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

The following discussion and analysis of the financial condition and results of operations of TerrAscend Corp., its subsidiaries, including TerrAscend Growth Corp. and its subsidiaries should be read in conjunction with the Company's audited consolidated financial statements as of December 31, 2025 and December 31, 2024 and for the years ended December 31, 2025, December 31, 2024, and December 31, 2023 (the "Consolidated Financial Statements") appearing elsewhere in this Annual Report. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report, including information with respect to the Company'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" appearing elsewhere in this Annual Report, the Company's actual results could differ materially from the results described in or implied by the forward-looking information contained in this Annual Report and in the following discussion and analysis.

Unless otherwise noted, dollar amounts in this Item 7 are in thousands of U.S. dollars, except per share information.

Overview

The Company is a leading North American cannabis company. The Company has vertically-integrated licensed operations in Pennsylvania, New Jersey, Maryland and California. In addition, the Company has retail operations in Ohio and Ontario, Canada with a majority-owned dispensary in Toronto, Ontario, Canada. Notwithstanding the fact that various states in the U.S. have implemented medical marijuana laws or 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.

The Company operates under one reportable segment, which is the cultivation, production and sale of cannabis products.

The Company owns a portfolio of operating businesses, including:

- TerrAscend NJ, a majority-owned operation with four dispensaries, and a cultivation/processing facility;
- TerrAscend MD, a wholly-owned operation with four dispensaries, and a cultivation/processing facility;
- TerrAscend PA, a wholly-owned operation with six dispensaries, and a cultivation/processing facility;
- TerrAscend CA, a wholly-owned operation with four dispensaries, and a cultivation facility;
- TerrAscend OH, a cannabis retailer in New Philadelphia, Ohio with one wholly-owned dispensary; and;
- TerrAscend Canada, a cannabis retailer in Ontario, Canada with a majority-owned dispensary in Toronto, Ontario, Canada.

Recent Developments

- On December 26, 2025, the Company closed on the transaction with Union Chill, for an option to purchase 35% of Union Chill ("Union Chill Option") for total consideration of $13,000 consisting of $9,000 in the form of convertible notes to the various sellers of Union Chill bearing interest at 6.5% per annum, payable quarterly and $4,000 in cash upon the exercise of the Union Chill Option (the "Union Chill Transaction"). The Union Chill Transaction conforms to New Jersey's regulatory framework, which facilitates investment opportunities for diversely owned businesses.
- On November 1, 2025 one of the Company's owned properties included in the Michigan disposal group was subsequently leased to a third party under a lease agreement.
- On August 20, 2025, the Board approved the Share Repurchase Program, which replaces the Company's Original Program. The Share Repurchase Program authorizes the Company to repurchase up to 10,000,000 Common Shares at any time, or from time to time, from August 22, 2025 until August 21, 2026.
- On July 18, 2025, Keith Stauffer's resignation as the Company's Chief Financial Officer became effective.
- On July 15, 2025, the Company drew $3,105 of the Uncommitted Term Loan Facility (as defined below).
- On July 8, 2025, TerrAscend, TerrAscend USA, Inc., TerrAscend NJ LLC, TER Holding MD, Inc., and WDB Holding MD, Inc., including certain of each of their respective subsidiaries, and other borrowers, all of which are entities that are

consolidated in the financial statements of the Company (collectively, the “Incremental Amendment Borrowers”), became parties to the FG Loan as borrowers pursuant to a joinder and an amendment to the FG Loan (the "FG Loan Amendment"), which provides for a $79,000 upsize to the existing FG Loan. The FG Loan bears interest at 12.75% per annum and matures on August 1, 2028. The Company drew down in full the $79,000 available under the FG Loan Amendment on July 8, 2025, $64,489 of which was used to retire the single-draw senior secured term loan drawn pursuant to a loan agreement from October 2022 among certain subsidiaries of TerrAscend and Pelorus Fund REIT, LLC (the "Pelorus Term Loan"), and certain other indebtedness of the Company, in addition to being used for future growth initiatives. As a result, the outstanding obligation under the Pelorus Term Loan and certain other indebtedness of the Company were repaid in full and subsequently terminated. In addition, the FG Loan Amendment provides for an uncommitted term loan facility of up to $35,000 (the "Uncommitted Term Loan Facility"), of which the Company drew $3,105 as of December 31, 2025. As of December 31, 2025, there was an outstanding principal amount of $217,682 under the FG Loan. Certain funds controlled by the Company’s Executive Chairman, Jason Wild, a related party of the Company, invested approximately $1,600 of the loan under the FG Loan Amendment.

- On June 27, 2025, the Company received approval from the Board, together with TerrAscend Corp.’s consolidated entities, and is currently engaged in an active program to sell the assets of TerrAscend Michigan ("TerrAscend MI"), which is expected to be substantially completed in the first half of 2026. As part of the exit plan, the Company intends to sell all of the Company’s Michigan assets, including four cultivation and processing facilities, twenty retail dispensaries, and other assets. TerrAscend MI is presented as discontinued operations and has been excluded from continuing operations for all periods presented. See Note 7, "Discontinued Operations", in the audited consolidated financial statements included elsewhere in this Annual Report.

- On May 6, 2025, the Company completed the acquisition of certain assets of Ratio Cannabis LLC ("Ratio Cannabis"), a dispensary in Ohio (the "Ratio Acquisition"). Under the terms of the purchase agreements entered into in connection with the acquisition, each dated as of March 14, 2025, the Company acquired certain assets of Ratio Cannabis for total consideration of $10,300, which was comprised of $5,000 in cash, 4,570,637 Common Shares and a promissory note with a principal amount of $3,980 bearing 6% interest with a two-year maturity (the "Ratio Promissory Note"). The number of Common Shares issued as part of the consideration was calculated based on a price per Common Share equal to $0.29, being the twenty (20)-day volume-weighted average price of the Common Shares on the OTCQX for the period ending on May 5, 2025, resulting in the issuance of 4,570,637 Common Shares on May 6, 2025.

