



TRULIEVE CANNABIS CORP.

**UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND
2018**

(IN US DOLLARS)

TRULIEVE CANNABIS CORP.

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**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(UNAUDITED) AS AT JUNE 30, 2019 AND DECEMBER 31, 2018**

| | | <u>June 30, 2019</u> | <u>December 31, 2018</u> |
|---|----------------|--------------------------|------------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash | | \$ 54,031,919 | \$ 24,430,108 |
| Inventories | <i>Note 4</i> | 85,228,662 | 24,270,844 |
| Biological Assets | <i>Note 4</i> | 49,415,795 | 29,636,269 |
| Prepaid Expenses and Other Current Assets | | <u>3,823,379</u> | <u>2,453,239</u> |
| Total Current Assets | | 192,499,755 | 80,790,460 |
| Property and Equipment, Net | <i>Note 5</i> | 145,816,972 | 70,789,888 |
| Intangible Assets, Net | <i>Note 6</i> | 24,600,027 | 9,396,347 |
| Goodwill | <i>Note 3</i> | 8,666,000 | - |
| Other Assets | | <u>1,039,821</u> | <u>1,095,886</u> |
| TOTAL ASSETS | | <u>\$ 372,622,575</u> | <u>\$ 162,072,581</u> |
| LIABILITIES | | | |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts Payable and Accrued Liabilities | | \$ 11,754,295 | \$ 10,463,109 |
| Income Tax Payable | | 22,561,890 | 15,061,446 |
| Deferred Revenue | | 2,189,879 | 1,427,201 |
| Notes Payable - Current Portion | <i>Note 7</i> | 2,000,000 | 6,000,000 |
| Notes Payable - Related Party - Current Portion | <i>Note 8</i> | 13,439,508 | 1,426,791 |
| Warrant Liability | <i>Note 9</i> | 7,156,178 | - |
| Lease Liability - Current Portion | <i>Note 10</i> | <u>4,112,011</u> | <u>335,881</u> |
| Total Current Liabilities | | 63,213,761 | 34,714,428 |
| Long-Term Liabilities: | | | |
| Notes Payable | <i>Note 7</i> | 4,000,000 | - |
| Notes Payable - Related Party | <i>Note 8</i> | 210,206 | 12,647,124 |
| Lease Liability | <i>Note 10</i> | 38,655,529 | 616,165 |
| Finance Liability, net | <i>Note 9</i> | 58,715,660 | - |
| Other Long-Term Liabilities | | - | 722,733 |
| Deferred Tax Liability | | <u>32,236,000</u> | <u>9,153,000</u> |
| TOTAL LIABILITIES | | 197,031,156 | 57,853,450 |
| SHAREHOLDERS' EQUITY | | | |
| Share Capital | <i>Note 11</i> | 60,987,036 | 60,976,944 |
| Warrants | | 608,740 | 608,740 |
| Accumulated Earnings | | <u>113,995,643</u> | <u>42,633,447</u> |
| TOTAL SHAREHOLDERS' EQUITY | | <u>175,591,419</u> | <u>104,219,131</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | <u>\$ 372,622,575</u> | <u>\$ 162,072,581</u> |

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

Nature of Operations (*Note 1*)
Contingencies (*Note 15*)
Subsequent Events (*Note 18*)

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

| | | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|------------|------------------------------------|---------------------|----------------------------------|----------------------|
| | | 2019 | 2018 | 2019 | 2018 |
| Revenues, Net of Discounts | | \$ 57,920,112 | \$ 23,298,771 | \$ 102,396,077 | \$ 38,545,570 |
| Cost of Goods Sold | Note 4 | <u>20,361,947</u> | <u>6,037,135</u> | <u>34,949,446</u> | <u>10,714,575</u> |
| Gross Profit before Biological Asset Adjustment | | 37,558,165 | 17,261,636 | 67,446,631 | 27,830,995 |
| Fair Value Adjustment on Inventory Sold | | (21,708,050) | (41,588,961) | (52,357,784) | (52,862,961) |
| Fair Value Adjustment on Growth of Biological Assets | Note 4 | <u>87,938,390</u> | <u>44,609,594</u> | <u>128,811,442</u> | <u>61,095,594</u> |
| Gross Profit | | <u>103,788,505</u> | <u>20,282,269</u> | <u>143,900,289</u> | <u>36,063,628</u> |
| Expenses: | | | | | |
| General and Administrative | | 3,410,095 | 1,137,852 | 5,535,784 | 1,845,830 |
| Sales and Marketing | | 11,379,406 | 4,893,419 | 21,150,467 | 8,857,130 |
| Depreciation and Amortization | Note 5 & 6 | <u>1,839,890</u> | <u>184,228</u> | <u>3,300,727</u> | <u>347,163</u> |
| Total Expenses | | <u>16,629,391</u> | <u>6,215,499</u> | <u>29,986,978</u> | <u>11,050,123</u> |
| Income From Operations | | <u>87,159,114</u> | <u>14,066,770</u> | <u>113,913,311</u> | <u>25,013,505</u> |
| Other Income (Expense): | | | | | |
| Interest Expense, Net | | (1,910,064) | (792,174) | (3,136,025) | (1,119,338) |
| Other Income, Net | | <u>(5,801)</u> | <u>10,322</u> | <u>5,237</u> | <u>16,457</u> |
| Total Other Expense | | <u>(1,915,865)</u> | <u>(781,852)</u> | <u>(3,130,788)</u> | <u>(1,102,881)</u> |
| Income Before Provision for Income Taxes | | <u>85,243,249</u> | <u>13,284,918</u> | <u>110,782,523</u> | <u>23,910,624</u> |
| Provision For Income Taxes | Note 13 | <u>27,714,464</u> | <u>5,402,197</u> | <u>38,551,464</u> | <u>9,164,197</u> |
| Net Income | | <u>\$ 57,528,785</u> | <u>\$ 7,882,721</u> | <u>\$ 72,231,059</u> | <u>\$ 14,746,427</u> |
| Basic Net Income per Common Share | Note 12 | <u>\$ 0.52</u> | <u>\$ 0.08</u> | <u>\$ 0.66</u> | <u>\$ 0.15</u> |
| Diluted Net Income per Common Share | Note 12 | <u>\$ 0.52</u> | <u>\$ 0.08</u> | <u>\$ 0.66</u> | <u>\$ 0.15</u> |
| Weighted average number of common shares used in computing net income per common share: | | | | | |
| Basic | Note 12 | <u>110,132,168</u> | <u>98,683,400</u> | <u>110,132,168</u> | <u>98,683,400</u> |
| Diluted | Note 12 | <u>110,267,440</u> | <u>98,683,400</u> | <u>110,264,291</u> | <u>98,683,400</u> |

