

TRULIEVE CANNABIS CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(IN US DOLLARS)

**Trulieve Cannabis Corp.
Management’s Responsibility for Financial Reporting**

To the Shareholders of Trulieve Cannabis Corp.:

The accompanying consolidated financial statements were prepared by management of Trulieve Cannabis Corp. (“the Company”), and were reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the consolidated financial statements and believes that they fairly present the Company’s financial condition and results of operation in conformity with International Financial Reporting Standards. Management has included in the Company’s consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

To discharge its responsibilities for financial reporting and safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. Management further assures the quality of the financial records through careful selection and training of personnel and through the adoption and communication of financial and other relevant policies.

These financial statements have been audited by the Company’s auditor, MNP LLP, and their report is presented herein.

“Kim Rivers”
Chief Executive Officer

“Mohan Srinivasan”
Chief Financial Officer

April 10, 2019

TRULIEVE CANNABIS CORP.

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Independent Auditor's Report

To the Shareholders of Trulieve Cannabis Corp.:

Opinion

We have audited the consolidated financial statements of Trulieve Cannabis Corp. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of operations, changes in shareholders' equity, and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Company for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on September 11, 2018.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control, that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Sandra Alison Solecki.

Mississauga, Ontario

April 10, 2019

MNP LLP

Chartered Professional Accountants

Licensed Public Accountants

MNP

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018 AND 2017**

		<u>2018</u>	<u>2017</u>
ASSETS			
Current Assets:			
Cash		\$ 24,430,108	\$ 1,407,059
Inventories	<i>Note 4</i>	24,270,844	2,254,313
Biological Assets	<i>Note 4</i>	29,636,269	9,738,300
Prepaid Expenses and Other Current Assets		<u>2,453,239</u>	<u>182,467</u>
Total Current Assets		80,790,460	13,582,139
Property and Equipment, Net	<i>Note 5</i>	70,789,888	19,287,725
Intangible Assets, Net	<i>Note 6</i>	9,396,347	1,000,000
Other Assets		<u>1,095,886</u>	<u>-</u>
TOTAL ASSETS		<u><u>\$ 162,072,581</u></u>	<u><u>\$ 33,869,864</u></u>
LIABILITIES			
LIABILITIES			
Current Liabilities:			
Accounts Payable and Accrued Liabilities		\$ 10,463,109	\$ 4,045,447
Income Tax Payable		15,061,446	1,135,000
Deferred Revenue		1,427,201	14,773
Notes Payable - Current Portion	<i>Note 7</i>	6,000,000	-
Notes Payable - Related Party - Current Portion	<i>Note 8</i>	1,426,791	2,359,183
Finance Lease Obligations - Current Portion	<i>Note 14</i>	<u>335,881</u>	<u>-</u>
Total Current Liabilities		34,714,428	7,554,403
Long-Term Liabilities:			
Notes Payable	<i>Note 7</i>	-	5,960,000
Notes Payable - Related Party	<i>Note 8</i>	12,647,124	6,142,607
Finance Lease Obligations	<i>Note 14</i>	616,165	-
Other Long-Term Liabilities		722,733	-
Deferred Tax Liability	<i>Note 12</i>	<u>9,153,000</u>	<u>3,091,000</u>
TOTAL LIABILITIES		57,853,450	22,748,010
SHAREHOLDERS' EQUITY			
Share Capital	<i>Note 9</i>	60,976,944	11,456,199
Warrants	<i>Note 9</i>	608,740	-
Accumulated Earnings/(Deficit)		<u>42,633,447</u>	<u>(334,345)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>104,219,131</u>	<u>11,121,854</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u><u>\$ 162,072,581</u></u>	<u><u>\$ 33,869,864</u></u>

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

Nature of Operations (*Note 1*)

Commitments and Contingencies (*Note 14*)

Subsequent Events (*Note 18*)

Approved and authorized by the Board of Directors on April 10, 2019

"Kim Rivers"
Chief Executive Officer

"Mohan Srinivasan"
Chief Financial Officer

**CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

		<u>2018</u>	<u>2017</u>
Revenues, Net of Discounts		\$ 102,816,631	\$ 19,778,344
Cost of Goods Sold, Net	<i>Note 4</i>	<u>34,195,407</u>	<u>11,094,692</u>
Gross Profit before Biological Asset Adjustment		68,621,224	8,683,652
Fair Value Adjustment on Inventory Sold		(48,622,209)	(12,652,758)
Fair Value Adjustment on Growth of Biological Assets	<i>Note 4</i>	<u>85,563,656</u>	<u>22,391,058</u>
Gross Profit		<u>105,562,671</u>	<u>18,421,952</u>
Expenses:			
General and Administrative	<i>Note 17</i>	4,136,193	1,211,384
Sales and Marketing		25,050,227	7,096,162
Depreciation and Amortization	<i>Note 5</i>	<u>1,137,675</u>	<u>197,778</u>
Total Expenses		<u>30,324,095</u>	<u>8,505,324</u>
Income From Operations		<u>75,238,576</u>	<u>9,916,628</u>
Other Income (Expense):			
Interest Expense, Net		(2,183,653)	(860,437)
RTO Expense	<i>Note 10</i>	(1,387,423)	-
Loss on Debt Settled with Equity		-	(768,639)
Other Income, Net		<u>59,510</u>	<u>3,298</u>
Total Other Expense		<u>(3,511,566)</u>	<u>(1,625,778)</u>
Income Before Provision for Income Taxes		<u>71,727,010</u>	<u>8,290,850</u>
Provision For Income Taxes	<i>Note 12</i>	<u>28,759,218</u>	<u>4,718,000</u>
Net Income		<u>\$ 42,967,792</u>	<u>\$ 3,572,850</u>
Basic Net Income per Common Share	<i>Note 11</i>	<u>\$ 0.42</u>	<u>\$ 0.05</u>
Diluted Net Income per Common Share	<i>Note 11</i>	<u>\$ 0.42</u>	<u>\$ 0.05</u>
Weighted average number of common shares used in computing net income per common share:			
Basic	<i>Note 11</i>	<u>101,697,002</u>	<u>77,011,375</u>
Diluted	<i>Note 11</i>	<u>101,911,180</u>	<u>77,011,375</u>

