

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of TerrAscend's financial condition and results of operations should be read in conjunction with TerrAscend's audited consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report on Form 10-K, including information with respect to TerrAscend's plans and strategy for its business, includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth under "Risk Factors", its actual results could differ materially from the results described in or implied by the "Cautionary Note Regarding Forward-Looking Statements" contained in this Annual Report on Form 10-K and in the following discussion and analysis.

Unless otherwise noted, dollar amounts in this Item 2 are in thousands of U.S. dollars.

Overview

TerrAscend is a leading North American cannabis operator with vertically integrated licensed operations in Pennsylvania, New Jersey, Michigan, Maryland and California, and is a cannabis retailer in Ontario, Canada with a minority-owned dispensary in Toronto, Ontario, Canada. TerrAscend's cultivation and manufacturing practices yield consistent and high-quality cannabis, providing industry-leading product selection to both the medical and legal adult-use markets. Notwithstanding the fact that various states in the U.S. have implemented medical marijuana laws or that have otherwise legalized the use of cannabis, the use of cannabis remains illegal under U.S. federal law for any purpose, by way of the Controlled Substances Act of 1970.

TerrAscend operates under one operating segment, which is the cultivation, production and sale of cannabis products.

TerrAscend owns a portfolio of operating businesses and several synergistic brands including:

- Gage Growth ("Gage"), a vertically integrated cannabis cultivator, processor and dispensary operator in Michigan;
- KISA Enterprises MI, LLC and KISA Holdings, LLC (collectively "Pinnacle"), a dispensary operator in Michigan;
- Ilera Healthcare ("Ilera"), a vertically integrated cannabis cultivator, processor and dispensary operator in Pennsylvania;
- TerrAscend NJ, LLC ("TerrAscend NJ"), a majority owned subsidiary that operates three dispensaries in New Jersey with the ability to cultivate and process;
- HMS Health, LLC ("HMS Health") and HMS Processing, LLC ("HMS Processing" and together with HMS Health, "HMS"), a producer and seller of dried flower and oil products for the wholesale medical cannabis market in Maryland;
- The Apothecarium, consisting of retail dispensaries in California, Pennsylvania, and New Jersey;
- Valhalla Confections, a provider of premium edible products;
- State Flower, a California-based cannabis producer operating a licensed cultivation facility in San Francisco, California;
- Arise Bioscience Inc. ("Arise"), a manufacturer and distributor of hemp-derived products, located in Boca Raton, Florida; and
- TerrAscend Canada ("TerrAscend Canada" or "TCI") is a cannabis retailer in Ontario, Canada with a minority-owned dispensary in Toronto, Ontario, Canada ("Cookies Canada"). TerrAscend Canada was previously a Licensed Producer (as such term is defined in the Cannabis Act) of cannabis until TerrAscend commenced an optimization of its operations in Canada, whereby TerrAscend reduced its manufacturing footprint in order to focus on its Cookies Canada retail business, as well as monetize its intellectual property portfolio in Canada. TerrAscend ceased operations at its manufacturing facility during the three months ended December 31, 2022.

TerrAscend's head office and registered office is located at 3610 Mavis Road, Mississauga, Ontario, Canada, L5C 1W2.

TerrAscend's telephone number is 1.855.837.7295 and its website is www.terrascend.com. Information contained on or accessible through TerrAscend's website is not a part of this Annual Report, and the inclusion of TerrAscend's website address in this Annual Report on Form 10-K is an inactive textual reference only.

Recent Developments

- TerrAscend optimized its Canadian operation by reducing its manufacturing footprint in order to focus on its Cookies Canada retail business, as well as to monetize its intellectual property portfolio in Canada. TerrAscend ceased operations at its manufacturing facility during the three months ended December 31, 2022. As such, the Canadian Licensed Producer results are presented in discontinued operations in this Annual Report.
- On December 9, 2022, TerrAscend, Arise and TerrAscend Canada Inc. entered into a debt settlement agreement (the "Canopy Debt Settlement Agreement") with Canopy USA, LLC, Canopy USA I Limited Partnership and Canopy USA III Limited Partnership (collectively, the "Canopy USA Entities"), pursuant to which agreement certain obligations under all of the outstanding loans, plus accrued interest, with the Canopy USA Entities were extinguished in exchange for 24,601,467 exchangeable shares of TerrAscend ("Exchangeable Shares") at a notional price of \$3.74 (C\$5.10) per Exchangeable Share. Additionally, in accordance with Accounting Standards Codification ("ASC") 815, Derivatives and Hedging, the 22,474,130 original warrants to acquire common shares of TerrAscend (the "Common Shares") were modified (the "Modified Canopy Warrants") at a weighted average exercise price of \$4.45 (C\$6.07) per common share. The Exchangeable Shares and Modified Canopy Warrants were considered in the calculation for extinguishing the debt obligations, including all principal and interest on the amounts outstanding thereunder.
- On August 23, 2022, in order to expand its retail footprint in Michigan, TerrAscend acquired KISA Enterprises MI, LLC and KISA Holdings, LLC (collectively, "Pinnacle"), a dispensary operator in Michigan, and related real estate for total consideration of \$28,500 (the "Pinnacle Acquisition"). The transaction includes six retail dispensary licenses, five of which are currently operational and located in the cities of Addison, Buchanan, Camden, Edmore, and Morenci, Michigan. TerrAscend intends to rebrand each of the dispensaries under either the Gage or Cookies retail brand.
- During the twelve months ended December 31, 2022, TerrAscend commenced adult-use sales in New Jersey.

Subsequent Transactions

- Effective March 1, 2023, TerrAscend sold substantially all of the Arise assets, including all intellectual property and inventory, to a third party.
- On January 27, 2023, TerrAscend closed on its previously announced acquisition of Allegany Medical Marijuana Dispensary ("AMMD"), a medical dispensary in Maryland from Moose Curve Holdings, LLC. Under the terms of the agreement, TerrAscend acquired 100% equity interest in AMMD for total consideration of \$10,000 in cash, in addition to entering into a long-term lease with the option to purchase the real estate. TerrAscend intends to rebrand the 10,000 square foot dispensary as The Apothecarium.

Components of Results of Operations

The following discussion sets forth certain components of our Consolidated Statements of Comprehensive Loss as well as factors that impact those items.

Revenue

TerrAscend generates revenue from the sale of cannabis products, brands, and services to the United States and Canadian markets. Revenues consist of wholesale and retail sales in the medical and legal adult use market across Canada and in several U.S. states where cannabis has been legalized for medical or adult use.

Cost of sales

Cost of sales primarily consists of expenses related to providing cannabis products and services to TerrAscend's customers, including personnel-related expenses, the depreciation of property and equipment, amortization of acquired intangible assets, and other overhead costs.

General and administrative

General and administrative ("G&A") consists primarily of personnel costs related to finance, human resources, legal, and other administrative functions. Additionally G&A expense includes professional fees to third parties, as well as marketing expenses.

In addition, G&A expense includes share-based compensation on options, restricted stock units and warrants. TerrAscend expects that G&A expense will increase in absolute dollars as the business grows.

Amortization and depreciation

Amortization and depreciation includes the amortization of intangible assets. Amortization is calculated on a straight line basis over the following terms:

Brand intangibles- indefinite lives	Indefinite useful lives or 3 years
Brand intangibles- definite lives	3 years
Software	5 years
Licenses	5-30 years
Customer relationships	5 years
Non-compete agreements	3 years

Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful life of the asset using the following terms:

Buildings and improvements	Lesser of useful life or 30 years
Land	Not depreciated
Machinery & equipment	5-15 years
Office furniture & production equipment	3-5 years
Right of use assets	Lease term
Assets in process	Not depreciated

Impairment of intangible assets and goodwill

Goodwill and indefinite lived intangible assets are reviewed for impairment annually and whenever there are events or changes in circumstances that indicate that the carrying amount has been impaired. TerrAscend first performs a qualitative assessment. If based on the results of a qualitative assessment it has been determined that it is more likely than not that the fair value of a reporting unit exceeds its carrying value, additional quantitative impairment test is performed which compares the carrying value of the reporting unit to its estimated fair value. If the carrying value exceeds the estimated fair value, an impairment is recorded.

Definite lived intangible assets are tested for impairment when there are indications that an asset may be impaired. When indicators of impairment exist, TerrAscend performs a quantitative impairment test which compares the carrying value of the assets for intangible assets to their estimated fair values. If the carrying value exceeds the estimated fair value, an impairment is recorded.

(Gain) loss from revaluation of contingent consideration

As a result of some of its acquisitions, TerrAscend recognizes a contingent consideration payable, which is an obligation to transfer additional assets to the seller if future events occur. The liability is revalued at the end of each reporting period to determine its fair value. A gain or loss is recognized as a result of the revaluation.

(Gain) loss on fair value of warrants and purchase option derivative asset

During the year ended December 31, 2020, TerrAscend closed a non-brokered private placement by issuing 18,679 convertible preferred stock units, each unit consisting of one non-voting, non-participating preferred share and one preferred share warrant

("Preferred Warrant"). The Preferred Warrants were recorded as a warrant liability and are remeasured to fair value at the end of each reporting unit using the Black Scholes model. A gain or loss is recognized as a result of the revaluation.

Finance and other expenses

Finance and other expenses consists primarily of interest expense on TerrAscend's outstanding debt obligations.

Transaction and restructuring costs

Transaction costs include costs incurred in connection with TerrAscend's acquisitions, such as expenses related to professional fees, consulting, legal and accounting. Restructuring costs are those costs associated with severance and restructuring of business units.