Subsequent Transactions

- Subsequent to the fiscal year ended December 31, 2025, the Union Chill Option, as a part of the Union Chill Transaction, was exercised and the Company paid the remaining cash consideration of $4,000 to Union Chill, at which time the Company acquired a 35% interest in Union Chill.

Components of Results of Operations

The following discussion sets forth certain components of the Company's Consolidated Statements of Comprehensive Income (Loss) as well as factors that impact those items.

Revenue, net

The Company 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 legal medical and adult-use market across Canada and in several U.S. states where cannabis has been legalized for medical or adult-use cannabis.

Cost of sales

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

Operating Expenses

General and administrative

General and administrative ("G&A") expenses consist primarily of personnel costs related to finance, human resources, legal, certain royalties, and other administrative functions. Additionally, G&A expenses include professional fees to third parties, as

well as marketing expenses. Moreover, G&A expenses include share-based compensation on options, restricted share units and warrants.

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
Software	5 years
Licenses	15-30 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	15-30 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. The Company 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 carrying value of a reporting unit exceeds its fair value, an 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.

The Company evaluates the recoverability of definite lived assets based on whether events or changes in circumstances indicate that the carrying value of the asset, or asset group, may not be recoverable. The assets, or asset group, 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 undiscounted cash flows are less than the carrying value, the Company measures the fair value of the asset group. If the carrying value of an asset group exceeds its fair value, an impairment loss is recorded for the excess of the asset group's carrying value over its estimated fair value.

Impairment of property and equipment

The Company evaluates the recoverability of property and equipment based on whether events or changes in circumstances indicate that the carrying value of the asset, or asset group, may not be recoverable. The assets, or asset group, 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 undiscounted cash flows are less than the carrying value, the Company measures the fair value of the asset group. In certain circumstances, an appraisal was obtained to determine the fair value of certain long-lived assets. If the carrying value of an asset group exceeds its fair value, an impairment loss is recorded for the excess of the asset group's carrying value over its estimated fair value.

Other operating expense (income)

Other operating income primarily represents (gains) losses on lease terminations and (gains) losses on disposal of fixed assets.

(Gain) loss from revaluation of contingent consideration

As a result of some of its acquisitions, the Company 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.

Loss (gain) on fair value of derivative liabilities

Derivative liabilities consist of convertible options, that contains embedded derivative features, that are remeasured to fair value at the end of each reporting period using the Black-Scholes Option Pricing Model (the "Black-Scholes Model"). A gain or loss is recognized as a result of the revaluation.

Finance and other expenses

Finance and other expenses consist primarily of interest and accretion expense on the Company's outstanding debt obligations.

Transaction and restructuring costs

Transaction costs include costs incurred in connection with the Company'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.

Unrealized and realized foreign exchange (gain) loss

Unrealized and realized foreign exchange (gain) loss represents the loss recognized on the remeasurement of U.S. dollar ("USD") denominated cash and other assets recorded in the Canadian dollars ("CAD") functional currency at the Company's Canadian operations.

Unrealized and realized loss on investments

The Company 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 Statements of Operations and Comprehensive Loss.

Loss on extinguishment of debt

Loss on extinguishment of debt represents the Company's debt that was retired prior to its scheduled maturity at a different amount than the book value and the amount paid.

Provision for income taxes

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

Results from Operations - Years ended December 31, 2025, December 31, 2024, and December 31, 2023

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

Continuing Operations

The following tables represent the Company’s results from operations for the years ended December 31, 2025, December 31, 2024, and December 31, 2023:

Revenue, net

	For the Years Ended		
	December 31, 2025	December 31, 2024	December 31, 2023
		(In thousands)	
Revenue, net	**$ 260,558**	**$ 268,078**	**$ 250,509**
$ change	$ (7,520)	$ 17,569	
% change	-3%	7%	

Revenue decreased by $7,520 from $268,078 to $260,558 during the year ended December 31, 2025 as compared to the year ended December 31, 2024. The decrease was primarily due to a $9,104 decrease in wholesale revenue offset by a $1,584 increase in retail revenue.

The $9,104 decrease in wholesale revenue for the year ended December 31, 2025 compared to the year ended December 31, 2024, was primarily driven by increased competition and price compression which resulted in lower average selling prices.

The $1,584 increase in retail revenue for the year ended December 31, 2025 compared to the year ended December 31, 2024, was primarily driven by acquisitive growth in Ohio.

Revenue increased by $17,569, or 7% from $250,509 to $268,078 during the year ended December 31, 2024 as compared to the year ended December 31, 2023. The increase was primarily due to a $24,665 increase in wholesale revenue offset by a $7,096 decline in retail revenue.

The $24,665 increase in wholesale revenue for the year ended December 31, 2024 compared to the year ended December 31, 2023, was primarily driven by acquisitive growth in Maryland and greater wholesale demand across other markets.

The $7,096 decrease in retail revenue for the year ended December 31, 2024 compared to the year ended December 31, 2023, was primarily driven by increased competition and price compression which was partially offset by acquisitive growth in Maryland.

Cost of sales

	For the Years Ended		
	December 31, 2025	December 31, 2024	December 31, 2023
		(In thousands)	
Total cost of sales	**$ 124,234**	**$ 132,211**	**$ 112,492**
$ change	$ (7,977)	$ 19,719	
% change	-6%	18%	
Cost of sales as a % of revenue	48%	49%	45%

The decrease of $7,977, in cost of sales for the year ended December 31, 2025 as compared to the year ended December 31, 2024 was mainly due to a decrease in sales volume. Cost of sales as a percentage of revenue decreased by 1% due to reduced unit costs and improved cost absorption.

The increase of $19,719, in cost of sales for the year ended December 31, 2024 as compared to the year ended December 31, 2023 was mainly due to an increase in sales volume along with higher input costs that reduced gross profit margins.

General and administrative expense

	For the Years Ended		
	December 31, 2025	December 31, 2024	December 31, 2023
		(In thousands)	
General and administrative expense	$ 86,240	$ 90,624	$ 83,543
$ change	$ (4,384)	$ 7,081	
% change	-5%	8%	

The decrease of $4,384 in G&A expenses for the year ended December 31, 2025 as compared to the year ended December 31, 2024 was primarily related to a reduction in share-based compensation due to lower grant-date fair values of awards issued in the 2025 and the expiration and full vesting of awards granted in prior years that had higher grant-date fair values. The decrease was also driven by a reduction of professional fees. This was partially offset by an increase in the Company's provision for expected losses and salaries and wages.

