TERRASCEND CORP.
Condensed Interim Consolidated Financial statements

MARCH 31, 2017 and 2016
(In Canadian Dollars)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

		March 31, 2017		December 31, 2016
Assets				
Current assets				
Cash	**$**	**2,827,023**	$	3,332,698
Restricted cash *(note 6)*		**923,063**		-
Receivables		**428,457**		114,657
Prepaid expenses		**98,773**		19,065
		4,277,316		3,466,420
Property and equipment *(note 4)*		**9,572,645**		400,771
	$	**13,849,961**	$	3,867,191
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities *(note 5)*	**$**	**548,056**	$	818,343
Due to related parties *(note 7)*		**968,371**		967,825
		1,516,427		1,786,168
Convertible debenture *(note 5)*		**8,167,998**		-
		9,684,425		1,786,168
Shareholders' equity (deficiency)				
Share capital *(note 6)*		**4,631,964**		4,046,840
Shares to be issued		**923,063**		-
Contributed surplus *(note 5)*		**955,098**		-
Warrants *(note 6)*		**338,838**		-
Deficit		**(2,683,427)**		(1,965,817)
		4,165,536		2,081,023
	$	**13,849,961**	$	3,867,191

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

Nature of operations *(note 1)*
Subsequent events *(note 10)*

On behalf of the Board

"Basem Hanna"
Director

"Dr. Michael Nashat"
Director

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

		For the period ended March 31, 2017		For the period ended March 31, 2016
Expenses:				
Rent	**$**	**90**	$	129,560
Consulting fees		**526,770**		1,175
Professional fees		**23,861**		750
Utilities		**14,779**		10,052
Office expense		**6,537**		404
Travel		**7,157**		54
Salaries and wages		**76,065**		-
Advertising & promotion		**8,500**		-
Vehicle		**862**		12
Finance expense		**320,577**		21
Insurance		**14,088**		-
Gain on early lease termination		**(281,676)**		-
Net loss and comprehensive loss	**$**	**(717,610)**	$	(142,028)
Net loss per share				
Basic and diluted	**$**	**(0.03)**	**$**	**(0.02)**
Weighted average shares outstanding		**26,826,531**		8,640,000

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

Condensed Interim Consolidated Statements of Changes in Shareholders' Deficiency
(Expressed in Canadian Dollars)

	Share Capital	Shares to be issued	Contributed surplus	Warrants	Deficit	Total
Balance, December 31, 2015	$ 530,011	$ -	$ -	$ -	$ (1,098,636)	$ (568,625)
Net loss for the period	-	-	-	-	(142,028)	(142,028)
Balance, March 31, 2016	$ 530,011	$ -	$ -	$ -	$ (1,240,664)	$ (710,653)
Shares issued for cash	3,384,079	-	-	-	-	3,384,079
Shares issued for debt	92,700	-	-	-	-	92,700
Shares issued for services	40,050	-	-	-	-	40,050
Net loss for the period	-	-	-	-	(725,153)	(725,153)
Balance, December 31, 2016	$ 4,046,840	$ -	$ -	$ -	$ (1,965,817)	$ 2,081,023
Shares issued for cash	585,125	-	-	-	-	585,125
Repurchase of shares	(1)	-	-	-	-	(1)
Issuance of convertible debentures	-	-	955,098	-	-	955,098
Issuance of subscription receipts	-	923,063	-	-	-	923,063
Issuance of warrants	-	-	-	338,838	-	338,838
Net loss for the period	-	-	-	-	(717,610)	(717,610)
Balance, March 31, 2017	**$ 4,631,964**	**$ 923,063**	**$ 955,098**	**$ 338,838**	**$ (2,683,427)**	**$ 4,165,536**

