involving a higher degree of judgement 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, 2020.

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 estimations of the stage of growth of the cannabis, pre-harvest and post-harvest costs, sales price and expected yields.

Inventories of harvested finished goods and packaging 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) *Share-based payments*

In calculating 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) *Warrant liability*

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

iv) *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.

v) *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.

vi) *Impairment of intangible assets and goodwill*

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.

In addition to assessing evidence of possible impairment, the Company also determines whether there is any indication that a previously recognized impairment loss for an asset other than goodwill no longer exists or may have decreased. The Company determines whether there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss is recognized.

vii) *Acquisitions*

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

viii) Contingent Consideration

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

ix) Incremental borrowing rates

In determining the appropriate measurement of the Company's lease liabilities and the fair value of convertible debentures and loans issued with warrants attached, estimates are required with respect to the discount rate applied. The discount rate applied reflects the interest rate that the Company would have to pay to borrow a similar amount at a similar term and with a similar security.

x) Sales returns and price adjustments

In Canada, government customers typically have a right of product return, and in some cases, the right to pricing adjustments for products that are subsequently discounted or sold for a lower price in another jurisdiction. The estimation of potential future returns and pricing adjustments includes the use of management estimates and assumptions that may not be certain given the evolving nature of the industry.

xi) Control, joint control or level of influence

When determining the appropriate basis of accounting for the Company's interests in affiliates, the Company makes judgments about the degree of influence that it exerts directly or through an arrangement over the investees' relevant activities.

xii) COVID-19 estimation uncertainty

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, did not materially disrupt the Company's operations during the year ended December 31, 2020. The production and sale of cannabis have been recognized as essential services across Canada and the US and the Company has not experienced production delays or prolonged retail closures as a result.

Management has been closely monitoring the impact of COVID-19 and has implemented various measures to reduce the spread of the virus, including enhanced cleaning protocols and implementing social distancing measures. In April 2020, to mitigate patient and caregiver concerns, the Company's Ilera operations implemented a curbside service at its dispensaries to promote social distancing. Additionally, the Company's Apothecarium business launched a delivery service in California.

Due to the uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Company's business, financial position, and operating results in the future. In addition, it is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. An impairment test was performed as of December 31, 2020 for the Company's goodwill and intangible assets (Note 9). Management is closely monitoring the impact of the pandemic on all aspects of its business. At December 31, 2020, management has not observed any material impairments of the Company's assets or significant change in the fair value of assets due to the COVID-19 pandemic.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 3 to the audited consolidated financial statements.

New standards, amendments and interpretations adopted

IFRS 3 – "Business Combinations (Amendment)", the amendments clarify the definition of a business, permitting a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Company has adopted this standard effective January 1, 2020. There was no impact to the Company's financial statements as a result of this adoption.

New standards, amendments and interpretations not yet adopted

All recently issued accounting pronouncements are not expected to have a material effect on the consolidated financial statements.

REGULATORY FRAMEWORK IN CANADA

Licenses and Regulatory Framework

The TCI Licence

TCI currently holds a standard cultivation licence, standard processing licence and licence for sale for medical purposes under the Cannabis Act. Under the TCI Licence, and subject to further requirements set out in the Cannabis Act, TCI may:

(a) possess cannabis;
(b) obtain dried cannabis, fresh cannabis, cannabis plants or cannabis plant seeds by cultivating, propagating and harvesting cannabis;
(c) produce cannabis, other than obtain it by cultivating, propagating or harvesting it;
(d) sell cannabis in accordance with Subsection 11(5) of the Cannabis Regulations;
(e) sell cannabis in accordance with Subsection 17(5) of the Cannabis Regulations; and
(f) sell cannabis products in accordance with Section 27 of the Cannabis Regulations.

The TCI Licence is also subject to the following conditions:

(a) TCI must meet the requirements set out in the document entitled "Mandatory cannabis testing for pesticide active ingredients";
(b) the only cannabis products that TCI may sell or distribute to: (i) a holder of a licence for sale, and (ii) a person authorized to sell cannabis under a provincial act by reason of Subsection 69(1) of the Cannabis Act, are as follows: cannabis plants that are cannabis products; cannabis plant seeds that are cannabis products; dried cannabis that is a cannabis product; and, fresh cannabis that is a cannabis product; and
(c) the only cannabis products that TCI may send or deliver to the purchaser at the request of: (i) a holder of a licence for sale, and (ii) a person authorized to sell cannabis under a provincial act by reason of Subsection 69(1) of the Cannabis Act, are as follows: cannabis plants that are cannabis products; cannabis plant seeds that are cannabis products; dried cannabis that is a cannabis product; and, fresh cannabis that is a cannabis product.

The Company obtained an oil sales authorization which broadened the company's product offering. Permitted activities related to cannabis oils, like other forms of cannabis, includes strict terms and conditions that a Licensed Producer must comply with, including, without limitation:

- ensuring that it is shipped in secure, child resistant packaging;
- providing the same health warning messages that apply to dried cannabis;
- not selling or providing any cannabis oil with a concentration of THC exceeding 30 mg per ml of oil;
- ensuring that the label specifies the amount (in milligrams) of THC and CBD;
- not making medical claims in relation to cannabis, unless they are otherwise approved by Health Canada;
- continuing to comply with the record-keeping requirements for all transactions involving cannabis, including sales and destruction records; and
- notifying Health Canada of any adverse reactions of which they become aware.

The Company obtained an amendment to the TCI Licence to allow for sales of cannabis extracts, topicals and edibles. Permitted activities related to cannabis extracts, topicals and edibles, like other forms of cannabis, includes strict terms and conditions that a Licensed Producer must comply with.

Summary of Canadian Regulatory Framework

On October 17, 2018, the Cannabis Act and Cannabis Regulations came into force as law with the effect of legalizing the recreational adult-use of cannabis and regulating the production, distribution and sale of cannabis and cannabis derived products (both medical and adult-use) within Canada. The Cannabis Act replaced the ACMPR and the Old IHR, both of which came into force under the CDSA, which previously permitted access to cannabis for medical purposes for only those Canadians who had been authorized to use cannabis by their health care practitioner.

The Cannabis Act provides a licensing and permitting scheme for activities related to cannabis, implemented by regulations made under the Cannabis Act. The Cannabis Act maintains separate medical access to cannabis, including providing that import and export licenses and permits will only be issued in respect of cannabis for medical or scientific purposes or in respect of industrial hemp. Transitional provisions of the Cannabis Act provide that licenses and permits issued under the former ACMPR and the Narcotics Control Regulations that were in force immediately before the day on which the Cannabis Act came into force are deemed to continue under the Cannabis Act.

The Cannabis Regulations (the "Regulations"), among other things, outline the rules for the legal cultivation, processing, research, testing, distribution, sale, importation and exportation of cannabis and hemp in Canada, including the various classes of licenses that can be granted, and set standards for cannabis and hemp products. The Regulations include strict specifications for the plain packaging and labelling and analytical testing of all cannabis products as well as stringent physical and personnel security requirements for all federally licensed production and processing sites.

The Cannabis Act and Regulations were amended on October 17, 2019 to provide for new classes of cannabis, namely edible cannabis, cannabis extracts and cannabis topicals, that are permitted to be sold in the medical and adult-use markets as well as to establish new regulatory controls to address the public health and safety risks associated with these new classes of cannabis. These controls include restrictions on product composition and ingredients, tetrahydrocannabinol ("THC") limits, and new requirements pertaining to promotion, packaging and labelling, good production practices and record keeping.

Pursuant to the Cannabis Act, subject to provincial regulations, individuals over the age of 18 are able to purchase fresh cannabis, dried cannabis, cannabis oil, cannabis extracts, cannabis topicals, edible cannabis and cannabis plants or seeds and are able to legally possess up to 30 grams of dried cannabis or equivalent. In addition, the Cannabis Act provides provincial, territorial and municipal governments the authority to prescribe regulations regarding retailing and distribution, as well as the ability to alter some of the existing baseline requirements of the Cannabis Act such as increasing the minimum age for purchase and consumption, and limiting the ability of households to grow cannabis plants.

The Cannabis Regulations establish requirements relating to licences; security, including clearances; cannabis products; packaging, labelling and promotion, health products and cosmetics containing cannabis and cannabis for medical purposes.

Licenses, Permits and Authorizations

The Cannabis Regulations establish six classes of licenses: (i) cultivation; (ii) processing; (iii) analytical testing; (iv) sale for medical purposes; (v) research; and (vi) cannabis drug. The Cannabis Regulations also create subclasses for cultivation licenses (standard cultivation, micro-cultivation and nursery) and processing licenses (standard processing and micro-processing). Different licenses and each sub-class therein, carry differing rules and requirements that are intended to be proportional to the public health and safety risks posed by each license category and each sub-class.

Licenses issued pursuant to the Cannabis Regulations may be issued for a period of no more than five years and identify the specific activities that the license holder is authorized to conduct. The Cannabis Regulations may also permit cultivation license holders to conduct both indoor and outdoor cultivation of cannabis, once outdoor cultivation is permitted, however no licensed activities can take place in a "dwelling-house" and all activities must take place on the authorized site (except for destruction, antimicrobial treatment and distribution). The implications of the proposal to allow outdoor cultivation are not yet known, but such a development could be significant as it may reduce start-up capital required for new entrants in the cannabis industry. It may also ultimately lower prices as capital expenditure

requirements related to growing outside are typically much lower than those associated with indoor growing, which may benefit the Company in its capacity as a buyer.

Security Clearances

Certain people associated with cannabis licensees, including, but not limited to, directors and officers of a licence holder and any significant shareholders of the licence holder, the key positions identified by licence class (e.g. master grower, quality assurance person, head of security), and any individual or position specified by the Minister pursuant to Subsection 67(2) of the Cannabis Act, must hold a valid security clearance issued by the Minister. Under the Cannabis Regulations, the Minister may refuse to grant security clearances to individuals with associations to organized crime or with past convictions for, or an association with, drug trafficking, corruption or violent offences, among other reasons. Individuals who have histories of nonviolent, lower-risk criminal activity (for example, simple possession of cannabis, or small-scale cultivation of cannabis plants) are not automatically precluded from participating in the legal cannabis industry, and the grant of security clearance to such individuals is at the discretion of the Minister and such applications will be reviewed on a case-by-case basis.