Impairment of property and equipment

TerrAscend evaluates the recoverability of property and equipment whenever events or changes in circumstances indicate that the carrying value of the asset, or asset group, may not be recoverable. When TerrAscend determines that the carrying value of the long-lived asset may not be recoverable based upon the existence of one or more indicators, the assets are assessed for impairment based on the estimate of future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the carrying value of an asset exceeds its estimated future undiscounted cash flows, an impairment loss is recorded for the excess of the asset's carrying value over its fair value.

Unrealized and realized foreign exchange loss

Unrealized and realized foreign exchange loss represents the loss recognized on the remeasurement of USD denominated cash and other assets recorded in the Canadian dollars functional currency at TerrAscend's Canadian operations.

Unrealized and realized gain on investments

TerrAscend accounts for its investment in equity securities without readily determinable fair values using a valuation technique which maximizes the use of relevant observable inputs, with subsequent holding changes in fair value recognized in unrealized gain or loss on investments in the consolidated statement of loss.

Provision for income taxes

Provision for income taxes consists of U.S. federal and state income taxes in certain jurisdictions in which TerrAscend conducts business.

Results from Operations - Years ended December 31, 2022, December 31, 2021, and December 31, 2020

The following tables represent TerrAscend's results from operations for the twelve months ended December 31, 2022, December 31, 2021, and December 31, 2020:

Revenue, net

	For the years ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Revenue	\$ 249,258	\$ 201,076	\$ 139,118
Excise and cultivation taxes	(1,429)	(6,866)	(6,966)
Revenue, net	\$ 247,829	\$ 194,210	\$ 132,152
\$ change	\$ 53,619	\$ 62,058	
% change	28%	47%	

The increase in net revenue for the year ended December 31, 2022 as compared to December 31, 2021 was due to an increase of \$96,900 in retail sales from \$87,119 at December 31, 2021 to \$184,019 at December 31, 2022. The increase in revenue was mainly due to adult use sales in New Jersey, which commenced during 2022, as well as the Gage Acquisition and the Pinnacle Acquisition. Retail dispensaries increased from thirteen at December 31, 2021 to thirty-one at December 31, 2022. The increase was partially offset by the decrease of \$43,281 in wholesale revenue from \$107,091 at December 31, 2021 to \$63,810 at December 31, 2022, which was mainly related to challenging market dynamics in Pennsylvania.

The increase in net revenue for the year ended December 31, 2021 as compared to December 31, 2020 was due to an increase of \$42,410 in retail sales from \$44,709 at December 31, 2020 to \$87,119 at December 31, 2021, and an increase of \$19,648 in wholesale sales from \$87,443 at December 31, 2020 to \$107,091 at December 31, 2021. The increase in retail sales was primarily a result of the increase in retail dispensaries across Pennsylvania, California, and New Jersey, which increased from nine at December 31, 2020 to thirteen at December 31, 2021. The increase in wholesale sales was primarily a result of the initial ramp up in New Jersey, expansion in Pennsylvania, as well as the acquisition of HMS.

Cost of Sales

	For the years ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Cost of sales	\$ 137,243	\$ 79,465	\$ 46,461
Impairment and write downs of inventory	9,082	2,243	-
Total cost of sales	\$ 146,325	\$ 81,708	\$ 46,461
\$ change	\$ 64,617	\$ 35,247	
% change	79%	76%	
Cost of sales as a % of revenue	59%	41%	42%

The increase in cost of sales for the twelve months ended December 31, 2022 as compared to December 31, 2021 was driven mainly by the Gage Acquisition, as well as an increase in New Jersey due to the increase in adult use sales which commenced during 2022. The increase in cost of sales as a percentage of revenue was due to lower volumes in Pennsylvania leading to under-absorption, primarily related to lower wholesale flower sales, operational challenges at TerrAscend's cultivation facility in Frederick, Maryland as TerrAscend transitioned to its Hagerstown location, and higher costs of sales as a percentage of revenue as a result of the acquisition of Gage in Michigan.

In addition, during the year ended December 31, 2022, TerrAscend wrote down its inventory by \$9,082 mainly due to write downs of inventory to lower of cost or market which was related to TerrAscend's operational reconfiguration of its cultivation facility in Pennsylvania and write downs of inventory related to the vape recall in Pennsylvania. During the year ended December 31, 2021, TerrAscend recorded impairment of \$2,243 mainly related to inventory at its Pennsylvania operations that did not meet quality standards.

The increase in cost of sales for the twelve months ended December 31, 2021 as compared to December 31, 2020 was a result of the increased volume of sales.

General and Administrative Expense (G&A)

	For the years ended		
	December 31, 2022	December 31, 2021	December 31, 2020
General and administrative expense	\$ 115,588	\$ 75,107	\$ 60,763
\$ change	\$ 40,481	\$ 14,344	
% change	54%	24%	
G&A excluding share-based compensation	\$ 103,426	\$ 60,165	\$ 50,688
G&A excluding share-based compensation as a % of revenue	42%	30%	36%

The increase in G&A expenses for the years ended December 31, 2022 as compared to December 31, 2021 was primarily due to increased office and general expense of \$15,909, increased salary and wages of \$14,558, and increased sales and marketing of \$8,460 mainly as a result of the Gage Acquisition and the Pinnacle Acquisition.

The increase in G&A expenses for the years ended December 31, 2021 as compared to December 31, 2020 was primarily a result of increased salaries and wages of \$11,464, mainly as a result of the increase in U.S. operations. Additionally, TerrAscend recognized an increase in share-based compensation expense of \$4,867, primarily due to the greater number of options granted to new employees during the latter half of 2020, resulting in higher expenses during the twelve months ended December 31, 2021 as compared to the twelve months ended December 31, 2020, as well as expense related to the acceleration of options related to severance. In addition, TerrAscend paid \$1,590 in one-time legal settlements during the twelve months ended December 31, 2021. The increase in G&A expenses for the twelve months ended December 31, 2021 was partially reduced by a decrease in professional fees from the twelve months ended December 31, 2020 as a result of payments due of \$7,500 related to amounts payable to an entity controlled by the minority shareholders of TerrAscend NJ pursuant to services surrounding the

granting of certain licenses. Excluding this payment, professional fees increased \$5,928 primarily due to legal fees and fees for U.S. filer preparation.

Amortization and Depreciation Expense

	For the years ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Amortization and depreciation	\$ 9,658	\$ 5,533	\$ 3,886
\$ change	\$ 4,125	\$ 1,647	
% change	75%	42%	

The increase in amortization and depreciation expense for the year ended December 31, 2022 as compared to December 31, 2021 was primarily due to the Gage and Pinnacle Acquisitions. TerrAscend acquired cultivation and processing, as well as retail licenses which are amortized over a 15-year period.

The increase in amortization and depreciation expense for the twelve months ended December 31, 2021 as compared to December 31, 2020 is primarily related to additions of property and equipment due to TerrAscend's cultivation expansions and increase in dispensaries in Pennsylvania, New Jersey and California.

Impairment of intangible assets

	For the years ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Impairment of intangible assets	\$ 140,727	\$ 3,633	\$ 343
\$ change	\$ 137,094	\$ 3,290	
% change	3774%	959%	

During the year ended December 31, 2022, TerrAscend performed an impairment analysis over its indefinite lived and definite lived intangible assets acquired through the Gage Acquisition as the changes in the market expectations of cash flows in Michigan, as well as increased competition and supply in the state, were determined to be indicators of impairment. TerrAscend determined that it was more likely than not that the carrying value of its definite lived retail and cultivation and processing licenses was greater than its fair value, and therefore recorded impairment of \$79,462 and \$42,065 for the retail license and the cultivation and processing licenses, respectively, reducing both the carrying values to \$nil at December 31, 2022. Additionally, TerrAscend recorded impairment of its indefinite lived brand intangible assets acquired through the Gage Acquisition of \$19,200, reducing the carrying value of the brand intangibles to \$57,985 at December 31, 2022.

The impairment recorded during the year ended December 31, 2021 relates to the write-off of intellectual property at TerrAscend's Arise business.

During the year ended December 31, 2020, TerrAscend recorded impairment of \$343 related to its customer relationships at Arise as a result of its termination of an agreement with one of its wholesale distributors.

Impairment of goodwill

	For the years ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Impairment of goodwill	\$ 170,357	\$ 5,007	\$ -
\$ change	\$ 165,350	\$ 5,007	
% change	3302%		

During the year ended December 31, 2022, as it was determined that it was more likely than not that the Michigan reporting unit's fair value was less than its carrying value, a one-step goodwill quantitative impairment test was performed. As a result of the quantitative test, TerrAscend recorded impairment of goodwill of \$170,357 at its Michigan reporting unit, reducing the carrying value of the goodwill acquired through the Gage Acquisition and Pinnacle Acquisition, which make up the Michigan reporting unit, to \$nil.

The impairment recorded during the year ended December 31, 2021 relates to TerrAscend's Florida reporting unit as TerrAscend determined that the estimated cash flows of its Arise business did not support the carrying value of the intangible

assets and goodwill. As a result, TerrAscend recorded impairment to reduce the balance of goodwill at its Florida reporting unit to \$nil.

(Gain) loss from revaluation of contingent consideration

	For the years ended		
	December 31, 2022	December 31, 2021	December 31, 2020
(Gain) loss from revaluation of contingent consideration	\$ (1,061)	\$ 3,584	\$ 18,709
\$ change	\$ (4,645)	\$ (15,125)	
% change	-130%	-81%	

TerrAscend recognized a gain on revaluation of contingent consideration of \$1,061 for the year ended December 31, 2022 as compared to a loss of \$3,584 during the year ended December 31, 2021. During the year ended December 31, 2022, the fair value of the contingent consideration related to the KCR Acquisition was reduced to \$nil, as it was determined that it was more likely than not that the earnout criteria would not be met.

