planet13 HOLDINGS INC.

# CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Expressed in United States Dollars

## MANAGEMENT'S RESPONSIBILITY

To the Shareholders of Planet 13 Holdings Inc.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and the Audit Committee are composed primarily of directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information presented. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and the external auditors. The Audit Committee has the responsibility of meeting with management and the external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of the Company's external auditors.

The consolidated financial statements were approved by the Board of Directors on April 30, 2019 and were signed on behalf of Management by:

***"Larry Scheffler"***
Larry Scheffler, Co-CEO

***"Robert Groesbeck"***
Robert Groesbeck, Co-CEO

***"Dennis Logan"***
Dennis Logan, CFO

# Independent Auditor's Report

To the Shareholders of Planet 13 Holdings Inc.:

**Opinion**

We have audited the consolidated financial statements of Planet 13 Holdings Inc. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of operations and comprehensive income (loss), changes in 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.

**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 consolidated financial statements of the Company for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on April 30, 2019.

**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 Natalie Hope Brykman.

MNP LLP

Toronto, Ontario
April 30, 2019

Chartered Professional Accountants
Licensed Public Accountants

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| *Expressed in United States Dollars* | As at December 31, 2018 | As at December 31, 2017 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash | $ 19,364,086 | $ 451,869 |
| HST receivable | 101,831 | - |
| Inventories (Note 7) | 5,322,111 | 1,703,829 |
| Biological assets (Note 8) | 915,177 | 1,067,305 |
| Prepaid expenses and other current assets (Note 10) | 1,391,278 | 92,129 |
| **Total Current Assets** | **27,094,483** | **3,315,132** |
| Property and equipment (Note 9) | 17,256,484 | 4,341,915 |
| Long-term deposits and other assets | 594,339 | - |
| | **17,850,823** | **4,341,915** |
| **Total Assets** | **$ 44,945,306** | **$ 7,657,047** |
| **Liabilities** | | |
| **Current Liabilities** | | |
| Accounts payable | $ 1,720,721 | $ 678,319 |
| Accrued expenses | 1,306,145 | 1,055,828 |
| Income taxes payable | 2,187,109 | 1,259,676 |
| Notes payable - current portion (Note 11) | 884,000 | - |
| Current portion of capital lease obligation (Note 11) | 14,459 | 14,182 |
| **Total Current Liabilities** | **6,112,434** | **3,008,005** |
| Notes payable - long-term portion (Note 11) | - | 884,000 |
| Notes payable - related party (Note 11) | - | 6,526,732 |
| Capital lease obligation (Note 11) | 29,768 | 41,890 |
| Deferred rent (Note 12) | 427,508 | - |
| Deferred tax liability (Note 18) | 470,856 | 378,948 |
| | **928,132** | **7,831,570** |
| **Total Liabilities** | **7,040,566** | **10,839,575** |
| **Shareholders' Equity** | | |
| Share capital (Note 13) | 42,460,824 | - |
| Restricted share units (Note 13) | 2,800,335 | - |
| Warrants (Note 13) | 7,046,843 | - |
| Option reserve (Note 13) | 305,890 | - |
| Accumulated other comprehensive income (loss) | (802,920) | - |
| Deficit | (13,906,232) | (3,182,528) |
| **Total Shareholders' Equity** | **37,904,740** | **(3,182,528)** |
| **Total Liabilities and Shareholders' Equity** | **$ 44,945,306** | **$ 7,657,047** |

*See accompanying notes*
Nature of operations (Note 1)
Commitments and contingencies (Note 16)
Subsequent events (Note 21)

The consolidated financial statements were approved by the Board of Directors and were signed on its behalf by:

*"Michael Harman"*
Michael Harman, Director

*"Marc Lustig"*
Marc Lustig, Director



--The accompanying notes form an integral part of the consolidated financial statements--

# CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

| *Expressed in United States Dollars* | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|
| **Revenue** | | |
| Revenues, net of discounts | $ 21,166,755 | $ 8,975,471 |
| Cost of Goods Sold | (10,507,200) | (5,176,733) |
| **Gross Profit before fair value asset adjustment** | **10,659,555** | **3,798,738** |
| Realized fair value amounts included in inventory sold | (1,726,685) | (1,774,518) |
| Unrealized fair value gain on growth of biological assets | 1,919,593 | 2,619,142 |
| **Gross Profit** | **10,852,463** | **4,643,362** |
| **Expenses** | | |
| General and Administrative (Note 14) | 9,583,376 | 2,638,859 |
| Sales and Marketing | 1,702,841 | 193,332 |
| Depreciation and Amortization | 400,116 | 121,364 |
| Share-Based Compensation Expense | 2,601,233 | - |
| **Total Expenses** | **14,287,566** | **2,953,555** |
| **Income (Loss) From Operations** | **(3,435,103)** | **1,689,807** |
| **Other (Income) Expense:** | | |
| Interest expense, net | 241,860 | 976,674 |
| Realized foreign exchange loss | 37,879 | - |
| Other income | (80,285) | (28,509) |
| RTO listing expense (Note 6) | 4,702,604 | - |
| Loss on settlement of accounts payable (Note 13(d)) | 96,340 | - |
| **Total Other Expense** | **4,998,398** | **948,165** |
| **Income (Loss) before income taxes** | **(8,433,501)** | **741,642** |
| Provision for tax - current (Note 18) | 2,290,203 | 1,344,157 |
| **Net Loss for the period** | **$ (10,723,704)** | **$ (602,515)** |
| **Other Comprehensive Loss** | | |
| Foreign exchange translation loss | (802,920) | - |
| **Net Comprehensive Loss for the period** | **$ (11,526,624)** | **$ (602,515)** |
| **Loss per share for the period** | | |
| Basic and diluted loss per share (Note 15) | **($0.11)** | ***na*** |
| Weighted Average Number of Common Shares Outstanding Basic and Diluted (Note 15) | 95,997,827 | *nil* |



--The accompanying notes form an integral part of the consolidated financial statements--

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

***Expressed in United States Dollars***

| | Number of shares outstanding | Share Capital | Class A Restricted shares | Restricted Share Units | Warrants | Option Reserve | Accumulated Other Comprehensive Income (Loss) | Accumulated (Deficit) | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2017** | **-** | **-** | | **-** | **-** | **-** | **-** | **$ (2,580,013)** | **$ (2,580,013)** |
| Net income (loss) for the period | - | - | | - | - | - | - | (602,515) | (602,515) |
| **Balance December 31, 2017** | **-** | **-** | | **-** | **-** | **-** | **-** | **(3,182,528)** | **(3,182,528)** |
| | | | | | | | | | |
| **Balance at January 1, 2018** | **-** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ (3,182,528)** | **$ (3,182,528)** |
| Conversion of debt to Common shares | 25,300,000 | 1,124,661 | - | - | - | - | - | - | 1,124,661 |
| Conversion of debt for Class A shares | 49,700,000 | - | 2,209,643 | - | - | - | - | - | 2,209,643 |
| Shares issued on private placement | 31,458,400 | 15,992,924 | - | - | - | - | - | - | 15,992,924 |
| Shares issued on prospectus offering | 8,735,250 | 15,595,473 | | | | | | | 15,595,473 |
| Warrants issued on private placement | - | - | - | - | 4,212,768 | - | - | - | 4,212,768 |
| Warrants issued on prospectus offering | - | - | - | - | 4,579,857 | - | - | - | 4,579,857 |
| Shares issued to former Carpincho shareholders on RTO closing | 5,250,000 | 4,040,637 | - | - | - | - | - | - | 4,040,637 |
| Class A shares issued on conversion of debt | 5,532,940 | - | 3,409,476 | - | - | - | - | - | 3,409,476 |
| Shares issued on exercise of warrants | 2,580,810 | 3,307,081 | - | - | (932,828) | - | - | - | 2,374,253 |
| Share issuance costs on private placement | - | (1,943,556) | - | - | (365,897) | - | - | - | (2,309,453) |
| Share issuance costs prospectus offering | - | (1,275,515) | | | (447,057) | | | | (1,722,572) |
| Restricted share units issued | - | - | - | 2,800,335 | - | - | - | - | 2,800,335 |
| Issuance of share options | - | - | - | - | - | 305,890 | - | - | 305,890 |
| Cumulative foreign exchange gain (loss) | - | - | - | - | - | - | (802,920) | - | (802,920) |
| Net (loss) for the period | - | - | - | - | - | - | - | (10,723,704) | (10,723,704) |
| **Balance December 31, 2018** | **128,557,400** | **$ 36,841,705** | **$ 5,619,119** | **$ 2,800,335** | **$ 7,046,843** | **$ 305,890** | **$ (802,920)** | **$ (13,906,232)** | **$ 37,904,740** |