The increase of $7,081 in G&A expenses for the year ended December 31, 2024 as compared to the year ended December 31, 2023 was primarily driven by an increase in salaries and wages as well as an increase in stock-based compensation due to a modification of stock option terms extending the expiration period from five years to ten years.

Impairment of intangible assets

	For the Years Ended		
	December 31, 2025	December 31, 2024	December 31, 2023
		(In thousands)	
Impairment of intangible assets	$ 2,606	$ —	$ 15,518
$ change	$ 2,606	$ (15,518)	
% change	100%	-100%	

During the year ended December 31, 2025, the Company recognized impairment charges of $2,606 related to the wholesale brand name and license in California. The impairment was primarily driven by declining wholesale revenue expectations in California as a result of increased competition that was not reasonably foreseeable based on available data and trends at the time.

There were no impairment of intangible assets recognized during the year ended December 31, 2024.

During the year ended December 31, 2023, the Company performed an impairment analysis over its definite lived retail licenses in California and determined that its carrying value was greater than its fair value, and therefore, recorded impairment of $15,518.

Impairment of goodwill

	For the Years Ended		
	December 31, 2025	December 31, 2024	December 31, 2023
		(In thousands)	
Impairment of goodwill	$ —	$ —	$ 4,690
$ change	$ —	$ (4,690)	
% change	0%	-100%	

There was no impairment of goodwill recognized during the years ended December 31, 2025 and December 31, 2024.

During the year ended December 31, 2023, it was determined during the annual impairment analysis that it was more likely than not that the California reporting unit's fair value was less than its carrying value. As a result of this quantitative test, the Company recorded impairment of goodwill of $4,690, reducing the carrying value of goodwill within the California reporting unit to $nil.

Impairment of property and equipment, and right of use assets

	For the Years Ended		
	December 31, 2025	December 31, 2024	December 31, 2023
		(In thousands)	
Impairment of property and equipment and right of use assets	$ —	$ 2,438	$ 28
$ change	$ (2,438)	$ 2,410	
% change	-100%	8607%	

There were no impairment of property and equipment and right of use assets recognized during the year ended December 31, 2025.

During the year ended December 31, 2024, the Company recognized impairment of $2,438 due to the closure of one of its California retail stores.

Other operating expense (income)

	For the Years Ended		
	December 31, 2025	**December 31, 2024**	**December 31, 2023**
		(In thousands)	
Other operating expense (income)	$ 33	$ (1,190)	$ (1,255)
$ change	$ 1,223	$ 65	
% change	-103%	-5%	

During the year ended December 31, 2025, the Company terminated one of its corporate office leases, resulting in a gain on lease termination of $99, offset by a loss on disposals of fixed assets of $127.

During the year ended December 31, 2024, the Company transferred a California lease to a third party, resulting in a lease termination and a recognized gain of $1,169.

During the year ended December 31, 2023, the Company entered into a lease termination agreement in Florida. As a result of the lease termination, the Company recorded a gain on lease termination of $1,217.

(Gain) loss from revaluation of contingent consideration

	For the Years Ended		
	December 31, 2025	**December 31, 2024**	**December 31, 2023**
		(In thousands)	
(Gain) loss from revaluation of contingent consideration	$ (1,004)	$ 2,465	$ (645)
$ change	$ (3,469)	$ 3,110	
% change	-141%	-482%	

During the year ended December 31, 2025, the Company recognized a gain of $1,004 related to the remeasurement of its contingent consideration. The gain resulted from the Company's issuance of Common Shares, following the triggering of price protection provisions included in certain of the Company's acquisition agreements. This issuance resulted in a reduction in the stock price that would trigger further price protection issuances, which significantly reduced the probability that additional Common Shares would be issued under the price protection provisions. As a result, the estimated fair value of the contingent consideration liability was reduced to $nil subsequent to the issuance.

During the year ended December 31, 2024, the Company recognized a loss from revaluation of contingent consideration of $2,466, an increase in loss of $3,111 for the year ended December 31, 2024, compared to the year ended December 31, 2023. The increase in loss was primarily driven by a decrease in TerrAscend's share price, partially offset by the expiration in December 2024 of the contingent consideration in connection with the Peninsula Acquisition on June 28, 2023.

For the year ended December 31, 2023, the Company recognized a gain of $645 due to a reduction in the contingent liability in connection with the Peninsula Acquisition, which resulted from the increase in the price of the Common Shares from the grant date.

Loss on extinguishment of debt

	For the Years Ended		
	December 31, 2025	**December 31, 2024**	**December 31, 2023**
		(In thousands)	
Loss on extinguishment of debt	$ 1,432	$ 2,096	$ —
$ change	$ (664)	$ 2,096	
% change	-32%	100%	

During the years ended December 31, 2025 and 2024, the Company recognized a loss on extinguishment of debt due to the retirement of certain loans in relation to the upsize of the FG Loan, which included the write-off of deferred financing costs.

Loss (gain) on fair value of derivative liabilities

	For the Years Ended		
	December 31, 2025	December 31, 2024	December 31, 2023
	(In thousands)		
Loss (gain) on fair value of derivative liabilities	$ 535	$ (4,549)	$ (1,181)
$ change	$ 5,084	$ (3,368)	
% change	-112%	285%	

For the year ended December 31, 2025, the Company recognized a loss on the fair value of derivative liabilities of $535, primarily due to an increase in the price of the Company's Common Shares during the year, which resulted in a higher fair value of the derivative instruments and a corresponding increase in the liability.

For the year ended December 31, 2024, the Company recognized a gain of $4,549 related to the remeasurement of derivative liabilities, primarily driven by a decline in the price of the Company's Common Shares during the year, which reduced the fair value of the derivative instruments.

For the year ended December 31, 2023, the Company recognized a gain of $1,181 from the remeasurement of derivative liabilities, primarily due to a decline in the price of the Company's Common Shares during the remeasurement period.