Cannabis Tracking System and Reporting

Under the Cannabis Act, the Minister is authorized to establish and maintain a national cannabis tracking system. The Cannabis Tracking and Licensing System (the "CTLS"), a single-entry-point secure online platform, has since been established to track cannabis throughout the supply chain to help prevent the diversion of cannabis into, and out of, the illegal market. The CTLS applies to:

- holders of federally issued licences for cultivation, processing and sale for medical purposes, which are required to provide information to the Minister;
- public provincial and territorial bodies that are authorized to sell cannabis under a provincial and territorial act, which are required to provide information to the Minister; and
- private distributors and retailers, which are required to provide data to the public body authorized to sell cannabis or that authorizes sale under provincial and territorial legislation (typically a crown corporation or a provincial ministry).

The information required to be reported is extensive. Among other things, a holder of a licence for cultivation, a licence for processing or a licence for sale for medical purposes that authorizes the possession of cannabis must, no later than the fifteenth day of each month, provide the Minister with certain prescribed information in respect of the site specified in the licence. In addition, the CTLS web portal enables the submissions of new license applications, requests for amendments and license renewals and applications for security clearances.

Cannabis Products

Initially, the Cannabis Act and the Cannabis Regulations set out certain requirements for the sale of cannabis products at the retail level and initially permitted the sale of dried cannabis, cannabis oil, fresh cannabis, cannabis plants, and cannabis seeds, including in "pre-rolled" and capsule form, by authorized license holders.

On October 17, 2019, the Federal Government legalized new classes of products; specifically, edible cannabis, cannabis extracts, and cannabis topical products pursuant to certain amendments to the Cannabis Act and Cannabis Regulations. The previous class, cannabis oil, was subject to a one year transition period to allow for existing cannabis license holders to transition their current products in order to comply with the amended Cannabis Regulations. Consequently, the Cannabis Act was amended with effect on October 17, 2020 to remove "cannabis oil" as a separate cannabis category from Schedule 4 of the Cannabis Act. Edible cannabis, cannabis extracts, and cannabis topical products, which are now available for sale, are subject to additional regulatory requirements that include supplemental marketing and advertising rules, further restrictions on labelling and packaging, rules relating to ingredients of edible cannabis and cannabis extracts, limits on THC content, and additional manufacturing and good production practice requirements. In addition, the Cannabis Regulations require processing license holders to notify Health Canada at least sixty days prior to the intended release of a new product to the market.

Packaging and Labelling

The Cannabis Regulations set out strict requirements pertaining to the packaging and labelling of cannabis products. These requirements are intended to promote informed consumer choice and allow for the safe handling and transportation of cannabis, while also reducing the appeal of cannabis to youth and promoting safe consumption. Cannabis package labels must include specific information, including, among other things: (i) product source information, including the class of cannabis and the name, phone number, and email of the cultivator or processor, as applicable; (ii) a mandatory health warning, rotating between Health Canada's list of standard health warnings; (iii) the Health Canada standardized cannabis symbol; and (iv) information specifying THC and CBD content. The Cannabis Regulations require plain packaging for cannabis products including strict limits that apply to the use of colours, images, logos and other brand elements that may prevent or inhibit product differentiation.

Advertising and Promotions

The Cannabis Act and Cannabis Regulations contain strict restrictions on the promotion of cannabis products and generally prohibit the promotion of cannabis, cannabis accessories and services related to cannabis, unless the promotional activity is specifically authorized under the Cannabis Act. These prohibitions are intended to protect public health and safety, including protecting the health of young persons by restricting their access to cannabis and preventing the inducement of the use of cannabis, while allowing consumers to have access to information with which they can make informed decisions about the consumption of cannabis. In particular, the Cannabis Act provides for broad restrictions on the promotion, packaging and labelling, display, and sale and distribution of cannabis and cannabis accessories in order to prevent young persons from being exposed to such activities and to prevent the encouragement of consumption of cannabis. As such, the promotion, packaging and labelling, display and sale and distribution of cannabis and cannabis accessories takes place in a highly regulated environment which restricts the ability of license holders to brand and market their products in a manner consistent with other industries which are not subject to such controls. Various provinces and territories have enacted additional restrictions on the promotion of cannabis which are stricter than the federal regulations, including increasing the age restrictions provided for under the Cannabis Act and Cannabis Regulations.

Cannabis for Medical Purposes

Part 14 of the Cannabis Regulations sets out the regime for medical cannabis following legalization, which is substantively similar to that provided for under the former ACMPR, with adjustments to create consistency with rules for non-medical use, improve patient access, and reduce the risk of abuse within the medical access system. Patients who have the authorization of their healthcare practitioner will continue to have access to medical cannabis, either purchased directly from a Licensed Producer, by registering to produce a limited amount of cannabis for their own medical purposes or designating someone to produce cannabis for them.

Under the ACMPR regime, medical cannabis was sold online by Licensed Producers only, which did not change with the enactment of the Cannabis Act. However, after the introduction of the Cannabis Act and the legalization of cannabis for adult-use, users of medical cannabis may now elect to purchase cannabis from retailers of cannabis for adult-use. The Federal Government has stated its intention to review the medical cannabis system five years from the enactment of the Cannabis Act in order to determine whether to implement any further changes to the regulatory framework for medical cannabis.

With respect to starting materials for personal production, such as plants or seeds, they must be obtained from Licensed Producers. It is possible that this could significantly reduce the addressable market for the Company's products and could materially and adversely affect the business, financial condition and results of operations of the Company. That said, management of the Company believes that many patients may be deterred from opting to proceed with these options since such steps require applying for and obtaining registration from Health Canada to grow cannabis, as well as the up-front costs of obtaining equipment and materials to produce such cannabis. See "Competitive Conditions".

Health Products and Cosmetics Containing Cannabis

Health Canada has taken a scientific, evidenced-based approach for the oversight of health products containing cannabis that are approved with health claims, including prescription and non-prescription drugs, natural health products, veterinary drugs and veterinary health products, and medical devices.

Prior to the coming into force of the Cannabis Act on October 17, 2018, cannabis was regulated as both a controlled substance under the Controlled Drugs and Substances Act, as well as a drug under the Food and Drugs Act ("FDA"). Under that legislative framework, activities with cannabis were generally prohibited, unless authorized under certain regulations such as the ACMPR, NCR, IHR and Food and Drug Regulations.

When the Cannabis Act came into force, cannabis was removed from the CDSA, and is now subject to restrictions under the new legislative framework while maintaining a partnership with the FDA for regulating health products in a coordinated way. Health products containing cannabis or for use with cannabis will remain subject to a number of requirements under the FDA to ensure appropriate controls for safety, efficacy, and quality, while separate requirements under the Cannabis Act will protect against risks to public health and safety, including diversion to the illegal market.

The Cannabis Exemption (Food and Drugs Act) Regulations exempt cannabis from the FDA unless, among other things, therapeutic claims are made in association with such products. For many of these products, such as drugs, natural health products and most classes of medical devices, pre-market approval is required. In addition, when the Cannabis Act and the Cannabis Regulations were enacted, the Natural Health Products Regulations under the FDA were amended to effectively prohibit cannabis products from being regulated as a natural health product. Instead, cannabis, if not exempt from the FDA, will be treated as a drug product.

With respect to cosmetic products, under the Cannabis Regulations, the use of cannabis and hemp derived ingredients (other than certain hemp seed derivatives containing no more than 10 parts per million THC) in cosmetics, are permitted, subject to the provisions of Health Canada's Cosmetic Ingredient Hotlist and the IHR.

Provincial and Territorial Developments

While the Cannabis Act provides for the regulation by the Federal Government of, among other things, the commercial cultivation and processing of cannabis and the sale of medical cannabis, it also provides that the provinces and territories of Canada have authority to regulate certain aspects of adult-use cannabis, such as distribution and sale, minimum age requirements, places where cannabis can be consumed, and a range of other matters.

The governments of every Canadian province and territory have implemented their regulatory regimes for the distribution and sale of cannabis for adult-use purposes. Most provinces and territories have announced a minimum age of 19 years old, except for Alberta, where the minimum age is 18, and Québec, where the minimum age is 21. A summary of the legislative framework in each province and territory is set out below.

British Columbia

The distribution and sale of recreational cannabis in British Columbia is primarily governed by the Cannabis Control and Licensing Act, the Cannabis Distribution Act and the related regulations. The British Columbia Liquor Distribution Branch is the province's wholesale distributor of cannabis and operates retail and online sales. Private retail stores are also permitted and are licensed by the Liquor and Cannabis Regulation Branch.

Alberta

The distribution and sale of recreational cannabis in Alberta is primarily governed by the Gaming, Liquor and Cannabis Act and the related regulations. The Alberta Gaming, Liquor and Cannabis Commission (the "AGLC") is the sole wholesale distributor of cannabis in the province. Sales of cannabis are permitted through privately run retail stores and online by the AGLC.

Saskatchewan

The distribution and sale of recreational cannabis in Saskatchewan is primarily governed by The Cannabis Control (Saskatchewan) Act and the related regulations. Both the wholesale and retail sale of cannabis (both instore and online) is conducted by private companies in Saskatchewan, which is in turn regulated by the Saskatchewan Liquor and Gaming Authority.

Manitoba

The distribution and sale of recreational cannabis in Manitoba is primarily governed by the Liquor, Gaming and Cannabis Control Act and the related regulations. Cannabis in the province is distributed by Manitoba Liquor and Lotteries Corporation. Retail and online sales of cannabis are conducted by private retailers under the regulation of the Liquor, Gaming and Cannabis Authority of Manitoba.

Ontario

The distribution and sale of recreational cannabis in Ontario is primarily governed by the Cannabis Control Act, 2017, the Cannabis Licence Act, 2018 and the related regulations. The Ontario Cannabis Retail Corporation is the wholesale distributor of cannabis and conducts all online sales in the province.

Québec

The distribution and sale of recreational cannabis in Quebec is primarily governed by the Cannabis Regulation Act and the related regulations. The Société Québécoise du Cannabis is the exclusive distributor of cannabis in the province and is the sole retail and online vendor.