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

TRULIEVE CANNABIS CORP
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

		<u>Super Voting Shares</u>	<u>Multiple Voting Shares</u>	<u>Subordinate Voting Shares</u>	<u>Total Common Shares</u>	<u>Share Capital</u>	<u>Warrants</u>	<u>Accumulated Earnings (Deficit)</u>	<u>Total</u>
Balance, January 1, 2017		61,563,100	13,436,800	-	74,999,900	\$ 3,847,101	\$ -	\$ (3,907,195)	\$ (60,094)
Cash Contributions from Shareholders	<i>Note 9</i>	-	-	-	-	1,726,129	-	-	1,726,129
Additional Contribution from the Issuance of Below Market Interest Debt	<i>Note 8</i>	-	-	-	-	275,434	-	-	275,434
Conversion of Notes Payable	<i>Note 8</i>	18,750,000	-	-	18,750,000	4,390,505	-	-	4,390,505
Settlement of Note Payable with Shares	<i>Note 8</i>	4,933,500	-	-	4,933,500	1,217,030	-	-	1,217,030
Net Income		-	-	-	-	-	-	3,572,850	3,572,850
Balance, December 31, 2017		<u>85,246,600</u>	<u>13,436,800</u>	<u>-</u>	<u>98,683,400</u>	<u>\$ 11,456,199</u>	<u>\$ -</u>	<u>\$ (334,345)</u>	<u>\$ 11,121,854</u>
Issuance of Common Stock as Debt Discount	<i>Note 9</i>	-	-	-	-	200,000	-	-	200,000
Additional Contribution from the Issuance of Below Market Interest Debt	<i>Note 8</i>	-	-	-	-	46,467	-	-	46,467
Issuance of Shares for Schyan Transaction	<i>Note 10</i>	-	-	200,000	200,000	927,000	-	-	927,000
Issuance of Shares Subscription Receipt Offering, Net	<i>Note 9</i>	-	3,573,450	7,354,050	10,927,500	45,948,203	1,518,740	-	47,466,943
Shares Issued for Cash - Warrant Exercise	<i>Note 9</i>	-	-	321,268	321,268	2,399,075	(910,000)	-	1,489,075
Conversions of Multiple to Subordinate Shares		-	(3,259,799)	3,259,799	-	-	-	-	-
Net Income		-	-	-	-	-	-	42,967,792	42,967,792
Balance, December 31, 2018		<u>85,246,600</u>	<u>13,750,451</u>	<u>11,135,117</u>	<u>110,132,168</u>	<u>\$ 60,976,944</u>	<u>\$ 608,740</u>	<u>\$ 42,633,447</u>	<u>\$ 104,219,131</u>

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

TRULIEVE CANNABIS CORP**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

		<u>2018</u>	<u>2017</u>
CASH FLOW FROM OPERATING ACTIVITIES			
Net Income		\$ 42,967,792	\$ 3,572,850
Adjustments to Reconcile Net Income to			
Net Cash Provided by (Used In) Operating Activities:			
Depreciation and Amortization	<i>Notes 5 & 6</i>	3,105,142	558,011
Non-Cash Interest Expense		244,141	437,485
Loss from Sale of Property and Equipment	<i>Note 5</i>	45,928	-
Non-Cash Issuance of Shares for Schyan Transaction	<i>Note 10</i>	927,000	-
Non-Cash Loss on Debt Settled with Equity	<i>Note 8</i>	-	768,639
Non-Cash License Fee	<i>Note 8</i>	-	(375,000)
Changes in Operating Assets and Liabilities:			
Inventories		(21,997,910)	(991,453)
Biological Assets		(19,897,969)	(9,738,300)
Prepaid Expenses and Other Current Assets		(2,270,772)	(160,117)
Other Assets		(1,095,886)	-
Deferred Tax Assets/Liabilities		6,062,000	3,558,000
Accounts Payable and Accrued Liabilities		811,727	1,239,607
Other Long-Term Liabilities		722,733	-
Due to Related Party		-	(234,000)
Income Tax Payable		13,926,446	1,135,000
Deferred Revenue		1,412,428	14,773
		<u>24,962,800</u>	<u>(214,505)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
CASH FLOW FROM INVESTING ACTIVITIES			
Purchases of Property and Equipment	<i>Note 5</i>	(45,427,976)	(5,507,900)
Net Assets Acquired in Asset Acquisition	<i>Note 3</i>	(7,662,146)	-
Proceeds from Sale of Property and Equipment	<i>Note 5</i>	128,819	-
		<u>(52,961,303)</u>	<u>(5,507,900)</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	4,000,000
Proceeds from Issuance of Notes Payable - Related Party	<i>Note 8</i>	11,156,614	1,307,022
Payments on Notes Payable	<i>Note 7</i>	(6,000,000)	(40,000)
Payments on Notes Payable - Related Party	<i>Note 8</i>	(8,676,728)	-
Payments on Finance Lease Obligations		(454,352)	-
Proceeds from Issuance of Shares for Subscription Receipt Offering, Net	<i>Note 9</i>	47,466,943	-
Proceeds from Issuance of Shares for Warrant Exercise	<i>Note 9</i>	1,489,075	-
Proceeds from Additional Cash Contributions	<i>Note 9</i>	-	1,726,129
		<u>51,021,552</u>	<u>6,993,151</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES			
NET INCREASE IN CASH AND CASH EQUIVALENTS		23,023,049	1,270,746
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		1,407,059	136,313
CASH AND CASH EQUIVALENTS, END OF PERIOD		<u>\$ 24,430,108</u>	<u>\$ 1,407,059</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
CASH PAID DURING THE YEAR FOR			
Interest		<u>\$ 2,947,552</u>	<u>\$ 468,710</u>
Taxes		<u>\$ 8,195,000</u>	<u>\$ -</u>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

		<u>2018</u>	<u>2017</u>
OTHER NONCASH INVESTING AND FINANCING ACTIVITIES			
Purchase of Property and Equipment Financed with Notes Payable	<i>Note 5</i>	\$ -	\$ 2,000,000
Purchase of Property and Equipment Financed with Notes Payable - Related Party	<i>Note 5</i>	\$ 3,094,565	\$ 6,804,972
Conversion of Notes Payable into Shares	<i>Note 8</i>	\$ -	\$ 4,390,505
Issuance of warrants		\$ 1,518,740	\$ -
Purchase of Property and Equipment Financed with Accounts Payable	<i>Note 5</i>	\$ 4,697,190	\$ 1,004,240
Property and Equipment Acquired via Finance Leases	<i>Note 5</i>	\$ 1,406,398	\$ -
Transfer of Shares Treated as a Debt Discount	<i>Note 9</i>	\$ 200,000	\$ -
Settlement of Notes Payable - Related Party with Shares	<i>Note 8</i>	\$ -	\$ 448,391
Debt Discount Related to Below Market Interest Debt	<i>Note 8</i>	\$ 46,467	\$ 275,434

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

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.

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. See “*Note 10 – Transaction*” for further details.

See “*Note 3 – Acquisitions*” for the acquisitions of Life Essence, Inc., a Massachusetts corporation and Leef Industries, LLC., a California limited liability company.

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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on April 10, 2019.

(b) Basis of Measurement

These consolidated 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 consolidated financial statements are presented in U.S. dollars.

(d) Basis of Consolidation

These consolidated financial statements include the financial information of the Company and its subsidiaries, Trulieve, Inc., Life Essence, Inc. and Leef Industries, LLC. The accounts of the subsidiaries are prepared for the same reporting period using consistent accounting policies. All of the consolidated entities were under common control during the entirety of the periods for which their respective results of operations were included in the consolidated financial statements (i.e., from the date of their acquisition). See “*Note 3 – Acquisitions*” for further details on the acquired companies. Intercompany transactions, balances and unrealized gains or losses on transactions are eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Cash

Cash includes cash deposits in financial institutions plus cash held at retail locations.