Finance and other expenses

	For the Years Ended		
	December 31, 2025	December 31, 2024	December 31, 2023
	(In thousands)		
Finance and other expenses	$ 35,403	$ 33,488	$ 32,853
$ change	$ 1,915	$ 635	
% change	6%	2%	

The increase in finance and other expenses for the year ended December 31, 2025, compared to the year ended December 31, 2024, was primarily driven by additional interest and accretion related to the upsize to the existing FG Loan in 2025.

The increase in finance and other expenses for the year ended December 31, 2024, compared to the year ended December 31, 2023, was primarily driven by increased accretion related to the refinancing debt and the repayment of certain other debt during 2024.

Provision for income taxes

	For the Years Ended		
	December 31, 2025	December 31, 2024	December 31, 2023
	(In thousands)		
Provision for income taxes	$ 29,466	$ 25,134	$ 23,386
$ change	$ 4,332	$ 1,748	
% change	17%	7%	

The increase in provision for income taxes for the year ended December 31, 2025 as compared to December 31, 2024 was primarily driven by accrued interest and penalties. This increase was partially offset by the reduction of uncertain tax liabilities from prior years.

The increase in provision for income taxes of $1,748 for the year ended December 31, 2024, compared to December 31, 2023, was primarily due to primarily driven by accrued interest and penalties. This increase was offset by deferred tax benefits related to certain intangible assets recorded in 2023.

Discontinued Operations

Discontinued Operations

	For the Years Ended		
	December 31, 2025	December 31, 2024	December 31, 2023
		(In thousands)	
Loss from discontinued operations, net of tax	$ (56,842)	$ (51,779)	$ (59,103)
$ change	$ (5,063)	$ 7,324	
% change	10%	-12%	

During the year ended December 31, 2025, the loss on discontinued operations of $56,842 was primarily driven by an impairment of property and equipment of $41,271, attributable to the Company's expedited sales strategy in Michigan, constructions in process that will no longer be completed, and the continued increase of competition in the Michigan market and continued market saturation and price compression in Michigan which negatively impacted gross margins. The loss was also impacted by the termination of certain leases and inventory write-offs.

During the year ended December 31, 2024, the loss on discontinued operations of $51,779 was primarily driven by impairment of intangible assets of $39,334 and impairment of property and equipment of $6,073 attributable to declining revenue in Michigan as a result of increased competition.

During the year ended December 31, 2023 the loss on discontinued operations of $59,103 was primarily driven by impairment of intangible assets of $35,785 and impairment of property and equipment of $4,769 attributable to increased competition.

Liquidity and Capital Resources

Unless otherwise noted, dollar amounts in this section are in thousands of U.S. dollars, except dollar amounts per security.

	December 31, 2025	December 31, 2024
Cash and cash equivalents	$ 37,414	$ 26,381
Restricted Cash	110	606
Current assets	110,108	176,887
Non-current assets	447,271	430,344
Current liabilities	79,931	91,049
Non-current liabilities	378,427	339,366
Working capital	30,177	85,838
Total shareholders' equity	$ 99,021	$ 176,816

The calculation of working capital provides additional information and is not defined under GAAP. The Company 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.

Management assesses the Company's liquidity in terms of its ability to generate cash to fund its operating, investing, and financing activities. The Company remains in a strong financial position, with resources available for reinvesting in existing businesses, conducting acquisitions, and managing its capital structure on a short and long-term basis. The Company believes its existing cash balances will be sufficient to meet its anticipated cash requirements from the date of this Annual Report through at least the next 12 months.

Since its inception, the Company's primary sources of capital have been through the issuance of equity securities or debt facilities, and the Company has received aggregate net proceeds from such transactions totaling $861,332 as of December 31, 2025.

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

- cash from ongoing operations.
- private placements and public offerings of equity or debt securities.

- additional debt from additional creditors.
- sale of real property.
- sale leaseback transactions.
- exercise of options and warrants.

As of December 31, 2025, the Company had $225,452 in principal outstanding under its loans payable, excluding any prepayment or exit fees, of which $5,469 is due in the next twelve months. The Company also had $19,355 in principal outstanding under its convertible debt, of which $10,355 is due within the next twelve months. In addition, accrued interest in the aggregate amount of $2,171 related to the Company's convertible debt is due in the next twelve months.

The Company has entered into leases for certain premises and offices for which it owes monthly lease payments. The Company has $59,441 in lease obligations. Of this amount, $4,360 of lease payments are due in the next twelve months.

As of December 31, 2025, the Company had accounts payable and accrued liabilities of $39,807 and corporate income taxes payable of $5,360.

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

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

The Company is subject to a financial covenant as a result of its loan payable with its primary lender. The Company was in compliance with its debt covenant as of December 31, 2025. In the event that, in future periods, the Company’s financial results are below levels required to maintain compliance with it covenant, the Company will assess and undertake appropriate corrective initiatives with a view to allowing it to continue to comply with its covenant. Other than the covenant related to loans payable, the Company is not subject to externally imposed capital requirements.

Debt Facilities

	Principal Paid during the Years Ended December 31, 2025	Principal Outstanding as of December 31, 2025
	(In thousands)	
FocusGrowth Term Loan	$ 4,423	$ 217,682
Pelorus Term Loan	45,478	—
Maryland Acquisition Loans	15,180	2,758
FG Bridge Loan	5,208	—
Ratio Promissory Note	—	3,980
Other Loans	201	1,032
Private Placement Convertible Debentures	—	10,355
Union Chill Convertible Promissory Note	—	9,000
Total	**$ 70,490**	**$ 244,807**

Loan Facilities

FocusGrowth Term Loan

On August 1, 2024, the Issuer and TerrAscend USA, Inc., as guarantors, and each of WDB Holding CA, Inc., WDB Holding PA, Inc., Moose Curve Holdings, LLC, Hempaid, LLC and, pursuant to a joinder agreement dated September 30, 2024, WDB Holding MI, Inc., including certain of each of their respective subsidiaries, as borrowers (collectively, the “Borrowers”), and FG Agency Lending LLC, as the Administrative Agent entered into a Loan Agreement (the “FG Loan”) for a four-year, $140,000 senior-secured term loan. Net proceeds of the FG Loan were received in an amount equal to 95% of the $140,000.