The decrease in the revaluation of contingent consideration for the year ended December 31, 2021 as compared to December 31, 2020 is a result of a reduction in the liability as compared to December 31, 2020 due to payments for the earnout of Ilera of \$29,668 made subsequent to December 31, 2020, reducing the amount outstanding. This decrease is partially offset by the accretion of contingent consideration payable, which was recorded at the present value of future payments upon initial recognition.

Gain on extinguishment of debt

	For the years ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Gain on extinguishment of debt	\$ (4,153)	\$ -	\$ -
\$ change	\$ (4,153)	\$ -	
% change	100%	0%	

Pursuant to the Canopy Debt Settlement Arrangement, on December 9, 2022, TerrAscend and certain of its subsidiaries extinguished certain debt obligations with the Canopy USA Entities, including all the principal and interest on the amounts outstanding thereunder, in exchange for 24,601,467 Exchangeable Shares of TerrAscend at a notional price of \$3.74 (C\$5.10) per Exchangeable Share. Additionally, in accordance with ASC 815 *Derivatives and Hedging*, the 22,474,130 original warrants to acquire Common Shares of TerrAscend were modified at a weighted average exercise price of \$4.45 (C\$6.07) per Common Share. The Exchangeable Shares and Modified Canopy Warrants were considered in the calculation for extinguishment of the debt obligations, including all principal and interest on the amounts outstanding thereafter (refer to Note 9 included in Item 8, "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K for further details). As a result of these transactions, TerrAscend recorded a gain on extinguishment of debt of \$4,153 for the year ended December 31, 2022.

(Gain) loss on fair value of warrants and purchase option derivative asset

	For the years ended		
	December 31, 2022	December 31, 2021	December 31, 2020
(Gain) loss on fair value of warrants and purchase option derivative asset	\$ (58,523)	\$ (57,904)	\$ 110,518
\$ change	\$ (619)	\$ (168,422)	
% change	1%	-152%	

The warrant liability has been remeasured to fair value at December 31, 2022 using the Black Scholes Option Pricing Model ("Black Scholes Model"). TerrAscend recognized a gain during the twelve months ended December 31, 2022 as a result of the reduction of TerrAscend's share price from December 31, 2021 as compared to December 31, 2022, as well as from warrants exercised during the twelve months ended December 31, 2022. The combined impact resulted in a gain on fair value of warrants of \$59,341 for the twelve months ended December 31, 2022.

During the year ended December 31, 2022, the purchase option derivative asset was remeasured to fair value using the Monte Carlo simulation model resulting in a loss of \$818.

The warrant liability has been remeasured to fair value at December 31, 2021 using the Black Scholes Model. TerrAscend recognized a gain during the twelve months ended December 31, 2021 as a result of the reduction of TerrAscend's share price from December 31, 2020 as compared to December 31, 2021, as well as from warrants exercised during the twelve months ended December 31, 2021. The combined impact resulted in a gain on fair value of warrants of \$58,158 for the twelve months ended December 31, 2021.

For the year ended December 31, 2021, the purchase option derivative asset was remeasured to fair value using the Monte Carlo simulation model resulting in a loss of \$254.

During the twelve months ended December 31, 2020, TerrAscend recognized a loss on fair value of warrants of \$110,518 as a result of the increase in TerrAscend's share price from the valuation date.

Finance and other expenses

	For the years ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Finance and other expenses	\$ 35,893	\$ 27,849	\$ 7,427
\$ change	\$ 8,044	\$ 20,422	
% change	29%	275%	

The increase in finance and other expenses for the year ended December 31, 2022 as compared to December 31, 2021 was primarily due to an increase of \$14,070 in interest expense recognized primarily related to the loans acquired as part of the Gage Acquisition, as well as fees to modify its term loan acquired through the Gage Acquisition and amendment fees related to the Ilera term loan, both which did not meet the criteria to be capitalized, totaling \$2,507. This increase in finance and other expense was offset by other income of \$9,440 related to employee retention credits ("ERC") received as a result of the Coronavirus Aid, Relief and Economic Securities Act ("CARES Act") which provides for a refundable tax credit for businesses that continued to pay employees while shut down due to the COVID-19 pandemic or had significant declines in gross receipts from March 13, 2020 to December 31, 2021.

The increase in finance and other expenses for the year ended December 31, 2021 as compared to December 31, 2020 is primarily due to a full year of interest expense of \$18,213 related to the Ilera term loan and Canopy Growth Arise loan issued in December 2020, as compared to \$674 during the year ended December 31, 2020. In addition, during the year ended December 31, 2021, TerrAscend recorded a reduction to the indemnification asset related to the Apothecarium's tax audit settlement and statute expirations for tax years ended September 30, 2014 and September 30, 2015 in the amount of \$4,504 included in finance and other expenses, with an offset recorded to reduce TerrAscend's income tax provision (refer to "Provision for income taxes" below). During the current period, finance and other expenses is partially offset by \$1,414 of other income related to the forgiveness of TerrAscend's Paycheck Protection Program ("PPP") loans received by TerrAscend's Arise business.

The finance expense during the year ended December 31, 2020 was primarily related to borrowings on the \$75,000 credit facility with JW Asset Management LLC, as well as the Canopy Growth loan (formerly RIV Capital loan) entered into in the latter half of 2019, and the Canopy Growth Inc. financing received in the first quarter of 2020.

Transaction and restructuring costs

	For the years ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Transaction and restructuring costs	\$ 1,445	\$ 3,111	\$ 1,129
\$ change	\$ (1,666)	\$ 1,982	
% change	-54%	176%	

The transaction and restructuring costs for the year ended December 31, 2022 were primarily related to fees related to the Gage and Pinnacle Acquisitions.

The increase in transaction and restructuring costs for the year ended December 31, 2021 as compared to December 31, 2020 was primarily due to higher legal costs related to the acquisitions of KCR and HMS and the pending acquisition of Gage. The transaction and restructuring costs during the year ended December 31, 2020 are related to acquisition costs for State Flower and Preferred Share issuance costs.

Loss on lease termination

	For the years ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Loss on lease termination	\$ -	\$ 3,278	\$ -
\$ change	\$ (3,278)	\$ 3,278	
% change	-100%	100%	

TerrAscend entered into a lease termination agreement (“Lease Termination”) during the year ended December 31, 2021, with the landlord at its 22,000 square foot facility in Frederick, Maryland to enable TerrAscend to terminate the lease prior to the end of the lease term. As a result of the Lease Termination, TerrAscend recorded a loss on lease termination of \$3,278.

Unrealized and realized foreign exchange loss

	For the years ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Unrealized and realized foreign exchange loss	\$ 712	\$ 4,654	\$ 159
\$ change	\$ (3,942)	\$ 4,495	
% change	-85%	2827%	

The decrease in unrealized foreign exchange loss for the year ended December 31, 2022 as compared to December 31, 2021 was a result of the remeasurement of U.S. dollar denominated liabilities recorded in Canadian dollar functional currency at TerrAscend's Canadian operations.

The increase in unrealized and realized foreign exchange loss for the year ended December 31, 2021 as compared to December 31, 2020 is a result of the remeasurement of U.S. denominated cash and other assets recorded in Canadian dollar functional currency at TerrAscend's Canadian operations.

Unrealized and realized gain on investments

	For the years ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Unrealized and realized gain on investments	\$ (43)	\$ (6,192)	\$ (533)
\$ change	\$ 6,149	\$ (5,659)	
% change	-99%	1062%	

The gain on investment during the year ended December 31, 2022 was related to the revaluation of the investments acquired through the Gage Acquisition.

The increase in the unrealized gain in the year ended December 31, 2021 relates to the acquisition of the remaining 90% of investment in KCR during the first half of 2021.

The unrealized gain for the year ended December 31, 2020 relates to the equity income pick-up from TerrAscend's 10% investment in KCR.

Provision for income taxes

	For the years ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Provision for income taxes	\$ (10,783)	\$ 28,877	\$ 10,769
\$ change	\$ (39,660)	\$ 18,108	
% change	-137%	168%	

The decrease in tax expense for the year ended December 31, 2022 as compared to December 31, 2021 is primarily related to the pre-tax book loss due to the impairment of goodwill taken during the year ended December 31, 2022. The Company's effective tax rate was 3.5% for the year ended December 31, 2022, as compared to 64.8% for the year ended December 31,

2021. The Company's effective tax rate for the year ended December 31, 2022 was lower than the federal statutory tax rate of 21% primarily driven by the impairment of goodwill and the increase in the valuation allowance.

TerrAscend's effective tax rate can vary each reporting period depending on, among other factors, the geographic and business mix of TerrAscend's earnings, changes to the valuation allowance, and permanently non-deductible expenses. Certain of these and other factors, including TerrAscend's history and projections of pre-tax earnings, are considered in assessing TerrAscend's ability to realize any deferred tax assets including net operating losses.

The increase in income tax expense for the year ended December 31, 2021 as compared to December 31, 2020 is related to operational scale up.

Liquidity and Capital Resources

	December 31, 2022 \$	December 31, 2021 \$
Cash and cash equivalents	26,158	79,642
Current assets	121,993	172,489
Non-current assets	579,594	409,446
Current liabilities	137,905	66,187
Non-current liabilities	242,511	286,794
Working capital	(15,912)	106,302
Total shareholders' equity	321,171	228,954

The calculation of working capital provides additional information and is not defined under GAAP. TerrAscend defines working capital as current assets less current liabilities. This measure should not be considered in isolation or as a substitute for any standardized measure under GAAP.