--The accompanying notes form an integral part of the consolidated financial statements--

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| *Expressed in United States Dollars* | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|
| **Operating activities** | | |
| Net loss for the period | $ (10,723,704) | $ (602,515) |
| Add (deduct) non-cash items: | | |
| Share based payments (Note 13) | 2,601,233 | - |
| Depreciation and amortization (Note 9) | 988,768 | 605,440 |
| Loss on settlement of accounts payable | 96,340 | - |
| Share base payment to Carpincho shareholders on RTO | 4,040,637 | - |
| Realized loss on foreign currency exchange | 37,879 | - |
| Non-cash interest expense - related party (Note 17) | 217,048 | 937,531 |
| **Net change in non-cash working capital** | | |
| HST receivable | (101,831) | - |
| Inventories (Note 7) | (3,618,283) | (479,179) |
| Biological assets (Note 8) | 152,129 | (508,697) |
| Prepaid expenses and other assets | (1,299,148) | (92,128) |
| Long term deposits and other assets | (594,339) | - |
| Deferred tax liability (Note 18) | 91,908 | 84,481 |
| Accounts payable | 798,672 | (43,172) |
| Accrued expenses | 250,318 | 367,630 |
| Income tax payable | 927,433 | 1,259,676 |
| Deferred rent | 427,508 | - |
| **Cash flow provided by (used in) operating activities** | **(5,707,432)** | **1,529,067** |
| **Investing activities** | | |
| Purchase of property, plant and equipment (Note 9) | (13,313,401) | (671,818) |
| Advance of secured promissory note receivable (Note 17 (d)) | (1,254,862) | - |
| Repayment of secured promissory note receivable (Note 17(d)) | 1,254,862 | - |
| Net cash acquired on the RTO acquisition (Note 6) | 34,678 | - |
| **Cash flow used in investing activities** | **(13,278,723)** | **(671,818)** |
| **Financing activities** | | |
| Issuance of common shares and warrants (Note 13) | 40,381,022 | - |
| Issuance of shares on warrant exercise | 2,374,253 | - |
| Share and warrant issuance costs | (4,032,025) | - |
| Principal repayment on equipment finance lease (Note 11) | (11,845) | (16,248) |
| Repayment of long-term debt - related party (Note 17) | - | (410,000) |
| **Cash flow provided by (used in) financing activities** | **38,711,405** | **(426,248)** |
| Effect of foreign exchange on cash | (813,033) | - |
| **Net increase (decrease) in cash and cash equivalents during the year** | **18,912,217** | **431,001** |
| Cash and cash equivalents at beginning of the year | 451,869 | 20,868 |
| **Cash and cash equivalents at end of the year** | **$ 19,364,086** | **$ 451,869** |



--The accompanying notes form an integral part of the consolidated financial statements--

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| *Expressed in United States Dollars* | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|
| **Supplemental Disclosure of Cash Flow** | | |
| Cash paid during the period for: | | |
| Interest | - | $ - |
| Income taxes | $ 1,270,862 | $ - |
| **Non-cash activities** | | |
| Carrying value of warrants exercised | $ 932,828 | $ - |
| MMDC notes payable exchanged for common shares | $ 1,124,661 | $ - |
| MMDC notes payable exchanged for restricted voting shares | $ 2,209,643 | $ - |
| MMDC conversion of notes payable to restricted voting shares | $ 3,409,476 | $ - |
| Shares issued to former Carpincho shareholders net of share issuance costs | $ 4,040,637 | $ - |
| Capital expenditures included in accounts payable | $ 589,935 | $ - |
| Purchase of property and equipment financed | - | $ 72,319 |
| Capitalized interest | - | $ 38,228 |



--The accompanying notes form an integral part of the consolidated financial statements--

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
*Expressed in United States Dollars*

## 1) Nature of operations

Planet 13 Holdings Inc. (formerly Carpincho Capital Corp.) ("P13" or “the Company") was incorporated under the Canada Business Corporations Act on April 26, 2002. MM Development Company, Inc. (“MMDC”) is a privately held corporation existing under the laws of the State of Nevada. MMDC, founded on March 20, 2014, is a vertically integrated cultivator and provider of cannabis and cannabis-infused products licensed under the laws of the State of Nevada, with two licenses for cultivation, two licenses for production, and two dispensary licenses (one medical license and one recreational license). On June 11, 2018 MMDC completed a reverse-takeover (“RTO”) of Carpincho Capital Corp. Upon completion of the RTO, the shareholders of MMDC obtained control of the consolidated entity. Under the purchase method of accounting, MMDC was identified as the acquirer, and, accordingly, P13 is considered to be a continuation of MMDC, with the net assets of the Company at the date of the RTO deemed to have been acquired by MMDC (Note 6). The 2017 comparative figures in the consolidated financial statements exclude any and all results of operations of Carpincho Capital Corp. and only reflect the results of operations of MMDC.

P13 is a public company which is listed on the Canadian Securities Exchange under the symbol “PLTH” and the OTCQB exchange under the symbol “PLNHF”.

The Company’s registered office is located at 82 Richmond Street East, Suite 400, Toronto, ON M5C 1P1 and the head office address is 2548 West Desert Inn. Rd, Las Vegas, NV 89109.

## 2) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations of the IFRS Interpretations Committee (“IFRIC”) as issued by the International Accounting Standards Board (“IASB”) in effect for the year ended December 31, 2018.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 30, 2019.

## 3) Summary of significant accounting policies

(a) Basis of Measurement

These consolidated financial statements have been prepared on the going concern basis, under the historical cost convention except for certain financial instruments that are measured at fair value, and biological assets that are measured at fair value less costs to sell, as described herein.

(b) Principles of Consolidation

These consolidated financial statements for the year ended December 31, 2018 include the financial position, results of operations and cash flows of the Company and its subsidiaries. For the year ended December 31, 2017, the consolidated financial statements include the financial position and results of operation of MM Development Company Inc. LLC (“MMDC”). The Company’s subsidiaries as at December 31, 2018 are as follows:

| Subsidiary | Country of Incorporation | Economic Interest | Basis of Accounting |
|---|---|---|---|
| MM Development Company, Inc. (“MMDC”) | USA | 100% | Full consolidation |
| 10653918 Canada Inc. (“Finco”) | Canada | 100% | Full consolidation |
| BLC Management Company LLC. (“BLC”) | USA | 100% | Full consolidation |

### 3) Summary of significant accounting policies (continued)

(b) Principles of Consolidation (continued)

Subsidiaries - Subsidiaries are entities over which the Company has control, whereby control is defined as the power to direct activities of an entity that significantly affect the entity's returns so as to obtain benefit from its activities. Control is presumed to exist where the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date at which control ceases.

All material intercompany transactions between the Company and its subsidiaries are eliminated upon consolidation.

(c) Functional Currency

The Company's functional currency is the Canadian dollar ("CAD"). Management has chosen to present these consolidated financial statements in United States ("USD") dollars. The functional currency of the Company's subsidiaries is USD. All amounts are presented in USD values unless otherwise stated.

Canadian currency transactions are translated into USD at exchange rates in effect on the date of the transaction. Monetary assets and liabilities denominated in Canadian dollars are translated to USD at the foreign exchange rate applicable at the end of each reporting period.

Realized and unrealized exchange gains and losses are recognized in the consolidated statements of changes in equity. Non-monetary assets and liabilities that are measured in terms of historical cost in CAD are translated using the exchange rate at the date of the transaction.

The assets and liabilities are translated into US dollars at period end exchange rates. Income and expenses, and cash flows are translated into USD using the average exchange rate. Exchange differences resulting from the translation of Canadian operations are recognized in other comprehensive income (loss) and accumulated in equity.

(d) Revenue Recognition

On January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgement thresholds have been introduced which may affect the timing of revenue recognized.

The Company records revenue from contracts with customers in accordance with the five steps in IFRS 15 as follows:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price, which is the total consideration provided by the customer;
4. Allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
5. Recognize revenue when the relevant criteria are met for each unit (at a point in time or over time).

The Company has elected to adopt IFRS 15 using the cumulative effect method as of the date of initial application on January 1, 2018, with no restatement of comparative period amounts. As the effect of adopting IFRS 15 did not have a material impact on the consolidated financial statements, there was no adjustment made to the opening balance of equity at the date of initial application.

### 3) Summary of significant accounting policies (continued)

(d) Revenue Recognition (continued)

Revenue from the sale of cannabis, net of any discounts, is recognized at a point in time when control over the goods have been transferred to the customer. The Company transfers control and satisfies its performance obligation upon delivery and acceptance by the customer, which is consistent with the Company's previous revenue recognition policy under IAS 18.