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

Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	For the period ended March 31, 2017	For the period ended March 31, 2016
Cash flow from operating activities		
Net loss	**$ (717,610)**	$ (142,028)
Add (deduct) items not involving cash		
Accretion and accrued interest	**320,429**	-
Share-based payments	**338,838**	-
Change in non-cash working capital		
Receivables	**(313,800)**	(15,942)
Prepaid expenses	**(79,708)**	70,156
Accounts payable and accrued liabilities	**(452,621)**	6,526
	(904,472)	(81,288)
Cash flow from financing activities		
Private placement of shares, net of issuance costs	**585,125**	-
Advances/repayment to related parties	**546**	(5,000)
Issuance of convertible debentures, net of issuance costs	**8,985,000**	-
	9,570,671	(5,000)
Cash flow from investing activities		
Investment in property and equipment	**(9,171,874)**	(2,059)
	(9,171,874)	(2,059)
Increase (decrease) in cash	**(505,675)**	(88,347)
Cash, beginning of period	**3,332,698**	98,994
Cash, end of period	**$ 2,827,023**	$ 10,647

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

1. Nature of operations

TerrAscend Corp. ("TerrAscend" or the "Company") was incorporated under the Ontario Business Corporations Act.

On March 8, 2017, the Company issued 26,987,240 common shares of TerrAscend Corp. in exchange for all of the issued and outstanding shares (the "Transaction") of Solace Health Inc. ("Solace"). For accounting purposes, the Transaction was treated as a reverse acquisition with Solace being the accounting acquirer. Therefore, the Company's historical financial statements reflect those of Solace. Prior to the Transaction, TerrAscend was a shell company with no business operations.

The Company's current principal business activities are the cultivation and sale of medical cannabis through Solace, and a physician and patient education and support program offered through its other wholly-owned subsidiary, Terra Health Network (Note 10). Solace has applied to Health Canada to become a Licensed Producer under the Access to Cannabis for Medical Purposes Regulations (Canada) (the "ACMPR"). The Company is in the development stage and has not yet earned any revenues. The Company's registered office is located at 3610 Mavis Road, Mississauga, Ontario.

On April 10, 2017, the Company filed a non-offering prospectus with the British Columbia, Ontario, and Alberta Securities Commissions for the purposes of becoming a reporting issuer pursuant to applicable securities legislation in the Provinces of British Columbia, Ontario, and Alberta. The Company became a reporting issuer in British Columbia, Ontario, and Alberta effective on April 11, 2017. The Company's common shares are listed under the symbol "TER" on the Canadian Securities Exchange ("CSE") and began trading on May 3, 2017. These financial statements were approved by the Company's board of directors on May 25, 2017.

2. Basis of presentation

(a) Statement of compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting". These financial statements do not include all notes of the type normally included within the annual financial report and should be read in conjunction with the audited financial statements of Solace Health Inc. for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC").

(b) Basis of presentation

These financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as detailed in the Company's accounting policies.

(c) Functional and presentation currency

The Company's functional currency, as determined by management is the Canadian dollar. These financial statements are presented in Canadian dollars.

(d) Principles of consolidation

TerrAscend has two wholly-owned subsidiaries: Solace Health Inc. and Terra Health Network Ltd. The Company consolidates its interest in entities which it controls. Control is defined by the power to govern an entity's financial and operating policies so as to be able to obtain benefits from its activities. All intercompany balances and transactions have been eliminated.

(e) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

3. Significant accounting policies

These condensed interim consolidated financial statements have been prepared following the same accounting policies used in the preparation of the audited financial statements of Solace Health Inc. for the year ended December 31, 2016, which are included in TerrAscend's prospectus as filed on April 10, 2017 (available on SEDAR at www.sedar.com).

New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations have been issued but have not yet been applied in preparing these financial statements, as set out below:

- IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The standard is effective for accounting periods beginning on or after January 1, 2018 and earlier adoption is permitted.

- IFRS 15, Revenue from Contracts with Customers, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of goods or services and thus has the ability to direct the use and obtain the benefits from the goods or services. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier adoption is permitted.

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

The Company has yet to assess the impact of these standards, however they are not expected to have a significant impact on the Company's financial statements at this time as the Company does not currently generate any revenue. Other accounting standards or amendments to existing accounting standards that have been issued, but have future effective dates, are either not applicable or are not expected to have a significant impact on the Company's financial statements.