New Brunswick

The distribution and sale of recreational cannabis in New Brunswick is primarily governed by the Cannabis Control Act and the related regulations. The distribution and sale of cannabis, both online and instore, is exclusively conducted by the New Brunswick Cannabis Management Corporation.

Nova Scotia

The distribution and sale of recreational cannabis in Nova Scotia is primarily governed by the Cannabis Control Act and the related regulations. Recreational cannabis is distributed and sold at retail locations and online by the Nova Scotia Liquor Corporation.

Newfoundland and Labrador

The distribution and sale of recreational cannabis in Newfoundland and Labrador is primarily governed by the Cannabis Control Act and the related regulations. Recreational cannabis is sold through private stores, with the Newfoundland and Labrador Liquor Corporation ("NLC") conducting online sales and regulating distribution. The NLC also has the option to open public stores in areas that do not attract private retailers.

Prince Edward Island

The distribution and sale of recreational cannabis in Prince Edward Island is primarily governed by the Cannabis Control Act and the related regulations. Cannabis is distributed and sold at retail locations and online by the PEI Cannabis Management Corporation.

Yukon

The distribution and sale of recreational cannabis in Yukon is primarily governed by the Cannabis Control and Regulation Act and the related regulations. The Yukon Liquor Corporation is responsible for distributing cannabis in

the territory. Sales of cannabis are permitted through privately run retail stores and online by the Yukon Liquor Corporation.

The Northwest Territories

The distribution and sale of recreational cannabis in the Northwest Territories is primarily governed by the Cannabis Products Act and related regulations. The Northwest Territories Liquor Commission is responsible for the distribution and sale of cannabis through existing liquor stores and online sales, with private retail contemplated in the future.

Nunavut

The distribution and sale of recreational cannabis in Nunavut is primarily governed by the territorial Cannabis Act. At this time, the Nunavut Liquor and Cannabis Commission has designated two agents to provide cannabis in the territory through online sales but has issued a request for proposals for other potential suppliers.

There is no guarantee that the provincial and territorial frameworks supporting the legalization of cannabis for recreational use in Canada will continue on the terms outlined above or at all or will not be amended or supplemented by additional legislation.

US CANNABIS REGULATORY REGIME

The cannabis industry is subject to various state and local laws, regulations and guidelines relating to the cultivation, manufacture, distribution, sale, storage and disposal of medical and recreational cannabis, as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. The US regulatory scheme varies in its terminology and definitions, using “cannabis”, “marijuana” and “hemp” as distinct terms. The regulatory environment governing the medical and recreational marijuana industries in the US, where state law permits such activities, are, and will continue to be, subject to evolving regulation by governmental authorities. Accordingly, there are a number of risks associated with investing in businesses in an evolving regulatory environment, including, without limitation, increased industry competition, rapid consolidation of industry participants and potential insolvency of industry participants.

There are over 35 states plus the District of Columbia, the Commonwealth of the Northern Mariana Islands, Puerto Rico, US Virgin Islands and Guam that have legalized medical marijuana and approximately 15 states plus the District of Columbia, Guam, and the Commonwealth of Northern Marina Islands who have legalized adult-use (i.e.) recreational marijuana. Notwithstanding the permissive regulatory environment of medical, and in some cases also recreational marijuana at the state level, marijuana remains a Schedule I drug under the CSA making it illegal under US federal law to cultivate, manufacture, distribute, sell or possess marijuana in the US. Furthermore, financial transactions involving proceeds generated by, or intended to promote, cannabis-related business activities in the US may form the basis for prosecution under applicable US federal money laundering legislation.

The US federal government’s approach to enforcement of marijuana laws has trended toward deference to state laws where a robust state regulatory framework exists. On August 29, 2013, the U.S. Department of Justice (the "DOJ") issued a memorandum known as the "Cole Memorandum" to all US Attorneys’ offices. The Cole Memorandum generally directed US Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that comply with state medical marijuana programs. The Cole Memorandum, while not legally binding and only a policy statement, assisted in managing the tension between state and federal laws concerning all medical and adult use state-regulated marijuana businesses.

On January 4, 2018, the Cole Memorandum was rescinded by, now former, Attorney General Sessions. While this did not create a change in federal law, the revocation added to the uncertainty of US federal enforcement of the CSA in states where marijuana use is regulated. Former Attorney General Sessions also issued a one-page memorandum known as the “Sessions Memorandum” which confirmed the rescission of the Cole Memorandum and explained that the Cole Memorandum was "unnecessary" due to existing general enforcement guidance as set forth in the US Attorney’s Manual. While the Sessions Memorandum does emphasize that marijuana is a Schedule I controlled substance, and states the statutory view that it is a "dangerous drug and that marijuana activity is a serious crime," it does not otherwise indicate that the prosecution of marijuana-related offenses is a heightened DOJ priority.

Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such prosecutorial discretion remains in the hands of US Attorneys when deciding whether or not to prosecute marijuana-related offenses.

On November 7, 2018, US Attorney General Jeff Sessions resigned as US Attorney General. On February 14, 2019, William Barr was confirmed by the US Senate as the next Attorney General. Mr. Barr is a former US Attorney General under George H.W. Bush's administration and previously had an anti-drug stance during that tenure. During his most recent Senate confirmation hearing, Mr. Barr stated that he did not support cannabis legalization but would not prosecute cannabis businesses that comply with state laws. Mr. Barr stated further that he would not upset settled expectations that have arisen as a result of the Cole Memorandum. The US DOJ may change its enforcement policies at any time, with or without advance notice.

For the reasons set forth herein, the Company's existing investments in the US, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not lead to the imposition of certain restrictions on the Company's ability to invest in the US or any other jurisdiction. Government policy changes or public opinion may also result in a significant influence over the regulation of the marijuana industry in the US or elsewhere. A negative shift in the public's perception of marijuana in the US or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state and local jurisdictions to abandon initiatives or proposals to legalize medical or recreational marijuana, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

Additionally, under US federal law, it may be a violation of federal money laundering statutes for financial institutions to take any proceeds from the sale of marijuana or any other Schedule I controlled substance. Banks and other financial institutions, particularly those that are federally chartered in the US, could be prosecuted and possibly convicted of money laundering for providing services to marijuana businesses. It may also be a violation of federal money laundering statutes for "federal health care law violations", which include violations of the Federal Food, Drug, and Cosmetic Act.

Violations of any US federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities, civil forfeiture or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its marijuana licences in the US, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. For the reasons set forth above, the Company's investments and operations in the US may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada.

The Company may also be subject to a variety of laws and regulations domestically and in the US that relate to money laundering, financial recordkeeping and proceeds of crime, including the Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the US and Canada. Further, under US federal law, banks or other financial institutions that provide a marijuana business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

In February 2014, the Financial Crimes Enforcement Network of the Treasury Department issued a memorandum (the "FinCEN Memorandum") providing instructions to banks seeking to provide services to marijuana-related businesses.

The FinCEN Memorandum clarifies how financial institutions can provide services to marijuana-related businesses consistent with their Bank Secrecy Act obligations. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on marijuana-related violations of the CSA and independently lists the federal government's enforcement priorities as related to marijuana. Although the original FinCEN Memorandum is still in place, this supplementary Department of Justice guidance that accompanied the FinCEN Memorandum was rescinded when former Attorney General Sessions rescinded the Cole Memorandum. It is unclear whether the current administration will follow the guidelines of the FinCEN Memorandum, although immediately after the Sessions Memorandum, the United States Treasury Secretary stated that the Treasury Department had no intention to rescind the FinCEN Memorandum but, instead, wanted to improve the availability of banking services in the state-regulated marijuana space. In the foreseeable future, the Company expects any amounts payable by the Company from its subsidiaries to remain in the US to fund the further development of its businesses. The Company may also consider future debt or equity financings.

H.R. 1595, the SAFE Banking Act of 2019, which would expand financial services in the US to marijuana-related legitimate businesses and service providers, was introduced in the House of Representatives on March 7, 2019 with bipartisan support. On March 28, 2019 the bill was reported out of the House Financial Services Committee by a 45 15 vote. On April 8, 2019, the House Judiciary Committee referred it to the Subcommittee on Crime Terrorism, and Homeland Security. On April 11, 2019, S. 1200, the Senate version of the SAFE Banking Act, was filed. This bill also has bipartisan support and more than a fifth of the total Senate is co-sponsoring it, 27 members as of May 20, 2019. On September 25, 2019, H.R. 1595 passed the House by a vote of 321 to 103, but it stalled in the US Senate. The SAFE Banking Act passed the House again on May 15, 2020, when it was included in the COVID-19 stimulus bill, the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act. However, that measure also stalled in the Senate. While the large number of co-sponsors and the quick, favorable action in the House show building Congressional momentum for increasing protections for financial institutions working with cannabis businesses, the SAFE Banking Act is not yet law. Previous efforts to expand these protections have not succeeded, including the Senate Appropriations Committee tabling an amendment that would have provided more limited banking protections through a federal budget appropriations rider in June of 2018.

In both Canada and the US, transactions involving banks and other financial institutions are both difficult and unpredictable under the current legal and regulatory landscape. Legislative changes could help to reduce or eliminate these challenges for companies in the marijuana space and would improve the efficiency of both significant and minor financial transactions, although such changes appear to be unlikely as a result of the current political climate in the US

Although the Cole Memorandum has been rescinded, one legislative safeguard for the medical marijuana industry remains in place. Congress has used a rider known as the Rohrabacher-Blumenauer Amendment in the fiscal year 2015, 2016 and 2017 Consolidated Appropriations Acts (the "RBA") to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. However, this measure does not protect adult use marijuana businesses. As part of the $1.3 trillion federal spending bill enacted on March 23, 2018, Congress renewed the RBA through September 2018, and subsequently extended it further. The RBA is an appropriations rider that prohibits the DOJ from using federal funds to prevent states from implementing marijuana laws. The US Ninth Circuit in United States v. McIntosh held that the prohibition under the RBA also prevents the DOJ from spending federal funds to prosecute individuals who are engaged in conduct that is permitted by, and in compliance with, state medical marijuana laws. The March 2018 renewal was the eleventh time the RBA has been approved or renewed since its first passage in 2014. Recently, in July 2020, the House introduced a base appropriations bill with the RBA included, and on October 1, 2020, the amendment was renewed through the President's signing of a stopgap funding bill, effective through December 11, 2020.