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

TRULIEVE CANNABIS CORP
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED) FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

| | | Super Voting Shares | Multiple Voting Shares | Subordinate Voting Shares | Total Common Shares | Share Capital | Warrants | Accumulated Earnings (Deficit) | Total |
|--|----------------|------------------------|---------------------------|------------------------------|------------------------|----------------------|-------------------|-----------------------------------|-----------------------|
| Balance, January 1, 2018 | | 85,246,600 | 13,436,800 | - | 98,683,400 | \$ 11,456,199 | \$ - | \$ (334,345) | \$ 11,121,854 |
| Issuance of Common Stock as Debt Discount | <i>Note 8</i> | - | - | - | - | 200,000 | - | - | 200,000 |
| Additional Contribution from the Issuance of Below Market Interest Debt | <i>Note 8</i> | - | - | - | - | 27,843 | - | - | 27,843 |
| Net Income | | - | - | - | - | - | - | 14,746,427 | 14,746,427 |
| Balance, June 30, 2018 | | <u>85,246,600</u> | <u>13,436,800</u> | <u>-</u> | <u>98,683,400</u> | <u>\$ 11,684,042</u> | <u>\$ -</u> | <u>\$ 14,412,082</u> | <u>\$ 26,096,124</u> |
| Balance, January 1, 2019 | | 85,246,600 | 13,750,451 | 11,135,117 | 110,132,168 | \$ 60,976,944 | \$ 608,740 | \$ 42,633,447 | \$ 104,219,131 |
| Additional Contribution from the Issuance of Below Market Interest Debt | <i>Note 8</i> | - | - | - | - | 10,092 | - | - | 10,092 |
| IFRS 16 Implementation | <i>Note 2</i> | - | - | - | - | - | - | (868,863) | (868,863) |
| Conversions of Super and Multiple to Subordinate Shares | <i>Note 11</i> | (14,233,300) | (6,856,110) | 21,089,410 | - | - | - | - | - |
| Net Income | | - | - | - | - | - | - | 72,231,059 | 72,231,059 |
| Balance, June 30, 2019 | | <u>71,013,300</u> | <u>6,894,341</u> | <u>32,224,527</u> | <u>110,132,168</u> | <u>\$ 60,987,036</u> | <u>\$ 608,740</u> | <u>\$ 113,995,643</u> | <u>\$ 175,591,419</u> |

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

TRULIEVE CANNABIS CORP**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

| | | Six Months Ended June 30, | |
|--|------------------------|----------------------------------|---------------------|
| | | 2019 | 2018 |
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Net Income | | \$ 72,231,059 | \$ 14,746,427 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | | |
| Depreciation and Amortization | <i>Notes 5 & 6</i> | 5,964,069 | 969,972 |
| Non-Cash Interest Expense | | 62,767 | 58,913 |
| Loss from Sale of Property and Equipment | | 13,307 | - |
| Changes in Operating Assets and Liabilities: | | | |
| Inventories | | (60,884,380) | (3,337,989) |
| Biological Assets | | (19,779,526) | (8,232,640) |
| Prepaid Expenses and Other Current Assets | | (1,687,602) | (1,066,935) |
| Other Assets | | 56,065 | (1,000,000) |
| Deferred Tax Liabilities | | 18,383,000 | 2,193,000 |
| Accounts Payable and Accrued Liabilities | | (3,002,280) | (994,468) |
| Income Tax Payable | | 7,500,444 | 4,545,000 |
| Deferred Revenue | | 762,678 | 301,412 |
| | | <u>19,619,601</u> | <u>8,182,692</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | | | |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Purchases of Property and Equipment | <i>Note 5</i> | (33,330,814) | (15,907,717) |
| Net Cash Paid in Acquisition of Business | <i>Note 3</i> | (19,898,400) | - |
| Proceeds from Sale of Property and Equipment | | 17,885 | - |
| | | <u>(53,211,329)</u> | <u>(15,907,717)</u> |
| NET CASH USED IN INVESTING ACTIVITIES | | | |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Proceeds from Issuance of Notes Payable | <i>Note 7</i> | - | 6,040,000 |
| Proceeds from Issuance of Notes Payable - Related Party | <i>Note 8</i> | - | 11,156,614 |
| Proceeds from Financing | <i>Note 9</i> | 65,871,838 | - |
| Payments on Notes Payable - Related Party | <i>Note 8</i> | (734,213) | (2,012,030) |
| Payments on Lease Liability | <i>Note 10</i> | (1,944,086) | - |
| | | <u>63,193,539</u> | <u>15,184,584</u> |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | | | |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 29,601,811 | 7,459,559 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | | 24,430,108 | 1,407,059 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | | <u>\$ 54,031,919</u> | <u>\$ 8,866,618</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | |
| CASH PAID DURING THE YEAR FOR | | | |
| Interest | | <u>\$ 1,322,493</u> | <u>\$ 1,281,893</u> |
| Taxes | | <u>\$ 12,700,000</u> | <u>\$ 1,850,000</u> |