(e) Cash and Cash Equivalents

Cash and cash equivalents are classified as financial assets and are measured initially at fair value and subsequently on an amortized cost basis. Cash includes cash deposits in financial institutions plus cash held at the retail location and other deposits that are readily convertible into cash.

(f) Inventory

Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell at harvest, which becomes the initial deemed cost. All subsequent direct and indirect post-harvest costs are capitalized to inventory as incurred, including labour related costs, consumables, materials, packaging supplies, utilities, facilities costs, quality and testing costs, and production related depreciation. Inventories of raw materials that is comprised of harvested cannabis, packaging and miscellaneous consumables, harvested work-in-process, finished goods and inventories for resale and 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 and the estimated costs necessary to make the sale. Inventories of purchased finished goods and packing materials are initially valued at cost and subsequently at the lower of cost and net realizable value and are measured on a FIFO basis.

The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory are written-down to net realizable value.

(g) Biological Assets

The Company's biological assets consist of cannabis plants. The Company capitalizes all direct and indirect costs as incurred related to the transformation of the biological assets between the point of initial recognition and the point of harvest, including labour related costs, grow consumables, materials, utilities, facilities costs, quality and testing costs, and production related depreciation. The Company then measures the biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. The net unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the results of operations of the related period.

**3) Summary of significant accounting policies (continued)**

(h) Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and impairment losses, if any. Expenditures that materially increase the life of the assets are capitalized. Ordinary repairs and maintenance are expensed as incurred. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset using the following terms and methods:

| | |
|---|---|
| Land | Not Depreciated |
| Land improvements | 5 Years |
| Buildings and Structures | 5 to 40 Years |
| Lighting Equipment | 2 Years |
| Furniture and Equipment | 5 - 7 Years |
| Computer Equipment and Software | 5 Years |
| Security Equipment | 3 Years |
| Leasehold Improvements | Shorter of Estimated Useful Life or Remaining Life of Lease |
| Manufacturing Equipment | 5 - 7 Years |
| Vehicles | 3 Years |

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively if appropriate.

An item of property or equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the consolidated statements of operations in the year the asset is derecognized.

Construction in progress is not depreciated until it is completed and available for use.

The Company assesses impairment on property, plant and equipment when an indication of impairment occurs, such as evidence of obsolescence or physical damage. In assessing impairment, the Company compares the carrying amount to the recoverable amount which is determined as the higher of the asset's fair values less costs of disposal and its value in use. Value in use is assessed based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized whenever the carrying amount of the asset exceeds its recoverable amount and is recorded in the consolidated statements of comprehensive loss.

(i) Leases

A lease of property, plant 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, plant 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. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Property acquired under a finance lease is depreciated over the shorter of the period of expected use on the same basis as other similar property, plant and equipment or the lease term. 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.

**3) Summary of significant accounting policies (continued)**

(j) Share Based Payments

Equity-settled share-based payments to employees are measured at the fair value of the stock options and Restricted Share Units ("RSUs") at the grant date and recognized in expense over the vesting periods.

Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve for options and to restricted share units for RSUs.

The fair value of options is determined using the Black–Scholes option pricing model. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are transferred to deficit in the year of forfeiture or expiry. Upon the exercise of stock options, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

The fair value of RSUs is determined using the closing market price of the Company's shares on the day of granting. The number of RSU expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired RSUs are transferred to deficit in the year of forfeiture or expiry. Upon the issuance of common shares in exchange for vested RSUs, the amount of the related Restricted Share Unit reserve is transferred to share capital.

(k) Share Capital

Share capital issued for non-monetary consideration is recorded at an amount based on fair market value of the shares on the date of issue. Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded in reserves over the vesting periods are recorded as share capital.

The Company issued share purchase warrants and determined the fair value using the Black-Scholes option pricing model. The fair value of broker warrants were recognized as share issue costs and recorded to reserves.

(l) Income Taxes

Tax expense recognized in profit or loss comprises the sum of current and deferred taxes not recognized in other comprehensive income or directly in equity.

Current tax

Current tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

## 3) Summary of significant accounting policies (continued)

(l) Income Taxes (continued)

Deferred tax

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted at the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

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.

Treatment of the Company as a U.S. Corporation

The Company believes that, pursuant to Section 7874 of the Code, even though it is organized as a Canadian corporation, the Company should be treated as a U.S. domestic corporation for U.S. federal income tax purposes. Because the Company is a taxable corporation in Canada, it is likely to be subject to income taxation in both the United States and Canada on the same income, which in turn, may reduce the amount of income available for distribution to shareholders. The balance of this discussion assumes the Company is a U.S. domestic corporation for U.S. federal income tax purposes. However, no tax opinion or ruling from the IRS concerning the U.S. federal income tax characterization of the Company has been obtained and none will be requested. Thus, there can be no assurance that the IRS will not challenge the characterization of the Company as a domestic corporation, or that if challenged, a U.S. court would not agree with the IRS. If the Company is not treated as a U.S. domestic corporation, then the acquisition, ownership and disposition of the Unit Shares, Warrants and Warrant Shares may have materially different implications for Non-U.S. Holders.

(m) Earnings Per Share

The Company calculates basic loss per share by dividing net loss by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise convertible debentures, restricted share units, warrants and share options issued.

(n) Related Party

The Company considers a person or entity as a related party if they are a member of key management personnel including their close relatives, an associate or joint venture, those having significant influence over the Company, as well as entities that are controlled by related parties.

(o) New Standards Adopted in the Current Year

## 4) Summary of significant accounting policies (continued)

(n) Related party (continued)
On January 1, 2018, the Company implemented IFRS 15, "*Revenue from Contracts with Customers*" ("IFRS 15") and IFRS 9, "*Financial Instruments*" ("IFRS 9"), in accordance with IAS 8, "*Accounting Policies, Changes in Accounting Estimates and Errors*". The impacts on implementation of IFRS 15 and IFRS 9 on the Company's consolidated financial statements are described below.

(i) *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 which reflects all phases of the financial instruments project and replaces *IAS 39 Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The adoption of this new standard did not have a material impact on the Company's consolidated financial statements.

(ii) *IFRS 7 Financial instruments: Disclosure*

IFRS 7 was amended to require additional disclosure on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The adoption of this amendment did not have a material impact on the Company's consolidated financial statements.

(iii) *IFRS 15 Revenue from Contracts with Customers*

The IASB replaced IAS 18 *Revenue* in its entirety with IFRS 15 *Revenue from Contracts with Customers*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, with the underlying principle that revenue is recognized to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. It also contains new disclosure requirements. The adoption of this new standard did not have a material impact on the Company's consolidated financial statements.

(p) Recent Accounting Pronouncements

The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

(i) *IFRS 16 Leases*

In January 2016, the IASB issued IFRS 16 *Leases*, which will replace IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers*, at or before the date of initial adoption of IFRS 16.

On transition to IFRS 16, the Company will elect to apply the practical expedient to grandfather the assessment of which transactions are leases and apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 will not be reassessed for whether a lease exists. The Company will elect to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets. The Company will also account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

## 3) Summary of significant accounting policies (continued)

(p) Recent Accounting Pronouncements (continued)

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 $4,500,000 to $5,000,000 of right-of-use assets and $4,500,000 to $5,000,000 of lease liabilities, on its consolidated statement of financial position**.**

(ii) *IFRIC 23 Uncertainty Over Income Tax Treatments*

IFRIC 23 Clarifies the application of recognition and measurement requirements in IAS 12 – Income Taxes when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers uncertain tax treatments separately or as a group, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted. The Company does not believe that this will have a material impact to the financial statements.

## 4) Significant accounting judgements, estimates and assumptions

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

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in which the estimates are revised and in any future period affected.

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

### a) Critical estimates

*Useful life of property and equipment*

Depreciation of property and equipment is dependent upon estimates of useful lives and residual values which are determined through the exercise of judgement. 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. The Company reviews the estimated lives of its property and equipment at the end of each reporting period. There were no material changes in the lives of property and equipment during the year ended December 31, 2018 or the year ended December 31, 2017.

*Share-based payments*

In estimating fair value of options using the Black-Scholes option pricing model, management is required to make certain assumptions and estimates such as the expected life of options, volatility of the Company's future share price, risk free rate, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

*Income taxes*

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax assets and unused tax losses can be utilized. In addition, the valuation of tax credits receivable requires management to make judgements on the amount and timing of recovery.

*Expressed in United States Dollars*

### b) Critical judgements

*Inventories and biological assets*

Significant Judgement of Biological Assets and Inventory

Determination of the fair values of the biological assets requires the Company to make a number of estimates primarily related to the fair value at point of harvest, attrition rates, expected future yields from the cannabis plants and estimating plants at various phases of the growth cycle.