Liquidity and going concern

At December 31, 2022, TerrAscend had an accumulated deficit of \$618.3 million. During the year ended December 31, 2022, TerrAscend incurred a net loss from continuing operations of \$299.4 million, which primarily related to impairment of goodwill and intangible assets in its Michigan business of \$311.1 million and generated negative cash flow from operations for the twelve months ended December 31, 2022 of \$26.1 million. Cash and cash equivalents totaled \$26.2 million at December 31, 2022. TerrAscend expects that it will need additional capital to continue to fund its operations.

TerrAscend's cash flow and net losses for the twelve months ended December 31, 2022 are indicators that raise substantial doubt about TerrAscend's ability to continue as a going concern for at least one year from the issuance of these financial statements. TerrAscend believes this concern is mitigated by steps to improve its operations and cash position, including (i) identifying access to future capital, (ii) continued sales growth from TerrAscend's consolidated operations, and (iii) various actions that were implemented during the twelve months ended December 31, 2022 leading to general and administrative expense reductions and other cost and efficiency improvements.

Since its inception, TerrAscend's primary sources of capital have been through the issuance of equity securities or debt facilities, and TerrAscend has received aggregate net proceeds from such transactions totaling \$608,315 as of December 31, 2022.

TerrAscend expects to fund any additional future requirements through the following sources of capital:

- cash from ongoing operations.
- market offerings.
- additional debt from additional creditors.
- sale of real property.
- sale leaseback transactions.
- exercise of options and warrants.

Capital requirements

TerrAscend has \$205,320 in principal amounts of loans payable at December 31, 2022. Of this amount, \$54,232 are due in the next twelve months.

TerrAscend has entered into leases for certain premises and offices for which it owes monthly lease payments. TerrAscend has \$75,812 in lease obligations. Of this amount, \$6,139 are due in the next twelve months. Additionally, TerrAscend makes monthly payments on financing obligations on six of its real estate properties with \$15,632 payable, \$1,915 of which is due in the next twelve months.

Through the acquisition of AMMD, TerrAscend has capital commitments at December 31, 2022 of \$10,000 to purchase all the outstanding equity, which is due in the next twelve months. In addition, TerrAscend's undiscounted contingent consideration payable is \$5,184 at December 31, 2022. The contingent consideration payable relates to TerrAscend's business acquisitions of the Apothecarium, State Flower and Pinnacle and is due in the next twelve months. 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.

During the year ended December 31, 2020, TerrAscend expensed \$7,500 related to amounts payable to an entity controlled by the minority shareholders of TerrAscend NJ pursuant to services surrounding the granting of certain licenses. The final payment of \$3,750 is due on or before March 31, 2023.

At December 31, 2022, the Company had accounts payable and accrued liabilities of \$44,286 and corporate income taxes payable of \$23,077.

TerrAscend does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on TerrAscend's results of operations or financial condition, including and without limitation, such consideration as liquidity and capital resources.

TerrAscend intends to meet its capital commitments through any or all of the sources of capital noted above. TerrAscend's objective with respect to its capital management is to ensure it has sufficient cash resources to maintain its ongoing operations and finance future obligations.

Debt facilities

Canopy USA loans

Canopy Growth (formerly RIV Capital loan)

On February 5, 2020, TerrAscend and RIV Capital Inc. ("RIV Capital"), formerly Canopy Rivers Inc., agreed to amend the terms of their previously issued convertible debentures with a face value of \$10,000. Pursuant to the amended terms, the first tranche of the convertible debentures was converted into a \$10,000 loan payable bearing interest at a rate of 6% per annum, payable annually, with a balance due date of October 2, 2024. The effective interest rate on the loan is 15.99%. TerrAscend also issued RIV Capital 2,225,714 common share purchase warrants, exercisable at \$4.48 (C\$5.95) upon the occurrence of certain triggering events. The warrants were issued such that they can be exercised upon maturity of the loan payable in a cashless exercise by offsetting the principal value of the loan payable. The amendment was treated as a modification of the convertible debenture and as a result, no gains or losses were recorded for the transaction. The fair value of the debt was calculated using the effective interest rate method and allocated the proceeds of the issuance to the debenture and the warrants based on their relative fair values as determined at issuance.

During the year ended December 31, 2021, Canopy Growth acquired the common share purchase warrants previously issued to RIV Capital as well as the loan payable outstanding balance.

On December 9, 2022, the Company entered into a debt settlement agreement (the "Canopy Debt Settlement Agreement") with Canopy USA, LLC, Canopy USA I Limited Partnership and Canopy USA III Limited Partnership (collectively, the "Canopy USA Entities"), pursuant to which agreement certain obligations under all of the outstanding loans, plus accrued interest, with the Canopy USA Entities were extinguished in exchange for 24,601,467 exchangeable shares of the Company ("Exchangeable Shares") at a notional price of \$3.74 (C\$5.10) per Exchangeable Share. Additionally, in accordance with ASC 815 *Derivatives and Hedging*, the 22,474,130 original warrants to acquire common shares of the Company (the "Common Shares") were modified (the "Modified Canopy Warrants") at a weighted average exercise price of \$4.45 (C\$6.07). The Exchangeable Shares and Modified Canopy Warrants were considered in the calculation for extinguishment of the debt obligations, including all principal and interest on the amounts outstanding thereunder.

The Exchangeable Shares and Modified Canopy Warrants can be converted to Common Shares at Canopy USA's option, subject to the federal legalization of marijuana in the United States and compliance with applicable exchange listing rules.

Canopy 2020 Debenture

On March 10, 2020, TerrAscend Canada Inc. entered into a secured debenture with Canopy USA III Limited Partnership ("Canopy USA III LP"), as successor to Canopy Growth Corporation, whereby it promised to pay to Canopy USA III LP in the amount of \$58,645 ("Canopy 2020 Debenture").

The secured debenture bears interest at a rate of 6.10% per annum, with an effective interest rate of 14.15% and matures on the earlier of (i) March 10, 2030, (ii) the later of (A) March 10, 2025, and (B) the date that is twenty-four months following the date that the federal laws of the United States are amended to permit the general cultivation, distribution and possession of marijuana or to remove the regulation of such activities from the federal laws of the United States, and (iii) the date all amounts become due and payable in accordance with the Canopy 2020 Debenture. The debenture is secured by the assets of TerrAscend Canada, is not convertible and is not guaranteed by TerrAscend. In connection with the funding of the loan, TerrAscend issued 17,808,975 common share purchase warrants to Canopy Growth. The warrants are comprised of 15,656,242 common share purchase warrants entitling Canopy Growth to acquire one common share of TerrAscend at an exercise price of \$3.59 (C\$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 \$2.72 (C\$3.74) per share, expiring on March 10, 2031 (refer to Note 11).

On November 11, 2022, TerrAscend Canada Inc. and Canopy USA III LP entered into an agreement, whereby Canopy USA III Limited Partnership agreed to a waiver of TerrAscend Canada Inc.'s obligation to maintain the minimum current assets set forth in the Canopy 2020 Debenture for the period commencing August 31, 2022 to (and including) November 30, 2022, subject to certain conditions.

As stated above, on December 9, 2022, TerrAscend entered into an arrangement with Canopy USA, LLC in which the outstanding loan balance of the Canopy 2020 Debenture was converted into Exchangeable Shares and Modified Canopy Warrants.

Canopy Arise Debenture

On December 10, 2020, TerrAscend, through a wholly owned subsidiary Arise Bioscience Inc. ("Arise") entered into a loan financing agreement with Canopy Growth in the amount of \$20,000 pursuant to a secured debenture ("Canopy Arise Debenture"). In connection with the funding of the loan, TerrAscend has issued 2,105,718 common share purchase warrants to Canopy Growth.

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 15.61%, and matures on December 9, 2030. The debenture is secured by the assets of Arise, is not convertible, and is not guaranteed by TerrAscend. 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 \$12.00 (C\$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 \$13.50 (C\$17.19) per share, expiring on December 9, 2030 (refer to Note 11). The fair value of the debt was calculated using the effective interest rate method and allocated the proceeds of the issuance to the debenture and the warrants based on their relative fair values as determined at issuance.

As stated above, on December 9, 2022, TerrAscend entered into an arrangement with Canopy USA, LLC in which the outstanding loan balance of the Canopy Arise Debenture was converted into Exchangeable Shares and Modified Canopy Warrants.

Other Loans

Manufacturing facility loan

On June 19, 2020, TerrAscend completed a \$5,336 loan financing secured by its manufacturing facility in Mississauga, bearing interest of 8.25% and a balance due date of June 30, 2023. The mortgage payable was recorded at its fair value at inception and subsequently carried at amortized cost. This loan was included in current liabilities from discontinued operations on TerrAscend's Consolidated Balance Sheets at December 31, 2022 and December 31, 2021, respectively, as this loan is secured by assets held for sale as a result of discontinued operations in TerrAscend Canada (refer to Note 6 included in Item 8, "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K for further details).

Ilera Term Loan

On December 18, 2020, WDB Holding PA, a subsidiary of TerrAscend, entered into a senior secured term loan with a syndicate of lenders in the amount of \$120,000 ("Ilera Term Loan"). The term loan bears interest at 12.875% per annum and matures on December 17, 2024. TerrAscend has the ability to increase the facility by up to \$30,000. WDB Holding PA's obligation under the Ilera Term Loan and related transaction documents are guaranteed by TerrAscend, TerrAscend USA, Inc., and certain subsidiaries of WDB Holding PA, and secured by TerrAscend USA Inc.'s equity interest in WDB Holding PA and substantially all of the assets of WDB Holding PA and the subsidiary guarantors party thereto. The loan can be refinanced at the option of the borrower after 18 months from the closing date subject to a premium payment due. Of the total proceeds received, \$105,767 was used to satisfy the remaining Ilera earn-out payments.