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

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

| | | <u>Six Months Ended June 30,</u> | <u>2019</u> | <u>2018</u> |
|--|---------------|----------------------------------|-------------------|---------------------|
| OTHER NONCASH INVESTING AND FINANCING ACTIVITIES | | | | |
| Purchase of Property and Equipment Financed with Notes Payable - Related Party | <i>Note 5</i> | \$ | <u>257,337</u> | \$ <u>2,619,700</u> |
| Purchase of Property and Equipment Financed with Accounts Payable | <i>Note 5</i> | \$ | <u>4,289,505</u> | \$ <u>104,805</u> |
| Property and Equipment Acquired via Capital Leases | <i>Note 5</i> | \$ | <u>18,095,744</u> | \$ <u>-</u> |
| Transfer of Shares Treated as a Debt Discount | <i>Note 8</i> | \$ | <u>-</u> | \$ <u>200,000</u> |
| Debt Discount Related to Below Market Interest Debt | <i>Note 8</i> | \$ | <u>10,092</u> | \$ <u>27,843</u> |

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018****1. NATURE OF OPERATIONS**

Trulieve Cannabis Corp. (“Trulieve” or the “Company”) was incorporated in British Columbia, Canada. Trulieve (through its wholly-owned licensed subsidiary, Trulieve, Inc.) is a vertically integrated cannabis company and is licensed under the laws of the State of Florida to cultivate, produce, and sell medicinal-use cannabis products within such state. Trulieve also operates in California, Massachusetts, and Connecticut.

In July 2018, Trulieve, Inc. entered into a non-binding letter agreement (“Letter Agreement”) with Schyan Exploration Inc. (“Schyan”) whereby Trulieve, Inc. and Schyan have agreed to merge their respective businesses resulting in a reverse takeover of Schyan by Trulieve, Inc. and change the business of Schyan from a mining issuer to a marijuana issuer (the “Transaction”). The Transaction was completed in August 2018 and Schyan changed its name to Trulieve Cannabis Corp.

The Company’s head office and principal address is located at 6749 Ben Bostic Road, Quincy, Florida 32351. The Company’s registered office is located at Suite 2800, Park Place, 666 Burrard Street, Vancouver, British Columbia, V6C 2Z7.

The Company listed on the Canadian Securities Exchange (the “CSE”) and began trading on September 24, 2018 under the ticker symbol “TRUL”.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Statement of Compliance**

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting*, following the same accounting policies and methods of application as those disclosed in the annual audited financial statements for the years ended December 31, 2018 and 2017. The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements of the Company for the years ended December 31, 2018 and 2017, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). There has been no material impact on these unaudited condensed consolidated interim financial statements from changes in accounting standards during the period except for the adoption of new standards effective as of January 1, 2019.

These unaudited condensed consolidated interim financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on August 13, 2019.

(b) Basis of Measurement

These unaudited condensed consolidated interim financial statements have been prepared on the going concern basis, under the historical cost convention except for biological assets and certain financial instruments, which are measured at fair value.

(c) Functional Currency

The functional currency of the Company and its subsidiaries, as determined by management, is the United States (“U.S.”) dollar. These unaudited condensed consolidated interim financial statements are presented in U.S. dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Basis of Consolidation

These unaudited condensed consolidated interim financial statements include the financial information of the Company and its subsidiaries, Trulieve, Inc., Life Essence, Inc., Leef Industries, LLC, and The Healing Corner, Inc. The accounts of the subsidiaries are prepared for the same reporting period using consistent accounting policies from the date of acquired control. Intercompany transactions, balances and unrealized gains or losses on transactions are eliminated.

(e) Significant Accounting Judgments, Estimates, and Assumptions

The preparation of these unaudited condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these unaudited condensed consolidated interim financial statements have been set out in Note 2 of the audited financial statements for the years ended December 31, 2018 and 2017. Additionally, see “*Note 9 - Debt*” for the fair value allocation between debt and warrants using assumptions including effective interest rate, volatility, and expected life.

(f) Recently Adopted Accounting Pronouncements

The Company has adopted IFRS 16—Leases (“IFRS 16”) with the date of initial application of January 1, 2019 using the modified retrospective approach. Comparative information has not been restated and continues to be reported under IAS 17—Leases (“IAS 17”) (accounting standard in effect for those periods).

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (‘lessee’) and the supplier (‘lessor’). The standard introduces a single, on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessees recognize a right-of-use asset representing its control of and right to use the underlying asset and a lease liability representing its obligation to make future lease payments.

Right-of-use assets

At commencement date, the Company has measured the right-of-use asset at cost which comprises of:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Recently Adopted Accounting Pronouncements (continued)

There are no dismantling, removal and restoration costs included in the cost of the right-of-use asset as management has not incurred an obligation for those costs.

Lease liabilities

At the commencement date, The Company measured the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee uses the lessee's incremental borrowing rate.

The lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent Measurements

After the commencement date, the Company recognized depreciation and impairment of the right-of-use asset in profit or loss. The Company also recognized in profit or loss the interest on the lease liability. There were no variable lease payments which were not included in the measurement of the lease liability.

Exemptions and practical expedients

IFRS 16 permits the use of exemptions and practical expedients. The Company applied the following recognition exemptions and practical expedients:

- grandfather lease definition for existing contracts at the date of initial application;
- exclude low-value and short-term leases from IFRS 16 lease accounting;
- use portfolio application for leases with similar characteristics, such as vehicle and equipment leases;
- apply a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application;
- exclude initial direct costs from the measurement of the right-of-use assets at the date of initial application;
- use hindsight in determining lease term at the date of initial application

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Recently Adopted Accounting Pronouncements (continued)

The financial impact of applying the standard resulted in a \$24,393,582 increase of in right-of-use assets (included in property, plant and equipment Note 5), an increase of \$25,663,837 in lease liability, a \$868,863 adjustment to retained earnings, a \$722,733 decrease in other long-term liabilities, and a \$321,342 decrease in prepaid expenses and other current assets. The weighted average incremental borrowing rate applied to the lease liabilities was 4.76%.