(f) Biological Assets

The Company measures biological assets consisting of medical cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of internally produced work in progress and finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the results of operations of the related year. The Company expenses pre-harvest costs as incurred.

(g) Inventory

Inventories of finished goods and packing materials are valued at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion for inventories in process and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. Products for resale and supplies and consumables are valued at the lower of cost and net realizable value.

(h) Property and Equipment

Property and equipment are measured at cost less accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis over the following terms:

Land	Not Depreciated
Buildings & Improvements	10 to 40 Years
Furniture & Equipment	3 to 10 Years
Vehicles	3 to 6 Years
Construction in Progress	Not Depreciated
Leasehold Improvements	The lesser of the life of the lease or the estimated useful life of the asset

An asset's residual value, useful life and depreciation method are reviewed during each financial year and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains or losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and recognized in profit or loss. Assets in process are transferred when available for use and depreciation of the assets commences at that point. Construction in progress is not depreciated until it is completed and available for use.

The Company capitalizes interest on debt financing invested in projects under construction. Upon the asset becoming available for use, capitalized interest costs, as a portion of the total cost of the asset, are depreciated over the estimated useful life of the related asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(i) Intangible Assets**

Intangible assets are recorded at cost, less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values and amortization methods are reviewed at each year-end, and any changes in estimates are accounted for prospectively. As of December 31, 2018, and 2017, the Company has determined that no impairment exists.

Intangible assets are amortized using the straight-line method over estimated useful lives as follows:

Dispensary License	15 Years
Trademarks	6 Months
Tradename	10 Years

(j) Impairment of Long-Lived Assets

Long-lived assets, including property and equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. For the years ended December 31, 2018 and 2017, the Company did not record an impairment loss.

(k) Leased Assets

The Company leases certain items of property and equipment. A lease of property and equipment is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the Company. A lease of property and equipment is classified as an operating lease whenever the terms of the lease do not transfer substantially all of the risks and rewards of ownership to the lessee. Lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits are consumed.

(l) Revenue Recognition

The IASB's new revenue recognition standard IFRS 15 – Revenue from Contracts with Customers (IFRS 15) was adopted by the Company on January 1, 2016. The new standard replaces IAS 18 – Revenue and provides for a single model that applies to all contracts with customers with two types of recognition: at a point in time or over time.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company follows the following steps for accounting for revenue from contracts with customers:

1. Identify the contract with a customer
2. Identify the performance obligation(s)
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation(s)
5. Recognize revenue when/as performance obligation(s) are satisfied

Revenue from the direct sale of cannabis to customers for a fixed price is recognized when the Company transfers control of the goods to the customer at the point of sale and the customer has paid for the goods. The Company has a loyalty rewards program that allows customers to earn reward credits to be used on future purchases. Loyalty reward credit issued as part of a sales transaction results in revenue being deferred until the loyalty reward is redeemed by the customer. The loyalty rewards are shown as reductions to 'revenue, net of discounts' line on the accompanying consolidated statements of operations.

(m) Cost of Goods Sold

The Company expenses production costs as incurred. The fair value of plants that are in various stages of growth are shown as 'fair value adjustment on growth of biological assets' line on the accompanying consolidated statements of operations.

(n) Research and Development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

(o) Income Taxes

The Company uses the liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to the cost of producing the products or cost of production. This results in permanent differences between ordinary and necessary business expenses deemed unallowable under IRC Section 280E.

The Corporation intends to be treated as a United States corporation for United States federal income tax purposes under section 7874 of the U.S. Tax Code and is expected to be subject to United States federal income tax on its worldwide income. However, for Canadian tax purposes, the Corporation is expected, regardless of any application of section 7874 of the U.S. Tax Code, to be treated as a Canadian resident company (as defined in the Income Tax Act (Canada) (the "ITA") for Canadian income tax purposes. As a result, the Corporation will be subject to taxation both in Canada and the United States. Notwithstanding the foregoing, it is Management's expectation that the Company's activities will be conducted in such a manner that income from operations will not be subjected to double taxation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Financial Instruments

Financial assets and liabilities

The Company initially recognizes financial assets and liabilities at fair value on the date that they are originated. All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies its financial liabilities as either financial liabilities at fair value through profit or loss or amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in profit or loss.

Classification of financial instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

	Classification
Cash	Fair value through profit or loss
Accounts Payable and Accrued Liabilities	Amortized cost
Notes Payable	Amortized cost
Notes Payable - Related Party	Amortized cost
Capital Lease Obligations	Amortized cost

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(q) Critical accounting estimates and judgments

The preparation of the consolidated 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. Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

Acquisitions accounted for as asset acquisitions

The Company has treated the acquisitions described in Note 3 as asset acquisitions. Treatment as a business combination would have resulted in the Company expensing the acquisition costs and recognition of a deferred tax liability related to the licenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(q) Critical accounting estimates and judgments (continued)***Biological assets and inventory*

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost to estimated net realizable value.

Estimated useful lives and depreciation and amortization of property and equipment and intangible assets

Depreciation and amortization of property and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

(r) Recently Issued Accounting Pronouncements*IFRS 16 Leases*

IFRS 16 was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. 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.

Substantially all of the Company's operating leases are real estate leases for dispensaries, production plants, and corporate offices. Other leased assets include passenger vehicles, trucks and equipment.

As a lessee, the Company will recognize right-of-use assets and lease liabilities primarily for its operating leases of real estate properties, vehicles and equipment. The depreciation expense on right-of-use assets and interest expense on lease liabilities will replace rent expense, previously recognized on a straight-line basis under IAS 17 over the term of a lease. No significant impacts are expected for the Company's existing finance leases.

IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019. For leases where the Company is the lessee, it has the option of adopting a fully retrospective approach or a modified retrospective approach on transition to IFRS 16. The Company has adopted the standard on January 1, 2019 using the modified retrospective approach. The modified retrospective approach applies the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at January 1, 2019, and no restatement of the comparative period. Under the modified retrospective approach, the Company chose to measure all right-of-use assets retrospectively as if the standard had been applied since lease commencement dates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(r) Recently Issued Accounting Pronouncements (continued)**

IFRS 16 permits the use of exemptions and practical expedients. The Company expects to apply 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; and
- use hindsight in determining lease term at the date of initial application.

The Company continues to assess the impact of the standard on the Company's business processes, internal controls over financial reporting, data systems, IT, and financing arrangements. The Company is in the final stages of refining and validating the inputs and key assumptions used in its calculation of the cumulative effects of initial application to be recorded in opening retained earnings as at January 1, 2019.