The FG Loan bears interest at 12.75% per annum and matures on August 1, 2028 (the “FG Loan Maturity Date”). The FG Loan is guaranteed by the Issuer and TerrAscend USA, Inc. and is secured by substantially all of the assets of the Borrowers. Depending on the timing of repayment, an exit fee of between 2.0% and 4.0% of the outstanding principal balance of the FG Loan will be due upon either prepayment, in part or in full, of the FG Loan or the FG Loan Maturity Date.

The FG Loan includes negative covenants that are usual for facilities and transactions of this type. The FG Loan contains covenants that limit the borrowers’ ability to, among other things: (i) incur additional indebtedness or guarantee indebtedness; (ii) create liens; (iii) pay dividends; (iv) make investments; (v) enter into transactions with affiliates; and (vi) consolidate, merge, sell or otherwise dispose of all or substantially all of their respective assets. The FG Loan also includes a minimum liquidity covenant with respect to the borrowers. If an event of default occurs and is not cured within an applicable grace period or waived, the principal amount, any accrued interest and any other obligations outstanding under the FG Loan may become immediately due and payable.

On July 8, 2025, the Incremental Amendment Borrowers became parties to the FG Loan as borrowers pursuant to the FG Loan Amendment, which provided for an additional $79,000 upsize to the existing FG Loan. The Company drew down in full the $79,000 available under the FG Loan Amendment on July 8, 2025, $64,489 of which was used to retire the Pelorus Term Loan, and certain other indebtedness of the Company, in addition to being used for future growth initiatives.

On July 15, 2025, the Company drew $3,105 of the Uncommitted Term Loan Facility.

During the year ended December 31, 2025, the Company made prepayments in aggregate of $4,423, including a 3% prepayment fee.

On March 4, 2026, the Company, FG Agency Lending LLC, and the parties to the loan agreement amended the terms of the FG Loan to, among other things, permit the Company to incur certain additional indebtedness.

As of December 31, 2025, there was an outstanding principal amount of $217,682 under the FG Loan.

Maryland Acquisition Loans

In connection with the acquisition of Derby 1, LLC on June 28, 2023 ("Peninsula"), Hempaid, LLC on June 30, 2023 ("Blue Ridge"), and Herbiculture Inc. on July 10, 2023 ("Herbiculture"), (collectively, the "Maryland Acquisitions"), the Company entered into a series of promissory notes with an aggregate principal amount of $20,625.

On July 8, 2025, as described above, the Company entered into the FG Loan Amendment, of which, a portion of the proceeds was used to retire a series of Maryland promissory notes and pay an outstanding principal amount of $13,077. Due to the early retirement of the certain Maryland promissory notes, the Company recognized a loss on extinguishment of debt of $240 on the Consolidated Statements of Operations and Comprehensive Loss.

As of December 31, 2025, there was an outstanding principal amount of $2,758 under the promissory notes related to the Maryland Acquisitions associated with Blue Ridge, which bears interest at 7.0% with a maturity date of June 30, 2027.

Ratio Promissory Note

As a part of the Ratio Acquisition, the Company entered into a promissory note for $3,980 bearing 6% interest with a two-year maturity.

As of December 31, 2025, there was an outstanding principal amount of $3,980 under the Ratio Promissory Note.

Class A Shares of TerrAscend

In connection with the Reorganization, TerrAscend issued $1,000 of class A shares (the "Class A Shares") with a 20% guaranteed annual dividend to an investor (the “Investor”) pursuant to the terms of a subscription agreement between TerrAscend and the Investor dated April 20, 2023 (the “Subscription Agreement”). Pursuant to the terms of the Subscription Agreement, TerrAscend holds a call right to repurchase all of the Class A Shares issued to the Investor for an amount equal to the sum of: (a) the Repurchase/Put Price (as defined in the Subscription Agreement); plus (b) the amount equal to 40% of the subscription amount less the aggregate dividends paid to the Investor as of the date of the exercise of the purchase right.

In addition, the Investor holds a put right that is exercisable at any time after four months' advanced written notice following June 28, 2028, to put all (and only all) of the Class A Shares owned by the Investor to TerrAscend at the Repurchase/Put Price, payable in cash or shares. The instrument is considered as a debt for accounting purposes due to the economic characteristics and risks. As of December 31, 2025, there was an outstanding principal amount of $1,000.

Convertible Debt

Private Placement Convertible Debentures

In June and August 2023, the Company closed the private placements of a total of 10,355 senior unsecured convertible debentures at a price of $1,000 per debenture for total gross proceeds of $10,355. Unless repaid or converted earlier, the outstanding principal and accrued and unpaid interest on the debentures will be due and payable 36 months following the closing of the debenture offering (the "Debenture Maturity Date"). Each debenture bears interest at a rate of 9.9% per annum from the date of issuance, calculated and compounded semi-annually, and payable on the Debenture Maturity Date. Each holder has the option to elect to receive up to 4.95% per annum of such interest payable in cash on a semi-annual basis. Each debenture is convertible into Common Shares, at the option of the holder, at any time or times prior to the close of business on the last business day immediately preceding the Debenture Maturity Date, at a conversion price of $2.01 per Common Share. Holders converting their debentures will receive accrued and unpaid interest for the period from and including the date of the last interest payment date, to and including, the date of conversion. As of December 31, 2025, there was an outstanding principal amount of $10,355 and accrued interest of $2,171. As of December 31, 2025, the Common Share price of $0.72 was below the $2.01 conversion price. Accordingly, conversion is out-of-the-money, and the Company expects repayment or refinancing at maturity unless market conditions change.