The following table provides a reconciliation of the commitments as at December 31, 2018 to the Company's lease liabilities as at January 1, 2019:

| | |
|---|---------------|
| Lease liability - current portion | \$ 335,881 |
| Lease liability | 616,165 |
| Total lease liability as of December 31, 2018 | \$ 952,046 |
| Lease liabilities previously not recognized under IFRS 16 | 25,663,837 |
| Lease liability as of January 1, 2019 | \$ 26,615,883 |

3. ACQUISITIONS

On May 21, 2019, the Company acquired all of the issued and outstanding shares of The Healing Corner, Inc. The purpose of this acquisition was to acquire the medical marijuana license in the State of Connecticut. The acquisition was financed with cash on hand and borrowings. The acquisition was accounted for as a business combination in accordance with IFRS 3, and related operating results are included in the accompanying condensed consolidated interim statements of operations, changes in shareholders' equity, and statement of cash flows for periods subsequent to the acquisition date. The revenues and net income since acquisition date and assuming the acquisition had occurred on January 1, 2019 are insignificant to the consolidated results ended June 30, 2019. Total transaction costs related to the acquisition were approximately \$270,000 during the three months ended June 30, 2019 and are included in the accompanying condensed consolidated interim statement of operations.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

3. ACQUISITIONS (CONTINUED)

The following table summarizes the preliminary allocation of consideration exchanged to the estimated fair value of tangible and identifiable intangible assets acquired and liabilities assumed:

| <u>The Healing Corner</u> | |
|--|----------------------|
| Consideration: | |
| Cash | \$ <u>19,900,000</u> |
| Fair value of consideration exchanged | \$ <u>19,900,000</u> |
| Recognized amounts of identifiable assets acquired and liabilities assumed: | |
| Cash | \$ 1,600 |
| Inventory | 73,438 |
| Prepays | 3,880 |
| Property and equipment | 203,202 |
| Intangible assets: | |
| Dispensary License | 14,300,000 |
| Trademark | 320,841 |
| Customer Relationship | 1,000,000 |
| Non-Compete | 35,000 |
| Goodwill | 8,666,000 |
| Accrued expenses | (3,961) |
| Deferred tax liability | <u>(4,700,000)</u> |
| Total net assets acquired | \$ <u>19,900,000</u> |

4. BIOLOGICAL ASSETS AND INVENTORIES

As at June 30, 2019 and December 31, 2018 biological assets comprise:

| | June 30, 2019 | December 31, 2018 |
|-----------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| Cannabis plants | <u>\$ 49,415,795</u> | <u>\$ 29,636,269</u> |

The changes in the carrying value of biological assets, which consist of cannabis plants, are as follows:

| | |
|--|----------------------|
| Balance at December 31, 2017 | \$ 9,738,300 |
| Net increase in fair value less costs to sell due to biological transformation | 85,563,656 |
| Transferred to inventory upon harvest | <u>(65,665,687)</u> |
| Balance at December 31, 2018 | \$ 29,636,269 |
| Net increase in fair value less costs to sell due to biological transformation | 128,811,442 |
| Transferred to inventory upon harvest | <u>(109,031,916)</u> |
| Balance at June 30, 2019 | <u>\$ 49,415,795</u> |

Biological assets are measured at fair value less costs to sell until harvest. All production costs related to biological assets are expensed as incurred. All direct and indirect costs related to both biological assets and inventory are included in the ‘cost of goods sold’ line on the accompanying condensed consolidated interim statements of operations.

The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique used. The fair value was determined using a model which assumes the biological assets at the condensed consolidated interim statements of financial position date will grow to maturity, be harvested and converted into finished goods inventory and sold in the medical cannabis market. The Company’s method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

The cannabis plant model utilizes the following significant assumptions:

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**
4. BIOLOGICAL ASSETS AND INVENTORIES (CONTINUED)

| Assumption | June 30, 2019 | | December 31, 2018 | |
|---|--------------------------|---------------------|---------------------------|---------------------|
| | Range | Average | Range | Average |
| (i) Weighted average of expected loss of plants until harvest (a) | 0-40% | 19% | 0-40% | 17% |
| (ii) Expected yields for cannabis plants (average grams per plant) | 60 - 200 grams per plant | 125 grams per plant | 136 - 227 grams per plant | 158 grams per plant |
| (iii) Expected number of growing days | 128 - 138 | 133 | 154 - 164 | 159 |
| (iv) Weighted average number of growing days completed as a percentage of total growing days as at period end | N/A | 47% | N/A | 40% |
| (v) Estimated selling price (per gram) (b) | N/A | \$9.57 | N/A | \$9.93 |
| (vi) After harvest cost to complete and sell (per gram) | \$1.98 - \$2.68 | \$2.33 | \$2.62 - \$2.90 | \$2.76 |
| (vii) Reasonable margin \$ on after harvest costs to complete and sell (per gram) | \$1.60 - \$2.16 | \$1.88 | \$1.50 - \$1.75 | \$1.65 |

(a) Weighted average of expected loss of plants until harvest represents loss via plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.

(b) The estimated selling price (per gram) for June 30, 2019 and December 31, 2018 represent the average sales price for the Company's various strains sold as medical products.

These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The following table presents the effect of 10% positive change and 10% negative change on the fair valuation of cannabis plants biological assets as at June 30, 2019 and December 31, 2018.

| Assumption | 10% change as at June 30, 2019 | 10% change as at December 31, 2018 |
|---|--------------------------------|------------------------------------|
| Weighted average of expected loss of plants until harvest | 442,273 | 503,816 |
| Expected yields for cannabis plants | 4,941,580 | 3,154,838 |
| Expected number of growing days | 7,937,714 | 2,471,188 |
| Estimated selling price | 6,180,232 | 4,428,190 |
| After harvest cost to complete and sell | 1,516,418 | 1,273,352 |
| Reasonable margin on after harvest costs to complete and sell | 1,738,354 | 758,425 |

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**
4. BIOLOGICAL ASSETS AND INVENTORIES (CONTINUED)

The Company estimates the harvest yields for medical cannabis at various stages of growth. As of June 30, 2019, it was expected that the Company's cannabis plants of 9,227,671 effective grams currently undergoing transformation is expected to yield a total of 21,480,530 grams at maturity and 5,908,686 effective grams of cannabis plants undergoing transformation on December 31, 2018 will yield at maturity 12,833,433 grams.