Based on the information currently available, as a result of the initial application of IFRS 16 as at January 1, 2019, Management anticipates recognizing approximately \$28 million of right-of-use assets and approximately \$34 million of lease liabilities, inclusive of current finance leases, on its consolidated statements of financial position, and derecognizing approximately \$1 million of deferred rent obligation from its consolidated statements of financial position, with the difference, net of the deferred tax impact, recorded in opening retained earnings. Certain other balance sheet accounts are impacted through reclassification to applicable IFRS 16 balance sheet line items.

The final impacts of the initial application of IFRS 16 may vary from the estimates provided for the following reasons:

- the Company has not finalized the assessment and testing of applicable internal controls over financial reporting; and
- the new accounting policies and critical accounting estimates and judgments are subject to change until the Company issues its first quarter report to shareholders for the three months ended March 31, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*IFRS 3 Business Combinations*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. The amendments included the addition of an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is a business or not.

The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the test is met, the Company can elect to not account for the acquisition as a business and instead it will account for the acquisition as an asset acquisition.

IFRS 3 is effective for annual periods beginning on or after January 1, 2020 with early adoption permitted. The Company has adopted the provisions for the year ended December 31, 2018.

3. ACQUISITIONS**(a) Life Essence, Inc.**

On December 13, 2018, the Company acquired all of the issued and outstanding shares of Life Essence, Inc. The purpose of this acquisition was to acquire the licenses to operate three medical marijuana dispensaries and a marijuana cultivation and processing facility. The acquisition was financed with cash on hand. In accordance with IFRS 3, it was determined that the net assets acquired did not constitute a business. Accordingly, the transaction was accounted for as an asset acquisition. Operating results of the acquired entity are included in the accompanying consolidated statements of operations, changes in shareholders' equity, and cash flows for periods subsequent to the acquisition date.

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

Consideration:

Cash	\$ 4,125,000
Transaction costs	<u>269,547</u>
Fair value of consideration exchanged	<u>\$ 4,394,547</u>

Recognized amounts of identifiable assets acquired and liabilities assumed:

Intangible asset - Dispensary License	\$ 4,515,617
Accrued expenses	(121,070)
Total net assets acquired	<u>\$ 4,394,547</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

3. ACQUISITIONS (CONTINUED)

(b) Leef Industries, LLC

On November 30, 2018, the Company acquired 80% of the issued and outstanding membership interests of Leef Industries, LLC. The remaining 20% will be acquired and payment made upon receipt of final regulatory approval from the State of California, which is expected to occur in early 2019. The purpose of this acquisition was to acquire the recreational marijuana license. The acquisition was financed with cash on hand. By application of the optional concentration test in accordance with IFRS 3, it was determined that the net assets acquired did not constitute a business. Accordingly, the transaction was accounted for as an asset acquisition. Operating results of the acquired entity are included in the accompanying consolidated statements of operations, changes in shareholders' equity, and cash flows for periods subsequent to the acquisition date.

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

Consideration:	
Cash	\$ 3,250,000
Contingent Payment	750,000
Transaction costs	<u>24,799</u>
Fair value of consideration exchanged	<u>\$ 4,024,799</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash	\$ 7,200
Inventory	18,620
Property and equipment, net	8,410
Intangible assets:	
Dispensary License	4,017,799
Tradename	10,444
Accrued expenses	(37,674)
Total net assets acquired	<u>\$ 4,024,799</u>

The contingent payment of \$750,000 is included in accrued liabilities at December 31, 2018.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

4. BIOLOGICAL ASSETS AND INVENTORIES

For the years ended December 31, 2018 and 2017 biological assets are comprised of:

	<u>2018</u>	<u>2017</u>
Cannabis plants	<u>\$ 29,636,269</u>	<u>\$ 9,738,300</u>

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

Balance at December 31, 2016	\$ -
Net increase in fair value less costs to sell due to biological transformation	22,391,058
Transferred to inventory upon harvest	<u>(12,652,758)</u>
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	<u>\$ 29,636,269</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, net’ line on the accompanying consolidated 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 consolidated 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 for the years ended December 31, 2018 and 2017:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017
4. BIOLOGICAL ASSETS AND INVENTORIES (CONTINUED)

Assumption	2018		2017	
	Range	Average	Range	Average
(i) Weighted average of expected loss of plants until harvest (a)	0-40%	17%	0-40%	17%
(ii) Expected yields for cannabis plants (average grams per plant)	136 - 227 grams per plant	158 grams per plant	136 - 227 grams per plant	158 grams per plant
(iii) Expected number of growing days	154-164	159	154-164	159
(iv) Weighted average number of growing days completed as a percentage of total growing weeks as at period end	N/A	40%	N/A	40%
(v) Estimated selling price (per gram) (b)	N/A	\$9.93	N/A	\$11.06
(vi) After harvest cost to complete and sell (per gram)	\$2.62 - \$2.90	\$2.76	\$2.20 - \$2.50	\$2.35
(vii) Reasonable margin \$ on after harvest costs to complete and sell (per gram)	\$1.50 - \$1.75	\$1.65	\$2.00 - \$2.30	\$2.15

(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 December 31, 2018 represents the average sales price for the Company's various strains sold as medical products. For December 31, 2017, the estimated selling price (per gram) represents the average historical 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 December 31, 2018 and 2017.

Assumption	10% change as at December 31, 2018	10% change as at December 31, 2017
Weighted average of expected loss of plants until harvest	503,816	165,551
Expected yields for cannabis plants	3,154,838	1,983,622
Expected number of growing weeks	2,471,188	6,713
Estimated selling price	4,428,190	1,983,622
After harvest cost to complete and sell	1,273,352	946,811
Reasonable margin on after harvest costs to complete and sell	758,425	144,408

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017
4. BIOLOGICAL ASSETS AND INVENTORIES (CONTINUED)

The Company estimates the harvest yields for medical cannabis at various stages of growth. As of December 31, 2018, and 2017, it was expected that the Company's cannabis plants biological assets will yield approximately 5,908,686 grams and 1,792,105 grams of cannabis when harvested.