4. Property and equipment

	Assets under construction	Land	Total
Cost			
At December 31, 2015	$ 141,680	$ -	$ 141,680
Additions	259,091	-	259,091
At December 31, 2016	400,771	-	400,771
Additions	8,108,301	1,063,573	9,171,874
At March 31, 2017	**$ 8,509,072**	**$ 1,063,573**	**$ 9,572,645**
Accumulated depreciation			
At December 31, 2015	$ -	$ -	$ -
Expense for the year	-	-	-
At December 31, 2016	-	-	-
Expense for the year	-	-	-
At March 31, 2017	**$ -**	**$ -**	**$ -**
Net book value			
At December 31, 2016	$ 400,771	$ -	$ 400,771
At March 31, 2017	$ 8,509,072	$ 1,063,573	$ 9,572,645

In January 2017, TerrAscend purchased the premises that it was previously leasing from a corporation controlled by a director of the Company, for $6,899,900 in total consideration, plus $190,587 of closing costs. $1,063,573 was allocated to land, with the remainder being allocated to assets under construction.

As at March 31, 2017, the property and equipment were not in use, therefore no depreciation has been taken (2016 - $nil).

5. Convertible debenture

During the period, the Company issued a senior secured convertible debenture for gross proceeds of $9,400,000. The convertible debenture bears interest at 12% per annum during the first 12 months and 18% per annum during the period after the initial 12 months. The interest rate is reduced to 6% per annum on the date of a liquidity event such as the shares of the Company being listed on a recognized stock exchange. The convertible debenture matures 18 months from the date of closing. Subsequent to the period ended March 31, 2017, the Company filed a prospectus

The convertible debenture is initially convertible at the option of the holder at $0.75 per share. The debenture is convertible at $0.59 per share if the Company does not receive a license to cultivate from Health Canada or is granted a license after July 31, 2017.

The Company initially recognized $8,029,902 as the fair value of the convertible debenture, and $955,098 was initially recognized in contributed surplus with respect to the value of the conversion feature.

During the period, the Company recognized $138,097 of accretion expense related to the convertible debenture. Included in accounts payable and accrued liabilities as at March 31, 2017 is $182,334 (2016 - $nil) of accrued interest on the convertible debenture.

6. Shareholders' equity

Authorized share capital

The authorized share capital of the Company consists of an unlimited number of common shares.

Outstanding share capital

	Class A Shares	Class B Shares	Common Shares		Amount
Outstanding, December 31, 2015	300	8,640,000	-		530,011
Shares issued for cash	-	7,672,352	-		3,384,079
Shares issued for debt	-	9,270,000	-		92,700
Shares issued for services	-	90,000	-		40,050
Outstanding, December 31, 2016	300	25,672,352	-	$	4,046,840
Shares issued for cash	-	1,314,888	-		585,125
Repurchase of shares	(300)	-	-		(1)
Exchange of shares	-	(26,987,240)	26,987,240		-
Outstanding, March 31, 2017	**-**	**-**	**26,987,240**	**$**	**4,631,964**

During the period ended March 31, 2017, the Company issued 1,314,888 Class B shares for gross proceeds of $585,125. The Company repurchased and cancelled all issued and outstanding Class A shares for nominal proceeds, and renamed its Class B shares as "common shares" of the Company.

In March 2017, the Company exchanged its common shares for all of the issued and outstanding common shares of Solace Health Inc. on a one-for-one basis.

Shares to be Issued

During the period ended March 31, 2017, the Company commenced a non-brokered private placement of common shares, at a price of $0.60 per share (note 10). At March 31, 2017, the Company had $923,063 (2016 - $nil) in subscription receipts held in trust, pending satisfaction of certain release conditions.

Warrants

During the period ended March 31, 2017, the Company issued 2,173,913 common share purchase warrants in payment for services rendered. Each warrant is exercisable at $0.46 per share and expires at the earlier i) 24 months and ii) 18 months from the date of a go-public offering. The fair value of these warrants is $338,838.