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

Inventories comprised the following items:

| | June 30, 2019 | December 31, 2018 |
|-----------------------------|----------------------|----------------------|
| Raw Material | | |
| Harvested Cannabis | \$ 35,055,918 | \$ 854,233 |
| Packaging and miscellaneous | 4,040,288 | 2,199,640 |
| Total Raw Material | 39,096,206 | 3,053,873 |
| Work in Process | 35,133,953 | 11,157,067 |
| Finished Goods | 10,998,503 | 10,059,904 |
| Total Inventories | \$ 85,228,662 | \$ 24,270,844 |

For the three months and six months ended June 30, 2019 and 2018 cost of goods sold comprised of:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|---------------------|---------------------------|----------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Payroll costs for personnel involved in growing and processing marijuana | \$ 7,431,714 | \$ 2,595,470 | \$ 13,704,269 | \$ 4,397,003 |
| Materials and utilities | 7,101,936 | 2,979,762 | 14,322,246 | 4,758,250 |
| Other overhead, rent, facility & equipment maintenance, cleaning, uniforms, quality and fulfillment and other | 5,828,297 | 461,903 | 6,922,931 | 1,559,322 |
| Cost of Goods Sold | \$ 20,361,947 | \$ 6,037,135 | \$ 34,949,446 | \$ 10,714,575 |

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**
4. BIOLOGICAL ASSETS AND INVENTORIES (CONTINUED)

The Company does not capitalize any production costs including overheads to biological assets. All production costs related to biological assets are expensed as incurred and are included in production costs in the table above.

The use of the capitalization approach would cause a reduction of \$7,149,286 out of 'cost of goods sold' line on the accompanying condensed consolidated interim statements of operations and a corresponding reduction of \$7,149,286 out of 'fair value adjustment on growth of biological assets' on the accompanying condensed consolidated interim statements of operations.

The Company capitalizes cost incurred after harvest to bring the products to their present location and condition in accordance with IAS 2 Inventories. The cost of inventories includes the fair value less cost to sell of the cannabis at harvest and costs incurred after harvest (such as quality assurance costs, fulfillment costs and packaging costs) to bring the products to their present location and condition.

5. PROPERTY AND EQUIPMENT

At June 30, 2019 and December 31, 2018, Property and Equipment consisted of the following:

| | Land | Buildings & Improvements | Construction in Progress | Furniture & Equipment | Vehicles | Total |
|--|--------------|--------------------------|--------------------------|-----------------------|--------------|----------------|
| <u>Cost</u> | | | | | | |
| At December 31, 2017 | \$ 300,000 | \$ 12,070,729 | \$ 3,060,224 | \$ 4,170,931 | \$ 357,050 | \$ 19,958,934 |
| Additions | 2,021,871 | 20,517,329 | 17,183,455 | 13,563,621 | 1,422,815 | 54,709,091 |
| Transfers & disposals | - | 3,458,585 | (2,960,413) | (639,918) | (116,586) | (258,332) |
| At December 31, 2018 | 2,321,871 | 36,046,643 | 17,283,266 | 17,094,634 | 1,663,279 | 74,409,693 |
| Additions | 1,357,938 | 5,781,688 | 24,749,948 | 6,182,290 | 8,173 | 38,080,037 |
| Additions right-of-use assets | - | 16,885,099 | - | 94,814 | 1,115,830 | 18,095,743 |
| Transfers & disposals | - | 27,963,536 | (29,410,436) | 1,439,639 | (46,214) | (53,475) |
| IFRS 16 Implementation | - | 26,509,651 | - | 265,556 | 994,244 | 27,769,451 |
| At June 30, 2019 | 3,679,809 | 113,186,617 | 12,622,778 | 25,076,933 | 3,735,312 | 158,301,449 |
| <u>Accumulated Depreciation</u> | | | | | | |
| At December 31, 2017 | \$ - | \$ 392,976 | \$ - | \$ 226,402 | \$ 51,831 | \$ 671,209 |
| Additions | - | 1,547,499 | - | 1,085,424 | 324,706 | 2,957,629 |
| Transfers & disposals | - | 36,144 | - | (8,607) | (36,570) | (9,033) |
| At December 31, 2018 | - | 1,976,619 | - | 1,303,219 | 339,967 | 3,619,805 |
| Additions | - | 2,068,712 | - | 1,029,276 | 9,316 | 3,107,304 |
| Additions right-of-use assets | - | 1,843,364 | - | 35,215 | 526,025 | 2,404,604 |
| Transfers & disposals | - | 213 | - | (1,216) | (22,102) | (23,105) |
| IFRS 16 Implementation | - | 3,111,879 | - | 37,576 | 226,414 | 3,375,869 |
| At June 30, 2019 | - | 9,000,787 | - | 2,404,070 | 1,079,620 | 12,484,477 |
| <u>Net book value</u> | | | | | | |
| At December 31, 2017 | \$ 300,000 | \$ 11,677,753 | \$ 3,060,224 | \$ 3,944,529 | \$ 305,219 | \$ 19,287,725 |
| At December 31, 2018 | \$ 2,321,871 | \$ 34,070,024 | \$ 17,283,266 | \$ 15,791,415 | \$ 1,323,312 | \$ 70,789,888 |
| At June 30, 2019 | \$ 3,679,809 | \$ 104,185,830 | \$ 12,622,778 | \$ 22,672,863 | \$ 2,655,692 | \$ 145,816,972 |

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**
5. PROPERTY AND EQUIPMENT (CONTINUED)

For the three and six months ended June 30, 2018, the Company capitalized interest of \$83,083 and \$247,352, respectively. The Company did not capitalize any interest for the three and six months ended June 30, 2019.