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 at December 31:

	<u>2018</u>	<u>2017</u>
Raw Material		
Harvested Cannabis	\$ 854,233	\$ 109,488
Packaging and miscellaneous	<u>2,199,640</u>	<u>211,297</u>
Total Raw Material	3,053,873	320,785
Work in Process	11,157,067	860,310
Finished Goods	<u>10,059,904</u>	<u>1,073,218</u>
Total Inventories	<u>\$ 24,270,844</u>	<u>\$ 2,254,313</u>

For the years ended December 31, 2018 and 2017 cost of goods sold, net comprised of:

	<u>2018</u>	<u>2017</u>
Payroll costs for personnel involved in growing and processing marijuana	\$ 13,044,716	\$ 3,151,414
Materials and utilities	12,284,025	4,433,333
Other overhead, rent, facility & equipment maintenance, cleaning, uniforms, quality and fulfillment and other	<u>8,866,666</u>	<u>3,509,945</u>
Cost of Goods Sold, Net	<u>\$ 34,195,407</u>	<u>\$ 11,094,692</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017
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 \$4,170,611 million out of 'cost of goods sold, net' line on the accompanying consolidated statements of operations and a corresponding reduction of \$4,170,611 million out of 'fair value adjustment on growth of biological assets' on the accompanying consolidated 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 December 31, 2018 and 2017, Property and Equipment consisted of the following:

	Land	Buildings & Improvements	Construction in Progress	Furniture & Equipment	Vehicles	Total
<u>Cost</u>						
At December 31, 2016	\$ 300,000	\$ 3,080,210	\$ 664,101	\$ 545,022	\$ 52,489	\$ 4,641,822
Additions	-	8,990,519	2,396,123	3,625,909	304,561	15,317,112
Transfers & disposals	-	-	-	-	-	-
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
<u>Accumulated Depreciation</u>						
At December 31, 2016	\$ -	\$ 76,539	\$ -	\$ 28,847	\$ 7,812	\$ 113,198
Additions	-	316,437	-	197,555	44,019	558,011
Transfers & disposals	-	-	-	-	-	-
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
<u>Net book value</u>						
At December 31, 2016	\$ 300,000	\$ 3,003,671	\$ 664,101	\$ 516,175	\$ 44,677	\$ 4,528,624
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017
5. PROPERTY AND EQUIPMENT (CONTINUED)

For the years ended December 31, 2018 and 2017, the Company capitalized interest of \$899,434 and \$99,811, respectively.

For the years ended December 31, 2018 and 2017, depreciation expense of \$1,967,467 and \$360,233, respectively, were considered as part of costs of goods sold, see “*Note 4 – Biological Assets and Inventories*” the other overhead line item.

For the year ended December 31, 2018, property and equipment additions purchased from the spouse of an officer and director of the Company totaled \$12,131,265 of which \$3,356,511 was included in accounts payable at December 31, 2018.

6. INTANGIBLE ASSETS

At December 31, 2018 and 2017, Intangible assets consisted of the following:

	Dispensary Licenses	Tradename	Trademarks	Total
<u>Cost</u>				
At December 31, 2016	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000
Additions from acquisitions	-	-	-	-
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
<u>Accumulated Amortization</u>				
At December 31, 2016	\$ -	\$ -	\$ -	\$ -
Amortization	-	-	-	-
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
<u>Net book value</u>				
At December 31, 2016	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000
At December 31, 2017	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000
At December 31, 2018	\$ 8,487,644	\$ 900,000	\$ 8,703	\$ 9,396,347

Amortization expense for the years ended December 31, 2018 and 2017 were \$147,513 and \$0, respectively.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**
7. NOTES PAYABLE

At December 31, 2018 and 2017, notes payable consisted of the following:

	December 31,	
	<u>2018</u>	<u>2017</u>
Promissory note dated April 10, 2017, with annual interest at 12%, due between April and July 2022.	\$ 4,000,000	\$ 3,960,000
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>-</u>	<u>-</u>
	<u>\$ 6,000,000</u>	<u>\$ 5,960,000</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, see “*Note 9 – Share Capital*”, 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. 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 conjunction with the close of the private placement, see “*Note 9 – Share Capital*”, the promissory note was repaid, and the outstanding debt discount was expensed.

Stated maturities of notes payables are as follows:

Year Ending December 31,

2019	<u>\$ 6,000,000</u>
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**
8. NOTES PAYABLE RELATED PARTY

At December 31, 2018 and 2017, notes payable to related parties consisted of the following:

	December 31,	
	<u>2018</u>	<u>2017</u>
Notes payable due to related parties, with varying interest rates between 8% to 12% annual, with varying maturity dates.	\$ 14,215,131	\$ 8,730,563
Less debt discount	(141,216)	(228,773)
Less current portion	<u>(1,426,791)</u>	<u>(2,359,183)</u>
	<u>\$ 12,647,124</u>	<u>\$ 6,142,607</u>

In April 2016, the Company entered into a ten-year \$1,000,000 unsecured promissory note with a shareholder to finance the acquisition of certain tradename and professional reputation necessary to obtain its initial medical cannabis licenses. The promissory note bears an annual interest rate of 8%. During 2017, \$448,391 was converted into 4,933,500 shares of the Company with a fair value of \$1,217,030 and the Company recorded a loss on settlement of \$768,639. The remaining balance plus accrued interest was paid in full in April 2018.

In April 2016, the Company entered into a two-year \$5,000,000 convertible note with Coast to Coast Management LLC (C2C), an entity controlled by a member of management and a shareholder. The Company recorded a net debt discount of \$937,978 related to the conversion feature. During the year ended December 31, 2017, the Company and C2C determined that \$375,000 was a license fee and recognized as part of revenue and the remaining balance of \$4,390,505 was converted into 18,750,000 shares of the Company.

During the years ended December 31, 2017 and 2016, the Company entered into various unsecured lines of credits and promissory notes with C2C and other entities controlled by members of management and shareholders to finance the buildout of various dispensary locations. Each line of credit and promissory note bears 8% annual interest and depending on the amount, matures between one to three years from initial drawdown. During the year ended December 31, 2017, the Company determined that the stated interest rates were below market rates and recorded a debt discount of \$275,434 using an annual discount interest rate of 12%.

In September 2017, the Company entered into a \$1,300,000 unsecured promissory note with a shareholder. The promissory note matures in January 2018 and bears an annual interest rate of 12%. The maturity of this promissory note was extended in a subsequent financing, which closed in May 2018. There was no accounting impact of the extension as all other terms of the promissory note remain unchanged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**8. NOTES PAYABLE RELATED PARTY (CONTINUED)**

In November 2017, the Company entered into a two-year \$1,844,596 unsecured promissory note with an officer and director of the Company and a shareholder. The promissory note bears an annual interest rate of 12%. The maturity of this promissory note was extended in a subsequent financing, which closed in May 2018. There was no accounting impact of the extension as all other terms of the promissory note remain unchanged.

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 conjunction with the close of the private placement, see “*Note 9 – Share Capital*”, the promissory note was repaid and the outstanding debt discount was expensed.

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%.

In November 2018, the Company entered into two separate 24-month unsecured loans each with an 8% annual interest rate with a former director and shareholder for a total of \$474,864. The Company determined that the stated interest rate was below market rates and recorded a debt discount for a total of \$18,624 using an annual discount interest rate of 12%.