State-Level Overview

The following section presents an overview of market and regulatory conditions for the marijuana industry in US states in which the Company has or is intending to have an operating presence and is presented as of the date of filing, unless otherwise indicated.

California

In 1996, California voters passed Proposition 215, also known as the Compassionate Use Act, allowing physicians to recommend cannabis for an inclusive set of qualifying medical conditions including chronic pain. The law established a not-for-profit patient/caregiver system but there was no state licensing authority to oversee the businesses that emerged as a result of the system. In September of 2015, the California legislature passed three bills, collectively known as the Medical Marijuana Regulation and Safety Act ("MCRSA"). In 2016, California voters passed The Adult Use of Marijuana Act ("AUMA"), which legalized recreational use cannabis for adults 21 years of age and older and created a licensing system for commercial cannabis businesses. Note, California defines "cannabis" to mean "marijuana". On June 27, 2017, then-Governor Jerry Brown signed Senate Bill 94 into law, which combined California's medicinal and recreational use cannabis frameworks into one licensing structure under the Medicinal and Adult-Use of Cannabis Regulation and Safety Act ("MAUCRSA").

Pursuant to MAUCRSA: (i) CalCannabis, a division of the California Department of Food and Agriculture, issues licenses to cannabis cultivators: (ii) the Manufactured Cannabis Safety Branch (the "MCSB"), a division of the California Department of Public Health, issues licenses to cannabis manufacturers; and (iii) the California Department of Consumer Affairs, via its agency the Bureau of Cannabis Control (the "BCC"), issues licenses to cannabis distributors, testing laboratories, retailers, and micro-businesses. These agencies also oversee the various aspects of implementing and maintaining California's cannabis landscape, including the statewide track and trace system. All three agencies released their initial emergency rulemakings at the end of 2017 and updated them with minor revisions in June 2018. The three agencies adopted their permanent rulemakings on January 16, 2019. All three agencies began issuing temporary licenses in January 2018 and stopped doing so on December 31, 2018, pursuant to MAUCRSA.

Local authorization is a prerequisite to obtaining a state license, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. All three state regulatory agencies require confirmation from the applicable locality that the operator is operating in compliance with local requirements and was granted authorization to continue or commence commercial cannabis operations within the locality's jurisdiction. Applicants are required to comply with all local zoning and land use requirements and provide written authorization from the property owner where the commercial cannabis operations are proposed to take place, which must dictate that the applicant has the property owner's authorization to engage in the specific state-sanctioned commercial cannabis activities proposed to occur on the premises. The State has not set a limit on the number of state licenses an entity may hold, unlike other states that have restricted how many cannabis licenses an entity may hold in total or for various types of cannabis activity. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license. There are also no residency requirements for ownership of a state license under MAUCRSA.

California state licenses, and some local licenses, are renewed annually. Each year, licensees are required to submit a state renewal application to CalCannabis, the MCSB, or the BCC, as applicable, and all applicable local renewal applications to the applicable local regulatory body (for local licenses) such as the Department of Cannabis Regulation in the City of Los Angeles.

California's robust regulatory system is designed to ensure, monitor, and enforce compliance with all aspects of a cannabis operator's licensed operations. California's state license application process additionally requires comprehensive criminal, regulatory, financial and personal disclosures, coupled with stringent monitoring and continuous reporting requirements designed to ensure only good actors are granted licenses and that licensees continue to operate in compliance with the state regulatory program. Applicants must submit standard operating procedures describing how the operator will, among other requirements, secure the facility, manage inventory, comply with the state's seed-to-sale tracking requirements, dispense cannabis, and handle waste, as applicable to the license sought. Once licensed, an operator must continue to abide by the processes described in its application and seek regulatory approval before any changes to such procedures can be made. Licensees are additionally required to train their employees on compliant operations and are only permitted to transact with other legal and licensed businesses.

As a condition of state licensure, operators must consent to random and unannounced inspections of their commercial cannabis facility as well as all of the facility's books and records, so as to monitor and enforce compliance with state law. Many localities have also enacted similar standards for inspections, and the state has already commenced site-visits and compliance inspections for operators who have received state temporary or annual licensure.

New Jersey

On January 18, 2010, the Compassionate Use Medical Marijuana Act (the "CUMMA") came into force allowing patients with a limited number of qualifying medial conditions to access the state's medical marijuana program. The New Jersey Department of Health (the "NJDOH") issued regulations shortly thereafter authorizing the NJDOH to accept applications for a minimum of six alternative treatment centers (the "ATCs"), with two each to operate in the north, central and south regions of New Jersey.

CUMMA permits each ATC to operate as both a cultivator and dispensary under one permit. These activities can take place at up to two locations, as long as both locations are within the same region. The application process involves two stages. Those seeking an ATC permit must first submit an application seeking authority to apply for a permit to operate. Upon the granting of the application, the prospective ATC must then complete the application for actual permitting. Applications for authority to apply for a permit may only be submitted following solicitation from NJDOH for such applications. The first six permits for ATCs were awarded to nonprofit entities, with subsequent permits to be available to both nonprofit and for-profit entities. In 2013, CUMMA was amended to allow ATCs to cultivate an unlimited number of strains of marijuana and sell additional marijuana-infused products, and to restrict the same of marijuana-infused edible products to qualifying patients under the age of 18. With additional authorizations, ATCs may also house manufacturing facilities for marijuana-infused products such as syrups and lozenges. All marijuana is subject to a THC limit of 10%, though NJDOH is proposing to repeal the regulation that establishes this limit.

Upon taking office on January 16, 2018, Gov. Murphy expanded the medical program by issuing Executive Order No. 6, which ordered a 60-day review of all aspects of New Jersey's current program, "with a focus on ways to expand access to marijuana for medical purposes." In response to Executive Order No. 6, NJDOH released its EO 6 Report on March 23, 2018, which proposed significant changes to the existing medicinal program. In an effort to create greater patient access, the state immediately put into effect some of the recommended changes, including cutting registration and renewal fees, and expanding qualifying conditions.

On July 16, 2018, the Murphy Administration announced that the licensing application process would be opened for up to six additional vertically integrated medicinal marijuana ATCs. The NJDOH released a Notice of Request for Applications (the "Notice") outlining the reason for issuing the licenses, eligibility rules and information required for the applications. The application period opened on August 1, 2018 and closed on August 31, 2018. Winning applicants were supposed to be selected on or before November 1, 2018 but this deadline was subsequently pushed to December due to administrative constraints. On December 17, 2018, NJDOH revealed the additional six medical marijuana ATCs it picked to add to the program. New Jersey will now have 12 vertically-integrated ATCs across the state, if these additional six applicant ATCs become operational. These six applicant ATCs now must pass background checks, provide evidence of cultivation and dispensary locations with municipal approval for each location, and comply with all regulations promulgated by the NJDOH, including safety and security requirements.

On March 25, 2019, a planned vote on legislative package including medical expansion and adult-use legalization was pulled due to a lack of votes necessary to pass the legislation through the state Senate. This setback came after significant momentum had helped to pass the bill through the appropriations and judiciary committees earlier in the month. After the package of cannabis reforms stalled, Governor Murphy announced he would be expanding the medical program through administrative action. This announcement has proved contentious as the Senate President claims any regulatory changes for medical cannabis would make securing the votes necessary to pass adult-use legalization more difficult. On May 14, 2019, the Senate President announced he would no longer work to advance adult-use legalization through the legislature and instead would pivot to put the issue before voters for the 2020 general election. While legalization has stalled, bills to expand the state's medical program and reform criminal penalties continue to move forward. On December 18, 2020, Governor Murphy signed A. 5981/S. 4154 into law, which facilitates the expungement of low-level marijuana crimes and other offenses. And, on November 3, 2020, New Jersey voters passed a ballot measure amending the New Jersey Constitution to permit the use of marijuana for adults over 21 years of age. The ballot measure will also allow New Jersey to regulate the growth, distribution, and sale of adult use marijuana. On November 4, 2020, New Jersey Attorney General Gurbir S. Grewal issued a statement reminding Garden State residents that the state's criminal laws related to marijuana still apply until the state Legislature enacts a framework for adult use cannabis.

Pennsylvania

The Pennsylvania medical marijuana program was signed into law on April 17, 2016 under Act 16 and provided access to state residents with one or more of 17 qualifying conditions, including: epilepsy, chronic pain and PTSD. The state originally awarded only 12 licenses to cultivate/process and 27 licenses to operate retail dispensaries (which entitled holders to up to three medical dispensary locations per retail license).

On March 22, 2018, it was announced that the final phase of the Pennsylvania medical marijuana program would initiate its rollout, which included 13 additional cultivation/processing licenses and 23 additional dispensary licenses. Additionally, the list of qualifying conditions was expanded from 17 to 21.

There are two principal license categories in Pennsylvania: (1) cultivation/processing and (2) dispensary. All cultivation/processing establishments and dispensaries must register with Pennsylvania Department of Health. Registration certificates are valid for a period of one year and are subject to annual renewals after required fees are paid and the business remains in good standing. The Pennsylvania Department of Health must renew a permit unless it determines the applicant is unlikely to maintain effective control against diversion of medical cannabis and the applicant is unlikely to comply with all laws as prescribed under the Pennsylvania medical marijuana program.

Under applicable laws, the licenses permit the license holder to cultivate, manufacture, process, package, sell and purchase medical marijuana pursuant to the terms of the licenses, which are issued by the Pennsylvania Department of Health under the provisions of Medical Marijuana Act and Pennsylvania regulations. The medical cultivation/processing licenses permit the licensee to acquire, possess, cultivate, manufacture/process into medical marijuana products and/or medical marijuana-infused products, deliver, transfer, have tested, transport, supply or sell marijuana and related supplies to medical marijuana dispensaries.

The retail dispensary licenses permit the Company to purchase marijuana and marijuana products from cultivation/processing facilities, as well as allow the sale of marijuana and marijuana products.