On April 28, 2022, the Ilera Term Loan was amended to provide WDB Holding PA with greater flexibility by resetting the minimum consolidated interest coverage ratio levels that must be satisfied at the end of each measurement period and extending the date in which WDB Holding PA is required to deliver its budget for the fiscal year ending December 31, 2021. In addition, the no-call period was extended from 18 months to 30 months, subject to a premium payment. This modification was not considered extinguishments of debt under ASC 470 *Debt*.

On November 11, 2022, WDB Holding PA, TerrAscend, TerrAscend USA Inc. and the subsidiary guarantors party to the Ilera Term Loan and the PA Agent (on behalf of the required lenders) entered into an amendment to the PA Credit Agreement, pursuant to which PA Agent and the required lenders agreed that WDB Holding PA's obligation to maintain the consolidated interest coverage ratio as set forth in the PA Credit Agreement for the period ended September 30, 2022, shall not apply, subject to certain conditions, including (but not limited to) an obligation to enter into a subsequent amendment agreement on or before December 15, 2022, documenting certain enhancements and amendments to the PA Credit Agreement to be agreed. In addition, WDB Holding PA offered a prepayment of \$5,000 pro rata to all lenders holding outstanding loans thereunder at a price equal to 103.22% of the principal amount prepaid, plus accrued and unpaid interest.

On December 21, 2022, WDB Holding PA completed an amendment to reduce TerrAscend's principal debt by \$35,000 and annual interest expense by \$5,000. TerrAscend agreed to make a \$35,000 payment at the original prepayment price of 103.22% to par, and agreed to use commercially reasonable efforts to add certain collateral to Ilera Term Loan, collectively by March 15, 2023. The amendment further provided that should WDB Holding PA not maintain the prescribed interest coverage ratio, the Company shall be required to deposit funds, as outlined in the amendment, into a restricted account, and no event of default shall occur. This amendment was not considered extinguishments of debt under ASC 470 *Debt*. There is \$115,000 of principal amounts outstanding at December 31, 2022.

On March 15, 2023, WDB Holding PA, in exchange for a fee in the amount of 1% of the then outstanding principal loan balance, agreed to an amendment among other things, to (i) extend the obligation date to prepay TerrAscend's debt from March 15, 2023 to June 30, 2023 in which WDB Holding PA must use commercially reasonable efforts to add additional collateral to the Ilera Term Loan, (ii) increase the amount of debt to be reduced by up to \$37,000, subject to certain reductions in amount based on meeting certain time based milestones, at a prepayment price of 103.22% to par, and (iii) extend the next test date in respect of the interest coverage ratio until June 30, 2023.

HMS loan

The acquisition of HMS included a \$2,500 note payable which bears a 5.0% annual interest, due October 2022. The note was recorded at its fair value at inception of \$2,089 and subsequently carried at amortized cost. TerrAscend made payments of principal and interest of \$2,351, reducing the balance to \$nil at December 31, 2022 and the note is no longer outstanding.

KCR Loan

The acquisition of KCR included a \$6,750 note payable which bears interest at 10.00% per annum and matures on April 30, 2022. The note was recorded at its fair value at inception and subsequently carried at amortized cost. TerrAscend made payments of principal and interest of \$2,324 and \$4,878 for the years ended December 31, 2022 and December 31, 2021, respectively. At December 31, 2022, the note is no longer outstanding.

Gage Loans

The Gage Acquisition included a senior secured term loan (the "Original Gage Term Loan") with an acquisition date fair value of \$53,857. The credit agreement bears interest at a rate equal to the greater of (i) the Prime Rate plus 7% or (ii) 10.25%. The term loan is payable monthly and matures on November 30, 2022. The term loan is secured by a first lien on all Gage assets.

On August 10, 2022, the Original Gage Term Loan was amended as a result of the corporate restructure in conjunction with the Gage Acquisition. The amendment to the Original Gage Term Loan includes the addition of a borrower and guarantor under the term loan and a right of first offer in favor of the administrative agent for a refinancing of the term loan. This amendment was not considered extinguishments of debt under ASC 470 *Debt*.

On November 29, 2022, TerrAscend repaid \$30,000 outstanding principal amount on the Original Gage Term Loan. On November 30, 2022, the remaining loan principal amount of \$25,000 on the Original Gage Term Loan was amended (the "Amended Gage Term Loan"). The Amended Gage Term Loan bears interest on \$25,000 at a per annum rate equal to the greater of (i) the U.S. "prime rate" plus 6.00%, and (ii) 13.0% and matures on November 1, 2024. Commencing on May 31, 2023, TerrAscend will make monthly principal repayments of 0.40% of the aggregate principal amount outstanding. Additionally, the unpaid principal amount of the loan shall bear paid in kind interest at a rate of 1.50% per annum. No prepayment fees are owed if TerrAscend voluntarily prepays the loan after 18 months. If such prepayment occurs prior to 18 months, a prepayment fee equal to all of the interest on the loans that would be due after the date of such prepayment, is owed. Under the Amended Gage Term Loan, TerrAscend has the ability to borrow incremental term loans of \$30,000 at the option of TerrAscend and subject to consents from the required lenders. The additional \$30,000 incremental term loans available under the amendment have not been drawn as of December 31, 2022. This loan represents a loan syndication, and therefore TerrAscend assessed each of the lenders separately under ASC 470 *Debt* to determine if this represents a modification, or an extinguishment of debt. For three of the four remaining lenders, it was determined that this was a modification. For the remaining lender, it was determined that this represented an extinguishment of debt and therefore the fees paid to the lenders on modification were expensed. As a result of this transaction, TerrAscend expensed \$1,907 of fees paid to the lenders and third parties as they did not meet the criteria for capitalization under ASC 470 *Debt*.

Additionally, the Gage Acquisition included a loan payable to a former owner of a licensed entity with an acquisition date fair value of \$2,683, and a promissory note with an acquisition date fair value of \$4,065. The loan payable to the former owner bears interest at a rate of 0.2%. The promissory note bears interest at a rate of 6%. There is \$5,152 of principal amounts outstanding at December 31, 2022 on the loan payable and promissory note.

Pinnacle Loans

The Pinnacle Acquisition purchase price included two promissory notes in an aggregate amount of \$10,000 to pay down all Pinnacle liabilities and encumbrances. The promissory note matures on June 30, 2023 and bears interest rates of 6%. There is \$9,333 of principal amounts outstanding at December 31, 2022 on the two promissory notes.

Pelorus Term Loan

On October 11, 2022, subsidiaries of TerrAscend, among others, entered into a loan agreement with Pelorus Fund REIT, LLC ("Pelorus") for a single-draw senior secured term loan ("Pelorus Term Loan") in an aggregate principal amount of \$45,478. The Pelorus Term Loan bears interest at a variable rate tied to the one month secured overnight financing rate (SOFR), subject to a base rate, plus 9.5%, with interest-only payments for the first 36 months. The base rate is defined as, on any day, the greatest of (i) 2.5%, (b) the effective federal funds rate in effect on such day plus 0.5%, and (c) one month SOFR in effect on such day. The obligations of the borrowers under the Pelorus Term Loan are guaranteed by TerrAscend, TerrAscend USA Inc. and certain other subsidiaries of TerrAscend and secured by substantially all of the assets of TerrAscend's Maryland and New Jersey businesses, including certain real estate in Maryland and New Jersey. The Pelorus Term Loan matures on October 11, 2027. There is \$45,478 of principal amounts outstanding at December 31, 2022.

Cash Flows

Cash flows used in operating activities

	For the years ended		
	December 31, 2022	December 31, 2021	December 31, 2020
Net cash used in operating activities	\$ (26,123)	\$ (31,815)	\$ (36,971)

The decrease in cash used in operating activities for the year ended December 31, 2022 as compared to December 31, 2021 is primarily due to a decrease in income taxes paid from \$37,060 during the year ended December 31, 2021 to \$9,917 for the year

ended December 31, 2022, as well as a decrease in contingent consideration payments made related to TerrAscend's acquisitions in excess of the fair value of the liability recognized at the date of acquisition from \$11,394 during the year ended December 31, 2021 to \$410 during the year ended December 31, 2022. Excluding these amounts, TerrAscend had net cash used in operating activities of \$15,795 for the year ended December 31, 2022 as compared to net cash provided by operating activities of \$16,639 for the year ended December 31, 2021. Additionally the increase in net cash used in operating activities for the year ended December 31, 2022 as compared to December 31, 2021 is due to an increase in loss from operations, excluding non-cash impairment on intangible assets and goodwill, of \$56,381 from a profit of \$31,550 in the prior year period to a loss of \$24,831 in the current year. The decrease in cash used in operating activities is offset by an increase in interest payments made on loans from \$21,171 for the year ended December 31, 2021 to \$26,840 for the year ended December 31, 2022, primarily due to the loans acquired through the Gage Acquisition and the Pinnacle Acquisition.

The decrease in cash used in operating activities for the year ended December 31, 2021 as compared to December 31, 2020, is primarily due to payments made in excess of the amount of fair value of the contingent consideration payable at the date of the Ilera acquisition on September 16, 2019 of \$11,394 for the year ended December 31, 2021 as compared to payments of \$56,527 during the year ended December 31, 2020. Excluding these amounts, TerrAscend had net cash used in operating activities of \$20,421 and cash provided by operating activities of \$19,556 for the years ended December 31, 2021 and December 31, 2020, respectively. The increase in cash used in operating activities during the year ended December 31, 2021 is mainly the result of income tax payments of \$37,060 during the year ended December 31, 2021, as compared to \$11,204 during the year ended December 31, 2020, and interest payments of \$21,171 during the year ended December 31, 2021, as compared to \$1,955 during the year ended December 31, 2020. The increase in interest payments is primarily due to the Ilera term loan in which TerrAscend received proceeds during December 2020. Excluding these payments, TerrAscend saw an increase in cash provided by operating activities during the year ended December 31, 2021, which is primarily due to increased sales.