As disclosed in the Consolidated Statements of Cash Flows, under other cash and non-investing and financing activities, the noncash portion of the notes for the years ended December 31, 2018 and 2017 was \$3,094,565 and \$6,804,972 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

8. NOTES PAYABLE RELATED PARTY (CONTINUED)

Stated maturities of notes payables related party are as follows:

Year Ending December 31,

2019	\$ 1,426,791
2020	<u>12,788,340</u>
	<u>\$ 14,215,131</u>

9. SHARE CAPITAL

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

(i) Unlimited number of Subordinate Voting Shares

Holders of the Subordinate Voting Shares are entitled to notice of and to attend any meeting of the shareholders of the Company, except a meeting of which only holders of another particular class or series of shares of the Company shall have the right to vote. At each such meeting holders of Subordinate Voting Shares shall be entitled to one vote in respect of each Subordinate Voting Share held. As long as any Subordinate Voting Shares remain outstanding, the Company may not, without the consent of the holders of the Subordinate Voting Shares by separate special resolution, prejudice or interfere with any right or special right attached to the Subordinate Voting Shares. Holders of Subordinate Voting Shares are entitled to receive as and when declared by the directors, dividends in cash or property of the Company. No dividend will be declared or paid on the Subordinate Voting Shares unless the Company simultaneously declares or pays, as applicable, equivalent dividends (on an as-converted to Subordinate Voting Share basis) on the Multiple Voting Shares and Super Voting Shares. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of Subordinate Voting Shares are, subject to the prior rights of the holders of any shares of the Company ranking in priority to the Subordinate Voting Shares, entitled to participate rateably along with all other holders of Multiple Voting Shares (on an as-converted to Subordinate Voting Share basis), Subordinate Voting Shares and Super Voting Shares (on an as-converted to Subordinate Voting Share basis). Holders of Subordinate Voting Shares are not entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of Subordinate Voting Shares, or bonds, debentures or other securities of the Company now or in the future. No subdivision or consolidation of the Subordinate Voting Shares, Multiple Voting Shares or Super Voting Shares shall occur unless, simultaneously, the Subordinate Voting Shares, Multiple Voting Shares and Super Voting Shares are subdivided or consolidated in the same manner or such other adjustment is made so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

As of December 31, 2018, there were 11,135,117 Subordinate Voting Shares issued and outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**9. SHARE CAPITAL (CONTINUED)***(ii) Unlimited number of Multiple Voting Shares*

Holders of Multiple Voting Shares are entitled to notice of and to attend at any meeting of the shareholders of the Company, except a meeting of which only holders of another particular class or series of shares of the Company have the right to vote. At each such meeting, holders of Multiple Voting Shares are entitled to one vote in respect of each Subordinate Voting Share into which such Multiple Voting Share could ultimately then be converted (initially, 100 votes per Multiple Voting Share). As long as any Multiple Voting Shares remain outstanding, the Company may not, without the consent of the holders of the Multiple Voting Shares and Super Voting Shares by separate special resolution, prejudice or interfere with any right or special right attached to the Multiple Voting Shares. In connection with the exercise of the voting rights relating to any proposed alteration of rights, each holder of Multiple Voting Shares has one vote in respect of each Multiple Voting Share held. Holders of Multiple Voting Shares have the right to receive dividends, out of any cash or other assets legally available therefor, *pari passu* (on an as converted basis, assuming conversion of all Multiple Voting Shares into Subordinate Voting Shares at the Conversion Ratio) as to dividends and any declaration or payment of any dividend on the Subordinate Voting Shares. No dividend may be declared or paid on the Multiple Voting Shares unless the Company simultaneously declares or pays, as applicable, equivalent dividends (on an as-converted to Subordinate Voting Share basis) on the Subordinate Voting Shares and Super Voting Shares. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, holders of Multiple Voting Shares, subject to the prior rights of the holders of any shares of the Company ranking in priority to the Multiple Voting Shares, are entitled to participate rateably along with all other holders of Multiple Voting Shares (on an as-converted to Subordinate Voting Share basis), Subordinate Voting Shares and Super Voting Shares (on an as-converted to Subordinate Voting Share basis). Holders of Multiple Voting Shares are not entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of Subordinate Voting Shares, or bonds, debentures or other securities of the Company now or in the future. Each Multiple Voting Share is convertible, at the option of the holder thereof, at any time after the date of issuance of such share, into such number of fully paid and non-assessable Subordinate Voting Shares as is determined by multiplying the number of Multiple Voting Shares by the Conversion Ratio applicable to such share in effect on the date the Multiple Voting Share is surrendered for conversion. The initial "Conversion Ratio" for Multiple Voting Shares is 100 Subordinate Voting Shares for each Multiple Voting Share, subject to adjustment in certain events. The Multiple Voting Shares are subject to standard anti-dilution adjustments in the event the Company declares a distribution to holders of Subordinate Voting Shares, effects a recapitalization of the Subordinate Voting Shares, issues Subordinate Voting Shares as a dividend or other distribution on outstanding Subordinate Voting Shares, or subdivides or consolidates the outstanding Subordinate Voting Shares.

As of December 31, 2018, there were 137,505 Multiple Voting Shares issued and outstanding which are equal to 13,750,451 Subordinate Voting Shares as if converted.

9. SHARE CAPITAL (CONTINUED)*(iii) Unlimited number of Super Voting Shares*

Holders of Super Voting Shares are entitled to notice of and to attend at any meeting of the shareholders of the Company, except a meeting of which only holders of another particular class or series of shares of the Company shall have the right to vote. At each such meeting, holders of Super Voting Shares are be entitled to two votes in respect of each Subordinate Voting Share into which such Super Voting Share could ultimately then be converted (initially, 200 votes per Super Voting Share). As long as any Super Voting Shares remain outstanding, the Company may not, without the consent of the holders of the Super Voting Shares by separate special resolution, prejudice or interfere with any right or special right attached to the Super Voting Shares. Consent of the holders of a majority of the outstanding Super Voting Shares is required for any action that authorizes or creates shares of any class having preferences superior to or on a parity with the Super Voting Shares. In connection with the exercise of the voting rights in respect of any proposed alteration of rights, each holder of Super Voting Shares has one vote in respect of each Super Voting Share held. Holders of Super Voting Shares have the right to receive dividends, out of any cash or other assets legally available therefor, *pari passu* (on an as converted to Subordinated Voting Share basis) as to dividends and any declaration or payment of any dividend on the Subordinate Voting Shares. No dividend is to be declared or paid on the Super Voting Shares unless the Company simultaneously declares or pays, as applicable, equivalent dividends (on an as-converted to Subordinate Voting Share basis) on the Subordinate Voting Shares and Multiple Voting Shares. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, holders of Super Voting Shares are, subject to the prior rights of the holders of any shares of the Company ranking in priority to the Super Voting Shares, entitled to participate rateably along with all other holders of Super Voting Shares (on an as-converted to Subordinate Voting Share basis), Subordinate Voting Shares and Multiple Voting Shares (on an as-converted to Subordinate Voting Share basis). Holders of Super Voting Shares are not entitled to a right of first refusal to subscribe for, purchase or receive any part of any issue of Subordinate Voting Shares, or bonds, debentures or other securities of the Company now or in the future. Each Super Voting Share is convertible, at the option of the holder thereof, at any time after the date of issuance of such share at the office of the Company or any transfer agent for such shares, into such number of fully paid and non-assessable Multiple Voting Shares as is determined by multiplying the number of Super Voting Shares by the Conversion Ratio applicable to such share, determined as hereafter provided, in effect on the date the Super Voting Share is surrendered for conversion. The initial "Conversion Ratio" for the Super Voting Shares is one Multiple Voting Share for each Super Voting Share, subject to adjustment in certain events. The Super Voting Shares are subject to standard anti-dilution adjustments in the event the Company declares a distribution to holders of Multiple Voting Shares, effects a recapitalization of the Multiple Voting Shares, issues Multiple Voting Shares as a dividend or other distribution on outstanding Multiple Voting Shares, or subdivides or consolidates the outstanding Multiple Voting Shares.