US HEMP REGIME

The Agriculture Improvement Act of 2018 (commonly known as the "2018 Farm Bill") was signed into law on December 20, 2018. The 2018 Farm Bill, among other things, removes "hemp" (including any part of the cannabis plant containing 0.3% THC or less), its extracts, derivatives, and cannabinoids from the CSA definition of "marihuana", and allows for federally-sanctioned hemp production under the purview of the U.S. Department of Agriculture (the "USDA"), in coordination with state departments of agriculture that elect to have primary regulatory authority. States and Tribal governments can adopt their own regulatory plans, even if more restrictive than federal regulations, so long as the plans meet minimum federal standards and are approved by the USDA. Hemp production in jurisdictions that do not choose to submit their own plans (and that do not otherwise prohibit hemp production) will be governed by USDA regulation. "Hemp" as defined in the 2018 Farm Bill, "means the plant Cannabis sativa L., and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not with a THC concentration of not more than 0.3% on a dry weight basis."

While the 2018 Farm Bill removes hemp and hemp-derived products from the controlled substances list under the CSA, it does not legalize CBD in every circumstance. While not independently scheduled under the CSA, CBD, depending on the source from which it was derived and its THC concentration, can still be classified as a Schedule I substance under the CSA's definition of "marihuana." Further, although the 2018 Farm Bill creates a limited exception to this prohibition, this exception only applies if the CBD is derived from "hemp" as defined in federal law. Federal law also requires that: (i) the hemp is produced by a Licensed Producer; and (ii) in a manner consistent with the applicable federal and state regulations. CBD and other cannabinoids produced from marihuana as defined by the CSA remain an illegal Schedule I substance under federal law. In addition, many state laws include all CBD within definitions of marijuana and some states have policies or laws that otherwise prohibit or restrict CBD sales.

Notwithstanding the foregoing, the 2018 Farm Bill expressly preserves the U.S. Food and Drug Administration's ("FDA") authority to regulate certain products under the federal Food, Drug, and Cosmetic Act ("FDCA") and Section

351 of the Public Health Service Act. The FDA takes the position that because CBD was the subject of substantial clinical investigations that have been made public and is the active ingredient in an FDA-approved drug (Epidiolex), it is therefore illegal to add to food and CBD products are excluded from the dietary supplement definition. While there is an exception for articles that were marketed as a conventional food or dietary supplement before the new drug investigations were authorized (or the new drug was approved), the FDA has asserted that, based on available evidence, the exception does not apply to CBD. As previously mentioned, the FDA takes the position that it is unlawful under the FDCA to introduce food containing added CBD into interstate commerce, or to market CBD products as, or in, dietary supplements, regardless of whether the substances are hemp-derived. Despite FDA's stated position, the agency has not, to date, been active in its CBD-related enforcement absent CBD products bearing aggressive therapeutic claims (e.g., claims of treatment of COVID-19, neuropathy, AIDS, diabetes, cancer, etc.). FDA could change its enforcement priorities at any time. The FDA has indicated that it will work towards providing ways for companies to seek approval from the FDA to market CBD products. In addition, options remain available for the FDA to consider whether there are circumstances in which certain cannabis-derived compounds might be permitted in a food or dietary supplement. Importantly, notwithstanding the FDA's stated position prohibiting sales of CBD containing-foods and dietary supplements, the FDA has authority to issue a regulation allowing the use of a pharmaceutical ingredient, such as CBD, in a food or dietary supplement, even if such pharmaceutical ingredient was not previously marketed as a food or dietary ingredient prior to the initiation of clinical drug trials. Timing regarding if or when FDA might issue such a regulation is unclear.

States have also taken various approaches to the production and sale of hemp-derived food products. Many states have adopted the Uniform State Food, Drug, and Cosmetic Act, which was created in 1984 by the Association of Food and Drug Officials (the "AFDO"), the primary organization for state food and drug officials. The AFDO's model Uniform Act includes a provision to automatically incorporate changes to the FDCA into state law. However, there is some variation between state Food, Drug, and Cosmetic Acts both because not all states have adopted this provision, and because not all states have adopted the Uniform Act. States that have adopted the Uniform Act generally prohibit the use of CBD in food and dietary supplements due to the FDA's lack of approval for such uses of the substance, discussed above. For example, Michigan and California (among other states) prohibit the use of CBD in retail food and beverage products because of the FDA's stated position. Like FDA, some states, despite having stated positions of the impermissibility of CBD foods and supplements, or any CBD products at all, enforcement is inconsistent, with some state regulators more active than others. Again, these enforcement priorities could change at any time.

Although hemp-derived CBD cannot be added or marketed in foods or dietary supplements, certain hemp derived substances, such as hemp seed oil, may be permissible in food, dietary supplements, cosmetics, and ther products depending on whether the ingredients and finished products comply with the other requirements of the FDCA. For example, a substance that will be added to food is subject to premarket approval by the FDA unless it is generally recognized, among qualified experts, to be safe under the conditions of its intended use ("GRAS"). Pursuant to the FDCA, a food ingredient may be marketed in the US under any of the following three alternative criteria: (i) if it was approved by the FDA or USDA between 1938 and 1958 for the intended use (commonly referred to as a "prior sanction"); (ii) if it is GRAS for its intended use; or (iii) pursuant to a food additive regulation promulgated by the FDA. On December 20, 2018, the FDA issued GRAS approvals for three types of non-cannabinoid hemp products – hulled hemp seeds, hemp seed protein, and hemp seed oil. These three types of products can be legally marketed in human foods without food additive approval, provided they comply with all other requirements and do not make unlawful drug claims. It is worth noting that none of these GRAS products contain CBD.

The 2018 Farm Bill also contemplates a significant state presence in the regulation of hemp production, as the 2018 Farm Bill empowers states, US territories and Native American tribes to regulate the production and sale of hemp within their respective borders. To regulate commercial hemp production, states, US territories and Native American tribes must submit plans to the USDA setting out the processes associated with how the state, territory or tribe will regulate hemp production, including how it will gather information, test, inspect and dispose of hemp and its related byproducts. The Secretary of the USDA must approve or reject these plans within sixty days of receipt. If a state, territory or tribe chooses not to submit a plan to the USDA, potential producers will be able to apply directly to the USDA for licensing approval. States, territories and tribes may also enact stricter laws than those enacted at the federal level and may ban hemp production and sale within their respective jurisdiction.

Once implemented, in jurisdictions with USDA-approved state programs, it will be a violation of state law to cultivate hemp without a registration in compliance with state law, or in the case of a state or territory without a USDA-approved program, it will be a violation of federal law to cultivate hemp without a federally issued license.

The 2018 Farm Bill was signed into law on December 20, 2018. Importantly, however, the Industrial Hemp cultivation and research provisions contained in the Section 7606 of the Agricultural Act of 2014 (the "2014 Farm Bill") will remain in effect pending the USDA's rulemaking process and certain provisions of the law may not yet be effective. The federal rulemaking process may take more than one year to finalize, and the 2014 Farm Bill will be repealed one year after the USDA establishes regulations governing hemp production in states lacking their own USDA-approved plans. The scope of the 2014 Farm Bill is limited to cultivation that is: (i) for research purposes (inclusive of market research, which multiple federal agencies have confirmed includes commercial sales with a research purpose); (ii) part of an "agricultural pilot program" or other agricultural or academic research; and (iii) permitted by state law. Further, the 2014 Farm Bill defines "Industrial Hemp" as the plant Cannabis sativa L., and any part of such plant, whether growing or not, with a delta-9 THC concentration of not more than 0.3% on a dry weight basis.

State-Level Overview

The following section presents an overview of market and regulatory conditions for the hemp industry in US states in which the Company has or is intending to have an operating presence and is presented as of the date of this filing, unless otherwise indicated.

Florida

Florida continues to classify all cannabis as a schedule I controlled substance, excepting medical marijuana grown and sold under the state's medical marijuana program and, as of July 1, 2019, both hemp and industrial hemp, defined below. Florida defines "cannabis" in its criminal code to include, "all parts of any plant of the genus cannabis, whether growing or not; the seeds thereof; the resin extracted from any part of the plant; and every compound, manufacture, salt derivative, mixture, or preparation of the plant or its seeds or resin.". The term does not include "marijuana," if manufactured, possessed, sold, purchased, delivered, distributed, or dispensed, in conformance with § 381.986 Florida's Medical Marijuana Program statutes. This term also does not include "hemp" defined in § 581.217 or "industrial hemp" as defined in § 1004.4473.

On May 3, 2019, the Florida legislature passed SB1020, creating Florida's hemp farming program governed by the Florida Department of Agriculture, legalizing cannabidiol and the sale and distribution of hemp extracts, and removing hemp and industrial hemp from the definition of cannabis under state law so that hemp is no longer a controlled substance in the state of Florida. On June 25, 2019, the bill was signed by the governor and went into on effect July 1, 2019. On April 8, 2020, Florida's Hemp Plan was approved by USDA. Hemp cultivators may now apply for licensure online with the Florida Department of Agriculture. As part of the application, hemp cultivators must undergo a background check and must submit a Hemp Containment and Transportation Plan, among other requirements.

COMPLIANCE

The Company is in compliance with all state laws and the related cannabis licensing framework of Pennsylvania, New Jersey and California. There are no current incidences of noncompliance, citations or notices of violations outstanding which may have an impact on the Company's licenses, business activities or operations in these states. Notwithstanding the foregoing, like all businesses, the Company may from time-to-time experience incidences of noncompliance with applicable rules and regulations in the states in which the Company operates, and such non-compliance may have an impact on the Company's licenses, business activities or operations in the applicable states. However, the Company takes steps to minimize, disclose and remedy all incidences of non-compliance which may have an impact on the Company's licenses, business activities or operations in all states in which the Company operates.

RISK FACTORS

The following section describes specific and general risks that could affect the Company. These risks and uncertainties are not the only ones the Company is facing. Additional risks and uncertainties not presently known to the Company, or that it currently deems immaterial, may also impair its operations. If any such risks actually occur, the business, financial condition, liquidity and results of the Company's operations could be materially adversely affected. The risk factors described below should be carefully considered by readers.

Reliance on Licenses

The Company's ability to grow, store and sell medical and adult-use cannabis and cannabis oil in Canada and certain US states is dependent on TerrAscend maintaining licenses with applicable regulators for both oil and dried cannabis production and the sale of dried cannabis. Failure to comply with the requirements of its licenses or any failure to maintain its licenses would have a material adverse impact on the business, financial condition and operating results of the Company.