Union Chill Convertible Promissory Note

On December 26, 2025, the Company issued a convertible promissory note for $9,000 to the various sellers of Union Chill (the "Convertible Notes"). Unless repaid or converted earlier, the outstanding principal and interest owed under the Convertible Notes shall be due and payable 48 months following the date of issuance (the "Convertible Note Maturity Date"). The Convertible Notes bears interest at the rate of 6.5% per annum payable in quarterly payments within five days following the first business day of each fiscal quarter. Each of the Convertible Notes is convertible into Common Shares, only in its entirety, at the option of the holder, at any time or times prior to the close of business on the last business day immediately preceding the Convertible Note Maturity Date, at a conversion price of $1.89 per Common Share. As of December 31, 2025, there was an outstanding principal amount of $9,000 owed under the Convertible Note.

Share Repurchases

On August 20, 2025, the Board approved the Share Repurchase Program, which replaced the Original Program. The Share Repurchase Program authorizes the Company to repurchase up to 10,000,000 Common Shares at any time, or from time to time, from August 22, 2025 until August 21, 2026. The Share Repurchase Program authorizes the Company to repurchase up to 60,255 Common Shares daily, which represents 25% of the Company's average daily trading volume on the TSX of 241,023 Common Shares. Any repurchases under the program may be made by means of open market transactions, negotiated block transactions, or otherwise, including pursuant to a repurchase plan administered in accordance with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934, as amended. The size and timing of any repurchases will depend on price, market and business conditions, and other factors.

During the year ended December 31, 2025, the Company repurchased 1,117,500 Common Shares under its share repurchase programs, consisting of 75,000 Common Shares under the Share Repurchase programs and 1,042,500 Common Shares under the Original Program, for total consideration of approximately $428, including excise tax. The Company canceled all Common Shares that were repurchased. As of December 31, 2025, the Company had a total of 9,925,000 Common Shares remaining that can be authorized for repurchase pursuant to the Share Repurchase Program.

Cash Flows

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

Cash flows provided by operating activities

	For the Years Ended		
	December 31, 2025	December 31, 2024	December 31, 2023
Net cash provided by operating activities - continuing operations	$ 33,926	$ 46,216	$ 51,888
Net cash used in operating activities - discontinued operations	(12,398)	(8,266)	(24,417)
Net cash provided by operating activities	$ 21,528	$ 37,950	$ 27,471

Continuing Operations

The decrease of $12,290 in net cash provided by operating activities for the year ended December 31, 2025 compared to the year ended December 31, 2024 was primarily driven by higher income taxes paid and increased interest payments on its loans payable.

The decrease of $5,672 in net cash provided by operating activities for the year ended December 31, 2024 as compared to December 31, 2023 is primarily driven by unfavorable changes in working capital, partially offset by an income tax refund related to an amended federal tax return for tax year 2020.

Discontinued Operations

The increase of $4,132 in net cash used in operating activities for the year ended December 31, 2025 compared to the year ended December 31, 2024 was primarily driven by unfavorable changes in working capital and increased expenditures related to the exit of Michigan.

The decrease of $16,151 in net cash used in operating activities for the year ended December 31, 2024 compared to the year ended December 31, 2023 was primarily driven by favorable changes in working capital along with $2,881 of cash received for a recovery of expected credit loss.

Cash flows used in investing activities

	For the Years Ended		
	December 31, 2025	December 31, 2024	December 31, 2023
Net cash used in investing activities - continuing operations	$ (17,715)	$ (9,763)	$ (26,340)
Net cash provided by (used in) investing activities - discontinued operations	3,108	(2,484)	10,121
Net cash used in investing activities	$ (14,607)	$ (12,247)	$ (16,219)

Continuing Operations

The increase of $7,952 in net cash used in investing activities for the year ended December 31, 2025 compared to the year ended December 31, 2024 was primarily driven by cash consideration of $5,261 paid in connection with the Ratio Cannabis acquisition, and a $3,400 refundable deposit related to a potential business acquisition.

The decrease of $16,577 in net cash used in investing activities for the year ended December 31, 2024 compared to the year ended December 31, 2023 was primarily driven by $16,789 of cash paid for the acquisition of four dispensaries in Maryland and a success fee of $3,750 related to Alternative Treatment Center licenses issued by the New Jersey Department of Health during the year ended December 31, 2023. This was partially offset by an increase in capital expenditures during the year ended December 31, 2024.

Discontinued Operations

The increase of $5,592 in net cash provided by investing activities year ended December 31, 2025 compared to the year ended December 31, 2024 was primarily driven by the sale of property and equipment related to the exit of Michigan.

The decrease of $12,605 in net cash provided by investing activities year ended December 31, 2024 compared to the year ended December 31, 2023 was primarily driven by the sale of property and equipment related to the closure of the TerrAscend Canada's manufacturing facility during the year ended December 31, 2023.

Cash flows provided by (used in) financing activities

	For the Years Ended		
	December 31, 2025	**December 31, 2024**	**December 31, 2023**
Net cash provided by (used in) financing activities- continuing operations	$ 4,188	$ (15,929)	$ (3,611)
Net cash used in financing activities- discontinued operations	—	(8,787)	(8,889)
Net cash provided by (used in) financing activities	$ 4,188	$ (24,716)	$ (12,500)

Continuing Operations

The increase of $20,117 in net cash provided by (used in) financing activities year ended December 31, 2025 compared to the year ended December 31, 2024 was primarily driven by net loan proceeds of $8,221 in 2025, compared to net loan principal paid of $8,114, in 2024, and lower distributions to non-controlling interests during 2025.

The increase of $12,318 in net cash used in financing activities for the year ended December 31, 2024 compared to the year ended December 31, 2023 was primarily driven by of net proceeds from private placements of $20,820 in 2023, partially offset by lower distributions to non-controlling interests in 2024.

Discontinued Operations

The net cash used in financing activities year ended December 31, 2024 and 2023 was primarily driven by loan principal paid.

Reconciliation of Non-GAAP Measures

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

In addition to reporting the financial results in accordance with GAAP, the Company 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. The Company 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 the Company calculates: (i) Free cash flow from net cash provided by operating activities from continuing operations less capital expenditures for property and equipment which management believes is an important measurement of the Company's ability to generate additional cash from its business operations, and (ii) EBITDA from continuing operations and Adjusted EBITDA from continuing operations as net loss, adjusted to exclude provision for income taxes, finance expenses, depreciation and amortization, share-based compensation, impairment of goodwill and intangible assets, loss (gain) on extinguishment of debt, unrealized and realized loss on investments, loss (gain) on fair value of derivative liabilities, loss (gain) on disposal of fixed assets, gain on lease termination, unrealized and realized foreign exchange (gain) loss), gain from revaluation of contingent consideration, impairment of property and equipment and right of use assets, and certain other items, which management believes is not reflective of the ongoing operations and performance of the Company. 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.

