

VIREO HEALTH INTERNATIONAL, INC.
(FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended
March 31, 2019 and 2018
(unaudited)

(Expressed in United States Dollars)

VIRO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited)

March 31, 2019 and December 31, 2018

(Expressed in United States Dollars)

	<i>Note</i>	March 31, 2019	December 31, 2018
ASSETS			
Current Assets			
Cash		\$ 40,400,908	\$ 9,624,110
Receivables	6	277,254	1,671,257
Inventories	7	24,841,673	21,379,722
Biological Assets	8	12,705,374	5,967,150
Prepaid Expenses		1,457,752	962,297
Deferred acquisition costs	9	838,726	1,885,653
Deferred financing costs		-	448,480
		\$ 80,521,687	\$ 41,938,669
Non-Current Assets			
Property and Equipment	10	\$ 28,513,129	\$ 22,847,283
Deposits	9	2,238,512	2,259,735
Deferred Loss on Sale Leaseback		26,112	26,596
Goodwill	14	3,983,559	-
Intangible Asset	14	31,075,168	2,184,565
Due from Related Party	18	36,778	-
		\$ 65,873,258	\$ 27,318,179
Total Assets		\$ 146,394,945	\$ 69,256,848
LIABILITIES AND MEMBERS' EQUITY			
Current Liabilities			
Accounts Payable and Accrued Liabilities		\$ 2,919,742	\$ 2,512,389
Deferred Lease Inducement - Current Portion		449,590	341,555
Income tax payable		670,000	-
Share issuance obligation		2,857,275	-
Current portion lease obligations	12	846,703	338,638
Current portion of Long-Term Debt	12	1,010,000	1,010,000
		\$ 8,753,310	\$ 4,202,582
Long-Term Liabilities			
Deferred Rent		\$ -	\$ 271,091
Deferred Income Taxes		7,975,000	6,508,000
Deferred Lease Inducement	12	4,945,489	4,781,770
Lease Obligations	12	15,024,238	11,839,152
Convertible debt	12	420,663	-
		\$ 37,118,700	\$ 27,602,595
Shareholders' Equity			
Share Capital	11	\$ 110,815,149	\$ 41,965,556
Reserves	11	4,985,208	2,766,050
Retained Earnings		(6,524,112)	(3,077,353)
		\$ 109,276,245	\$ 41,654,253
Total Liabilities and Equity		\$ 146,394,945	\$ 69,256,848

Nature of operations (Note 1)

Subsequent events (Note 20)

Approved on behalf of the Board of Directors and authorized for issuance on May 30, 2019:

Kyle Kingsley

Kyle Kingsley, Director

Amber Shimpa

Amber Shimpa, Director

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

VIRO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018
(Expressed in United States Dollars)

	<i>Note</i>	Three Month Period Ended March 31, 2019	Three Month Period Ended March 31, 2018
REVENUE		\$ 5,777,792	\$ 3,678,475
Production Costs		(3,665,869)	(1,828,431)
Gross Profit Before Fair Value Adjustments		\$ 2,111,923	\$ 1,850,044
Realized Fair Value Amounts Included in Inventory Sold	7	(3,026,731)	(3,844,189)
Unrealized Fair Value Gain on Growth of Biological Assets	8	8,065,726	4,335,384
Gross Profit		\$ 7,150,918	\$ 2,341,239
EXPENSES			
Depreciation	10	\$ 373,779	\$ 56,326
Professional fees		574,260	308,892
Salaries and wages		1,152,940	1,022,240
Selling, general and administrative expenses		1,444,749	735,032
Share Based Compensation	11	201,187	1,130,324
		\$ 3,746,915	\$ 3,252,814
OTHER INCOME (EXPENSE)			
Loss on Sale of Property and Equipment	10	\$ (484)	\$ (597)
Interest Expense		(1,023,891)	(393,573)
Interest Income		76	-
Accretion expense		(9,671)	-
Listing Expense	5	(3,464,613)	-
Other Expense		(140,179)	(957)
Total Other Income (Expense)		\$ (4,638,762)	\$ (395,127)
INCOME/(LOSS) BEFORE INCOME TAXES		\$ (1,234,759)	\$ (1,306,702)
Current income taxes		\$ (745,000)	\$ (690,000)
Deferred income taxes		(1,467,000)	(33,000)
PROVISION FOR INCOME TAXES		\$ (2,212,000)	\$ (723,000)
NET LOSS AND COMPREHENSIVE LOSS		\$ (3,446,759)	\$ (2,029,702)
Weighted Average Shares Outstanding - basic and diluted		59,757,979	52,275,362
Net Loss Per Share - basic and diluted		\$ (0.06)	\$ (0.04)

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

VIROO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018
(Expressed in United States Dollars)

	<i>Note</i>	Members' Capital		Share Capital			Retained Earnings (Deficit)	Total Members' Equity
		Number of Members' Units	Amount	Number of Shares	Amount	Reserves		
Balance, December 31, 2017		1,040,112	\$ 22,909,162	-	\$ -	\$ -	\$ 4,584,346	\$ 27,493,508
Deferred Tax Liability from Reorganization	11	-	-	-	-	-	(4,225,000)	(4,225,000)
Non-Cash Contributions Resulting from Conversion to C-Corp	11	(1,040,112)	(22,909,162)	52,275,362	23,268,508	-	(359,346)	-
Share Based Compensation	11	-	-	-	-	1,130,324	-	1,130,324
Net Loss		-	-	-	-	-	(2,029,702)	(2,029,702)
Balance, March 31, 2018		-	\$ -	52,275,362	\$ 23,268,508	\$ 1,130,324	\$ (2,029,702)	\$ 22,369,130

	<i>Note</i>	Share Capital			Retained Earnings (Deficit)	Total Shareholders' Equity
		Number of Shares	Amount	Reserves		
Balance, December 31, 2018		66,198,748	\$ 41,965,556	\$ 2,766,050	\$ (3,077,353)	\$ 41,654,253
Elimination of Vireo US Preference Shares	11	(66,198,748)	-	-	-	-
Issuance of subordinate voting shares to Shareholder of Vireo US	5	8,217,695	-	-	-	-
Issuance of super voting shares to Shareholder of Vireo US	5	65,411	-	-	-	-
Issuance of multiple voting shares to Shareholder of Vireo US	5	514,388	-	-	-	-
Shares issued private placement	11	12,090,937	45,818,932	1,723,946	-	47,542,878
Shares issued reverse takeover transaction	5	705,879	2,999,986	-	-	2,999,986
Issuance of multiple voting shares in acquisitions	13	47,131	20,030,675	-	-	20,030,675
Share Based Compensation	11	-	-	201,187	-	201,187
Equity component of convertible debt	12	-	-	294,025	-	294,025
Net Loss		-	-	-	(3,446,759)	(3,446,759)
Balance, March 31, 2019		21,641,441	\$ 110,815,149	\$ 4,985,208	\$ (6,524,112)	\$ 109,276,245