The Company and its subsidiaries, as applicable, will apply for, as the need arises, all necessary licenses and permits to carry on the activities it expects to conduct in the future. However, the ability of the Company or its subsidiaries to obtain, maintain or renew any such licenses and permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions.

Changes in Laws, Regulations and Guidelines

The Cannabis Act came into force in Canada on October 17, 2018 along with various related regulations. The cultivation, processing, distribution and sale of cannabis, among other things, remains subject to extensive regulatory oversight under the Cannabis Act, as it was prior to its implementation. It is possible that these statutory requirements, including any new regulations that are subsequently issued, could significantly and adversely affect the business, financial condition and results of operations of the Company.

While the foregoing activities in respect of cannabis are under the regulatory oversight of the Government of Canada, the distribution of recreational use cannabis is the responsibility of the respective provincial and territorial governments. These jurisdictions have chosen varying retail frameworks with private, public and hybrid models being implemented. There is no guarantee that provincial and territorial legislation regulating the distribution and sale of cannabis for recreational purposes will be continued according to their current terms, that they will not be materially amended or that such regimes will create the growth opportunities that the Company currently anticipates.

In the US, the operations of the Company and its subsidiaries are subject to a variety of laws, including, among other things, state and local regulations and guidelines relating to the cultivation, manufacture, management, transportation, distribution, sale, storage and disposal of cannabis. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's business, financial condition and result of operations. Local, state and federal laws and regulations governing marijuana for medicinal and recreational purposes are broad in scope and are subject to evolving interpretations, which could require the Company to incur substantial costs associated with bringing the Company's operations into compliance. In addition, violations of these laws, or allegations of such violations, could disrupt the Company's operations and result in a material adverse effect on its financial performance. It is beyond the Company's scope to predict the nature of any future change to the existing laws, regulations, policies, interpretations or applications, nor can the Company determine what effect such changes, when and if promulgated, could have on the Company's business.

In addition, government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the US or elsewhere. A negative shift in the public's perception of medical or recreational cannabis in Canada, the US or any other applicable jurisdiction could affect future legislation or regulation. Among other things, a shift could cause state and local jurisdictions to abandon initiatives or proposals to legalize medical or recreational cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

Regulatory Risks

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the impact of the compliance regime, the applicable regulatory bodies in the US and Canada are implementing that effect the business of the Company. Similarly, the Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. The impact of governmental compliance regimes, any delays in obtaining, or failure to obtain regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions on the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, result in increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

The cannabis industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Company and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company’s earnings and could make future capital investments or the Company’s operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

US Specific Regulatory Risk

While some states in the US have authorized the use and sale of cannabis in some form, it remains illegal under US federal law. On January 4, 2018, US Attorney General Jeff Sessions issued a memorandum to US Attorneys which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the US, including the Cole Memorandum, which stated that the U.S. Department of Justice would not prioritize the prosecution of cannabis-related violations of US federal law in jurisdictions that had enacted laws legalizing medical cannabis in some form and had implemented strong and effective regulatory and enforcement systems. With the Cole Memorandum rescinded, US federal prosecutors have greater discretion in determining whether to prosecute medical cannabis-related violations of US federal law; there was never such a policy statement in relation to US state and territories with adult use cannabis programs. Because the Company engages in cannabis-related activities in the US, an increase in federal enforcement efforts with respect to current US. federal laws applicable to cannabis could cause financial damage to the Company. In addition, the Company is at risk of being prosecuted under US federal law and having its assets seized.

The Company’s exposure to US marijuana related activities for the year ended December 31, 2020 and December 31, 2019 is as follows:

	At December 31, 2020	At December 31, 2019
Current assets	$ 107,743	$ 32,784
Non-current assets	386,000	$ 307,744
Current liabilities	104,515	$ 130,772
Non-current liabilities	213,959	$ 219,408

	December 31, 2020	December 31, 2019
Sales, net	$ 167,965	$ 35,224
Gross profit (loss) before gain on fair value of biological assets	110,067	13,539
Gross profit (loss)	147,464	18,406
Income (loss) from operations	101,009	(4,047)
Net income (loss) attributable to controlling interest	30,478	(152,713)

Enforcement of the US Federal Law is a Significant Risk.

Violations of any USs federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the US federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities, civil forfeiture or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of cannabis under the Cannabis Act, investors are cautioned that in the US, cannabis is largely regulated at the state level. Notwithstanding the permissive regulatory environment of cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substance Act ("CSA") in the US and as such, is in violation of federal law in the US.

Further, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that will make it extremely difficult or impossible to transact business in the cannabis industry.

As stated above, the US Congress has passed appropriations bills each of the last several years, since 2014, to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. Most recently, on October 1, 2020, President Trump signed a short-term continuing resolution to extend current appropriations through December 11, 2020. The continuing resolution contains, among other things, the Rohrabacher Blumenauer Amendment (the "RBA"), which prevents the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state medical cannabis laws.

One US federal appellate court construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws, vacated numerous convictions and sent the cases back to the trial courts for further determination. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the RBA in a budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under

the five-year statute of limitations applicable to non-capital CSA violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provide no protection against businesses operating in compliance with a state's recreational cannabis laws.

Although the 2018 Farm Bill, among other things, generally removes hemp from the controlled substances list under the CSA, it does not legalize CBD generally. In particular, the 2018 Farm Bill preserves the FDA's authority to regulate products containing cannabis or cannabis-derived compounds. Pursuant to a statement released December 20, 2018, an FAQ on the FDA's website, and numerous public statements, the FDA has taken the position that all CBD is a drug ingredient and therefore illegal to add to food or health products without its approval or further action by the FDA. The FDA considers products containing CBD or other cannabis-derived compounds the same as any other FDA-regulated products and takes the position that they are subject to the same authorities and requirements as similarly regulated products, including but not limited to required approvals for food ingredients and dietary supplements based on safety standards. Importantly, the FDA has taken the position that it is unlawful under the FDCA to introduce food containing added CBD into interstate commerce, or to market CBD products as, or in, food or dietary supplements, regardless of whether the substances are hemp derived. The FDA has however indicated that it will work towards providing ways for companies to seek approval from the FDA to market CBD products. Further, many state criminal laws and food and drug laws prohibit or restrict the production and/or sale of hemp-derived CBD products. The Company's US hemp operations will be subject to FDA oversight. There is no guarantee that the Company will be able to obtain necessary approval from regulatory authorities for its products in the US

The Company's activities and operations in the US are, and will continue to be, subject to evolving regulation by governmental authorities. The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined. The USDA will promulgate additional rules governing the production of hemp in the US, with many states in the process of amending state laws to regulate hemp production and the sale of hemp-derived products within their borders. In addition, the FDA is expected to make determinations as to how CBD products will be regulated and is expected to issue a substantial change in its regulation of dietary supplements generally. Accordingly, there are significant changes in both federal and state law that may materially impact the Company's operations.

Challenges to Access Public and Private Capital Markets

Since the use of cannabis is currently illegal under US federal law, and in light of considerations related to money laundering and other federal financial crime related to cannabis in the US banking industry, US banks have been reluctant to accept or deposit funds from businesses involved with the cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty finding a bank willing to accept its business. Likewise, cannabis businesses have limited access, if any, to credit card processing services. As a result, cannabis businesses in the US are largely cash-based. This complicates the implementation of financial controls and increases security issues.

While the Company is not able to obtain financing in the US from banks or other US federally regulated entities, the Company has been able to access equity financing through private markets in both Canada and the US Commercial banks, private equity firms, and venture capital firms have approached the cannabis industry cautiously to date. However, there are increasing numbers of high-net-worth individuals and family offices that have made meaningful investments in companies and businesses similar to the Company. Although there has been an increase in the amount of private funding available over the last several years to companies that are active in the cannabis industry in North America, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable to the Company. The Company's inability to raise financing to fund its capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability.

Challenges to Access Financial Services

Under the federal money laundering statutes, unlicensed money transmitter statute and the Bank Secrecy Act, financial transactions in the US involving proceeds generated by cannabis-related conduct can form the basis for prosecution. The FinCEN division of the U.S. Department of Treasury has provided guidance for how financial institutions can provide services to the cannabis-related businesses consistent with the obligations under the Bank Secrecy Act.

Previously, the U.S. Department of Justice (DOJ) directed its federal prosecutors to consider the federal enforcement priorities enumerated in the Cole Memo when determining whether to charge institutions or individuals with any of the financial crimes described above based upon cannabis-related activity. In January 2019, the DOJ revoked the Cole Memo and related memorandum. While the impact remains unclear, the revocation has created uncertainty. For instance, federal prosecutors may increase enforcement activities against institutions or individuals who are engaged in financial transactions related to cannabis activities, or there may be a negative impact to the continuation of financial services in the US with regard to cannabis-related activities. Consequently, businesses involved in the regulated medical-use cannabis industry may experience difficulties establishing banking relationships, and such difficulties may increase over time. If the Company were to experience any inability to access financial services in the US, including its current bank accounts, this would have a direct impact on the ability for the Company to operate its businesses. This impact would increase the Company's operating costs, and pose additional operational, logistical, and security challenges that could impede its inability to implement its business plans.

Risks Related to Operating in a Highly Regulated Industry

Given the complexity of the US regulation of the cannabis industry, certain requirements may prove to be excessively onerous or otherwise impractical for the Company to comply with. This may result in the exclusion of certain business opportunities from the list of possible transactions that the Company would otherwise consider.

Further, US laws and regulations at the local, state, and federal levels which apply to the cannabis industry are continually changing, and it is difficult to determine if future changes could detrimentally affect the operations of the Company. Given the broad scope of cannabis laws and regulations, these are subject to evolving interpretations. This continued evolution could require the Company to incur substantial costs associated with compliance or alter its business plan. In addition, violations of these laws, or allegations of such violations, could disrupt the Company's businesses and result in a material adverse effect on its operations.