The valuation of biological assets at the point of harvest is the cost basis for all cannabis-based inventory and thus any critical estimates and judgements related to the valuation of biological assets are also applicable for inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

## 5) Financial instruments and risk management

### a) Fair value hierarchy

Financial instruments are recorded at fair value are classified using a fair value hierarchy that reflects the significant of the inputs used in making the measurements.

The fair value of hierarchy has the following levels:

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in the markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company's financial instruments include cash, accounts payable, accrued expenses, notes payable and lease obligation. The carrying value of cash is carried at fair value. Accounts payable and accrued expenses, notes payable and capital lease obligation approximate their fair value due to their short-term nature.

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

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| **Amortized cost** | **Fair Value** | **Carrying value** | **Fair Value** | **Carrying value** |
| **Financial Assets:** | | | | |
| Cash | $ 19,364,086 | $ 19,364,086 | $ 451,869 | $ 451,869 |
| **Financial Liabilities** | | | | |
| Accounts Payable | $ 1,720,721 | $ 1,720,721 | $ 678,319 | $ 678,319 |
| Accrued expenses | 1,306,145 | 1,306,145 | 1,055,828 | $ 1,055,828 |
| Current Portion of notes payable | 884,000 | 884,000 | - | - |
| Current portion of capital leases | 14,459 | 14,459 | 14,182 | 14,182 |
| Notes payable, net of current portion | - | - | 884,000 | 884,000 |
| Capital leases, net of current portion | 29,768 | 29,768 | 41,890 | 41,890 |
| Notes Payable Related Party | - | - | 6,526,732 | 6,526,732 |
| Total | $ 3,955,093 | $ 3,955,093 | $ 9,200,951 | $ 9,200,951 |

### b) Credit risk

*Expressed in United States Dollars*

Credit risk is the risk that a third party might fail to discharge its obligations under the terms of a financial instrument. Credit risk arises from cash with banks and financial institutions. It is management's opinion that the Company is not exposed to significant credit risk arising from these financial instruments. The Company limits credit risk by entering into business arrangements with high credit-quality counterparties.

**c) Interest rate risk**

Interest rate risk is the risk of losses that arise as a result of changes in contracted interest rates. The Company is not exposed to significant interest rate risk, as the Company's notes payable have fixed interest rates.

**d) Currency risk**

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Company operates in Canada and the United States and incurs certain expenditures and obtains financing in both CAD and USD. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the functional currency of the Company or subsidiary that holds the financial asset or liability. The Company's risk management policy is to review its exposure to non-CAD and non-USD forecast operating costs on a case-by-case basis. The majority of the Company's forecast operating costs are in USD and CAD. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of CAD financial assets and liabilities in USD as at December 31, 2018 is as follows:

**US Dollar amounts of foreign currency assets and liabilities**

| | Assets | Liabilities |
|---|---|---|
| Canadian Dollars | $10,186,813 | $21,550 |

Based on the financial instruments held as at December 31, 2018, the Company's deficit would have changed by $889,578 had the US dollar shifted by 10% as a result of foreign exchange effect on translation of non-US dollar denominated financial instruments.

At December 31, 2018, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

**e) Liquidity risk**

Prudent liquidity risk management implies maintaining at all times sufficient cash, liquid investments and committed credit facilities to meet the Company's commitments as they arise. The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. Where insufficient liquidity may exist, the Company may pursue various debt and equity instruments for short or long-term financing of its operations. The Company has the following contractual obligations:

| | <1 Year | 1 to 3 Years | 3 to 5 Years | Total |
|---|---|---|---|---|
| Accounts Payable | $ 1,720,721 | $ - | $ - | $ 1,720,721 |
| Accrued expenses | $ 1,306,145 | $ - | $ - | $ 1,306,145 |
| Income taxes payable | $ 2,187,109 | $ - | $ - | $ 2,187,109 |
| Capital lease obligation | $ 14,459 | $ 29,768 | $ - | $ 44,227 |
| Notes Payable | $ 884,000 | $ - | $ - | $ 884,000 |

**f) Pricing risk**

Price risk is the risk of variability in fair value due to movements in equity or market prices. See Note 8 for the Company's assessment of certain changes in the fair value assumption used in the calculation of biological asset values.

*Expressed in United States Dollars*

**g) Concentration risk**

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

**h) Banking Risk**

Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in US federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that US 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 US banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the business of the Company and leaves their cash holdings vulnerable.

**i) Asset Forfeiture Risk**

Because the cannabis industry remains illegal under US federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property was never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

## 6) RTO listing expense (reverse take-over transaction)

On June 11, 2018, MMDC and P13 (formerly Carpincho Capital Corp.) completed the definitive share exchange agreement entered into on April 26, 2018, (the “RTO Agreement”), whereby MMDC acquired all of the issued and outstanding shares of Carpincho Capital Corp, on the basis of 0.875 consolidated common shares of the resulting entity for every one (1) outstanding common share of Carpincho Capital Corp. In accordance with IFRS 3, the substance of the transaction was a reverse takeover (“RTO”) of a non-operating company. The transaction does not constitute a business combination since Carpincho Capital Corp did not meet the definition of a business under IFRS 3. As a result, the transaction has been accounted for as an asset acquisition with MMDC being identified as the acquirer (legal subsidiary) and Carpincho Capital Corp. being treated as the accounting acquiree (legal parent) with the transaction being measured at the fair value of the equity consideration issued to Carpincho Capital Corp shareholders. The net assets acquired was the fair value of the net assets of Carpincho Capital Corp, which on June 10, 2018 was $11,544.

The excess of the purchase price over the net assets was charged to the consolidated statement of operations as an RTO listing expense.

| | | June 11, 2018 |
|---|---|---|
| **Net assets acquired** | | |
| Cash and cash equivalents | $ | 34,678 |
| HST receivable | | 8,020 |
| Accounts payable and accrued liabilities | | (31,154) |
| **Net assets acquired** | **$** | **11,544** |
| | | |
| **Shares issued and transaction costs incurred recorded as RTO listing expense** | | |
| Fair value of 5,250,000 shares issued by MMDC at CAD$1.00 per share | $ | 4,040,637 |
| Less net assets acquired | | (11,544) |
| Net cost of shares issued on RTO recorded as RTO expense | $ | 4,029,093 |
| RTO transaction costs recorded as RTO expense | | 673,511 |
| **Shares issued and transaction costs incurred recorded as RTO listing expense** | **$** | **4,702,604** |

*Expressed in United States Dollars*

## 7) Inventories

Finished goods inventory consists of dried cannabis, concentrates, edibles and other products that are complete and available for sale (both internally generated inventory and third-party products purchased in the wholesale market). Work in process inventory consists of cannabis after harvest, in the processing stage. Packaging and miscellaneous consist of consumables for use in the transformation of biological assets and other inventory used in production of finished goods. The Company's inventories are comprised of:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Raw Material | | |
| Harvested Cannabis | $ 1,034,023 | $ 510,588 |
| Packaging and miscellaneous | 131,857 | 40,589 |
| Total Raw Material | 1,165,880 | 551,177 |
| Work in Process | 1,067,685 | 870,516 |
| Finished Goods | 3,088,546 | 282,136 |
| **Total Inventories** | $ 5,322,111 | $ 1,703,829 |

During the year ended December 31, 2018, the Company recognized $10,507,200 (2017 - $5,583,911) of inventory expensed to cost of goods sold.

## 8) Biological Assets

Biological assets consist of cannabis plants. At December 31, 2018, the changes in the carrying value of biological assets are shown below:

| **Harvest in Process** | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Beginning balance | $ 1,067,305 | $ 558,608 |
| Production costs capitalized | 3,135,478 | - |
| Net change in fair value less costs to sell due to biological transformation | 1,919,593 | 2,619,142 |
| Transferred to inventory upon harvest | (5,207,199) | (2,110,445) |
| Ending balance | $ 915,177 | $ 1,067,305 |

The Company values its biological assets at the end of each reporting period at fair value less costs to sell. This is determined using a valuation model to estimate the expected harvest yield per plant applied to the estimated price per gram less cost to sell. This model also considers the progress in the plant life cycle.