For the three months ended June 30, 2019 and 2018, depreciation expense of \$1,729,288 and \$392,809, respectively, were considered as part of costs of goods sold. For the six months ended June 30, 2019 and 2018, depreciation expense of \$2,663,342 and \$622,809, respectively, were considered as part of costs of goods sold. For further information see "Note 4 – Biological Assets and Inventories" the other overhead line item.

For the six months ended June 30, 2019 and 2018, property and equipment additions purchased from the spouse of an officer and director of the Company totaled \$17,963,833 and \$1,504,868 of which \$3,828,597 was included in accounts payable at June 30, 2019.

6. INTANGIBLE ASSETS

At June 30, 2019 and December 31, 2018, Intangible assets consisted of the following:

| | Dispensary | | | | | Total |
|--|---------------|--------------|------------|-----------------------|-------------|---------------|
| | Licenses | Tradename | Trademarks | Customer Relationship | Non-Compete | |
| <u>Cost</u> | | | | | | |
| At December 31, 2017 | \$ - | \$ 1,000,000 | \$ - | \$ - | \$ - | \$ 1,000,000 |
| Additions from acquisitions | 8,533,416 | - | 10,444 | - | - | 8,543,860 |
| At December 31, 2018 | 8,533,416 | 1,000,000 | 10,444 | - | - | 9,543,860 |
| Additions from acquisitions | 14,300,000 | - | 320,841 | 1,000,000 | 35,000 | 15,655,841 |
| At June 30, 2019 | 22,833,416 | 1,000,000 | 331,285 | 1,000,000 | 35,000 | 25,199,701 |
| <u>Accumulated Amortization</u> | | | | | | |
| At December 31, 2017 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Amortization | 45,772 | 100,000 | 1,741 | - | - | 147,513 |
| At December 31, 2018 | 45,772 | 100,000 | 1,741 | - | - | 147,513 |
| Amortization | 348,596 | 50,000 | 35,440 | 16,667 | 1,458 | 452,161 |
| At June 30, 2019 | 394,368 | 150,000 | 37,181 | 16,667 | 1,458 | 599,674 |
| <u>Net book value</u> | | | | | | |
| At December 31, 2017 | \$ - | \$ 1,000,000 | \$ - | \$ - | \$ - | \$ 1,000,000 |
| At December 31, 2018 | \$ 8,487,644 | \$ 900,000 | \$ 8,703 | \$ - | \$ - | \$ 9,396,347 |
| At June 30, 2019 | \$ 22,439,048 | \$ 850,000 | \$ 294,104 | \$ 983,333 | \$ 33,542 | \$ 24,600,027 |

Amortization expense for the three months ended June 30, 2019 and 2018 was \$279,715 and \$0, respectively. Amortization expense for the six months ended June 30, 2019 and 2018 was \$452,161 and \$0, respectively.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**
7. NOTES PAYABLE

At June 30, 2019 and December 31, 2018, notes payable consisted of the following:

| | June 30, 2019 | December 31, 2018 |
|---|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| Promissory note dated April 10, 2017, with annual interest at 12%, due between April and July 2022. | \$ 4,000,000 | \$ 4,000,000 |
| Promissory note dated December 7, 2017, with annual interest at 12%, secured by certain property located in Miami, FL, due December 2021. | 2,000,000 | 2,000,000 |
| Less current portion | <u>(2,000,000)</u> | <u>(6,000,000)</u> |
| | <u>\$ 4,000,000</u> | <u>\$ -</u> |

The unsecured promissory note dated April 10, 2017, was amended in January 2019 to extend the maturity three years to 2022, all other terms remain unchanged.

The promissory note dated December 7, 2017, has terms allowing the lender to request prepayment at any time once the Company had raised in excess of \$24 million. In conjunction with the close of the private placement, in August 2018, the promissory note became due on demand.

In January 2018, the Company entered into a \$6,000,000 unsecured promissory note with a 24-month maturity and 12% annual interest rate. The Company shall make monthly interest payments to the lender and all outstanding principal and any unpaid accrued interest shall be due and payable in full on maturity. In conjunction with the closing of the promissory note, as additional consideration to the lender, existing shareholders agreed to dilute their ownership and transfer shares from their personal shareholdings which was valued at \$50,000. The Company treated that dilution as a contributed surplus in share capital and as an additional debt discount. If the Company goes public on any foreign or domestic exchange, this promissory note will be due within 90 days of the initial public offering. The Company did go public and in September 2018 the note was paid in full and the outstanding debt discount was expensed.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**
8. NOTES PAYABLE RELATED PARTY

At June 30, 2019 and December 31, 2018, notes payable to related parties consisted of the following:

| | June 30, 2019 | December 31, 2018 |
|--|---------------------|----------------------|
| Notes payable due to related parties, with varying interest rates between 8% to 12% annually, with varying maturity dates. | \$ 13,738,256 | \$ 14,215,131 |
| Less debt discount | (88,542) | (141,216) |
| Less current portion | <u>(13,439,508)</u> | <u>(1,426,791)</u> |
| | <u>\$ 210,206</u> | <u>\$ 12,647,124</u> |

In February 2019, the Company entered into a 24-month unsecured loan with an 8% annual interest rate with a former director and shareholder for \$257,337. The loan was issued in March 2019. The Company determined that the stated interest rate was below market rates and recorded a debt discount of \$10,092 using an annual discount interest rate of 12%.

In March 2018, the Company entered into a 24-month unsecured loan with an 8% annual interest rate with a former director and shareholder for \$158,900. The loan was funded in April 2018. The Company determined that the stated interest rate was below market rates and recorded a debt discount of \$6,232 using an annual discount interest rate of 12%.