As of December 31, 2018, there were 852,466 Super Voting Shares issued and outstanding which are equal to 85,246,600 Subordinate Voting Shares as if converted.

9. SHARE CAPITAL (CONTINUED)

During the year ended December 31, 2017, the Company raised an additional \$1,726,129 from its shareholders. No additional shares were issued, and shareholders contributed in equal amounts.

During the year ended December 31, 2018, the Company entered into four separate \$6,000,000 promissory notes see “*Note 7 Notes Payable and Note 8 – Notes Payable Related Party*”. In conjunction with the closing of the promissory notes, as additional consideration to the lenders, existing shareholders agreed to dilute their ownership and transfer shares from their personal shareholdings which were valued at \$200,000. The Company treated that dilution as a contributed surplus in share capital and as an additional debt discount of \$50,000 per note.

On August 27, 2018, concurrent with the Transaction, the Company completed a brokered private placement (the “SR Offering”) of 10,927,500 subscription receipts for gross proceeds of \$50,625,000, which after transaction costs resulted in net proceeds of \$47,466,943. The 10,927,500 issued and outstanding subscription receipts were exchanged for 10,927,500 Subordinate Voting Shares of the Company (3,573,450 of those Subordinate Voting Shares were immediately converted into 35,734.50 Multiple Voting Shares).

In connection with the SR Offering, Trulieve paid a cash fee to the Agents equal to 6.0% of the gross proceeds of the SR Offering, provided that the cash fee payable to the Agents was reduced to 3.0% in respect of sales to subscribers on a president’s list. As additional consideration, the Agents were granted an aggregate of 535,446 broker warrants (the “Broker Warrants”) on closing of the SR Offering. Each Broker Warrant is exercisable at any time prior to the date that is 24 months following the date the Escrow Release Conditions are satisfied to acquire one Trulieve Share at the SR Offering Price, see “*Note 10 – Transaction*”. In October 2018, 321,268 broker warrants were exercised for proceeds of approximately \$1,489,000.

On September 11, 2018, Trulieve approved a reclassification of the issued and outstanding share capital of Trulieve whereby each issued and outstanding Trulieve Share will be split and became 150 Trulieve Shares. Unless otherwise noted, impacted amounts and share information included in the consolidated financial statements and notes thereto have been retroactively adjusted for the stock split as if such stock split occurred on the first day of the first period presented.

10. TRANSACTION

In accordance with IFRS 3, the substance of the Transaction was a reverse takeover of a non-operating company. The Transaction does not constitute a business combination since Schyan does not meet the definition of a business under IFRS 3. As a result, the transaction is accounted for as an asset acquisition.

In consideration for the acquisition of Schyan, Trulieve is deemed to have issued 200,000 shares of Trulieve common stock representing \$927,000 total value based on the concurrent financing subscription price of \$4.6328 “*Note 9 – Share Capital*”. This represents an effective exchange ratio for Schyan shares of 0.01235 to 1. The excess of the purchase price over net assets acquired was charged to the consolidated statements of operations as RTO expense. Schyan equity was eliminated.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**
10. TRANSACTION (CONTINUED)

There were no identifiable assets of Schyan on the date of acquisition. The acquisition cost has been allocated as follows:

Fair value of 200,000 shares issued	\$ 927,000
Transaction costs	460,423
Total purchase price	\$ 1,387,423

Total net assets acquired	\$ -
Listing Expense	1,387,423
Total purchase price	\$ 1,387,423

11. EARNINGS PER SHARE

The following is a reconciliation for the calculation of basic and diluted earnings per share for the year ended December 31, 2018:

	December 31,	
	2018	2017
Net Income	\$ 42,967,792	\$ 3,572,850
Weighted average number of common shares outstanding	101,697,002	77,011,375
Dilutive effect of warrants outstanding	214,178	-
<u>Diluted weighted average number of common shares outstanding</u>	<u>101,911,180</u>	<u>77,011,375</u>
Basic earnings per share	\$ 0.42	\$ 0.05
<u>Diluted earnings per share</u>	<u>\$ 0.42</u>	<u>\$ 0.05</u>

12. INCOME TAXES

The components of the income tax provision (benefit) include:

	Year Ended December 31,	
	2018	2017
Current	\$ 22,697,218	\$ 1,160,000
Deferred	6,062,000	3,558,000
	<u>\$ 28,759,218</u>	<u>\$ 4,718,000</u>

A reconciliation of the Federal statutory income tax rate percentage to the effective tax rate is as follows:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**
12. INCOME TAXES (CONTINUED)

	Year Ended December 31,	
	2018	2017
Income before income taxes	\$ 71,727,010	\$ 8,290,850
Statutory rate	26.5%	39.5%
Theoretical tax expense	<u>19,007,658</u>	<u>3,274,886</u>
Listing expense	367,667	-
Rounding and unknown	(5,923)	-
True up 2017 expense and overpayment adjustment	373,982	-
Taxes related to 2017	611,661	-
State subtraction	14,696	-
Remaining deferred tax at 12/31/16 due to conversion of note	-	(235,308)
Effective rate change	-	(1,387,422)
Tax effect of non-deductible expenses:		
Nondeductible political contributions	95,293	91,468
Nondeductible meals and entertainment	10,213	8,400
Section 280E permanent differences	8,223,593	2,489,557
Related party interest nondeductible	60,378	172,807
Loss on debt settled with equity	<u>-</u>	<u>303,612</u>
Change in prospective tax rates	<u>9,751,560</u>	<u>1,443,114</u>
Tax expense	<u>\$ 28,759,218</u>	<u>\$ 4,718,000</u>

Deferred income taxes consist of the following at December 31, 2018 and 2017, which includes the effects of the reduction in the effective federal corporate income tax rate from 35% to 21% as required by The Tax Cuts and Jobs Act (“the Act”). The components of deferred tax assets and liabilities are summarized below:

	Year Ended December 31,	
	2018	2017
Deferred tax assets	\$ 570,000	\$ -
Deferred tax liabilities		
Biological assets	(5,799,000)	(2,581,000)
Unrealized fair value adjustment	(3,390,000)	-
Depreciation of property and equipment	<u>(534,000)</u>	<u>(510,000)</u>
Net deferred tax liability	<u>\$ (9,153,000)</u>	<u>\$ (3,091,000)</u>

Certain temporary differences between reported amounts and their tax basis were adjusted, added or eliminated in the previous year due to the Act. As a result, the Company recorded a one-time deferred income tax benefit of \$1,387,423, which was recognized in income tax expense from operations for the year ended December 31, 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

12. INCOME TAXES (CONTINUED)

The Company has a filing obligation in Canada as well, but as there is not expected to be any income for the parent Company, there is no associated tax liability related to the Canadian filing, and any deferred tax asset are not being recognized because it is unlikely the Company will generate sufficient taxable income in Canada to utilize these assets.