The following significant unobservable inputs, all of which are classified as level 3 on the fair value hierarchy and are subject to volatility and several uncontrollable factors which could significantly affect the fair value of biological assets in future periods, were used by management as part of this model:

*Expressed in United States Dollars*

- Growth cycle - the average number of weeks in the growing cycle is110 days from propagation to harvest for both 2018 and 2017;
- Stage of growth – represents the weighted average number of days out of the 110 day growing cycle that biological assets have reached as at the measurement date;
- Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant. The average harvest yield of whole flower used is 195 grams per plant for 2018 (2017 – 215 grams)
- Survival rate – the estimated survival rate of cannabis plants as they move from one stage of growth to the next (from germination to vegetative to flowering) based on the Company's historical results. As plants mature at each stage, their survival rate increases;
- Price – the average price used in $5.08 per gram in 2018 (2017- $5.00)
- Post harvest costs – calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants after harvest, consisting of the cost of direct and indirect materials and labor related to labelling and packaging. The Company expenses such subsequent expenditures directly to cost of goods sold.

The following quantifies each unobservable input, and also provides the impact a 10% increase/decrease in each input would have on the reported fair value of biological assets:

| | December 31, | | 10% Change as at December 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Stage of growth | 32.9% | 44.0% | $ 91,518 | $ 106,731 |
| Yield by plant | 195 grams | 215 grams | 257,853 | 234,565 |
| Survival rate | 80.0% | 78.4% | 183,943 | 206,337 |
| Selling price | $5.08 | $5.00 | 91,518 | 106,731 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

*Expressed in United States Dollars*

## 9) Property and Equipment

| | Land and Land Improvements | Buildings | Equipment | Leasehold Improvements | Construction in Progress | Total Capital Assets |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At December 31, 2016 | $ 312,581 | $ 1,569,963 | $ 840,819 | $ 2,109,370 | $ - | $ 4,832,733 |
| Additions | 54,095 | 128,114 | 139,625 | 349,985 | - | 671,819 |
| Transfers & disposals | - | - | - | - | - | - |
| At December 31, 2017 | 366,676 | 1,698,077 | 980,444 | 2,459,355 | - | 5,504,552 |
| Additions | 258,470 | - | 1,439,951 | 11,092,879 | 1,112,037 | 13,903,337 |
| Transfers & disposals | - | - | - | - | | - |
| At December 31, 2018 | $ 625,146 | $ 1,698,077 | $ 2,420,395 | $ 13,552,234 | $ 1,112,037 | $ 19,407,889 |
| | | | | | | |
| **Accumulated Depreciation** | | | | | | |
| At December 31, 2016 | $ - | $ 36,169 | $ 199,153 | $ 321,876 | $ - | $ 557,198 |
| Additions | - | 40,181 | 242,681 | 322,577 | - | 605,439 |
| Transfers & disposals | - | - | - | - | - | - |
| At December 31, 2017 | - | 76,350 | 441,834 | 644,453 | - | 1,162,637 |
| Additions | 25,543 | 42,456 | 309,873 | 610,896 | | 988,768 |
| Transfers & disposals | - | | | | | - |
| At December 31, 2018 | $ 25,543 | $ 118,806 | $ 751,707 | $ 1,255,349 | $ - | $ 2,151,405 |
| | | | | | | |
| **Net book value** | | | | | | |
| At December 31, 2017 | $ 366,676 | $ 1,621,727 | $ 538,610 | $ 1,814,902 | $ - | $ 4,341,915 |
| At December 31, 2018 | $ 599,603 | $ 1,579,271 | $ 1,668,688 | $ 12,296,885 | $ 1,112,037 | $ 17,256,484 |

As at December 31, 2018, costs related to the construction of facilities were capitalized as construction in progress and not amortized. Amortization will commence when construction is completed, and the facility is available for its intended use. The contractual construction commitment as at December 31, 2018 was $281,150 2017 – nil).

For the year ended December 31, 2018 depreciation expense was $988,768 (2017- $605,439) of which $588,653 (2017 - $484,075) was included in cost of goods sold.

*Expressed in United States Dollars*

## 10) Prepaid expenses and other current assets

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| License fees | $ 256,806 | $ - |
| Security deposits | 156,795 | 92,129 |
| Merchandise | 116,820 | - |
| Advertising and marketing | 79,584 | - |
| Rent | 81,951 | - |
| Taxes receivable | 53,402 | - |
| Health insurance | 42,458 | - |
| All other miscellaneous | 603,462 | - |
| **Total** | **$ 1,391,278** | **$ 92,129** |

## 11) Notes Payable

Notes payable consist of the following:

Non-related parties

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Promissory note dated November 4, 2015, with semi-annual interest at 5.0%, secured by deed of trust, due December 1, 2019 | $ 884,000 | $ 884,000 |
| Less current portion | (884,000) | - |
| Long-term portion of Promissory Notes | $ - | $ 884,000 |
| Equipment financing note payable, due December 20, 2021, with monthly principal and interest of $1,265 | 44,227 | 56,072 |
| Less current portion | (14,459) | (14,182) |
| Long-term portion of equipment financing note payable | $ 29,768 | $ 41,890 |

Stated maturities of debt obligations are as follows:

| | |
|---|---|
| Next 12 months Promissory Note | $ 884,000 |
| Next 12 months equipment financing | 14,459 |
| 2 years - equipment financing | 14,459 |
| 3 years - equipment financing | 14,459 |
| 4 years - equipment financing | 850 |
| | $ 928,227 |

The promissory note with an outstanding balance at December 31, 2018 of $884,000 is collateralized by a deed of trust on the related land.

*Expressed in United States Dollars*

Related parties

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Revolving notes payable due members, with deferred interest at 15.0%, compounded monthly, due December 31, 2019 | $ - | $ 6,526,732 |

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Balance at beginning of year | $ 6,526,732 | $ 6,174,907 |
| Advances | - | - |
| Repayments | - | (410,000) |
| Transfers | - | (175,706) |
| Accrued interest | 217,048 | 937,531 |
| Conversion of Related Party Notes for common and class A shares January 1, 2018 (Note 10) | (3,334,304) | - |
| Conversion of Related Party Notes for common and class A shares June 11, 2018 (Note 10) | (3,409,476) | - |
| | $ - | $ 6,526,732 |

In March 2014, the Company entered into agreements with its founders (who are now shareholders) in order to provide funds to support operations of the Company. The notes mature on December 31, 2019 and interest accrues on each advance on the day an advance is made at a rate of 15%. On January 1, 2018, the holders of the notes converted 50% of the notes outstanding for an aggregate of $3,334,304 of principal into members contributions at carrying value. On March 14, 2018, MMDC LLC, the predecessor company of MMDC underwent a statutory conversion to a Nevada domestic corporation, converting from a member based limited liability company to a Corporation. The members' equity in MMDC LLC was converted into common voting shares of 25,300,000 amounting to $1,124,661 and 49,700,000 non-voting capital stock amounting to $2,209,643. The common stock of MMDC were then exchanged for 25,300,000 common shares of P13 and 49,700,000 Class A restricted shares of P13 on closing of the RTO.

On closing of the RTO on June 11, 2018, the holders of the notes converted the remaining amounts of principal and accrued interest due to them of $3,409,476, into 5,532,940 shares of Class A restricted shares of the Company.

**Payment of Former Shareholder Notes**

On October 15, 2015, an original member of the MMDC, Ollehea, LLC, requested that MMDC repurchase its interest as allowed under the LLC operating agreement then in effect. However, MMDC at that time had not begun operations and had not yet generated positive cash flow. As a result, Ollehea was unwilling to accept a note from MMDC in repayment of its interest. Consequently, the remaining members, PRMN Investments LLC and Thirteen LLC, agreed to issue promissory notes to Ollehea on behalf of MMDC in the amount of $101,997 each to satisfy the repurchase requirement. In connection therewith, MMDC agreed to indemnify and reimburse the remaining members for any payments made to Ollehea under the notes. The amount was included as an accrued expense as at December 31, 2017 and was repaid by the Company on July 9, 2018.

*Expressed in United States Dollars*

## 12) Deferred Rent

IAS 17 (to be superseded by IFRS 16 effective for financial statements issued after January 1, 2019) sets forth the accounting treatment for leases and requires that lease expense under operating leases having fixed rental increases be accounted for on a straight-line basis over the term of the lease. As at December 31, 2018, the deferred rent liability of $427,508, represents the difference between the cumulative straight-line rent expense recorded and the actual cash payments made under operating leases.

## 13) Share Capital

### a) Authorized

Unlimited number of common shares and unlimited number of Class A shares

| | Number of Shares |
|---|---|
| Balance January 1, 2017 | 0 |
| **Balance at 31 December 2017** | **0** |
| Balance at January 1, 2018 | 25,300,000 |
| Shares issued to former Carpincho Capital Corp shareholders | 5,250,000 |
| Shares issued on private placement | 31,458,400 |
| Shares issued on prospectus offering | 8,735,250 |
| Shares issued on exercise of warrants | 2,580,810 |
| Total Common shares outstanding | 73,324,460 |
| Balance at January 1, 2018 | 49,700,000 |
| Class A Shares issued on exchange of notes payable | 5,532,940 |
| Total Class A Shares outstanding | 55,232,940 |
| **Balance December 31, 2018** | 128,557,400 |

Former shareholders of MMDC exchanged their 75,000,000 common shares of MMDC into 25,300,000 common shares and 49,700,000 Class A restricted shares on closing of the RTO (Note 11).