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

VIRO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

<i>Note</i>	Three Month Period Ended March 31, 2019	Three Month Period Ended March 31, 2018
Cash Flows from Operating Activities:		
Net Loss	\$ (3,446,759)	\$ (2,029,702)
Items Not Affecting Cash:		
Depreciation	373,779	211,661
Loss on Sale of Property and Equipment	10 484	-
Share Based Compensation	11 201,187	1,130,324
Fair Value Adjustment on Sale of Inventory	7 3,026,731	(3,844,189)
Fair Value Adjustment on Growth of Biological Assets	8 (8,065,726)	4,335,384
Interest on Lease Obligation	986,016	355,698
Interest on Long-Term Debt	37,875	37,875
Accretion expense	12 9,671	-
Amortization of Deferred Tenant Improvement	(87,143)	-
Listing expense	2,999,986	-
Deferred financing costs	448,480	-
Deferred Income Taxes	1,467,000	33,000
Deferred gain/loss on sale leaseback	-	598
Changes in non-cash working capital:		
Receivables	1,394,003	(168,157)
Due From Related Party	(36,778)	-
Inventory and Biological Assets	7,8 (2,082,673)	(994,782)
Prepaid Expenses and Deposits	(495,455)	179,160
Accounts Payable and Accrued Liabilities	407,353	(722,770)
Income Tax Payable	670,000	690,000
Deferred Rent	-	(498)
Deposits	231,260	(22,200)
Cash Flows Used in Operating Activities	\$ (1,960,709)	\$ (808,598)
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	10 \$ (984,732)	\$ (126,321)
Acquisition costs	13 (12,716,329)	-
Cash acquired on RTO	428	-
Deferred acquisition costs	9 (48,162)	-
Cash Flows from (Used in) Investing Activities	\$ (13,748,795)	\$ (126,321)
Cash Flows from Financing Activities:		
Proceeds from private placement, net of issuance costs	11 \$ 47,542,878	\$ -
Lease payments	12 (126,251)	-
Proceeds from Debt	12 -	1,071,013
Interest Paid	(930,325)	(393,573)
Cash Flows from Financing Activities	\$ 46,486,302	\$ 677,440
Net Change in Cash	\$ 30,776,798	\$ (257,479)
Cash, Beginning of the Period	9,624,110	2,595,965
Cash, End of the Period	\$ 40,400,908	\$ 2,338,486
Cash paid for:		
Interest	\$ 930,325	\$ 393,573
Taxes	\$ -	\$ -

Supplemental cash flow information (Note 19)

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

1. NATURE OF OPERATIONS

Vireo Health International Inc. (“Vireo International” or the “Company”) (formerly, Darien Business Development Corp.) was incorporated under the Alberta Business Corporations Act on November 23, 2004. On March 18, 2019 the Company completed a Business Combination transaction with Vireo Health Inc. (“Vireo U.S.”) (Note 11). Vireo U.S. is a physician-led, science-focused organization that cultivates and manufactures pharmaceutical-grade cannabis extracts. Vireo U.S. operates medical cannabis cultivation, production, and dispensary facilities in Minnesota, New York, Pennsylvania, and Maryland through its subsidiaries.

On March 18, 2019, the Company completed a reverse takeover transaction (“RTO”) with Vireo U.S., whereby the Company acquired Vireo U.S. and the shareholders of Vireo U.S. became the controlling shareholders of the Company (the “Transaction”). Following the RTO, the Company is listed on the Canadian Securities Exchange (the “CSE”) under ticker symbol “VREO”.

While marijuana and CBD-infused products are legal under the laws of several U.S. states (with vastly differing restrictions), the United States Federal Controlled Substances Act classifies all “marijuana” as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for the use of the drug under medical supervision. Recently some federal officials have attempted to distinguish between medical cannabis use as necessary, but recreational use as “still a violation of federal law.” At the present time, the distinction between “medical marijuana” and “recreational marijuana” does not exist under U.S. federal law, if one is illegal, both are illegal.

The condensed interim consolidated financial statements (“interim financial statements”) as at and for the three months ended March 31, 2019, and 2018, include Vireo Health and its subsidiaries (together referred to as “the Company”).

During the three month period ended March 31, 2019 there was a share split on a basis of 30.0048397130798 to 1. All shares, options, and warrants have been retroactively restated.

2. BASIS OF PRESENTATION

Statement of compliance

The condensed Interim Financial Statements have been prepared in compliance with International Accounting Standard 34 – Interim Financial Reporting, and except as described in Note 3 to the condensed interim financial statements, the Company followed the same accounting policies and methods of application as those disclosed in the annual audited consolidated financial statements for the year ended December 31, 2018. The condensed interim financial statements should be read in conjunction with the annual financial statements of the Company for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These condensed interim financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on May 30, 2019.

Basis of measurement

These condensed interim consolidated financial statements have been prepared in U.S. dollars on a historical cost basis except for cash and biological assets, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting.

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

2. BASIS OF PRESENTATION (cont'd)

Functional and presentation currency

These condensed interim consolidated financial statements are presented in United States dollars. The functional currency of the Company and its subsidiaries is the United States dollar.

Basis of consolidation

These consolidated financial statements incorporate the accounts of the Company and the following subsidiaries:

Name of Subsidiary	State, Country of Incorporation	Percentage Ownership	Functional Currency	Principal Activity
Vireo Health, Inc	Delaware, USA	100%	USD	Holding Company
Vireo Health of New York, LLC	New York, USA	100%	USD	Cannabis cultivation and production
Minnesota Medical Solutions, LLC	Minnesota, USA	100%	USD	Cannabis cultivation and production
Pennsylvania Medical Solutions, LLC	Pennsylvania, USA	100%	USD	Cannabis cultivation and production
Ohio Medical Solutions, LLC	Delaware, USA	0%	USD	Cannabis cultivation and production
MaryMed, LLC	Maryland, USA	100%	USD	Cannabis cultivation and production
1776 Hemp, LLC	Delaware, USA	100%	USD	Hemp cultivation and production
Vireo Arkansas Health, LLC	Delaware, USA	100%	USD	Cannabis cultivation and production
Vireo Health of New Jersey, LLC	Delaware, USA	100%	USD	Cannabis cultivation and production
Pennsylvania Dispensary Solutions, LLC	Delaware, USA	100%	USD	Cannabis dispensary
Mayflower Botanicals, Inc	Massachusetts, USA	100%	USD	Cannabis cultivation and production
High Gardens, Inc.	Rhode Island, USA	100%	USD	Cannabis cultivation and production
Elephant Head Farm, LLC	Arizona, USA	100%	USD	Cannabis cultivation
Retail Management Associates, LLC	Arizona, USA	100%	USD	Management company
Arizona Natural Remedies, Inc.	Arizona, USA	0%	USD	Cannabis dispensary
Midwest Hemp Research, LLC	Minnesota, USA	100%	USD	Hemp cultivation
Red Barn Growers	New Mexico, USA	0%	USD	Cannabis cultivation and production
Silver Fox Management Services, LLC	New Mexico, USA	100%	USD	Management company
Resurgent Pharmaceuticals, Inc.	Delaware, USA	100%	USD	Holding Company for Intellectual Property

These consolidated financial statements as of and for the period ended March 31, 2019 include accounts of the Company, its wholly-owned subsidiaries and entities over which the Company has control as defined in IFRS 10. Subsidiaries over which the Company has control are fully consolidated from the date control commences until the date control ceases. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable are taken into account. All of the consolidated entities were under common control during the entirety of the periods for which their respective results of operations were included in the consolidated statements (i.e., from the date of their acquisition). All intercompany balances and transactions are eliminated on consolidation.