The Company's continued compliance with regulatory requirements enacted by government authorities and obtaining all regulatory approvals, where necessary, for the sale of its products, including maintain and renewing all applicable licenses, is crucial to the successful execution of the Company's strategies. The commercial cannabis industry is an emerging industry in the US, and the Company cannot forecast the impact of the compliance regime to which they will be subject. Similarly, the Company cannot predict its ability to secure all appropriate regulatory approvals for any of its products, or the extent of testing or related documentation that may be required by governmental authorities. Delays in obtaining, or failure to obtain, regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have adverse effect on the business, financial condition, and operating results of the Company. Without limiting the foregoing, the Company's failure to comply with the requirements of any underlying licenses or any failure to maintain any underlying licenses would have a material adverse impact on its business, financial condition, and operating results. It is uncertain whether any required licenses for the operation of the Company's business will be extended or renewed in a timely manner, if at all, or that if they are extended or renewed, that the licenses will be extended or renewed on the same or similar terms.

Risks Concerning Banking and Anti-Money Laundering Laws and Regulations

The US federal prohibitions on the sale of marijuana may result in the Company and its partners being restricted from accessing the US banking system and they may be unable to deposit funds in federally insured and licensed banking institutions. Banking restrictions could be imposed due to the Company's banking institutions not accepting payments and deposits. The Company is at risk that any bank accounts it has could be closed at any time. Such risks increase costs to the Company.

The Company's activities in the US, and any proceeds thereof, may be considered proceeds of crime due to the fact that cannabis remains federally illegal in the US This may restrict the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends on its common shares in the foreseeable future, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

The guidance provided in the FinCEN memorandum as described above may change depended on the position of the US government administration at any given time and is subject to revision or retraction in the future, which may restrict the Company's access to banking services.

Litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for the Common Shares. Even if the Company is involved in litigation and wins, litigation can redirect significant resources.

Product Recalls

The Company's products may be subject to recall or return for a variety of reasons, including product defects such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection therewith. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the products produced by the Company were subject to recall, the image of that product and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada and other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Product Liability Claims

As a manufacturer of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacturing and sale of cannabis and other products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products produced by the Company caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances.

A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and financial condition of the Company.

Consumer-Protection Liability

The Company's products may be considered misbranded or adulterated, or otherwise unlawful under federal and state food and drug laws and could subject the company to local, federal, or state enforcement or private litigation. Some states permit advertising, labeling laws, false and deceptive trade practices, and other consumer-protection laws to be enforced by state attorney generals, who may seek relief for consumers, class action certifications, class wide damages and product recalls of products sold by the Company. Private litigations may also seek relief for consumers, class action certifications, class wide damages and product recalls of products sold by the Company in any of the markets in which it operates. Any actions against the Company by governmental authorities or private litigants could have a material adverse effect on the Company's business, financial condition and results of operations.

Environmental and Employee Health and Safety Regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. Changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Competition in the Cannabis Industry

The introduction of a recreational model for cannabis production and distribution may impact the medical cannabis market. The impact of this potential development may be negative for the Company and could result in increased levels of competition in its existing medical market and/or the entry of new competitors in the overall cannabis market in which the Company operates.

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

If the number of users of medical cannabis in North America increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis, which could materially and adversely affect the business, financial condition and results of operations of the Company.

As well, the legal landscape for medical and recreational cannabis is changing internationally. More countries have passed laws that allow for the production and distribution of medical cannabis in some form or another. Increased international competition might lower the demand for the Company's products on a global scale.

Reliance on and Retention of Qualified Personnel

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management (collectively, “Key Personnel”). Moreover, the Company’s future success depends on its continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and the Company may incur significant costs to attract and retain them. The loss of the services of Key Personnel, or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on the Company’s ability to execute on its business plan and strategy, and the Company may be unable to find adequate replacements on a timely basis, or at all. While employment agreements are customarily used as a primary method of retaining the services of Key Personnel, these agreements cannot assure the continued services of such employees.

There is no assurance that any of the Company’s existing personnel who presently or may in the future require a security clearance will be able to obtain or renew such clearances or that new personnel who require a security clearance will be able to obtain one. A failure by Key Personnel to maintain or renew their security clearance would result in a material adverse effect on the Company’s business, financial condition and results of operations. In addition, if any key personnel leave the Company, and the Company is unable to find a suitable replacement that has a security clearance in a timely manner, or at all, it could have a material adverse effect on the Company’s business, financial condition and results of operations.

Risks Related to Integration of Acquired Businesses

The Company may not be able to successfully integrate and combine the operations, personnel and technology infrastructure of any such acquired company with its existing operations. If integration is not managed successfully by the Company's management, the Company may experience interruptions to its business activities, deterioration in its employee and customer relationships, increased costs of integration and harm to its reputation, all of which could have a material adverse effect on the Company's business, financial condition and results of operations. The Company may experience difficulties in combining corporate cultures, maintaining employee morale and retaining key employees. The integration of any such acquired companies may also impose substantial demands on management. There is no assurance that these acquisitions will be successfully integrated in a timely manner.

Privacy and Cyber Security

A security breach, in respect of the Company's systems or data, could expose the Company to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company's products. In addition, the Company collects and stores personal information about its patients and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions.

The Company has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("IT") services in connection with its operations. The Company's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation and results of operations.

Theft of data for competitive purposes is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on the Company's business, financial condition and results of operations. In addition, there are a number of federal, state, and provincial laws protecting the confidentiality of certain patient health information, including patient records, and restricting the use and disclosure of that protected information. If the Company was found to be in violation of the applicable laws protecting the confidentiality of patient health information, it could be subject to sanctions and civil or criminal penalties, which could increase its liabilities, harm its reputation and have a material adverse effect on the business, results of operations and financial condition of the Company.

Insurance Coverage and Uninsured Risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance does not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Regulatory Approval and Permits

The Company may be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions where its products are manufactured and/or sold. There can be no assurance that the Company will be able to obtain or maintain any necessary licenses, permits or approvals. Any material delay or inability to receive these items is likely to delay and/or inhibit the Company's ability to conduct its business, and would have an adverse effect on its business, financial condition and results of operations.

Unfavorable Publicity or Consumer Perception

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis distributed to such consumers. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical cannabis market or any particular product, or consistent with earlier publicity.

Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition of the Company. In particular, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical cannabis in general, or the Company's products specifically, or associating the consumption of medical cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed. For instance, the vape crisis that began in the summer of 2019 was ultimately linked to cutting agents almost exclusively found in the illicit market. Regardless, several states moved to ban the sale of vape products in legal markets, severely impacting entire revenue streams.

Although the Company believes that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its business, thereby having a material adverse impact on the financial condition and results of operations of the Company.

Constraints on Marketing Products

The development of the Company's business and results of operations may be hindered by applicable regulatory restrictions on sales and marketing activities. For example, the regulatory environment in Canada limits the Company's ability to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation

and regulation cannot be absorbed through increased selling prices for the Company's products, the Company's sales and results of operations could be adversely affected.

Customer and Patient Acquisitions

The Company's success depends on its ability to attract and retain customers and patients. There are many factors which could impact the Company's ability to attract and retain customers and patients, including but not limited to the Company's ability to continually produce desirable and effective products and, the successful implementation of a customer and patient-acquisition plan. The Company's failure to acquire and retain customers and patients would have a material adverse effect on the Company's business, operating results and financial condition.

Dependence on Suppliers and Skilled Labour

The ability of the Company to compete and grow will be dependent on having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components.

Vulnerability to Rising Energy Costs

The Company's cannabis growing and manufacturing operations consume considerable energy, which make the Company vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

Early Stage of the Cannabis Industry

The Company is operating its business in a relatively new industry and market. Competitive conditions, consumer preferences, patient requirements and spending patterns in this new industry and market are relatively unknown and may have unique circumstances that differ from existing industries and markets.

Accordingly, there are no assurances that this industry and market will continue to exist or grow as currently estimated or anticipated, or function and evolve in a manner consistent with management's expectations and assumptions. Any event or circumstance that affects the medical cannabis industry and market could have a material adverse effect on the Company's business, financial condition and results of operations.

Production Capacity and Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Market Development

The Company's success in North America is dependent on the market building out direct to consumer channels including but not limited to retail outlets. There are many factors which could impact the Company's ability to gain market share and distribute its products, including but not limited to the continued growth and expansion of retail outlets in the North American adult use market which may have a material adverse effect on the Company's business, operating results and financial condition.

The Company's ability to continue to grow, process, store and sell medical cannabis and participate in the adult-use cannabis markets is dependent on the maintenance and validity of the Company's licenses from regulatory authorities.

The cannabis industry and markets are relatively new in North America and in other jurisdictions, and this industry and market may not continue to exist or grow as anticipated or the Company may ultimately be unable to succeed in this industry and market.

History of Net Losses

The Company started sales in April 2018 and historically has had negative cash flow from operating activities. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's sales do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable.

Continued losses may have the following consequences:

- increasing the Company's vulnerability to general adverse economic and industry conditions;
- limiting the Company's ability to obtain additional financing to fund future working capital, capital expenditures, operating costs and other general corporate requirements; and
- limiting the Company's flexibility in planning for, or reacting to, changes in its business and the industry.

Tax Risk

Tax risk is the risk of changes in the tax environment that would have a material adverse effect on the Company's business, results of operations, and financial condition. Currently, state licensed marijuana businesses are assessed a comparatively high effective federal tax rate due to section 280E, which bars businesses from deducting all expenses except their cost of sales when calculating federal tax liability. Any increase in tax levies resulting from additional tax measures may have a further adverse effect on the operations of the Company, while any decrease in such tax levies will be beneficial to future operations. See Income Tax note of the Company's unaudited condensed interim consolidated financial statements for the Company's disclosure of uncertain tax positions.

Limited Operating History

The Company has a limited operating history and, accordingly, potential investors will have a limited basis on which to evaluate its ability to achieve its business objectives. The future success of the Company is dependent on management's ability to implement its strategy, there is no certainty that anticipated outcomes and sustainable revenue streams will be achieved and there is no certainty that the Company will successfully produce commercial medical cannabis, establish a market for and sell its product, maintain its licenses or obtain other necessary licenses and/or approvals.