The Class A restricted shares have equal rateable rights as the Company's common shares to dividends, all of the Company's assets that are available for distribution upon liquidation, dissolution or winding up of the Company's affairs, do not have pre-emptive rights, are entitled to receive notice and attend shareholders meetings and to exercise one vote for each Class A share held at all meetings of shareholders of the Company other than with respect to the vote for the election or removal of directors. Each Class A shareholder is able to convert each outstanding Class A share at the option of the holder thereof into one common share at any time provided that such conversion would not cause the Company to become a US Domestic Issuer. The restriction on conversion of Class A shares are designed to prevent the Company from becoming a US Domestic Issuer. Generally, a company will be considered to be a US Domestic Issuer if:

(A) 50% or more of the holders of a company's common voting shares are U.S. Persons; and either (B) (i) the majority of the executive officers or directors of the Issuer are United States citizens or residents; (ii) the company has 50% or more of its assets located in the United States; or (iii) the business of the company is principally administered in the United States.

As there are no restrictions on issue or transfer of the Company's common shares, there is no guarantee that the Company will not become a US Domestic Issuer in the future.

The Company's Class A Shares were issued to all shareholders of the Company who were resident in the United States on the date of the closing of the RTO.

On June 11, 2018 the Company closed the RTO transaction, and it issued 5,250,000 common shares to former shareholders of Carpincho Capital Corp. (Note 6) at fair value. The Company recorded Share capital in the amount of $4,040,637 and recorded a share-based payment expense of $4,040,637 associated with the issuance of shares to the former shareholders of Carpincho (see Note 6).

The RTO closing also triggered the closing of a private placement that was being held in escrow pending the closing of the RTO. The Company closed the private placement by issuing 31,458,400 units at a price of CAD$0.80 per unit for gross proceeds of $19,508,445. Each unit was comprised of one common share and one-half of common share purchase warrant. Each whole warrant entitles the holder to purchase one common share for a period of 24 months from the closing of the offering at a price of CAD$1.40 per common share. The Company also issued 1,485,645 broker warrants that entitled the holder to purchase one common share for a period of 24 months from the closing of the offering at a price of CAD$0.80 per common share. The warrants and broker warrants were estimated to have a fair value of $4,212,768 at the time of the closing of the RTO transaction. Share issuance costs recorded on the private placement were $1,943,556. Total share issuance costs were $2,309,453, of which $365,897 was allocated to the issuance of warrants and $1,943,556 to the issuance of common shares and restricted shares. The broker warrants were measured based on the fair market value of the warrants using a Black Scholes valuation model as the fair market value of the services received cannot be reliably measured.

On December 4, 2018, the Company issued 8,735,250 common shares and 4,792,625 common share purchase warrants at a price of CAD$3.00 per unit with each unit consisting of one common share and ½ of a common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of CAD$3.75 for a period of 36 months following the closing. The warrants may be accelerated by the Company in its sole discretion at any time in the event that the volume-weighted average closing price of the common shares on the Canadian Securities Exchange is greater than or equal to CAD$5.00 per share for a period of 20 consecutive trading days by giving notice to the warrant holders. In such a case the warrants will expire at 4:00pm eastern time on the earlier of the 30th day after the date on which notice is given and the actual expiry date of the warrants. The Company also issued 524,115 broker warrants that entitle the holder to purchase one common share for a period of 24 months from the closing of the offering at a price of CAD$3.00 per common share. The broker warrants were measured based on the fair market value of the warrants using a Black Scholes valuation model as the fair market value of the services received cannot be reliably measured. Total aggregate gross proceeds on the financing were $19,965,769 (CAD$26,392,750) and the Company recorded share issuance costs of $1,722,572, of which $1,275,515 was allocated to the common shares and $447,057 was allocated to the warrants and broker warrants.

During the year ended December 31, 2018, the Company issued 2,580,810 common shares to warrant holders who exercised 2,580,810 warrants resulting in cash proceeds of $2,374,253.

The Company issued 5,532,940 Class A restricted shares at a price of CAD$0.80 per share for total equity of $3,409,476 on the settlement of notes held by related parties that were converted to equity on closing of the RTO at the option of the note holder.

**b) Stock options**

The Company has established an incentive stock option plan (the "Plan") for employees, management, directors, and consultants of the Company, as designated and administered by a committee of the Company's Board of Directors. Under the Plan, the Company may grant options for up to 10% of the issued and outstanding common shares of the Company.

On June 11, 2018 the Company granted 625,000 incentive stock options to employees of the Company. These options are exercisable at a price of CAD$0.80 per common share for a period of five years from the grant date.

On June 11, 2018 the Company granted 175,000 incentive stock options to consultants of the Company. These options are exercisable at a price of CAD$0.80 per common share for a period of three years from the grant date. The incentive options granted to consultants were measured based on the fair market value of the options at the date of granting using a Black Scholes valuation model as the fair market value of the services received cannot be reliably measured.

*Expressed in United States Dollars*

On July 31, 2018 the Company granted 25,000 incentive stock options to an employee of the Company. These options are exercisable at a price of CAD$0.75 per common share for a period of 5 years from the grant date.

The following table summarizes information about stock options outstanding as at December 31, 2018:

| Expiry date | Exercise Price CAD$ | December 31, 2018 Outstanding | December 31, 2018 Exercisable |
|---|---|---|---|
| June 11, 2021 | $0.80 | 175,000 | 131,250 |
| June 11, 2023 | $0.80 | 590,002 | 196,668 |
| July 31, 2023 | $0.75 | 25,000 | 8,333 |
| | | **790,002** | **336,251** |

The employee options vest one third on the grant date and one third on the first and second anniversary of the grant date. The fair value ascribed to the options issued was $625,947 and is being recognized as non-cash compensation expense over the vesting period of the options. The following assumptions were used to arrive at the value ascribed to the options issued using a Black Scholes Option Pricing model:

| Assumption | June 11, 2018 | June 11, 2018 | July 31, 2018 |
|---|---|---|---|
| Share price CAD$ | **$1.00** | **$1.00** | **$0.75** |
| Risk-free rate | **2.14%** | **1.99%** | **2.21%** |
| Expected dividend yield | **0.00%** | **0.00%** | **0.00%** |
| Expected volatility | **98.10%** | **98.10%** | **98.10%** |
| Option life in years | **5.00** | **3.00** | **5.00** |

Volatility was estimated by comparing the volatility of publicly traded companies that operate in the US cannabis market. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the Government of Canada Bond yields on the date of the option grant with a remaining term equal to the expected life of the options.

Share based compensation expense attributable to employee options was $295,528 for the year ended December 31, 2018 (nil for the year ended December 31, 2017).

The following table reflects the continuity of stock options for the periods presented:

| Stock option activity | 31-December 2018 | Weighted Average CAD$ Exercise price | December 31, 2017 | Weighted Average CAD$ Exercise price |
|---|---|---|---|---|
| **Balance – beginning of period** | - | - | - | - |
| Granted | 820,000 | $0.80 | - | - |
| Exercised | - | - | - | - |
| Expired | - | - | - | - |
| Forfeited | (29,998) | $0.80 | - | - |
| **Balance – end of period** | 790,002 | $0.80 | - | NA |

| | December 31, 2018 |
|---|---|
| The outstanding options have a weighted-average CAD$ exercise price of: | $0.80 |
| The weighted average remaining life in years of the outstanding options is: | 4.01 |

*Expressed in United States Dollars*

### c) Warrants

The following table summarizes warrants outstanding at December 31, 2018:

| Date of Issuance | Date of Expiry | CAD$ Exercise Price | December 31, 2018 Outstanding |
|---|---|---|---|
| June 11, 2018 | June 11, 2020 | $0.80 | **671,710** |
| June 11, 2018 | June 11, 2020 | $1.40 | **13,962,275** |
| December 4, 2018 | December 4, 2020 | $3.00 | **524,115** |
| December 4, 2018 | December 4, 2021 | $3.75 | **4,792,625** |
| | | | **19,950,725** |

| | December 31, 2018 |
|---|---|
| The outstanding warrants have a weighted-average CAD$ exercise price of: | $1.99 |
| The weighted average remaining life in years of the outstanding warrants is: | 1.82 |