13. RELATED PARTIES

The Company had raised funds by issuing notes to various related parties including directors, officers, and shareholders and the balance at December 31, 2018 and 2017 was \$14,215,131 and \$8,730,563, respectively, as discussed in “*Note 8 – Notes Payable Related Party*”.

The Company uses a general contractor that is the spouse of an officer and director of the Company and made payments totaling \$8,774,754 for the year ended December 31, 2018. There was also accounts payable to the related party of \$3,356,511 at December 31, 2018, 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 14 – Commitments and Contingencies*”.

14. COMMITMENTS AND CONTINGENCIES

(a) Operating Leases

The Company leases production and retail space under operating leases which range in expiration up to July 2029. All production and retail operating leases have optional renewal terms that the Company may exercise at its option. Certain facilities are occupied under the terms of lease agreements with related parties, as discussed in “*Note 13 – Related Parties*”. Rent expense under these related party leases totaled \$2,506,884 and \$103,662 for the years ended December 31, 2018, and 2017, respectively.

Future minimum lease payments due in each of the next five years and thereafter are as follows:

Year Ending December 31,

2019	4,081,842
2020	3,960,403
2021	3,943,438
2022	3,858,614
2023	3,682,902
Thereafter	<u>14,252,103</u>
	<u>\$ 33,779,302</u>

Rent expense for the year ended December 31, 2018 and 2017 was \$3,751,436 and \$994,638, respectively, of which \$676,970 and \$212,858 of rent expense were including in cost of goods sold.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**
14. COMMITMENTS AND CONTINGENCIES (CONTINUED)
(b) Finance Leases

The Company has certain vehicles held under finance lease agreements which range in expiration up to September 2024.

Future minimum lease payments due under finance lease obligations are as follows:

	<u><1 Year</u>	<u>1 to 3 Years</u>	<u>3 to 5 Years</u>	<u>Total</u>
December 31, 2018				
Future minimum lease payments	\$ 419,608	\$ 618,077	\$ 59,991	\$ 1,097,676
Less: interest	(83,727)	(57,583)	(4,320)	(145,630)
Present value of minimum lease payments	<u>\$ 335,881</u>	<u>\$ 560,494</u>	<u>\$ 55,671</u>	<u>\$ 952,046</u>

(c) 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.

(d) 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 December 31, 2018, 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.

15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT
(a) Financial Instruments

The Company's financial instruments consist of cash, accounts payable and accrued liabilities, and notes payable (both to third parties and related parties). The carrying values of these financial instruments approximate their fair values at December 31, 2018 and 2017 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017
15. 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 years ended December 31, 2018 and 2017.

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
Capital Lease Obligations	\$ -	\$ 952,046	\$ 952,046

The following table summarizes the Company's financial instruments at December 31, 2017:

	Fair Value Through Profit or Loss	Amortized Cost	Total
Financial Assets:			
Cash	\$ 1,407,059	\$ -	\$ 1,407,059
Financial Liabilities:			
Accounts Payable and Accrued Liabilities	\$ -	\$ 4,045,447	\$ 4,045,447
Notes Payable	\$ -	\$ 5,960,000	\$ 5,960,000
Notes Payable - Related Party	\$ -	\$ 8,501,790	\$ 8,501,790

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017
15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)
(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. During the years ended December 31, 2018 and 2017, the Company completed several notes payable financings see “*Note 7 Notes Payable and Note 8 – Notes Payable Related Party*”.

In addition to the commitments outlined in “*Note 7 Notes Payable and Note 8 – Notes Payable Related Party*”, the Company has the following contractual obligations at December 31, 2018:

	<u><1 Year</u>	<u>1 to 3 Years</u>	<u>3 to 5 Years</u>	<u>Total</u>
Accounts Payable and Accrued Liabilities	\$ 10,463,109	\$ -	\$ -	\$ 10,463,109
Notes Payable	\$ 6,000,000	\$ -	\$ -	\$ 6,000,000
Notes Payable - Related Party	\$ 1,426,791	\$ 12,647,124	\$ -	\$ 14,073,915
Capital Lease Obligations	\$ 335,881	\$ 560,494	\$ 55,671	\$ 952,046

(c) Credit Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash. The risk exposure is limited to the carrying amount at the statements of financial position date. The risk for cash is mitigated by holding these instruments with highly rated U.S. state financial institutions.

(d) Market Risk
(i) Interest Rate Risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Company’s interest-bearing loans and borrowings are all at fixed interest rates. The Company considers interest rate risk to be immaterial.

(ii) Concentration Risk

The Company operates substantially in Florida. Should economic conditions deteriorate within that region, its results of operations and financial position would be negatively impacted.

(iii) Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. See “*Note 4 Biological Assets and Inventories*” for the Company’s assessment of certain changes in the fair value assumption used in the calculation of biological asset values.

15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)**(e) Banking risk**

Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the marijuana industry. Consequently, businesses involved in the marijuana industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the businesses of the Company, its subsidiaries and investee companies, and leaves their cash holdings vulnerable. The Company has banking relationships in all jurisdictions in which it operates.

16. 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 and notes payable related party. 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 December 31, 2018, 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 year ended December 31, 2018.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**
17. GENERAL AND ADMINISTRATIVE EXPENSE

For the years ended December 31, general and administrative expenses were comprised of:

	December 31,	
	<u>2018</u>	<u>2017</u>
Salaries and taxes	\$ 1,475,050	\$ -
Political contributions	356,000	389,604
Professional fees	1,445,185	243,181
Rent	152,634	101,810
Travel	91,347	98,216
Communications	12,484	92,044
All other general and administrative expenses	<u>603,493</u>	<u>286,529</u>
	<u>\$ 4,136,193</u>	<u>\$ 1,211,384</u>
 Executive compensation included in COGs	 <u>\$ -</u>	 <u>\$ 277,192</u>

18. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 10, 2019, which is the date these consolidated financial statements were approved by the Board of Directors.

As discussed in “*Note 7 – Notes Payable*” 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.

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 Company determined that the stated interest rate was below market rates and recorded a debt discount of \$10,093 using an annual discount interest rate of 12%.

From January 1, 2019 to April 10, 2019, shareholders have converted 112,333 Super Voting Shares and 67,207 Multiple Voting Shares into 17,953,929 Subordinate Voting Shares.