The Company faces risks frequently encountered by early-stage companies. In particular, its future growth and prospects will depend on its ability to expand its operation and gain additional revenue streams while at the same time maintaining effective cost controls. Any failure to expand is likely to have a material adverse effect on the Company's business, financial condition and results. As such, there is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

Intellectual Property

The ownership and protection of trademarks, patents, trade secrets and intellectual property rights are significant aspects of the Company's future success. The Company has no patented technology or trademarked business methods at this time, nor has it registered any patents. The Company has filed trademark applications in Canada and the US. Even if the Company moves to protect its technology with trademarks, patents, copyrights or by other means, the Company is not assured that competitors will not develop similar technology, business methods or that the Company will be able to exercise its legal rights. Other countries may not protect intellectual property rights to the same standards as does Canada or the US. Actions taken to protect or preserve intellectual property rights may require

significant financial and other resources which may have a significant impact on the Company's ability to successfully grow the business.

In addition, other parties may claim that the Company's products infringe on their proprietary and perhaps patent protected rights. Such claims, whether or not meritorious, may result in the Company's expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders and/or require the payment of damages.

Research and Development and Product Obsolescence

The introduction of new products embodying new technologies, including new manufacturing processes, and the emergence of new industry standards may render the Company's products obsolete, less competitive or less marketable. The process of developing the Company's products is complex and requires significant continuing costs, development efforts and third-party commitments. The Company's failure to develop new technologies and products and the obsolescence of existing technologies could adversely affect the business, financial condition and operating results of the Company. The Company may be unable to anticipate changes in its potential customer requirements that could make the Company's existing technology obsolete.

The development of the Company's proprietary technology entails significant technical and business risks. The Company may not be successful in using its new technologies or exploiting its niche markets effectively or adapting its businesses to evolving customer or medical requirements or preferences or emerging industry standards.

Enforcement of Legal Rights

In the event of a dispute arising from the Company's US operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of courts in Canada. Similarly, to the extent that the Company's assets are located outside of Canada, investors may have difficulty collecting from the Company any judgments obtained in the Canadian courts and predicated on the civil liability provisions of securities provisions. The Company may also be hindered or prevented from enforcing its rights with respect to a governmental entity or instrumentality because of the doctrine of sovereign immunity.

Risks Associated with Joint Venture Investments and Partnerships

The Company currently operates parts of its business through joint ventures with other companies, and it may enter into additional joint ventures in the future. Joint venture investments and partnerships may involve risks not otherwise present for investments made solely by the Company, including: (i) the Company may not control the joint ventures; (ii) the Company's joint venture partners may not agree to distributions that it believe are appropriate; (iii) where the Company does not have substantial decision-making authority, it may experience impasses or disputes with the Company's joint venture partners on certain decisions, which could require it to expend additional resources to resolve such impasses or disputes, including litigation or arbitration; (iv) the Company's joint venture partners may become insolvent or bankrupt, fail to fund their share of required capital contributions or fail to fulfil their obligations as a joint venture partner; (v) the arrangements governing the Company's joint ventures may contain certain conditions or milestone events that may never be satisfied or achieved; (vi) the Company's joint venture partners may have business or economic interests that are inconsistent with the Company's and may take actions contrary to the Company's interests; (vii) the Company may suffer losses as a result of actions taken by the Company's joint venture partners with respect to the Company's joint venture investments; and (viii) it may be difficult for the Company to exit a joint venture if an impasse arises or if the Company desires to sell its interest for any reason. Any of the foregoing risks could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the Company may, in certain circumstances, be liable for the actions of its joint venture partners.

Risks Associated with Strategic Alliances

The Company currently has, and may in the future, enter into strategic alliances with third parties that it believes will complement or augment its existing business. The Company's ability to complete strategic alliances is dependent upon, and may be limited by, the availability of suitable candidates and capital. In addition, strategic alliances could present unforeseen integration obstacles or costs, may not enhance the Company's business, and may involve risks that could adversely affect the Company, including significant amounts of management time that may be diverted

from operations in order to pursue and complete such transactions or maintain such strategic alliances. Future strategic alliances could result in the incurrence of additional debt, costs and contingent liabilities, and there can be no assurance that future strategic alliances will achieve, or that the Company's existing strategic alliances will continue to achieve, the expected benefits to the Company's business or that the Company will be able to consummate future strategic alliances on satisfactory terms, or at all. Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

Early Stage of the Hemp Industry

The Company, as a result of its indirect acquisition of substantially all of the assets of Grander, operates a hemp manufacturing, processing and distribution business, which business is in a relatively new industry and market. In addition to being subject to general business risks, the Company must continue to build brand awareness in this industry and market through significant investments in its strategy, its production capacity, quality assurance and compliance with regulations. In addition, there is no assurance that the industry and market will continue to exist and grow as currently estimated or anticipated or function and evolve in the manner consistent with management's expectations and assumptions. Any event or circumstance that adversely affects the hemp industry and market could have a material adverse effect on the Company's business, financial conditions and results of operations.

Competition in the Hemp Industry

The market for CBD-based hemp products is highly competitive and evolving. In particular, the Company faces strong competition from both existing and emerging companies that offer similar products to the Company. Competition consists of publicly and privately-owned companies, which tend to be highly fragmented in terms of both geographic market coverage and products offered. Some of the Company's current and potential competitors may have longer operating histories, greater financial, marketing and other resources and larger customer bases. The Company's competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements. Increased competition could impede the Company's ability to sell additional products and services on terms favorable to it. The Company's current and potential competitors may develop and market new technologies that render the Company's existing or future products obsolete, unmarketable, or less competitive. The Company's current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with other providers, thereby increasing the availability of their services to address the needs of the Company's current and prospective customers. The Company may not be able to compete successfully against its current and future competitors, and competitive pressures that the Company encounters may seriously harm the business. The Company's success will depend on its ability to keep pace with any changes in the marketplace. The Company's success will depend on its ability to respond to, among other things, changes in the economy, market conditions and competitive pressures. Any failure to anticipate or respond adequately to such changes could have a material adverse effect on the Company's financial condition, operating results, liquidity, cash flow and operational performance.

Inherent Risks Associated with Relying on Hemp as an Active Pharmaceutical Ingredient in CBD Products

The Company's business involves the manufacturing and processing of innovative hemp-derived CBD products. The Company's operations rely on a consistent supply of hemp from independent third-party producers. Hemp is an agricultural product and its cultivation is therefore subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although hemp is grown indoors under climate-controlled conditions, and while growing conditions are carefully monitored with trained personnel, there can be no assurance that natural elements or other unforeseen events related to the production of hemp on which the Company's operations rely will not have a material adverse effect on the production of hemp, which could have a material impact on the business and operations of the Company given the Company's reliance on hemp as the active pharmaceutical ingredient in certain of its CBD products.

Risk of Heightened Scrutiny by Regulatory Authorities in Canada

The Company's future investments, joint ventures and operations in the US may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny

will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the US or any other jurisdiction, in addition to those described herein.

Although a memorandum of understanding signed by the Canadian Depository for Securities ("CDS") and the Canadian recognized exchanges (Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange and the TSX Venture Exchange) dated February 8, 2018, confirms that CDS relies on the exchanges to review the conduct of listed issuers, and therefore there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the US, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of the Company's common shares to make and settle trades. In particular, the Company's common shares would become highly illiquid as and until an alternative was implemented, investors would have no ability to affect a trade of the Company's common shares through the facilities of a stock exchange.

US Border Officials Could Deny Entry into the US to Management, Employees and/or Investors in Companies with Cannabis Operations in the US

Because cannabis remains illegal under US federal law, those employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry or lifetime bans from the US for their business associations with US cannabis businesses. Entry happens at the sole discretion of the U.S .Customs and Border Protection officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a foreign national. The government of Canada has started warning travelers on its website that previous use of cannabis, or any substance prohibited by US federal laws, could mean denial of entry to the US Business or financial involvement in the legal cannabis industry in Canada or in the US could also be reason enough for US border guards to deny entry**.**

Reputational Risk to Third Parties

The parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's cannabis business activities. Failure to establish or maintain business relationships could have a material adverse effect on the Company.

Conflicts of Interest

Certain of the directors and officers of the Company are also directors and officers of other companies or are engaged and will continue to be engaged in activities that may put them in conflict with the business strategy of the Company. Consequently, there exists the possibility for such directors and officers to be in a position of conflict.

In particular, the Company may also become involved in other transactions which conflict with the interests of its directors and officers, who may from time to time deal with persons, firms, institutions or companies with which the Company may be dealing, or which may be seeking investments similar to those desired by it. All decisions to be made by directors and officers of the Company are required to be made in accordance with their duties and obligations to act honestly and in good faith with a view to the best interests of the Company. In addition, the directors and officers are required to declare their interests in, and such directors are required to refrain from voting on, any matter in which they may have a material conflict of interest.

COVID-19

On March 12, 2020, the World Health Organization ("WHO") declared a global pandemic known as COVID-19. The impacts on global commerce are expected to be far reaching. This will likely impact demand for the Company's products in the near term and will also likely impact the Company's supply chains. It may also impact expected credit losses on the Company's trade receivables and may cause staff shortages and increased government regulations or interventions, which may negatively impact the financial condition or results of the Company. The production and sale of cannabis have been recognized as essential services across Canada and the US and the Company has not experienced production delays or prolonged retail closures to date as a result.

Due to the uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Company's business, financial position and operating results in the future. In addition, it is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such

changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. An impairment test was performed as of December 31, 2020 for the Company's goodwill and intangible assets. Management is closely monitoring the impact of the pandemic on all aspects of its business. At December 31, 2020 has not observed any material impairments of the Company's assets or a significant change in the fair value of assets due to the COVID-19 pandemic.

Risks Related to the Common Shares

Limited Market for Securities

The Company's common shares are listed on the CSE and also trade over the counter in the US on the OTCQX Best Market, however, there can be no assurance that an active and liquid market for the Common Shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

Share Price Volatility

The market price of the Common Shares may be subject to wide price fluctuations. Price fluctuations may be in response to many factors, including variations in the operating results of the Company and its subsidiaries, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company and its subsidiaries, general economic conditions, legislative changes, community support for the medical cannabis industry and other events and factors outside of the Company's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Company's common shares.

Risks Related to Dilution

The Company may issue additional common shares in the future, which may dilute a shareholder's holdings in the Company. The Company's articles permit the issuance of an unlimited number of common shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of the Company have discretion to determine the price and the terms of issue of further issuances. Moreover, additional common shares will be issued by the Company on the exercise of options under the Company's stock option plan and upon the exercise of outstanding warrants.