Cash flows used in investing activities

For the years ended

	December 31, 2022	December 31, 2021	December 31, 2020
Net cash used in investing activities	\$ (27,579)	\$ (132,421)	\$ (45,890)

The net cash used in investing activities for the year ended December 31, 2022 primarily relates to investment in property and equipment of \$39,631, primarily related to the buildout of a cultivation site in Maryland, continuing renovations at TerrAscend's Pennsylvania cultivation site, cash expenditures at its grow, production and packaging facilities in Michigan, and the continued buildout of TerrAscend's Lodi alternative treatment center in New Jersey. Additionally, TerrAscend had investments in intangible assets of \$2,261, primarily related to adult use licenses in New Jersey, as well as the acquisition of a retail license in Michigan. The cash used in investing activities is offset by cash inflows of \$24,716 related to cash and restricted cash acquired through the Gage Acquisition, offset by net cash paid for consideration for the Pinnacle Acquisition of \$8,489.

The net cash used in investing activities for the year ended December 31, 2021 primarily relates to cash consideration paid for the acquisitions of KCR and HMS totaling \$42,736. During the year ended December 31, 2021, TerrAscend made payments of \$50,000 related to the purchase of the additional 12.5% of the issued and outstanding equity of TerrAscend NJ from BWH NJ, LLC and Blue Marble Ventures, LLC. Additionally, TerrAscend had investments in property and equipment of \$37,858 primarily related to the buildout of the New Jersey operations and expansions in Pennsylvania cultivation and \$1,977 related to deposits paid for the expansion of the cultivation premises in Pennsylvania.

In comparison, the net cash used in investing activities for the year ended December 31, 2020 was primarily due to investments in property and equipment of \$43,784 primarily relating to the buildout of the New Jersey operations and expansions in Pennsylvania and California cultivation.

Cash flows from financing activities

For the years ended

	December 31, 2022	December 31, 2021	December 31, 2020
Net cash provided by financing activities	\$ 3,719	\$ 182,201	\$ 133,251

Net cash provided by financing activities for the year ended December 31, 2022 was primarily due to loan proceeds in the amount of \$43,419 and proceeds from exercises of Common Share warrants and stock options of \$24,342. The cash provided by financing activities was offset by principal payments on loans and loan modification fees of \$42,221 and \$4,977,

respectively, payments made to non-controlling interests of \$7,550, and payments of contingent consideration related to the acquisition of State Flower of \$6,630.

Net cash provided by financing activities for the twelve months ended December 31, 2021, was mainly a result of the private placement on January 28, 2021, in which TerrAscend issued 18,115,656 Common Shares at a price of \$9.64 (C\$12.35) per Common Share for total proceeds of \$173,477, net of share issuance costs of \$1,643. Additionally, during the twelve months ended December 31, 2021, 8,755,339 Common Share warrants were exercised for total proceeds of \$21,735 and 1,376,496 stock options were exercised at \$0.67-\$6.93 (C\$0.85-\$8.52) per unit for total gross proceeds of \$5,462. In addition, 1,968 Preferred Share warrants were exercised at \$3,000 per unit for total gross proceeds of \$3,588. The cash provided by financing activities was offset by payments of contingent consideration related to the acquisition of Ilera of \$18,274 and by payments of loan principal of \$4,500 related to the KCR loan.

Net cash provided by financing activities during the year ended December 31, 2020, was primarily due to loan proceeds in the amount of \$196,348 and proceeds from private placements net of share issuance costs of \$71,023. Additionally, 829,050 Common Share warrants were exercised for total gross proceeds of \$2,075 and 1,816,496 stock options were exercised at \$0.43-\$6.52 per unit for total gross proceeds of \$4,462. In addition, 625 Preferred Share warrants were exercised at \$3,000 per unit for total gross proceeds of \$750. The cash provided by financing activities was partially offset by payments of contingent consideration of \$90,657 to the sellers of Ilera, as well as payments of principal on TerrAscend's outstanding loans of \$48,893 to pay off the remaining balance of the JW Asset Management credit facility, a financing loan in Canada, and the loans from management of Ilera.

Reconciliation of Non-GAAP Measures

In addition to reporting the financial results in accordance with GAAP, TerrAscend reports certain financial results that differ from what is reported under GAAP. Non-GAAP measures used by management do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. TerrAscend believes that certain investors and analysts use these measures to measure a company's ability to meet other payment obligations or as a common measurement to value companies in the cannabis industry, and TerrAscend calculates (i) Adjusted gross profit as gross profit adjusted for certain material non-cash items, and (ii) Adjusted EBITDA as EBITDA adjusted for certain material non-cash items and certain other adjustments which management believes are not reflective of the ongoing operations and performance. Such information is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

TerrAscend believes Adjusted EBITDA from continuing operations is a useful performance measure to assess the performance of TerrAscend as it provides more meaningful ongoing operating results by excluding the effects of expenses that are not reflective of TerrAscend's underlying business performance and other one-time or non-recurring expenses. The table below reconciles net loss to EBITDA from continuing operations and Adjusted EBITDA from continuing operations for the years ended December 31, 2022, December 31, 2021 and December 31, 2020:

For the years ended

	Notes	December 31, 2022	December 31, 2021	December 31, 2020
Net (loss) income		\$ (325,351)	\$ 6,135	\$ (142,256)
<i>Add (deduct) the impact of:</i>				
Loss (income) from discontinued operations		25,949	9,518	14,635
Provision for income taxes		(10,783)	28,877	10,769
Finance expenses		39,059	24,121	8,006
Amortization and depreciation		22,624	12,789	8,337
EBITDA from continuing operations	(a)	(248,502)	81,440	(100,509)
<i>Add (deduct) the impact of:</i>				
Relief of fair value upon acquisition	(b)	2,770	3,465	(230)
Non-cash write downs of inventory	(c)	5,894	449	—
Vape recall	(d)	2,965	—	—
Share-based compensation	(e)	12,162	14,941	10,475
Impairment of goodwill and intangible assets	(f)	311,084	8,640	343
Impairment of property and equipment and loss on disposal of fixed assets	(g)	1,089	312	6
Loss on lease termination and derecognition of ROU asset	(h)	1,162	3,278	—
(Gain) loss from revaluation of contingent consideration	(i)	(1,061)	3,584	18,709
Restructuring costs and executive severance	(j)	472	816	556
Legal settlements	(k)	623	1,590	—
Fees for services related to NJ licenses	(l)	—	—	7,500
Other one-time items	(m)	5,207	6,070	584
Bad debt expense write offs in Michigan	(n)	9,941	—	—
Loan modification fees	(o)	2,507	—	—
Employee Retention Credits	(p)	(9,440)	—	—
Gain on extinguishment of debt	(q)	(4,153)	—	—
Gain on fair value of warrants and purchase option derivative asset	(r)	(58,523)	(57,904)	110,518
Indemnification asset release	(s)	3,973	4,504	—
Unrealized and realized gain on investments	(t)	(43)	(6,192)	(533)
Unrealized and realized foreign exchange loss	(u)	712	4,654	159
Adjusted EBITDA from continuing operations		\$ 38,839	\$ 69,647	\$ 47,578

TerrAscend calculates adjusted gross profit by adjusting gross profit for the one-time relief of fair value of inventory upon acquisition, non-cash write downs of inventory, vape recall, and other one time adjustments to gross profit as TerrAscend does not believe that these impacts are reflective of ongoing operations. The table below reconciles gross profit to adjusted gross profit for the years ended December 31, 2022, December 31, 2021 and December 31, 2020:

	Notes	December 31, 2022	December 31, 2021	December 31, 2020
Gross profit		\$ 101,504	\$ 112,502	\$ 85,691
<i>Add (deduct) the impact of:</i>				
Relief of fair value upon acquisition	(b)	2,770	3,465	(230)
Non-cash write downs of inventory	(c)	5,894	449	-
Vape recall	(d)	2,965	—	—
Other one time adjustments to gross profit	(v)	798	—	—
Adjusted gross profit from continuing operations		\$ 113,931	\$ 116,416	\$ 85,461

- a) EBITDA is a non-GAAP measure and is calculated as earnings before interest, tax, depreciation and amortization.
- b) In connection with TerrAscend'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 TerrAscend would have recognized if the inventory was sold through at cost. The write-up or down of acquired inventory represents the incremental cost of sales that were recorded during purchase accounting.