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Expressed in United States Dollars)

2. BASIS OF PRESENTATION (cont'd)

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of an acquisition over the fair value of the identifiable assets, liabilities, and contingent liabilities acquired is recorded as goodwill. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in profit or loss. Associated transaction costs are expensed when incurred.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies described in Note 3 of the financial statements for the year ended December 31, 2018 have been consistently applied, other than new policies, and changes to standards as described below.

a) New or amended standards adopted effective January 1, 2019

The Company has adopted the following new or amended IFRS standards for the interim and annual period beginning on January 1, 2019.

IFRS 16 Leases ("IFRS 16")

IFRS 16 was issued in January 2016 and replaces the previous guidance on leases, predominantly IAS 17, Leases. The Company has applied IFRS 16 with an initial application date of January 1, 2019, in accordance with the transitional provisions specified in IFRS 16. As a result, the Company has changed its accounting policy for lease contracts as detailed below. The Company has applied the following practical expedients:

- i) The Company applied the simplified transition approach and did not restate comparative information. As a result, the Company recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the accumulated deficit as at January 1, 2019.
- ii) On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17, and IFRIC 4, Determining whether an arrangement contains a lease, were not reassessed for whether there is a lease. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019.

In accordance with the practical expedients applied, the Company has recognized lease obligation and right-of-use assets at the date of initial application for leases previously classified as operating leases in accordance with IAS 17. The Company has elected not to recognize right-of-use assets and lease obligation for short-term leases (lease term of 12 months or less) and leases for which the underlying asset is of low value. The Company has applied IFRS 16 at the date it becomes effective using a modified retrospective approach. By applying this method, the comparative information for the 2018 fiscal year has not been restated.

The following is the Company's policy for accounting for lease contracts in accordance with IFRS 16:

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

a) New or amended standards adopted effective January 1, 2019 (cont'd)

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease obligation at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use assets are adjusted for impairment losses, if any. The estimated useful lives and recoverable amounts of right-of-use assets are determined on the same basis as those of property and equipment. The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease obligation is subsequently measured at amortized cost using the effective interest method. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The following table summarizes the current period impact of adopting IFRS 16 as of January 1, 2019:

	Beginning Balance	Cummulative Effect Adjustment	Beginning Balance As Adjusted
Assets			
Property and Equipment	22,847,283	3,459,762	26,307,045
Liabilities			
Deferred Rent	271,091	(271,091)	-
Lease Obligations	11,839,152	3,730,853	15,570,005

IFRIC 23, Uncertainty over income tax treatments (“IFRIC 23”)

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 each tax treatment independently or collectively, 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 became effective for fiscal years beginning on or after January 1, 2019, with earlier application permitted. The Company has adopted this interpretation as of its effective date and has assessed no significant impact as a result of the adoption of this interpretation.

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires the Company's management to make judgements, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The information about significant areas of estimation uncertainty and judgment considered by management in preparing these consolidated financial statements is as follows:

Biological assets and inventory

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

Estimated useful lives and depreciation of property and equipment

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

Fair value of stock options and warrants

Determining the fair value of warrants and stock options requires judgments related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results or on other components of equity.

Income taxes

The measurement of deferred income tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities. The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful operations of the Company. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred tax provisions or recoveries could be affected.

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (cont'd)

Impairment of long-lived assets

Long-lived assets, including property and equipment, are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (“CGU”). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Assessment of the transactions as asset acquisitions or business combinations

Management has had to apply judgement relating to the reverse takeover transaction and acquisitions with respect to whether the acquisition was a business combination or asset acquisition. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of each acquisition in order to reach a conclusion.

5. REVERSE TAKE-OVER (“RTO”)

On March 18, 2019, the Company completed the reverse take-over of the Company by way of a Share Exchange Agreement dated February 13, 2019 (the “Agreement”), in exchange for the following securities of the Company:

- a) Issuance of the following securities of the Company to Vireo Health U.S. shareholders and warrant and option holders:
 - i) 8,217,695 subordinate voting shares of the Company (Note 11)
 - ii) 514,388 multiple voting shares of the Company (Note 11)
 - iii) 65,411 super voting shares of the Company (Note 11)
 - iv) An aggregate of 867,199 warrants (“RTO replacement warrants”) as follows: (Note 11)
 - a. 509,241 warrants at \$1.50 per share expiring July 20, 2020
 - b. 294,047 warrants at \$1.50 per share expiring July 20, 2020
 - c. 18,903 warrants at \$1.50 per share expiring July 20, 2020
 - d. 45,007 warrants at \$1.50 per share expiring October 24, 2018
 - v) An aggregate of 22,215,704 options (“RTO replacement options”) as follows: (Note 11)
 - a. 6,664,072 options at \$0.19 per share expiring January 1, 2018
 - b. 4,599,743 options at \$0.33 per share expiring May 1, 2023
 - c. 600,097 options at \$0.33 per share expiring May 1, 2023
 - d. 4,500,726 options at \$0.33 per share expiring May 1, 2028
 - e. 1,200,194 options at \$0.33 per share expiring October 1, 2028
 - f. 75,012 options at \$0.33 per share expiring November 5, 2028
 - g. 4,575,733 options at \$0.33 per share expiring December 20, 2028

On closing of the RTO, the shareholders of Vireo U.S. held approximately 97% of the issued and outstanding shares of the Company. As a result, the shareholders of Vireo U.S. controlled the Company and the acquisition constituted a reverse take-over of the Company by Vireo U.S. Vireo U.S.’s assets, liabilities and operations since incorporation were included in these Consolidated Financial Statements at their historical carrying values. The results of operations of the Company from the date of acquisition of March 20, 2019 were included in these Consolidated Financial Statements.