The following table reflects the continuity of warrants for the periods presented:

| Warrant activity | December 31, 2018 Number | Weighted Average CAD$ Exercise price | December 31, 2017 Number | Weighted Average CAD$ Exercise price |
|---|---|---|---|---|
| **Balance – beginning of period** | - | - | - | - |
| Issued on private placements | 15,729,150 | $1.40 | - | - |
| Issued to brokers on private placement | 1,485,645 | $0.80 | - | - |
| Issued on prospectus financing | 4,792,625 | $3.75 | | |
| Issued to brokers on prospectus financing | 524,115 | $3.00 | | |
| Exercised | (2,580,810) | $1.21 | - | - |
| Expired | - | - | - | - |
| **Balance – end of period** | **19,950,725** | **$1.99** | - | NA |

The Company received cash proceeds of $2,374,253 (CAD$3,124,773) from the exercise of warrants during the year ended December 31, 2018. The Company reduced the carrying value of warrants by $932,828 that was associated with the warrants that were exercised and reallocated this amount to common share capital. The share price at the time of exercise was as follows:

*Expressed in United States Dollars*

| Date | Number of warrants exercised | CAD$ Exercise price | CAD$ Share price |
|---|---|---|---|
| 14-Sep-18 | 100,000 | $1.40 | $1.80 |
| 18-Sep-18 | 168,514 | $0.80 | $2.25 |
| 19-Sep-18 | 10,000 | $1.40 | $2.45 |
| 21-Sep-18 | 367,500 | $1.40 | $2.60 |
| 25-Sep-18 | 50,000 | $1.40 | $2.88 |
| 25-Sep-18 | 98,000 | $0.80 | $2.88 |
| 26-Sep-18 | 544,608 | $0.80 | $2.95 |
| 03-Oct-18 | 256,625 | $1.40 | $2.60 |
| 05-Oct-18 | 62,500 | $1.40 | $2.58 |
| 11-Oct-18 | 2,813 | $0.80 | $2.68 |
| 11-Oct-18 | 10,000 | $1.40 | $2.68 |
| 24-Oct-18 | 75,000 | $1.40 | $2.32 |
| 25-Oct-18 | 340,000 | $1.40 | $2.38 |
| 26-Oct-18 | 52,500 | $1.40 | $2.58 |
| 31-Oct-18 | 50,000 | $1.40 | $2.24 |
| 01-Nov-18 | 10,000 | $1.40 | $2.30 |
| 06-Nov-18 | 39,000 | $1.40 | $3.08 |
| 13-Nov-18 | 62,500 | $1.40 | $2.81 |
| 14-Nov-18 | 50,000 | $1.40 | $2.60 |
| 03-Dec-18 | 231,250 | $1.40 | $2.00 |
| **Total** | **2,580,810** | | |

The following assumptions were used to arrive at the value ascribed to the Warrants issued using a Black Scholes Option Pricing model:

| Assumption | June 11, 2018 |
|---|---|
| Share price - CAD$ | **$1.00** |
| Risk-free rate | **1.90%** |
| Expected dividend yield | **0.00%** |
| Expected volatility | **98.15%** |
| Warrant life in years | **2.00** |

The following assumptions were used to arrive at the value ascribed to the Warrants issued using a Monte Carlo Valuation Model :

| Assumption | December 4, 2018 |
|---|---|
| Share price - CAD$ | **$3.23** |
| Risk-free rate | **2.37%** |
| Expected dividend yield | **0.00%** |
| Expected volatility | **109.00%** |
| Warrant life in years | **3.00** |
| Acceleration Threshold | **$5.00** |
| Acceleration right | **The Expiry Date is accelerated upon the share price of the Company being equal to or greater than the Acceleration Threshold for a period of 20 consecutive trading days** |

*Expressed in United States Dollars*

**d) Restricted Share Units**

The Company has established a Restricted Share Unit incentive plan (the "RSU Plan") for employees, management, directors, and consultants of the Company, as designated and administered by a committee of the Company's Board of Directors. Under the RSU Plan, the Company may grant RSUs and/or options for up to 10% of the issued and outstanding common shares of the Company.

On June 11, 2018, the Company granted Management and Directors and Consultants of the Company 5,638,358 Restricted Share Units under the RSU plan. The value ascribed to the RSU issued was CAD$1.00 per share, the closing share price of the Company's common shares on June 11, 2018. The RSUs vest 1/3 on the grant date and 1/3 on each of the first and second anniversaries of the grant date. 575,000 of the RSUs granted were issued to a consultant of the Company as payment of an outstanding accounts payable in the amount of $346,206. The fair value of the RSUs issued was $442,546. The Company recorded a loss on settlement of the accounts payable of $96,340. The RSUs issued on settlement of the accounts payable amount vest on the same terms as the rest of the RSU grant.

On July 31, 2018, the Company granted a member of Management of the Company 25,000 Restricted Share Units under the RSU plan. The value ascribed to the RSU issued was CAD$0.75 per share, the closing share price of the Company's common shares on July 31, 2018. The RSUs vest 1/3 on the grant date and 1/3 on each of the first and second anniversaries of the grant date.

On November 9, 2018, 295,667 RSUs that were previously granted on June 11, 2018 were cancelled as a result of an employee resignation.

The following table summarizes the RSUs that were granted during the year ended December 31, 2018:

| Restricted Share Units (RSUs)<br>Grant Date | Share Price on Grant Date | December 31, 2018 Outstanding | December 31, 2018 Vested |
|---|---|---|---|
| June 11, 2018 | CAD $1.00 | 5,342,691 | 1,914,453 |
| July 31, 2018 | CAD$0.75 | 25,000 | 8,333 |
| | | **5,367,691** | **1,922,786** |

The Company recognize $2,305,705 in share-based compensation expense attributable to RSUs vesting during the year ended December 31, 2018 (nil for the year ended December 31, 2017).

## 14) General and Administrative Expenses

| | For the year ended December 31, 2018 | 2017 |
|---|---|---|
| Salaries and wages | $ 3,127,511 | $ 908,403 |
| Executive compensation | 433,814 | 194,542 |
| Payroll taxes and benefits | 766,056 | 183,436 |
| Rent | 964,804 | 154,599 |
| Office expenses | 257,249 | 233,135 |
| Professional fees | 600,877 | 193,686 |
| Miscellaneous general and administrative expenses | 3,433,065 | 771,058 |
| | $ 9,583,376 | $ 2,638,859 |

*Expressed in United States Dollars*

## 15) Earnings per share

Net Income (Loss) per common share represents the net income (loss) attributable to common shareholders divided by the weighted average number of common shares outstanding during the period.

The weighted average number of fully dilutive common shares outstanding is derived by adding the effect of all dilutive securities (using the treasury method) to the weighted average number of common shares outstanding. As at December 31, 2018 the Company was in a loss position, such that the exercise of options and warrants and the issuance of RSUs would have been anti-dilutive. As such, the diluted loss per share calculation excludes and potential conversion of options, warrants and RSUs that would decrease the loss per share.

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| **Basic weighted average shares outstanding** | | |
| Common shares | 45,686,137 | - |
| Restricted voting shares | 50,311,690 | - |
| **Total Basic weighted average shares outstanding** | **95,997,827** | ***nil*** |
| Effect of dilutive securities | | |
| Options | - | - |
| Warrants | - | - |
| RSUs | - | - |
| **Diluted weighted average shares outstanding** | **95,997,827** | ***nil*** |
| **Net loss for the year** | **$ (10,723,704)** | **-** |
| **Basic loss per share** | $ (0.11) | *na* |
| **Fully diluted loss per share** | $ (0.11) | *na* |

## 16) Commitments and Contingencies

### (a) Office and Operating Leases

The Company leases certain business facilities from third parties under operating lease agreements that specify minimum rentals. The leases expire through 2039 and contain renewal provisions. Additionally, certain leases provide for stated rent increases, and rent expense is calculated on a straight-line basis over the terms of the leases with the incentives reported as deferred rent. The Company's net rent expense for the year ended December 31, 2018 and 2017, was approximately $1,180,244 and $250,287, respectively.

Certain facilities occupied under the terms of lease agreements that were with a related party (a company controlled by Larry Scheffler, Co-Chairman and Co-CEO) through September 26, 2018 when a third party acquired the property and assumed the leases. The leases expire through 2034 and contain certain renewal provisions. Rent expense under these leases totaled $103,662 and $103,662 for the years ended December 31, 2018, and 2017, respectively.

Future minimum lease payments under non-cancelable operating leases (including the Planet 13 Superstore) having an initial or remaining term of more than one year are as follows:

*Expressed in United States Dollars*

| | |
|---|---|
| 2019 | $ 1,162,210 |
| 2020 | 1,208,965 |
| 2021 | 1,251,045 |
| 2022 | 1,269,314 |
| 2023 | 1,241,116 |
| Thereafter | 3,020,650 |
| | $ 9,153,300 |

**(b) Construction Commitments**

At December 31, 2018 the Company had construction commitments outstanding of $281,150 (2017 - Nil) related to the Phase 1 build-out of the Company's Planet 13 cannabis entertainment complex that opened on November 1, 2018.