- c) Represents inventory write downs outside of the normal course of operations. These inventory write-downs were related to the write down of aged inventory to lower of cost or market which was related to TerrAscend's operational reconfiguration of its cultivation facility in Pennsylvania.
- d) On February 4, 2022, more than 500 vape products were recalled by the Pennsylvania's Department of Health, including several of the TerrAscend's SKUs. As a result of the recall TerrAscend recorded sales returns of \$1,040 and write-downs of inventory of \$1,925 for the twelve months ended December 31, 2022.
- e) Represents non-cash share-based compensation expense.
- f) Represents impairment charges taken on TerrAscend's intangible assets and goodwill.
- g) Represents impairment charges taken on TerrAscend's property and equipment, as well as write-downs of property and equipment.
- h) Represents loss taken as a result of TerrAscend's early termination payment on its Frederick, Maryland lease as well as loss taken on the derecognition of right of use assets.
- i) Represents the revaluation of TerrAscend's contingent consideration liabilities.
- j) Represents costs associated with executive severance and restructuring of business units.
- k) Represents one-time legal settlement charges.
- l) Represents amounts payable to an entity controlled by the minority shareholders of TerrAscend NJ due upon NJ being granted an alternative treatment center license in the state of New Jersey and NJ making its first sale of medical cannabis to a patient in compliance with the New Jersey Compassionate Use Marijuana Act.
- m) Includes one-time fees incurred in connection with TerrAscend's acquisitions, such as expenses related to professional fees, consulting, legal and accounting, that would otherwise not have been incurred. In addition, includes one-time charges for Sarbanes Oxley Act of 2002 implementation, as well as work completed in preparation of becoming a U.S. filer. These fees are not indicative of TerrAscend's ongoing costs.
- n) Represents one-time write off of accounts receivable related to one customer that were deemed uncollectible.
- o) Represents loan modification fees related to the modification of the Gage senior secured term loan and the Ilerra Term Loan. These fees do not meet the criteria for capitalization under ASC 470 *Debt*.
- p) Represents income recorded from ERC as a result of the CARES Act.
- q) Represents the gain on extinguishment of debt recorded as a result of the extinguishment of the loans held with Canopy USA.
- r) Represents the (gain) loss on fair value of warrants, including effects of the foreign exchange of the U.S. denominated preferred share warrants, as well as the revaluation of the fair value of the purchase option derivative asset.
- s) Represents the reduction to the indemnification asset related to the Apothecarium tax audit settlement and statute expirations for tax years ended September 30, 2014 and September 30, 2015.
- t) Represents unrealized and realized gain on fair value changes on strategic investments.
- u) Represents the remeasurement of USD denominated cash and other assets recorded in C\$ functional currency.
- v) Represents other one time adjustments to gross profit including facility transfer costs taken in Maryland, as well as accelerated depreciation taken due to the move of the cultivation facility from Frederick to Hagerstown, as well as other one time items that are not indicative of ongoing costs.

The decrease in Adjusted EBITDA from continuing operations for the year ended December 31, 2022 as compared to December 31, 2021 was primarily due to lower volume and resulting gross margin compression mainly related to challenging market dynamics in Pennsylvania.

The increase in Adjusted EBITDA from continuing operations for year ended December 31, 2021 as compared to December 31, 2020 was primarily due to operational scale up, as well as TerrAscend's acquisitions of KCR and HMS. TerrAscend continued to expand in the United States organically through an increase in production and wholesale capacity in Pennsylvania, store expansions in Pennsylvania, New Jersey, and California, and operations in New Jersey and Maryland.

Changes in or Adoption of Accounting Principles

New standards, amendments and interpretations adopted:

TerrAscend adopted certain accounting and reporting standards during the year ended December 31, 2022. Information regarding TerrAscend's adoption of new accounting and reporting standards is discussed in Note 2 to the accompanying consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

The preparation of TerrAscend's consolidated financial statements requires management to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

While TerrAscend's significant accounting policies are described in more detail in Note 2 to the accompanying consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" in this Annual Report on the Form 10-K, the accounting estimates and assumptions discussed in this section are those that TerrAscend considers to be the most critical in the preparation of the consolidated financial statements. An accounting estimate or assumption is considered critical if both (a) the nature of the estimate or assumption is material due to the levels of subjectivity and judgement involved, and (b) the impact within a reasonable range of outcomes of the estimate and assumption is material to the financial condition.

A quantitative sensitivity analysis is provided where information is available to reasonably estimate the impact and provides material information to investors.

Inventory

The net realizable value of inventory represents the estimated selling price in the ordinary course of business less the reasonably predictable costs of completion, disposal and transportation. TerrAscend estimates the net realizable value of inventories, taking into account the most reliable evidence available at each reporting date. The determination of net realizable value requires significant judgment, including consideration of factors such as shrinkage, the aging of and future demand for inventory, expected future selling price TerrAscend expects to realize by selling the inventory, and the contractual arrangements with customers. Reserves for excess and obsolete inventory are based upon quantities on hand, projected volumes from demand forecasts and net realizable value. 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 TerrAscend's inventory valuation and gross profit.

Revenue recognition

Revenues consist of wholesale and retail sales, which are recognized when control of the goods has transferred to the purchaser and the collectability is reasonably assured.

From time to time, TerrAscend partakes in sales agreements with suppliers in which it also purchases inventory. As part of the five-step revenue model, TerrAscend assesses whether instances of bulk sales made to suppliers of goods have commercial substance and should be recognized as revenue under ASC 606 *Revenue Recognition*, or whether the transaction should be assessed under ASC 845 *Nonmonetary Transactions*. The determination of whether the sale has commercial substance requires management's judgment.

Share-based compensation

In calculating share-based compensation, key estimates are used such as, the rate of forfeiture of options granted, the expected life of the option, the volatility of TerrAscend's stock price, the vesting period of the option and the risk-free interest rate. The fair value of each option grant is estimated using the Black-Scholes option-pricing model. While assumptions used to calculate and account for share-based compensation awards represent management's best estimates, these estimates involve inherent uncertainties and the application of management's judgment. As a result, if revisions are made to the underlying assumptions

and estimates, share based compensation expense could vary significantly from period to period. TerrAscend recognized share-based compensation expense of \$12,162, \$14,942, and \$10,475 for the years ended December 31, 2022, 2021, and 2020, respectively.

Warrant Liability

TerrAscend uses the Black-Scholes model to calculate the fair value of the warrants issued, which includes various unobservable inputs such as the volatility of TerrAscend's stock price and the risk-free interest rate. TerrAscend uses judgment to select methods used and in performing the fair value calculations at the initial measurement at issuance, as well as for subsequent measurement on a recurring basis. The assumptions could have a material impact on the valuation of the warrant liability. The warrant liability was remeasured to fair value at \$711 and \$54,986 at December 31, 2022 and 2021, respectively. An increase of 50 basis points to the discount rate and volatility would not have a material impact.

Income taxes

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of TerrAscend 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.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. TerrAscend reviews the adequacy of these provisions at the end of the reporting period. It is possible, however, that at some future date, an additional liability could result from audits by taxing authorities. If the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Impairment of long-lived assets

TerrAscend evaluates the recoverability of long-lived assets, including property and equipment, right of use ("ROU") assets, and definite lived intangible assets, whether events or changes in circumstances indicate that the carrying value of the asset, or asset group, may not be recoverable.

When TerrAscend determines that the carrying value of the long-lived asset may not be recoverable based upon the existence of one or more of the indicators, the assets are assessed for impairment based on the estimate of future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the carrying value of an asset exceeds its estimated future undiscounted cash flows, an impairment loss is recorded for the excess of the asset's carrying value over its fair value. Management judgement is required in the determination of indicators of impairment, as well as the estimation of future undiscounted cash flows, and as necessary, the fair value of those assets or asset groups in which indicators of impairment have been identified.

During the year ended December 31, 2022, TerrAscend determined that changes in market expectations of cash flows in its Michigan business, as well as increased competition and supply in the state, were indicators that an impairment test was appropriate for the Michigan reporting unit. TerrAscend determines the fair value of the asset group and allocates the impairment to the assets, being the (i) cultivation and processing licenses, and (ii) retail licenses, acquired through the Gage Acquisition. TerrAscend compared the carrying value of the assets to its fair value and determined that the carrying value exceeded the fair value for both the retail and the cultivation and processing licenses. As such, TerrAscend recorded impairment charges of \$79,462 and \$42,065 for the cultivation and processing licenses and retail licenses, respectively, reducing both the carrying values to \$nil.

TerrAscend recorded impairment of \$423 of intellectual property in Canada during the year ended December 31, 2020 related to packaging designs that were written down to its recoverable value. Additionally, during the year ended December 31, 2020, TerrAscend recorded impairment of \$342 related to its customer relationships at Arise as a result of its termination of an agreement with one of its wholesale distributors.

TerrAscend recorded impairment of property and equipment of \$1,089, \$312, and \$6 for the years ended December 31, 2022, 2021, and 2020, respectively.

Impairment of goodwill and indefinite lived intangible assets

Goodwill and indefinite lived intangible assets are reviewed for impairment annually and whenever there are events or changes in circumstances that indicate the carrying amount has been impaired. Definite lived intangible assets are tested for impairment

when there are indications that an asset may be impaired. If it is determined that it is more likely than not that the fair value of a reporting unit exceeds its carrying value, additional quantitative impairment testing is performed which compares the carrying value of the reporting unit to its estimated fair value.

TerrAscend uses an income-based approach as necessary to assess the fair values of intangible assets and its reporting units for goodwill testing purposes. Under the income approach, fair value is based on the present value of estimated cash flows. An impaired asset is written down to its estimated fair value based on the most recent information available.

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 TerrAscend to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. A number of factors, including historical results, business plans, forecasts, and market data are used to determine the fair value of the reporting unit and intangible assets.

TerrAscend's impairment loss calculation contains uncertainties because it requires management to make assumptions and apply judgement to qualitative factors as well as estimate future cash flows and asset fair values, including forecasting projected financial information and selecting the discount rate that reflects the risk inherent in future cash flows. If actual results are not consistent with TerrAscend's estimates and assumptions, TerrAscend may be exposed to non-cash impairment losses that could be material.