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

5. REVERSE TAKE-OVER (“RTO”) (cont’d)

Since the Company did not meet the definition of a business under IFRS 3, *Business Combinations* (“IFRS 3”), the acquisition was accounted for as the purchase of the Company’s assets by Vireo U.S. The consideration paid was determined as equity settled share-based payment under IFRS 2, *Share-based Payments* (“IFRS 2”), at the fair value of the equity of Vireo U.S retained by the shareholders of the Company based on the fair value of the Vireo U.S.’s common shares on the date of closing of the RTO.

For RTO accounting purposes, the percentage ownership of the shareholders of the Company in the combined entity on completion of the RTO was 3% (being 705,879 of the total 21,641,441 issued and outstanding shares of the Company on closing of the RTO). As a result, the notional number of shares Vireo U.S. would have to issue to transfer 3% of the Company to the Company shareholders would be 705,879. Based on the share price of the private placement closed by Vireo U.S. prior to the RTO of \$4.25 per subordinate voting share, the consideration received by the shareholders of Prescient amounted to \$2,999,986.

The Company recorded a listing expense of \$3,464,613 in the consolidated statement of comprehensive loss, the details of which are as follows:

Fair value of consideration:	
705,879 subordinate voting shares @ \$4.25 per share	\$ 2,999,986
Estimated fair value of net assets of Darien acquired by Vireo U.S.	(5,380)
	\$ 2,994,606
Other transaction costs:	
Transaction costs (legal, audit and filing fees)	\$ 470,007
RTO listing expense	\$ 3,464,613

6. RECEIVABLES

	March 31, 2019	December 31, 2018
Tenant improvements receivable	45,128	1,444,217
Trade receivable	225,901	152,040
Taxes receivable	6,225	75,000
Total	\$ 277,254	\$ 1,671,257

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

7. INVENTORIES

Inventory is comprised of:

	March 31,	December 31,
	2019	2018
Work in process - harvested cannabis bud and trim	\$ 4,856,879	\$ 8,132,817
Work in process - cannabis oil	11,303,276	8,001,384
Finished goods - cannabis	8,360,961	4,985,091
Accessories	320,557	260,430
	\$ 24,841,673	\$ 21,379,722

Cost of inventory is recognized as an expense and included in cost of goods sold. Included in costs of goods sold for the three month period ended March 31, 2019, is \$3,026,731 (2018 - \$3,844,189) from changes in the fair value of biological assets.

8. BIOLOGICAL ASSETS

Biological assets are comprised of:

	Capitalized	Fair Value	
	Costs	Adjustment	Balance
Balance as at December 31, 2017	\$ 479,773	\$ 2,335,257	\$ 2,815,030
Fair value adjustment on growth of biological assets	-	24,302,031	24,302,031
Production costs capitalized	3,712,823	-	3,712,823
Transferred to inventory upon harvest	(3,254,558)	(21,608,176)	(24,862,734)
Balance at December 31, 2018	\$ 938,038	\$ 5,029,112	\$ 5,967,150

	Capitalized	Fair Value	
	Costs	Adjustment	Balance
Balance as at December 31, 2018	\$ 938,038	\$ 5,029,112	\$ 5,967,150
Fair value adjustment on growth of biological assets	-	8,065,726	8,065,726
Purchased as part of acquisition	1,510,920	-	1,510,920
Production costs capitalized	1,627,566	-	1,627,566
Transferred to inventory upon harvest	(1,126,346)	(3,339,642)	(4,465,988)
Balance at March 31, 2019	\$ 2,950,178	\$ 9,755,196	\$ 12,705,374

As at March 31, 2019 and December 31, 2018, the carrying value of biological assets consisted entirely of live cannabis plants.

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

8. BIOLOGICAL ASSETS (cont'd)

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price per gram less any additional costs to be incurred to transform the yield into a sellable product. Percentage of cost completion is applied to biological assets growing as of the measurement date.

The following significant unobservable inputs, all of which are classified as level 3 on the fair value hierarchy, were used by management as part of this model:

- Selling price – calculated as the annual historical selling price for flower yield in all finished goods sold by the Company, which is expected to approximate future selling prices
- Percentage of completion – represents the percentage of total expected costs incurred from growing biological assets as of 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
- Wastage – represents the weighted average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested
- Post-harvest costs – calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post-harvest, consisting of the cost of direct and indirect materials and labor related to labelling and packaging

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

	March 31,	December 31,	10% Change as of	10% Change as of
	2019	2018	3/31/2019	12/31/2018
Selling price	\$ 19.44	\$ 19.76	\$ 1,496,000	\$ 2,090,000
Percentage of completion	62%	55%	\$ 708,000	\$ 597,000
Yield by plant (grams)	238	238	\$ 697,000	\$ 574,000
Wastage	4%	4%	\$ 37,000	\$ 18,000
Post-harvest costs	\$ 3.73	\$ 3.47	\$ 384,000	\$ 550,000

Biological assets were on average at a more advanced stage of growth in 2019 (62% complete) compared to December 31, 2018 (55% complete). As a plant matures the likelihood of wastage declines. The Company aggregates fair value on a percentage of completion. As a result, a cannabis plant that is 50% through its estimated total grow cycle would be ascribed approximately 50% of its harvest date expected fair value (subject to wastage adjustments).

9. DEPOSITS AND DEFERRED ACQUISITION COSTS

Deferred acquisition costs consist of deposits and costs related to commitments and subsequent transactions (Note 20). As at March 31, 2019 the Company had a total of \$838,726 (2018 - \$1,885,653) for deferred acquisition cost.

Non-Current deposits consist of security deposits for various leased properties. As at March 31, 2019 the Company had a total of \$2,238,512 (2018 - \$2,259,735) in non-current deposits.