**(c) Contingencies**

The Company's operations are subject to a variety of local and state regulation. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulations at December 31, 2018, medical and adult use cannabis regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

**(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 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.

**(e) Operating Licenses**

Although the possession, cultivation and distribution of marijuana for medical and adult use is permitted in Nevada, marijuana is a Schedule-I controlled substance and its use remains a violation of federal law. Since federal law criminalizing the use of marijuana pre-empts state laws that legalize its use, strict enforcement of federal law regarding marijuana 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 marijuana is still federally illegal.

**(f) Employment Agreements**

The Company has employment agreements in place with its Executive Management team and certain key employees. The annual salaries pursuant to such agreements range from $60,000 to $240,000.

*Expressed in United States Dollars*

## 17) Related party transactions

Related party transactions are summarized as follows:

(a) Notes Payable to Related Party

In 2017, the Company has funded a significant portion of its operating expenses and capital asset acquisitions through revolving loans from the Company's shareholders (Note 10). The following table reflects the changes in amounts due under such revolving loans for the year ended December 31, 2018:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Balance at beginning of year | $ 6,526,732 | $ 6,174,907 |
| Advances | - | - |
| Repayments | - | (410,000) |
| Transfers | - | (175,706) |
| Accrued interest | 217,048 | 937,531 |
| Conversion of Related Party Notes for common and class A shares January 1, 2018 (Note 10) | (3,334,304) | - |
| Conversion of Related Party Notes for common and class A shares June 11, 2018 (Note 10) | (3,409,476) | - |
| | $ - | $ 6,526,732 |

b) Building Lease

See Note 16(a) for details on amounts paid to related parties under Office and Operating leases during the year ended December 31, 2018.

(c) Officer Compensation

The Company's Co-CEO's previously agreed to defer a portion of their agreed-upon salaries since inception. At December 31, 2018 all deferred compensation amounts were fully paid. The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team and board of directors. The following table summarizes amounts paid to related parties as compensation for the year ended December 31, 2018 and 2017:

| | Year | Remuneration or fees (1) | Share based payments (1) | Included in accounts payable (1) |
|---|---|---|---|---|
| Management compensation | **2018** | **$1,622,682** | **$1,851,747** | **$4,000** |
| | 2017 | $826,367 | $ - | $181,870 |
| Director compensation | **2018** | **$ -** | **$ 332,795** | **$ -** |
| | 2017 | $ - | $ - | $ - |

(d) Strategic disbursement

On or around June 28, 2018, the landlord for the Company's Clark County cultivation facility, who is also one of the Company's Co-CEOs, notified that the Company that the mortgage holder of the loan secured by such location was considering foreclosure action against the facility due to the Company's business conducted therein. The landlord further indicated that the building was listed for sale and that it was anticipated that a sale would be completed before December 31, 2018. In connection therewith, and in order to ensure the Company's ability to continue to use the leased premises, the Company made a strategic disbursement of $1,254,862 to the holder of the note secured by the facility. This disbursement was secured by a promissory note bearing interest at 3.95% from July 18, 2018 to July 17, 2019 and then 8% annually after, a deed of trust and a personal guarantee. The note and accrued interest thereon, was repaid on September 28, 2018. Interest earned on the promissory note is included in Interest expense, net on the Consolidated Statements of Operations and Comprehensive Loss.

*Expressed in United States Dollars*

(e) Other

The Company sub-lets approximately 2,000 square feet of office space and purchases certain printed marketing collateral and stationery items from a company owned by one of the Company's Co-CEO. Amounts paid to such company for rent for the year ended December 31, 2018 and 2017 equaled $24,040 and $24,040 respectively, for rent and amounts paid for printed marketing collateral and stationery items equaled $8,769 and $8,769 respectively.

## 18) Income Taxes

**Income tax provision**

| | 2018 | 2017 |
|---|---|---|
| Tax expense applicable to: | | |
| Current | 2,198,295 | 1,259,677 |
| Deferred | 91,908 | 84,480 |
| **Income tax provision (recovery)** | **2,290,203** | **1,344,157** |

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company ahs the legal right and intent to offset.

Movement in net deferred tax liabilties:

| | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | (378,948) | (294,467) |
| Recognized in profit/loss | (91,908) | (84,481) |
| Impact of change in foreign exchange rates | | - |
| **Closing balance - December 31, 2018** | **(470,856)** | **(378,948)** |

**Reconciliation to statutory tax rate:**

| | 2018 | 2017 |
|---|---|---|
| **Income (loss) before income taxes** | (8,433,501) | 741,642 |
| Tax expense at statutory rate: | 21.00% | 34.00% |
| | | |
| Expected income tax expense (recovery) at statutory rates | (1,771,035) | 252,158 |
| Difference in foreign tax rates | (91,771) | - |
| Prior period adjsutments and other | 11,186 | (234,589) |
| Share based compensation and non-deductible expenses | 3,699,653 | 1,326,588 |
| Share issuance costs recorded through equity | (1,068,487) | - |
| Change in tax benefits not recognized | 1,510,657 | - |
| Foreign tax differential | - | - |
| Income tax provision (recovery) | **2,290,203** | **1,344,157** |

| | 2018 | 2017 |
|---|---|---|
| Non-capital losses | - | - |
| Biological assets | (470,856) | (378,948) |
| | **(470,856)** | **(378,948)** |

*Expressed in United States Dollars*

| **Temporary Diffferences and non-capital losses not recognized:** | **2018** | **2017** |
|---|---|---|
| Eligible capital expenditures | - | - |
| Biological assets | - | - |
| Capital losses | - | - |
| Non-capital losses | 1,758,770 | - |
| | **4,977,841** | **-** |

**Unrecognized deferred tax assets**

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and laibilities. Deferred tax assets have not been recognized in respect off the following deductible temprorary differences:

Shares issuance costs - 20(1)(e) - Canada
Non-capital losses carried forward - Canada

Share issue and financing costs will be fully amortized in 2023.

The Company's non-capital income tax losses expire as follows:

| | **Canada CAD** | **USA USD** |
|---|---|---|
| 2028 | $ 693,373 | $ 445,153 |
| 2029 | 35,083 | 22,524 |
| 2030 | 41,446 | 26,609 |
| 2031 | 13,258 | 8,512 |
| 2032 | 12,689 | 8,146 |
| 2033 | 9,876 | 6,340 |
| 2034 | 9,151 | 5,875 |
| 2035 | 9,932 | 6,376 |
| 2036 | 14,108 | 9,057 |
| 2037 | 3,501 | 2,248 |
| 2027 or later | 1,897,055 | 1,217,929 |
| Non-Capital losses in USD$ | **$ 2,739,472** | |
| Total Non-Capital losses in USD$ | | **$ 1,758,770** |

## 19) Segmented disclosure

### a) Operating segments

The Company operates in a single reportable operating segment as a vertically integrated cannabis company with cultivation, production and distribution operations in the state of Nevada.

### b) Geographic segments

As at December 31, 2018, all the Company's non-current assets were located in the United States.

## 20) Capital Management

The Company's capital structure consists of all components of shareholders' equity, equipment finance leases and notes payable. The Company's objective when managing capital is to maintain adequate levels of funding to support the day-today business activities of its cannabis operations in Nevada as well as to fund strategic initiatives, including the buildout of phase II of the Superstore Cannabis Entertainment Complex as well as to fund future expansion opportunities in other locations that may arise and maintain the necessary corporate and administrative functions to facilitate these activities. This has been done primarily through equity financing. Future equity financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

## 21) Subsequent Events

On January 7, 2019 the Company granted 100,000 incentive stock options to employees of the Company. These options are exercisable at a price of CAD$1.50 per common share for a period of five years from the grant date.

The Company issued 1,386,250 common shares on various dates from January 1, 2019 to April 29, 2019 on the exercise of warrants with a strike price of CAD$1.40and realized cash proceeds of CAD$1,940,750 from the exercise.

The Company issued 550,398 common shares on various dates from January 1, 2019 to April 2, 2019 on the exercise of broker warrants with a strike price of CAD$0.80 and realized cash proceeds of CAD$440,318 from the exercise.

The Company issued 1,922,786 common shares on the exercise of RSUs on March 12, 2019. No cash proceeds were realized on the exercise of RSUs.

The Company issued 15,002 common shares on the exercise of options with a strike price of CAD$0.80 and realized cash proceeds of CAD$12,001 from the exercise.