The Company believes Adjusted EBITDA from continuing operations is a useful performance measure to assess the performance of the Company as it provides more meaningful ongoing operating results by excluding the effects of expenses that are not reflective of the Company'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, 2025, December 31, 2024, and December 31, 2023:

	Notes	For the Years Ended December 31, 2025	December 31, 2024	December 31, 2023
			(In thousands)	
Net loss		**$ (81,331)**	**$ (72,670)**	**$ (86,730)**
Loss from discontinued operations		56,842	51,779	59,103
Loss from continuing operations		(24,489)	(20,891)	(27,627)
Add (deduct) the impact of:				
Provision for income taxes		29,466	25,134	23,386
Finance expenses		36,291	34,339	32,053
Amortization and depreciation		15,640	15,191	15,568
EBITDA from continuing operations	(a)	**56,908**	**53,773**	**43,380**
Add (deduct) the impact of:				
Share-based compensation	(b)	5,007	9,706	7,707
Impairment of goodwill and intangible assets	(c)	2,606	—	20,208
Loss on extinguishment of debt	(d)	1,432	2,096	-
Unrealized and realized loss on investments	(e)	1,365	238	2,604
Loss (gain) on fair value of derivative liabilities	(f)	535	(4,549)	(1,181)
Loss (gain) on disposal of fixed assets	(g)	127	(21)	(38)
Gain on lease termination	(h)	(99)	(1,169)	(1,217)
Unrealized and realized foreign exchange (gain) loss	(i)	(687)	940	2
(Gain) loss from revaluation of contingent consideration	(j)	(1,004)	2,465	(645)
Impairment of property and equipment and right of use assets	(k)	—	2,438	28
Other one-time items	(l)	1,621	4,303	4,444
Adjusted EBITDA from continuing operations		**$ 67,811**	**$ 70,220**	**$ 75,292**

The table below reconciles net cash provided by operating activities from continuing operations to free cash flow for the years ended December 31, 2025, December 31, 2024 and December 31, 2023:

	For the Years Ended December 31, 2025	December 31, 2024	December 31, 2023
		(In thousands)	
Net cash provided by operating activities - continuing operations	**$ 33,926**	**$ 46,216**	**$ 51,888**
Capital expenditures for property and equipment	(8,614)	(6,866)	(4,871)
Free Cash Flow	**$ 25,312**	**$ 39,350**	**$ 47,017**

a) EBITDA from continuing operations is a non-GAAP measure and is calculated from net (loss) income.

b) Represents non-cash share-based compensation expense.

c) Represents impairment charges taken on the Company's intangible assets and goodwill.

d) Represents the loss on extinguishment of debt recorded as a result of the extinguishment of the loans.

e) Represents unrealized and realized loss on fair value changes on strategic investments.

f) Represents the revaluation of the fair value of convertible options.

g) Represents the loss (gain) taken on the disposal of property and equipment.

h) Represents the gain taken as a result on lease termination and derecognition of right of use assets.

i) Represents the remeasurement of USD denominated cash and other assets recorded in CAD functional currency.

j) Represents the revaluation of the Company's contingent consideration liabilities.

k) Represents impairment charges taken on the Company's property and equipment.

l) Includes one-time fees incurred in connection with the Company's acquisitions, such as expenses related to professional fees, consulting, legal, and accounting, that would otherwise not have 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 the Company's ongoing costs.

The decrease in Adjusted EBITDA from continuing operations for the year ended December 31, 2025, as compared to December 31, 2024 was primarily due to lower add-backs for non-recurring items in 2025.

The decrease in Adjusted EBITDA from continuing operations for the year ended December 31, 2024, as compared to December 31, 2023 was primarily due to margin compression driven by higher input costs.

Changes in or Adoption of Accounting Principles

New standards, amendments and interpretations adopted:

Information regarding the Company’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.

Critical Accounting Estimates and Policies

The preparation of the Company’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 the Company’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, the accounting estimates and assumptions discussed in this section are those that the Company 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.

Acquisitions

As the Company continues to acquire businesses and operate in a broader range of markets, the Company expects its valuation techniques to continue to improve through additional access to more detailed historical data, market benchmarks, and post-acquisition performance insights, such as impairment charges from prior acquisitions. These inputs enhance management’s ability to evaluate projected cash flows, market sustainability, and associated risks in future valuation analyses. However, given the evolving nature of the cannabis industry, market conditions remain subject to regulatory, competitive, and economic volatility, which could materially impact assumptions used in impairment assessments.

Income taxes

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

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. The Company 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 goodwill, intangible assets, and long-lived assets

The Company evaluates goodwill, intangible assets, and long-lived assets for impairment in accordance with applicable accounting standards. Goodwill is tested for impairment at the reporting unit level under ASC 350-20 and the reporting units are identified at the same level of the Company's operating segments which are New Jersey, Pennsylvania, Maryland, Ohio, and California. Indefinite-lived intangible assets such as store brand names are tested as a single asset or group of assets under ASC 350-30. Goodwill and indefinite-lived intangible assets are evaluated annually or more frequently if events or changes in circumstances indicate that their carrying value may not be recoverable. The Company considers whether circumstances or conditions exist which suggest that the carrying value of its goodwill and indefinite-lived intangible assets might be impaired. If such circumstances exist, the Company performs a qualitative assessment to determine whether it is more likely than not that the assets are impaired. If the results of the qualitative assessment indicate that it is more likely than not that the assets are impaired, further steps are required in order to determine whether the carrying value of each reporting unit exceeds its fair value. All assets and liabilities that are employed in or relate to the operations of a reporting unit and will be considered in determining the fair value of the reporting unit are included in the carrying value of the reporting unit.