VIRO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

10. PROPERTY AND EQUIPMENT

	Greenhouse	Leased Assets	Leasehold Improvements	Equipment	Dispensaries	Software	Furniture & Fixtures	Vehicles	Construction in Progress	Total
Gross carrying amount										
Balance December 31, 2017	\$ -	\$ 6,400,100	\$ -	\$ 1,711,529	\$ 2,513,051	\$ 105,968	\$ 112,800	\$ 77,567	\$ 4,880,079	\$ 15,801,094
Additions	73,696	5,763,330	5,228,600	374,335	25,545	-	17,874	93,950	1,713,134	13,290,464
Acquisitions	178,386	-	-	416,538	493,446	-	-	-	454,234	1,542,604
Disposals	-	-	-	(120,815)	-	-	-	-	(5,471,539)	(5,592,354)
Balance December 31, 2018	\$ 252,082	\$ 12,163,430	\$ 5,228,600	\$ 2,381,587	\$ 3,032,042	\$ 105,968	\$ 130,674	\$ 171,517	\$ 1,575,908	\$ 25,041,808
Additions	-	-	358,897	746,204	10,044	100	2,356	22,685	395,633	1,535,919
Adoption of IFRS 16	-	3,459,762	-	-	-	-	-	-	-	3,459,762
Acquisitions	486,666	-	451,208	274,688	-	-	185,693	-	-	1,398,255
Balance March 31, 2019	\$ 738,748	\$ 15,623,192	\$ 6,038,705	\$ 3,402,479	\$ 3,042,086	\$ 106,068	\$ 318,723	\$ 194,202	\$ 1,971,541	\$ 31,435,744
Depreciation										
Balance December 31, 2017	\$ -	\$ 90,001	\$ -	\$ 447,238	\$ 327,830	\$ 81,784	\$ 34,761	\$ 13,692	\$ -	\$ 995,306
Additions	3,587	781,509	105,275	121,024	178,269	21,611	16,541	24,314	-	1,252,130
Acquisition	1,487	-	-	3,807	4,655	-	-	-	-	9,949
Disposals	-	-	-	(62,860)	-	-	-	-	-	(62,860)
Balance December 31, 2018	\$ 5,074	\$ 871,510	\$ 105,275	\$ 509,209	\$ 510,754	\$ 103,395	\$ 51,302	\$ 38,006	\$ -	\$ 2,194,525
Additions	6,301	330,889	26,319	30,043	28,374	783	4,986	6,079	-	433,774
Acquisition	75,086	-	69,616	119,575	-	-	30,039	-	-	294,316
Balance March 31, 2019	\$ 86,461	\$ 1,202,399	\$ 201,210	\$ 658,827	\$ 539,128	\$ 104,178	\$ 86,327	\$ 44,085	\$ -	\$ 2,922,615
Carrying Amount December 31, 2018	\$ 247,008	\$ 11,291,920	\$ 5,123,325	\$ 1,872,378	\$ 2,521,288	\$ 2,573	\$ 79,372	\$ 133,511	\$ 1,575,908	\$ 22,847,283
Carrying Amount March 31, 2019	\$ 652,287	\$ 14,420,793	\$ 5,837,495	\$ 2,743,652	\$ 2,502,958	\$ 1,890	\$ 232,396	\$ 150,117	\$ 1,971,541	\$ 28,513,129

During the three month period ended March 31, 2019 \$373,779 (2018 - \$56,326) in depreciation was included in profit and loss and \$59,995 (2018 - \$155,335) was capitalized with respect to biological assets.

During the year ended December 31, 2018, the Company entered into a sale and leaseback agreement whereby the Company sold land, greenhouse, and equipment (the "Cultivation Facilities") with a net book value of \$5,471,539 for gross proceeds of \$5,763,330. The Company paid a total of \$284,995 in transaction fees for total net proceeds of \$5,478,336. The Company incurred a gain of \$6,796 on the sale and leaseback transaction which is deferred and amortized over the term of the lease. During the three month period ended March 31, 2019 a gain of \$113 was realized.

During the year ended December 31, 2017 the Company incurred a loss of \$35,839 on a sale leaseback transaction which is deferred and amortized over the term of the lease. During the three month period ended March 31, 2019 a loss of \$597 (2018 - \$597) was realized.

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

11. SHARE CAPITAL

During the three month period ended March 31, 2019 there was a share split on a basis of 30.0048397130798 to 1. All shares, options, and warrants have been retroactively restated.

On January 1, 2018, Vireo U.S. converted from a Limited Liability Company to a C corporation. On conversion, the Company was authorized to issue 300,048,397 shares, including 225,036,298 common shares, and 75,012,099 preferred stock both of which will had a par value of \$0.0001 per share.

On conversion, the Vireo U.S. had the following shares outstanding:

Series	Shares Issued	Share Capital
Series A Preferred Stock	21,663,494	\$ 3,590,044
Series B Preferred Stock	10,261,655	\$ 1,615
Series C Preferred Stock	20,350,213	\$ 19,676,849
Total	52,275,362	\$ 23,268,508

From Vireo U.S.'s inception to December 31, 2017, the Company was not subject to corporate federal and state income taxes since it was operating as a Limited Liability Company (LLC). On January 1, 2018 the Company converted from an LLC to a C Corporation and, as a result, became subject to corporate federal and state income taxes. Vireo U.S.'s accumulated retained earnings of \$359,346 and members' capital of \$22,910,942 was reclassified to preferred stock and additional paid in capital as a non-cash capital contribution.

At March 31, 2019 the Company has 21,641,441 shares issued and outstanding, which consist of the following:

(a) Subordinate voting shares

21,014,511 shares issued and outstanding. The holders of subordinate voting shares are entitled to receive dividends which may be declared from time to time, and are entitled to one vote per share at all stockholder meetings. All subordinate voting shares are ranked equally with regard to the Company's residual assets. The Company is authorized to issue an unlimited number of no par value subordinate voting shares.

(b) Multiple voting shares

561,519 shares issued and outstanding. The holders of multiple voting shares are entitled to one hundred votes per share at all stockholder meetings. Each multiple voting share is exchangeable for one hundred subordinate voting shares. The Company is authorized to issue an unlimited number of multiple voting shares.

(c) Super voting shares

65,411 shares issued and outstanding. The holders of super voting shares are entitled to one thousand votes per share at all stockholder meetings. Each super voting share is exchangeable for one hundred subordinate voting shares. The Company is authorized to issue an unlimited number of super voting shares.

Immediately prior to the RTO transaction Vireo U.S had 66,198,748 shares issued and outstanding which consisted of the following:

(a) Series A Preferred Stock

21,663,494 shares issued and outstanding. The holders of series A preferred stock are entitled to one vote per share at all stockholder meetings.

(b) Series B Preferred Stock

10,261,655 shares issued and outstanding. The holders of series B preferred stock are entitled to one vote per share at all stockholder meetings.

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

11. SHARE CAPITAL (cont'd)

(c) Series C Preferred Stock

22,772,744 shares issued and outstanding. The holders of series C preferred stock are entitled to one vote per share at all stockholder meetings.

(d) Series D Preferred Stock

11,500,855 shares issued and outstanding. The holders of series D preferred stock are entitled to one vote per share at all stockholder meetings.

(e) Common Stock

No shares issued and outstanding. The holders of common stock are entitled to one vote per share at all stockholder meetings.

The Company issued 12,090,937 subordinate voting shares of the Company at \$4.25 per share for a gross proceeds of \$51,386,482. In connection with the financing, the Company paid a cash fee to the agents equal to \$3,241,738 and the agents were granted a combined 763,111 in warrants. The agent's warrants will be exercisable at a price of \$4.25 per share for a period of two years. In addition the Company paid a financial advisory fee of \$415,000 and had costs in the amount of \$186,866. The warrants have been valued at \$1,723,946 using the Black-Scholes option pricing model applying the following assumptions: Risk Free Rate - 2.31%, Expected Life - 2 years, Expected Annualized Volatility - 100%, Expected Dividend Yield - 0%.