2022

During the year ended December 31, 2022, TerrAscend determined that the existence of impairment on certain long-lived assets, together with changes in market expectations of cash flows in Michigan, as well as increased competition and supply in the state since TerrAscend acquired the indefinite lived assets, indicate that the fair value of the Gage brand intangible assets are more likely than not lower than the carrying value. As such, TerrAscend performed an impairment analysis and determined the fair value of its brand intangible assets using the relief of royalty method. As a result of the quantitative analysis performed, TerrAscend recognized impairment of \$19,200, reducing the carrying value of the brand intangibles to \$57,985.

Based on the indicators of impairment noted previously, TerrAscend determined that there were indicators that the fair value of its reporting units are more likely than not lower than its carrying value. As such, a quantitative impairment test was performed over its Michigan reporting unit, which includes goodwill acquired through the Gage Acquisition and the Pinnacle Acquisition, its Pennsylvania reporting unit, and its California wholesale reporting unit. As a result of the impairment analysis performed over its Michigan reporting unit, TerrAscend recorded impairment of goodwill of \$170,357 during the year ended December 31, 2022, reducing the carrying value of the goodwill acquired through the Gage Acquisition and Pinnacle Acquisition to \$nil.

TerrAscend determined that the challenging market dynamics in Pennsylvania, including increased competition, were indicators of impairment for the Pennsylvania reporting unit and therefore TerrAscend performed a quantitative impairment analysis. As a result of the impairment analysis performed over the Pennsylvania reporting unit, TerrAscend determined that the fair value of the Pennsylvania reporting unit exceeded its carrying value, resulting in no impairment. The carrying value of the goodwill attributable to the Pennsylvania reporting unit was \$76,761 at December 31, 2022.

TerrAscend determined that increased competition and a reduction in forecasted sales, were indicators of impairment for the California wholesale reporting unit and therefore TerrAscend performed a quantitative impairment analysis. As a result of the impairment analysis performed over TerrAscend's California wholesale reporting unit, it was determined that the fair value of the California reporting unit exceeded its carrying value, resulting in no impairment. The carrying value of the goodwill attributable to the California wholesale reporting unit was \$4,689 at December 31, 2022.

2021

During the year ended December 31, 2021, TerrAscend made a decision to undertake a strategic review process to explore, review, and evaluate potential alternatives for its Arise business. TerrAscend also determined that the estimated future cash flows for the business did not support the carrying value of the intangible assets and goodwill, and therefore, the intangible assets and goodwill were written down to \$nil. TerrAscend recorded impairment of intangible assets of \$3,633 and impairment of goodwill of \$5,007.

During the fourth quarter of 2021, TerrAscend performed qualitative analyses over its goodwill and indefinite lived intangible assets for each of its reporting units. TerrAscend determined that it was more likely than not that the fair value of its California and Maryland reporting units exceeded their carrying values, and therefore, no quantitative impairment analysis was performed.

TerrAscend performed a quantitative analysis over its Pennsylvania reporting unit and determined that the fair value exceeded its carrying value, resulting in no impairment. An increase of the discount rate of 100 basis points would not cause an impairment. There is no goodwill or indefinite lived intangible assets at TerrAscend's Canada reporting unit.

2020

During the year ended December 31, 2020, TerrAscend performed qualitative analyses over its goodwill and indefinite lived intangible assets for each of its reporting units and determined that it was more likely than not that the fair value of its California and Pennsylvania reporting units exceeded their carrying values, and therefore, no quantitative analyses was performed. TerrAscend performed a quantitative analysis over its Florida reporting unit and determined that the fair value exceeded its carrying value, resulting in no impairment. An increase in the discount rate of 100 basis points would not cause an impairment.

Business combinations

Classification of an acquisition as a business combination or an asset acquisition depends on whether the asset acquire constitutes a business, which can be a complex judgement. TerrAscend has determined that its acquisitions in Note 4 are business combinations under ASC 805 *Business Combinations*.

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, TerrAscend may utilize an independent external valuation expert to 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.

The estimates are based upon assumptions that TerrAscend believes are reasonable, but which are inherently uncertain and unpredictable. These valuations require the use of management's assumptions, which do not reflect unanticipated events and circumstances that may occur.

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, such as projected future revenue. Subsequent changes to the fair value of contingent consideration are measured at each reporting date, with changes recognized through profit or loss. Refer to Note 21 included in Item 8, "*Financial Statements and Supplementary Data*" in this Annual Report on Form 10-K for the sensitivity analysis performed over the contingent consideration liability.

ERC

The CARES Act provides for an employee retention credit ("ERC") which is a refundable tax credit for businesses that continued to pay employees while shut down due to the COVID-19 pandemic, or had significant declines in gross receipts from March 13, 2020 to December 31, 2021. Eligible employers can claim the ERC on an original or adjusted employment tax return for a period within those dates. TerrAscend has elected to account for the credit as a government grant. There is limited grant accounting guidance within U.S. GAAP that is applicable to for-profit entities, therefore, TerrAscend has elected to follow the grant accounting model in International Accounting Standard ("IAS") 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Accordingly, TerrAscend recognizes government grants for which there is a reasonable assurance of compliance with grant conditions and receipt of credits and has therefore recognized a receivable for the total credit amount on the consolidated balance sheets as of December 31, 2022. The determination of the collectability of the ERC requires significant judgement, including assessment of TerrAscend's eligibility based on the facts and circumstances. While TerrAscend believes that collection of the ERC is probable, there is some uncertainty around collection due to the nature of TerrAscend's industry.

During the year ended December 31, 2022, TerrAscend has an ERC for qualified wages of \$14,903 which was included in accounts receivable, net in the consolidated balance sheets at December 31, 2022. TerrAscend recognized other income of \$9,440 as a result of this transaction which was recorded as other income and included in finance and other expenses on the

consolidated statements of operations. Additionally, TerrAscend recorded accounts receivable in its opening balance sheet related to the acquisition of Gage of \$5,463 related to ERC.

Incremental borrowing rates

Lease payments are discounted using the rate implicit in the lease if that rate is readily available. If that rate cannot be easily determined, the lessee is required to use its incremental borrowing rate. The incremental borrowing rate is the rate of interest that TerrAscend estimates it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. TerrAscend calculates its incremental borrowing rate as the interest rate TerrAscend would pay to borrow funds necessary to obtain an asset of similar value over similar terms taking into consideration the economic factors and the credit risk rating at the commencement date of the lease.

In addition, TerrAscend utilizes a discount rate to determine the appropriate fair value of convertible debentures and loans issued with warrants attached. The discount rate applied reflects the interest rate that TerrAscend would have to pay to borrow a similar amount at a similar term and with a similar security.

Control, joint control or level of influence

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

Emerging Growth Company Status

TerrAscend is an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. TerrAscend has elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that TerrAscend (i) is no longer an emerging growth company or (ii) affirmatively and irrevocably opts out of the extended transition period provided in the JOBS Act. As a result, TerrAscend's consolidated financial statements may not be comparable to companies that comply with the new or revised accounting pronouncements as of public company effective dates.

TerrAscend will remain an emerging growth company until the earlier to occur of: (i) (a) December 31, 2027, (b) the last day of the fiscal year in which TerrAscend has total annual gross revenue of \$1.235 billion or more, or (c) the last day of the fiscal year in which TerrAscend is deemed to be a large accelerated filer, which means the market value of TerrAscend's voting and non-voting common equity that is held by non-affiliates exceeds \$700.0 million as of the prior June 30th; and (ii) the date on which TerrAscend has issued more than \$1.0 billion in non-convertible debt during the prior three-year period.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact TerrAscend's financial position due to adverse changes in financial market prices and rates. TerrAscend's market risk exposure is primarily a result of exposure due to potential changes in inflation and interest rates. TerrAscend does not hold financial instruments for trading purposes.

Financial Instruments and Risk Management

Financial instruments recorded at fair value are estimated by applying a fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement. The hierarchy is summarized as follows:

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

Level 2- inputs other than quoted prices 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

Risk Management

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

(a) Credit risk

Credit risk is the risk of financial loss to TerrAscend if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject TerrAscend to significant concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable, net and notes receivable. TerrAscend 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 operations and comprehensive loss. When a trade receivable balance is considered uncollectible, it is written off against the allowance for expected credit losses.

Subsequent recoveries of amounts previously written off are credited against operating expenses in the consolidated statements of operations. TerrAscend regularly monitors credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss. TerrAscend has no customers whose balance is greater than 10% of total trade receivables as of December 31, 2022.

(b) Liquidity risk

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

(c) Market Risk

The significant market risk exposures to which TerrAscend is exposed are foreign currency risk and interest rate risk.

i) Foreign currency risk:

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

TerrAscend and its subsidiaries hold cash and cash equivalents and other assets and liabilities in currencies other than their functional currency. TerrAscend does not currently engage in currency hedging activities to limit the risks of currency fluctuations. Consequently, fluctuations in foreign currencies could have a negative impact on the profitability of TerrAscend's operations. A 10% change in the value of the U.S. dollar compared to the Canadian dollar would result in a change of \$2,389 to the unrealized foreign exchange loss (gain).

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, TerrAscend's policy is to invest excess cash at floating rates of interest in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return. Fluctuations in interest rates impact the value of cash equivalents. TerrAscend's investments in guaranteed investment certificates bear a fixed rate and are cashable at any time prior to maturity date.

TerrAscend does not have significant cash equivalents at year. The Amended Gage Term Loan and the Pelorus Term Loan have variable interest rates that are tied to the U.S. "prime rate" and SOFR. At December 31, 2022, a 10% change to each of the interest rates would result in a change to interest expense of \$1,295. The remainder of TerrAscend's loans payable have fixed interest rates from 6% to 12.875% per annum. All other financial liabilities are non-interest-bearing instruments.

Item 8. Financial Statements and Supplementary Data

All information required by this item may be found on pages F-1 through F-59 of this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.