The Company estimates the fair value of its reporting units using an income approach based upon projected future discounted cash flow ("DCF") models. Under this DCF model, the fair value of each reporting unit is determined based on the present value of estimated future cash flows, discounted at a risk-adjusted rate of return. Estimated future cash flows are developed using the Company's following year budget along with anticipated market trends in which its business operates. Key inputs to this DCF model include assumptions for net sales growth, gross profit margins, operating expenses, EBITDA margins, capital expenditures, terminal growth rates, and discount rates. The discount rates are based on a weighted-average cost of capital ("WACC"). In certain circumstances where multiple potential outcomes exist, the Company utilizes a probability-weighted DCF approach. Under this method, multiple cash flow scenarios are developed and probability-weighted to reflect management's assessment of the likelihood of each outcome. In 2025, the Company applied a probability-weighted DCF model in evaluating the Pennsylvania reporting unit to reflect potential regulatory developments, including the possible legalization of adult-use cannabis in the state. The estimated fair value is sensitive to changes in key assumptions, particularly the timing and outcome of adult-use legalization. Changes in the timing or an adverse outcome of adult-use legalization could adversely affect operating results which would result in a reduction in the estimated fair value of the reporting unit below its carrying value and result in goodwill impairment. In the sensitivity analysis performed, holding all other assumptions constant, management increased the probability of no legalization from its baseline assumption of approximately 5% to approximately 30%, starting at which point the estimated fair value of the Pennsylvania reporting unit would fall below its carrying value and result in an impairment.

The Company estimates the fair value of its indefinite-lived intangible assets using the relief-from-royalty method income approach which is based upon a DCF model. The relief-from-royalty method estimates the fair value of a trade name or trademark license by discounting the hypothetical avoided royalty payments to their present value over the economic life of the asset. The determination of fair value using this method entails a significant number of estimates and assumptions, which require management judgment, and include net sales growth rates, WACC, and royalty rates.

Significant judgment is required to estimate the fair value of goodwill and indefinite-lived intangible assets, both at acquisition and during impairment testing. These estimates involve assumptions about future cash flows, discount rates, and market conditions, all of which are subject to uncertainty. The recoverability of these assets depends on the achievement of projected results and execution of strategic initiatives. Changes in regulatory environment expectations, economic conditions, consumer demand, pricing pressure, or the cost of capital could result in actual outcomes differing materially from those assumed in our models. A hypothetical 10% reduction in projected net sales could result in a materially different fair value conclusion for certain reporting units or indefinite-lived assets.

The Company evaluates the accuracy of its forecasts by comparing prior projections to actual post-acquisition performance. This comparison provides refinements to our valuation models and assumptions in future periods. While the Company believes its current estimates are reasonable, future changes in business or economic conditions may cause deviations from those assumptions.

Variable Interest Entity

The Company consolidates legal entities in which it holds a controlling financial interest. Determining whether it has a controlling financial interest in a variable interest entity ("VIE") is subject to significant judgment and estimates. There is inherent uncertainty in evaluating who has the power to direct the activities of the VIE that most significantly impact the entity's economic performance. The Company's considerations include, but are not limited to, voting interests of the VIE, management, service and other agreements with the VIE, involvement in the VIE's initial design and the existence of explicit

or implicit financial guarantees. Management has applied significant judgment when evaluating the facts and circumstances of the VIE (see Note 3 included in Item 8, "*Financial Statements and Supplementary Data*").

<u>Emerging Growth Company and Smaller Reporting Company Status</u>

The Company 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. The Company 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 the Company (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, the Company'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.

The Company will remain an emerging growth company until the earlier to occur of: (i) December 31, 2027 (a) in which the Company has total annual gross revenue of $1,235,000 or more, or (b) in which the Company is deemed to be a large accelerated filer, which means the market value of the Common Shares held by non-affiliates exceeds $700,000 as of the last business day of the Company's most recent second fiscal quarter; and (ii) the date on which the Company has issued more than $1,000,000 in non-convertible debt during the prior three-year period.

Additionally, as of June 30, 2025, the market value of the Common Shares held by non-affiliates decreased to below $60,000, which triggered the Company being classified as a smaller reporting company and non-accelerated filer with respect to SEC regulations and filing requirements effective December 31, 2025. we are a "smaller reporting company". We will remain a smaller reporting company until the last day of the fiscal year in which (i) the market value of our common stock held by non-affiliates exceeds $250,000 as of the last business day of our second fiscal quarter, or (ii) our annual revenue exceeded $100,000 during such completed fiscal year and the market value of our common stock held by non-affiliates exceeds $700,000 as of the last business day of our second fiscal quarter.

Although the Company qualifies as a smaller reporting company, it does not intend to reduce its disclosures and expects to continue providing disclosures consistent with those required of accelerated filers.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

<u>Financial Instruments and Risk Management</u>

Financial Instruments

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

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

(a) Credit risk

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

of trade receivables is reduced through the use of an allowance account and the amount of the loss is recognized in the Consolidated Statements of 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 and Comprehensive Loss. The Company regularly monitors credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss. The Company had no customers whose balance is greater than 10% of total trade receivables as of December 31, 2025.

(b) Liquidity risk

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

(c) Market Risk

The significant market risk exposures to which the Company 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 the Company's operations and financial results.

The Company holds cash and cash equivalents in currencies other than its functional currency. The Company 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 the Company's operations. However, as of the year ended December 31, 2025, a 10% change in the value of the U.S. dollar compared to the Canadian dollar would not result in a material impact on unrealized foreign exchange for the Company.

ii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. In respect of financial assets, the Company's policy is to invest excess cash at floating rates of interest in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return. Fluctuations in interest rates impact the value of cash equivalents. The Company's investments in guaranteed investment certificates bear a fixed rate and are cashable at any time prior to maturity date.

The Company does not have significant cash equivalents for the year ended December 31, 2025. At December 31, 2025, a 10% change to each of the interest rates would not result in a material impact. The remainder of the Company's loans payable have fixed interest rates from 6.00% to 12.75% per annum. All other financial liabilities are non-interest-bearing instruments.