The Company issued 705,879 subordinate voting shares with a fair value of \$2,999,986 as part of the RTO Transaction (note 5) in exchange for all outstanding shares of the Company.

During 2018, Vireo U.S. acquired all of the issued and outstanding membership units of a Maryland company related to Vireo, which has applied for a cannabis cultivation, manufacturing and dispensary license in Maryland. As consideration for the membership units, Vireo U.S. issued 1,085,245 series C-4 preferred shares and 126,020 series C-5 preferred shares with fair value of \$3,600,000.

During the three month period ended March 31, 2019 the Company acquired all of the equity of Elephant Head Farm, LLC and Retail Management Associates, LLC both Arizona limited liability companies. As consideration, the Company paid cash and issued 16,806 multiple voting shares of capital stock of the Company with a fair value of \$7,142,550.

During the three month period ended March 31, 2019 the Company acquired all of the assets of Silver Fox Management Services, LLC a New Mexico limited liability company. As consideration, the Company paid cash and has an obligation to issued 6,723 multiple voting shares of capital stock of the Company with a fair value of \$2,857,275.

During the three month period ended March 31, 2019 the Company completed the 100% acquisition of Mayflower Botanicals, Inc., a Massachusetts corporation. As consideration, the Company paid cash and issued 30,325 multiple voting shares with a fair value of \$12,888,125.

Stock Options

The Company adopted an equity incentive plan where the Company may grant incentive stock option, restricted shares, restricted share units, or other awards. Under the terms of the plan, a total of ten percent of the number of shares outstanding assuming conversion of all super voting and multiple voting shares to subordinate voting shares. The exercise price for incentive stock options issued under the plan will be set by the committee, but will not be less 100% of the fair market value of the Company's shares on the date of grant. Incentive stock options have a maximum term of 10 years from the date of grant. The incentive stock options vest at the discretion of the Board.

VIRO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

11. SHARE CAPITAL (cont'd)

Company	Options Outstanding	Weighted Avg Exercise Price
Balance, December 31, 2017	-	\$ -
Granted	22,215,577	0.29
Balance December 31, 2018	22,215,577	\$ 0.29
Granted	-	-
Balance March 31, 2019	22,215,577	\$ 0.29

As at March 31, 2019, the Company has the following options outstanding and exercisable as follows:

Grant Date	Exercise Price	Options Outstanding	Options Excersiable	Wighted Average Life Remaining (years)
January 1, 2018	\$ 0.19	6,664,072	5,250,335	8.76
May 1, 2018	\$ 0.33	4,599,743	4,500,727	4.08
May 1, 2018	\$ 0.33	600,097	150,024	4.08
May 1, 2018	\$ 0.33	4,500,726	1,149,935	9.09
October 1, 2018	\$ 0.33	1,200,194	-	9.51
November 5, 2018	\$ 0.33	75,012	-	9.60
December 20, 2018	\$ 0.33	4,575,733	38,125	9.73
		22,215,577	11,089,146	8.00

During the three months ended March 31, 2019, the Company recognized \$201,187 in share-based compensation (2018 - \$1,130,324). In determining the amount of share-based compensation related to options issued during the period, the Company used the Black-Sholes option pricing model to establish fair value of options granted during the three months ended March 31, 2018 on their measurement date by applying the following assumptions:

	March 31, 2019	March 31, 2018
Risk-Free Interest Rate	n/a	2.08%
Expected Life of Options (years)	n/a	9.75
Expected Annualized Volatility	n/a	100%
Expected Forfeiture Rate	n/a	nil
Expected Dividend Yield	n/a	nil
Black-Sholes Value of Each Option	n/a	\$0.173

Warrants

Each whole warrant entitles the holder to purchase one subordinate voting share of the Company. A summary of the status of the warrants outstanding is as follows:

Company	Warrants Outstanding	Weighted Avg Exercise Price
Balance, December 31, 2017	-	\$ -
Granted	867,198	1.50
Balance December 31, 2018	867,198	\$ 1.50
Granted	763,111	4.25
Balance March 31, 2019	1,630,309	\$ 2.79

VIRO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

11. SHARE CAPITAL (cont'd)

The following table summarizes the warrants that remain outstanding as of March 31, 2019:

Grant Date	Exercise Price	Warrants Outstanding	Wighted Average Life Remaining (years)
July 20, 2018	\$ 1.50	509,241	1.30
July 20, 2018	\$ 1.50	294,047	1.30
July 20, 2018	\$ 1.50	18,903	1.30
October 24 2018	\$ 1.50	45,007	1.57
March 18, 2019	\$ 4.25	763,111	1.96
		1,630,309	1.62

During the three month period ended March 31, 2019, the Company recognized \$1,723,946 in warrant compensation expense (2018 - \$nil). In determining the amount of the warrant compensation expense related to options issued during the three month period, the Company used the Black-Sholes option pricing model to establish fair value of warrants granted during the three month period ended March 31, 2019 on their measurement date by applying the following weighted average assumptions:

	March 31, 2019	March 31, 2018
Risk-Free Interest Rate	2.31%	n/a
Expected Life of Options (years)	2.00	n/a
Expected Annualized Volatility	100%	n/a
Expected Forfeiture Rate	nil	n/a
Expected Dividend Yield	nil	n/a
Black-Sholes Value of Each Option	\$2.259	n/a

12. LOANS, LEASES AND NOTE PAYABLE

The details of the Company's loans, leases and notes payable are as follows:

Long-term debt

	March 31, 2019	December 31, 2018
Opening balance	\$ 1,010,000	\$ 1,010,000
Additions	700,000	1,000,000
Equity component of convertible debt	(294,025)	-
Accretion of loan discount	9,671	-
Accrued interest	5,017	-
Payments	-	(1,000,000)
Ending balance	\$ 1,430,663	\$ 1,010,000
Less: Current portion	(1,010,000)	(1,010,000)
Long-term debt	\$ 420,663	\$ -

During the year ended December 31, 2017, the Company signed a promissory note payable in the amount of \$1,010,000. The note bears interest at a rate of 15% per annum with interest payments required on a monthly basis. The loan is repayable in full on December 31, 2019. The promissory note is secured by land held by the Company.

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

12. LOANS, LEASES AND NOTE PAYABLE (cont'd)

During the three month period ended March 31, 2018, the Company signed a promissory note payable in the amount of \$1,000,000. The note bears interest at a rate of 15% per annum with interest payments required on a monthly basis. The loan was paid in full during the year ended December 31, 2018.

During the three month period ended March 31, 2019, the Company signed a convertible promissory note payable in the amount \$700,000 in connection with the acquisition of High Gardens, Inc. (note 13). The note bears interest at 3% per annum with interest payments required on a monthly basis. All of the unpaid principal balance of this note shall be converted to shares of the Company at the option of the holder. The loan is repayable in full in January 2023.