In April 2018, the Company entered into a \$6,000,000 unsecured promissory note with an entity controlled by members of management and shareholders with a 24-month maturity and 12% annual interest rate. Approximately \$1,500,000 of the outstanding balance of C2C lines of credit was extinguished in lieu of cash proceeds as part of the funding of this promissory note. The Company shall make monthly interest payments to the lender and all outstanding principal and any unpaid accrued interest shall be due and payable in full on maturity. If the Company goes public on any foreign or domestic exchange, this promissory note will be due within 90 days of the initial public offering. The Company did go public and in September 2018 the note was paid in full.

In May 2018, the Company entered into two separate unsecured promissory notes with an officer and director of the Company for a total of \$12,000,000. Each promissory note has a 24-month maturity and 12% annual interest rate. For one of the promissory notes, certain notes payable from related parties and the transfer of title of one of the Company's facilities were credited as part of the funding and the Company received net cash of approximately \$650,000. The other promissory note provided approximately \$6,000,000 in additional capital to the Company.

In June 2018, the Company entered into a 24-month unsecured loan with an 8% annual interest rate with a former director and shareholder for \$262,010. The Company determined that the stated interest rate was below market rates and recorded a debt discount of \$10,276 using an annual discount interest rate of 12%.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018****8. NOTES PAYABLE RELATED PARTY (CONTINUED)**

As disclosed in the condensed consolidated interim statements of cash flows, under other noncash investing and financing activities, the noncash portion of the notes for the six months ended June 30, 2019 and 2018 was \$257,337 and \$2,619,700, respectively, and was used to finance acquisition of property and equipment. The lenders paid for the property and equipment directly while issuing the Company promissory notes and the Company took custody of the property and equipment.

9. DEBT

On June 18, 2019, the Company completed a private placement financing comprising 5-year senior secured promissory notes (the "Notes") with a face value of \$70,000,000. The Notes accrue interest at an annual rate of 9.75%, payable semi-annually, in equal instalments, in arrears on June 18 and December 18 of each year, commencing on December 18, 2019. The purchasers of the Notes also received warrants to purchase 1,470,000 Subordinate Voting Shares at an exercise price of C\$17.25 (the "Warrants"), which can be exercised for three years after the closing.

The fair value of the Notes was determined to be \$61,450,800 using an interest rate of 13% which the Company estimates would have been the coupon rate required to issue the notes had the financing not included the Warrants. The fair value of the Warrants was determined to be \$7,149,200 using the Black Scholes option pricing model and the following assumptions: Share price: C\$14.48; Exercise Price: C\$17.25; Expected Life: 3 years; Annualized Volatility: 73.68%; Dividend yield: 0%; Discount rate: 1.92%; C\$ exchange rate: 1.328.

Because of the Canadian denominated exercise price, the Warrants do not qualify to be classified within equity and are therefore classified as derivative liabilities at FVTPL.

Issuance costs totaling \$3,117,100 were between the Notes and the Warrants based on their relative fair values with \$2,792,250 allocated to the Notes and \$324,850 expensed as incurred.

The Notes will accrete from their amortized cost on June 18, 2019 of \$58,658,550 to \$70,000,000 at maturity in 5 years using an effective interest rate of 14.35%. Accretion expense of \$57,110 was expensed during the period.

The Warrants were re-valued at \$7,156,178 at the end of the reporting period using the Black Scholes option pricing model and the following assumptions: Share price: C\$14.41; Exercise Price: C\$17.25; Expected Life: 2.97 years; Annualized Volatility: 73.68%; Dividend yield: 0%; Discount rate: 1.92%; C\$ exchange rate: 1.309. A loss of \$6,978 has been recognized in general and administrative expense.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**
10. LEASES

As of June 30, 2019, our lease liability consisted of the following:

| | June 30, 2019 |
|---------------------------------------|------------------|
| Balance, beginning of period [Note 2] | \$ 26,615,883 |
| Additions | 18,095,743 |
| Lease Payments & Interest | (1,944,086) |
| Balance, end of period | \$ 42,767,540 |
| Lease liability - current portion | \$ 4,112,011 |
| Lease liability | \$ 38,655,529 |

The Company has lease liabilities for leases related to real estate for dispensaries, production plants, and corporate offices. Other leased assets include passenger vehicles and trucks and equipment. The weighted average discount rate for the six months ended June 30, 2019 was 4.76% percent.

11. SHARE CAPITAL

The authorized share capital of the Company is comprised of the following:

(i) Unlimited number of Subordinate Voting Shares

As of June 30, 2019, there were 32,224,527 Subordinate Voting Shares issued and outstanding.

(ii) Unlimited number of Multiple Voting Shares

As of June 30, 2019, there were 68,943 Multiple Voting Shares issued and outstanding which are equal to 6,894,341 Subordinate Voting Shares as if converted. During the six months ended June 30, 2019, 68,561 Multiple Voting Shares were converted into 6,856,110 Subordinate Voting Shares.

(iii) Unlimited number of Super Voting Shares

As of June 30, 2019, there were 710,133 Super Voting Shares issued and outstanding which are equal to 71,013,300 Subordinate Voting Shares as if converted. During the six months ended June 30, 2019, 142,333 Super Voting Shares were converted into 14,233,300 Subordinate Voting Shares.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**
12. EARNINGS PER SHARE

The following is a reconciliation for the calculation of basic and diluted earnings per share for the three and six months ended June 30, 2019 and 2018:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|-------------------|---------------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net Income | \$ 57,528,785 | \$ 7,882,721 | \$ 72,231,059 | \$ 14,746,427 |
| Weighted average number of common shares outstanding | 110,132,168 | 98,683,400 | 110,132,168 | 98,683,400 |
| Dilutive effect of 1,684,178 warrants outstanding | 135,272 | - | 132,123 | - |
| Diluted weighted average number of common shares outstanding | <u>110,267,440</u> | <u>98,683,400</u> | <u>110,264,291</u> | <u>98,683,400</u> |
| Basic earnings per share | \$ 0.52 | \$ 0.08 | \$ 0.66 | \$ 0.15 |
| Diluted earnings per share | \$ 0.52 | \$ 0.08 | \$ 0.66 | \$ 0.15 |