The fair value of these warrants on the grant date was estimated using the Black-Scholes valuation model. The following assumptions were used:

	March 31, 2017	2016
Volatility	**70%**	n/a
Risk-free interest rate	**0.76%**	n/a
Expected life (years)	**1.75**	n/a
Dividend yield	**Nil**	n/a
Forfeiture rate	**0%**	n/a
Share price	**$0.445**	n/a

7. Related parties

(a) The Company was indebted to shareholders of the Company in the amount of $968,371 at March 31, 2017 (December 2016 - $967,825).
(b) During the period ended March 31, 2017, shareholders of the Company advanced $545 to the Company, interest-free, with no fixed terms of repayment (March 31, 2016 – repayment of $5,000).
(c) During the period ended March 31, 2017, the Company purchased the property it was leasing from a corporation controlled by a director of the Company for $6,899,900 (March 2016 - $nil) in total consideration, plus $190,587 of closing costs (note 4).
(d) Key management includes directors and officers of the Company. Total compensation awarded to key management for the period ended March 31, 2017 was $46,800 (March 2016 - $nil).
(e) During the three months ended March 31, 2017, the Company paid for licensing, development and maintenance fees related to TerrAscend's wholly-owned subsidiary, THN, in the amount of $46,330 (March 31, 2016 - $nil) to a corporation, of which a director and officer of the Company is a director and managing partner and, together with a family member, owns 33%.

8. Capital management

The Company's objective in managing capital is to ensure a sufficient liquidity position to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to achieve this objective, the Company prepares budgets and capital requirements to manage its capital structure. The Company defines capital as borrowings as detailed in note 7 and equity and borrowings, comprised of issued share capital, share-based payments, accumulated deficit, as well as due to related parties.

Since inception, the Company has primarily financed its liquidity needs through the issuance of common shares of the Company and funding received from related parties.

There have been no changes to the Company's objectives and what it manages as capital since the prior fiscal year ended December 31, 2016. The Company is not subject to externally-imposed capital requirements.

9. Financial instruments and risk management

Financial instruments

The Company has classified its cash as fair value through profit and loss ("FVTPL"), receivables as loans and receivables, and accounts payable and accrued liabilities, due to related parties and convertible debentures as other financial liabilities.

The carrying values of cash, receivables, due to related parties, and accounts payable and accrued liabilities approximate their fair values due to their short periods to maturity.

Fair value hierarchy

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 2 – inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data
Level 3 – inputs for assets and liabilities not based upon observable market data

Financial risk factors

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

(a) Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash. The Company's cash is held at a major Canadian bank. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

(b) Liquidity risk

The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The Company constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations. All of the Company's financial liabilities are due within one year.

(c) Interest rate risk

The Company is not subject to any significant interest rate risk from its liabilities, which are all non-interest bearing instruments.

10. Subsequent events

(a) Public listing

On May 3, 2017, the Company listed its common shares on the Canadian Securities Exchange, and commenced trading under the ticker symbol TER.

(b) Equity private placement

Subsequent to the period ended March 31, 2017, the Company closed a non-brokered private placement offering of 2,250,000 common shares at $0.60 per share for gross proceeds of $1,350,000 (the "Offering"). In connection with the Offering, the Company paid a finder's fee of $108,000. The common shares are subject to a statutory four month and one day hold period.

(c) Wholly-owned subsidiary

On May 16, 2017, TerrAscend announced the establishment of Terra Health Network Ltd. ("THN") and the launch of its first clinic. THN works with existing medical clinic owners to provide their resident doctors and healthcare practitioners with educational materials and resources to facilitate the prescription process for medical cannabis. THN operates locations that serve as dedicated education, training and support centres for both physicians and patients.

(d) Related Party Payment

Subsequent to the three months ended March 31, 2017, the Company paid for licensing, development and maintenance of THN in the amount of $23,165 to a corporation, of which a director and officer of the Company is a director and managing partner and, together with a family member, owns 33%.