Lease obligations

	March 31, 2019	December 31, 2018
Opening balance	\$ 12,177,790	\$ 6,431,129
Adoption IFRS 16	3,730,853	-
Additions	-	5,763,330
Interest	980,999	2,146,298
Principal payments	(126,251)	-
Interest payments	(892,450)	(2,162,967)
Ending balance	\$ 15,870,941	\$ 12,177,790
Less: Current portion	(846,703)	(338,638)
Long-term debt	\$ 15,024,238	\$ 11,839,152

Future minim lease payments (principal and interest) on the leases is as follows

	2018
2019 (nine months)	\$ 3,205,050
2020	4,321,744
2021	4,334,027
2022	4,454,377
2023	5,415,338
Thereafter	45,948,973
Minimum payments under lease	\$ 67,679,509
Effect of discounting	(51,808,568)
Present value of minimum lease payments	\$ 15,870,941
Less: Current portion	(846,703)
Lease obligations	\$ 15,024,238

The Company has entered into lease agreements for the use of buildings used in production and retail sales of cannabis products in Minnesota, New York, Rhode Island, and Maryland.

During the year ended December 31, 2018, the Company entered into sale and leaseback transactions for Cultivation Facilities (Note 7). As part of the transaction, the Company entered into three separate lease agreements for the Cultivation Facilities as follows:

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

12. LOANS, LEASES AND NOTE PAYABLE (cont'd)

- The lease agreement (as amended in December 2018) for a cultivation and manufacturing facility in Pennsylvania with a fair value of \$5,763,330 is for 15 years with two consecutive options to extend for an additional 5 years each. The annual interest rate on the lease is 27.96% and requires regular monthly payments of \$120,000 which increase by 3.5% each year. Principal repayments begin in 2025. The lease also provides for a Tenant Improvement (“TI”) allowance up to \$3,500,000.

On December 7, 2018 the Company signed a first amendment to the existing lease agreements for the cultivation and manufacturing facilities in Minnesota, New York and Pennsylvania. Under the terms of the amendments, the term of leases were extended to December 7, 2033, for tenant improvements per the terms through December 7, 2033 and provides for additional tenant improvements of up to \$5,000,000 dollars.

- The amended agreement cultivation and manufacturing facility in New York requires regular monthly payments of \$82,800 which increases by 3.5% each year beginning in December 2018 over the remaining term of the agreement. Principal repayments begin in 2023. The agreement has two optional consecutive options to extend for an additional 5 years. Also, the amendment requires an additional deposit of \$150,000 and provides for additional tenant improvement (TI) allowance up to \$2,000,000.
- The amended agreement for the cultivation and manufacturing facility in Minnesota requires regular monthly payments of \$77,625 which increases by 3.5% each year beginning in December 2018 over the remaining term of the agreement. Principal repayments begin in 2023. The agreement has two optional consecutive options to extend for an additional 5 years. Also, the amendment requires an additional deposit of \$150,000 and provides for additional tenant improvement (TI) allowance up to \$2,000,000.

The Company received a total of \$358,897 for tenant improvements as per the terms of the lease agreements during the three month period ended March 31, 2019. As at March 31, 2019 the Company had tenant improvement receivables of \$45,128 (2018 - \$1,444,217).

13. ACQUISITIONS

i) High Gardens, Inc.

On January 4, 2019, the Company completed the 100% acquisition of High Gardens, Inc. (“High Gardens”), which has licenses to cultivate and distribute cannabis in the state of Rhode Island. The assets consisted of the state of Rhode Island issued medical cannabis licenses.

The Company paid cash of \$300,000 and issued a convertible promissory note in the amount of \$700,000, and assumed liabilities of \$8,883 as consideration for the equity. There were transaction costs of \$76,256. As at December 31, 2018 there were deferred acquisition costs of \$76,256.

The purchase price allocation for the acquisition, as set forth in the table below, reflects various fair value estimates and analyses which are subject to change within the measurement period. The primary areas of the purchase price allocation that are subject to change relate to the fair values of certain tangible assets, the valuation of intangible assets acquired, and residual goodwill. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that the Company determines to be material will be applied retrospectively to the period of acquisition in the Company’s consolidated financial statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could also be affected. The following table summarizes the final accounting estimates of the acquisition with a purchase price of \$1,076,256:

VIRO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

13. ACQUISITIONS (cont'd)

Intangible asset license (Note 13)	\$	1,085,139
Accrued liabilities		(8,883)
	\$	<u>1,076,256</u>

ii) Elephant Head Farms, LLC and Retail Management Associates, LLC

On March 22, 2019, the Company acquired all of the equity of Elephant Head Farm, LLC and Retail Management Associates, LLC both Arizona limited liability companies. As a result of the acquisition the Company has the exclusive right to manage and control Arizona Natural Remedies, a Arizona nonprofit corporation with licenses to cultivate and distribute medical cannabis in the state of Arizona. The acquisition was accounted for in accordance with IFRS 3, "Business Combinations" ("IFRS 3"). The assets consisted primarily of the state of Arizona issued medical cannabis licenses, cash, inventory, and fixed assets.

The Company paid cash of \$10,500,000 and issued a total of 16,806 multiple voting shares of the capital stock of the company with a fair value of \$7,142,550 as consideration for the equity. As at December 31, 2018 there were deferred acquisition costs of \$737,010.

The purchase price allocation for the acquisition, as set forth in the table below, reflects various fair value estimates and analyses which are subject to change within the measurement period. The primary areas of the purchase price allocation that are subject to change relate to the fair values of certain tangible assets, the valuation of intangible assets acquired, and residual goodwill. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that the Company determines to be material will be applied retrospectively to the period of acquisition in the Company's consolidated financial statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could also be affected. The following table summarizes the final accounting estimates of the acquisition with a purchase price of \$17,642,350

Cash	\$	323,727
Inventory		2,528,931
Other current assets		210,037
Property and equipment		1,030,648
Intangible asset license (Note 13)		11,250,000
Goodwill		2,371,801
Accounts payable and accrued liabilities		(72,794)
	\$	<u>17,642,350</u>

iii) Silver Fox Management Services, LLC

On March 25, 2019, the Company acquired all of the assets of Silver Fox Management Services, LLC, a New Mexico limited liability company ("Silver Fox"). As a result of the acquisition the Company has the exclusive right to management and control Red Barn Growers, a New Mexico nonprofit corporation ("Red Barn"). The acquisition was accounted for in accordance with IFRS 3, "Business Combinations" ("IFRS 3"). The assets consisted primarily of the state of New Mexico issued medical cannabis licenses, cash, inventory, and fixed assets.

The Company paid cash of \$2,000,000 and issued a total of 6,723 multiple voting shares of the capital stock of the company with a fair value of \$2,857,275 as consideration for the equity. As at December 31, 2018 there were deferred acquisition costs of \$128,209.