13. INCOME TAXES

The components of the income tax provision include:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------|-----------------------------|---------------------|---------------------------|---------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Current | \$ 12,268,464 | \$ 4,596,197 | \$ 20,168,464 | \$ 6,971,197 |
| Deferred | 15,446,000 | 806,000 | 18,383,000 | 2,193,000 |
| | <u>\$ 27,714,464</u> | <u>\$ 5,402,197</u> | <u>\$ 38,551,464</u> | <u>\$ 9,164,197</u> |

14. RELATED PARTIES

The Company had raised funds by issuing a note to various related parties including directors, officers, and shareholders and the balance at June 30, 2019 and December 31, 2018 was \$13,738,256 and \$14,215,131, respectively, as discussed in “*Note 7 – Notes Payable Related Party*”.

The Company uses a general contractor that is the spouse of an officer and director of the Company and for the six months ended June 30, 2019 and 2018, property and equipment purchases totaled \$17,963,833 and \$1,504,868 of which \$3,828,597 was included in accounts payable at June 30, 2019, as discussed in “*Note 5 – Property and Equipment*”.

The Company has many leases from various real estate holding companies that are managed, controlled by various related parties including a former director and shareholder and the spouse of an officer and director of the Company, see “*Note 10 – Leases*”.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018****15. CONTINGENCIES****(a) Operating Licenses**

Although the possession, cultivation and distribution of cannabis for medical use is permitted in Florida, cannabis is a Schedule-I controlled substance and its use remains a violation of federal law. Since federal law criminalizing the use of cannabis preempts state laws that legalize its use, strict enforcement of federal law regarding cannabis would likely result in the Company's inability to proceed with our business plans. In addition, the Company's assets, including real property, cash, equipment and other goods, could be subject to asset forfeiture because cannabis is still federally illegal.

(b) Claims and Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At June 30, 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's consolidated statements of operations. There are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party or has a material interest adverse to the Company's interest.

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**Financial Instruments**

The Company's financial instruments consist of cash, accounts payable and accrued liabilities, warrant liability, notes payable (both to third parties and related parties) and finance liability. Excluding the warrant liability classified at FVTPL, the carrying values of these financial instruments approximate their fair values at June 30, 2019 and December 31, 2018 due to their short-term nature or because the effective interest rate applied to the balance approximates the market rate.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

The warrants liability is classified within level 2 of the fair value hierarchy.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**
16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Cash is classified within level 1 of the fair value hierarchy.

There have been no transfers between fair value levels during the six months ended June 30, 2019 or the year ended December 31, 2018.

The following table summarizes the Company's financial instruments at June 30, 2019:

| | Fair Value Through Profit or Loss | Amortized Cost | Total |
|--|--|---------------------------|---------------|
| Financial Assets: | | | |
| Cash | \$ 54,031,919 | \$ - | \$ 54,031,919 |
| Financial Liabilities: | | | |
| Accounts Payable and Accrued Liabilities | \$ - | \$ 11,754,295 | \$ 11,754,295 |
| Notes Payable | \$ - | \$ 6,000,000 | \$ 6,000,000 |
| Notes Payable - Related Party | \$ - | \$ 13,649,714 | \$ 13,649,714 |
| Lease Liability | \$ - | \$ 42,767,540 | \$ 42,767,540 |
| Finance Liability | \$ - | \$ 58,715,660 | \$ 58,715,660 |
| Warrant Liability | \$ 7,156,178 | \$ - | \$ 7,156,178 |

The following table summarizes the Company's financial instruments at December 31, 2018:

| | Fair Value Through Profit or Loss | Amortized Cost | Total |
|--|--|---------------------------|---------------|
| Financial Assets: | | | |
| Cash | \$24,430,108 | \$ - | \$24,430,108 |
| Financial Liabilities: | | | |
| Accounts Payable and Accrued Liabilities | \$ - | \$ 10,463,109 | \$ 10,463,109 |
| Notes Payable | \$ - | \$ 6,000,000 | \$ 6,000,000 |
| Notes Payable - Related Party | \$ - | \$ 14,073,915 | \$ 14,073,915 |
| Lease Liability | \$ - | \$ 952,046 | \$ 952,046 |

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
AS AT AND FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018****17. CAPITAL MANAGEMENT**

The Company's objectives when managing its capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders.

The capital structure of the Company consists of items included in shareholders' equity, notes payable notes payable related party and finance liability. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. The Company plans to use existing funds, as well as funds from the future sale of products, to fund operations and expansion activities. However, the Company may attempt to issue new shares or issue new debt for acquisitions.

As of June 30, 2019, the Company is not subject to externally imposed capital requirements. In addition, there have been no changes to the Company's approach to capital management during the three months ended June 30, 2019.

18. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through August 13, 2019, which is the date these unaudited condensed consolidated interim financial statements were approved by the Board of Directors.

From July 1, 2019 to August 13, 2019, shareholders have converted 1,836 Multiple Voting Shares into 183,632 Subordinate Voting Shares.

In July 2019, the Company entered into a sales leaseback transaction with Innovative Industrial Properties, Inc. (IIP) on a property in Holyoke, Massachusetts which was acquired during the three months ended June 30, 2019. The purchase price received by the Company was \$3.5 million (excluding transaction costs). The Company expects to complete tenant improvements for the building, for which IIP has agreed to provide reimbursement of up to \$40.0 million. The initial lease term is ten years, which may be extended for up to an additional 18 months in accordance with the terms of the lease, with two options to extend the term of the lease for five years each. The initial annualized base rent is equal to 11% of the sum of the purchase price for the property and the reimbursement for tenant improvements then funded by IIP.