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

13. ACQUISITIONS (cont'd)

The purchase price allocation for the acquisition, as set forth in the table below, reflects various fair value estimates and analyses which are subject to change within the measurement period. The primary areas of the purchase price allocation that are subject to change relate to the fair values of certain tangible assets, the valuation of intangible assets acquired, and residual goodwill. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that the Company determines to be material will be applied retrospectively to the period of acquisition in the Company's consolidated financial statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could also be affected. The following table summarizes the final accounting estimates of the acquisition with a purchase price of \$4,857,275:

Cash	\$ 75,696
Inventory	549,576
Property and equipment	73,291
Intangible asset license (Note 13)	2,700,000
Goodwill	1,611,758
Accounts payable and accrued liabilities	(153,046)
	<u>\$ 4,857,275</u>

iv) Mayflower Botanicals, Inc.

On March 29, 2019, the Company completed the 100% acquisition of Mayflower Botanicals, Inc., a Massachusetts corporation which has licenses to cultivate and distribute medical and adult use cannabis in the state of Massachusetts. The assets consisted of the state of Massachusetts issued medical cannabis licenses.

The Company paid cash of \$1,025,000 and issued a total of 30,325 multiple voting shares of the capital stock of the company with a fair value of \$12,888,125 as consideration for the equity. There were transaction costs of \$36,018. As at December 31, 2018 there were deferred acquisition costs of \$15,858.

The purchase price allocation for the acquisition, as set forth in the table below, reflects various fair value estimates and analyses which are subject to change within the measurement period. The primary areas of the purchase price allocation that are subject to change relate to the fair values of certain tangible assets, the valuation of intangible assets acquired, and residual goodwill. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that the Company determines to be material will be applied retrospectively to the period of acquisition in the Company's consolidated financial statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could also be affected. The following table summarizes the final accounting estimates of the acquisition with a purchase price of \$13,949,143:

Intangible asset license (Note 13)	\$ 13,949,143
	<u>\$ 13,949,143</u>

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

14. GOODWILL AND INTANGIBLE ASSETS

During the three months ended March 31, 2019 the Company acquired cannabis license holders in Arizona, New Mexico, Rhode Island, and Massachusetts (Note 13). The license and goodwill were allocated a fair value of \$32,855,568 based on the purchase price allocation the fair value allocated to the license is depreciated over its expected useful life, which is estimated between 4-20 years.

Goodwill

A summary of goodwill is as follows:

Balance, December 31, 2017	\$	-
Acquired		-
Balance December 31, 2018	\$	-
Acquired		3,983,559
Balance March 31, 2019	\$	3,983,559

License

A summary of license is as follows:

Balance, December 31, 2017	\$	-
Acquired		2,204,982
Amortization		(20,417)
Balance December 31, 2018	\$	2,184,565
Acquired		28,984,283
Amortization		(93,680)
Balance March 31, 2019	\$	31,075,168

15. FINANCIAL RISK MANAGEMENT

The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

Fair value of financial assets and liabilities

IFRS 13 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

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

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

15. FINANCIAL RISK MANAGEMENT (cont'd)

The fair value of cash is measured using Level 1 inputs. The carrying values of receivables, accounts payable and accrued liabilities, and due from related party approximate their respective fair values due to the short-term nature of these instruments, and the carrying value of long term loans and lease liabilities approximates fair value as they bear a market rate of interest.

The Company's exposures and the impact on its financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and receivables. Cash is held on hand and with state banks (\$384,893 and \$363,589 cash on hand as of March 31, 2019 and December 31, 2018, respectively), from which management believes the risk of loss is remote. Receivables relate primarily to tenant improvements costs incurred with respect to leased facilities and was collected subsequent to the period ended March 31, 2019. The Company does not have significant credit risk with respect to customers. The Company's maximum credit risk exposure is equivalent to the carrying value of these instruments. The Company has been granted licenses pursuant to the laws of the states of Arizona, Massachusetts, Maryland, Minnesota, New Mexico, Nevada, New York, Pennsylvania, and Rhode Island with respect to cultivating marijuana. Presently, this industry is illegal under United States federal law. The Company has, and intends, to adhere strictly to the state statutes in its operations.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2019, the Company's financial liabilities consist of accounts payable and accrued liabilities, debt, and lease liabilities. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis. Historically, the Company's main source of funding has been additional funding from shareholders. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity financing.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Company is not exposed to currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company currently does not carry variable interest-bearing debt. It is management's opinion that the Company is not exposed to significant interest rate risk.

Price risk

Price risk is the risk of variability in fair value due to movements in shareholders' equity or market prices.

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

16. CAPITAL RISK MANAGEMENT

The Company defines capital as shareholders' equity. The Company manages its capital structure and makes adjustments in order to have the funds available to support its operating activities.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its business. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new equity instruments, new debt, or acquire and/or dispose of assets. The Company's ability to continue as a going concern is dependent upon the continued financial support of its shareholders, future profitable operations, the lack of adverse political developments in the United States with respect to cannabis legislation, and securing additional financing.

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the three months ended March 31, 2019. The Company is not subject to externally imposed capital requirement.

17. SEGMENTED INFORMATION

The Company operates in one reportable segment being the cultivation, production, and sale of medical cannabis.

The cannabis cultivation and production segment is the manufacturing and sales of refined cannabis products, which has operations in Maryland, Minnesota, New York, and Pennsylvania.

The Company's chief operating decision makers are the CEO and CFO. They review the operations and performance of the Company.

Non-current non-financial assets based on geographical location is as follows:

As at March 31, 2019	USA	Canada	Total
Property and equipment	\$ 27,974,850	\$ 1,132	\$ 27,975,982
Deposits	2,238,512	-	2,238,512
Intangible assets	30,962,894	-	30,962,894
	<u>\$ 61,176,256</u>	<u>\$ 1,132</u>	<u>\$ 61,177,388</u>
As at March 31, 2018			
Property and equipment	\$ 22,847,283	\$ -	\$ 22,847,283
Deposits	2,259,735	-	2,259,735
Intangible assets	2,204,983	-	2,204,983
	<u>\$ 27,312,001</u>	<u>\$ -</u>	<u>\$ 27,312,001</u>

Operating results based on geographical location is as follows:

Three Month Period Ended March 31, 2018	USA	Canada	Total
Revenue	\$ 5,777,792	\$ -	\$ 5,777,792
Three Month Period Ended March 31, 2019			
Revenue	\$ 3,678,475	\$ -	\$ 3,678,475

VIRO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

18. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having the authority and responsibility of planning, directing, and executing the activities of the Company. The Company has determined that its key management personnel consist of the Company's Chief Executive Officer, Chief Operating Officer and Chief Financial Officer.

Key management personnel compensation during the three month period ended March 31, 2019 and 2018 were as follows:

	March 31, 2019		March 31, 2018	
Salaries and Wages	\$	257,692	\$	179,661
Share Based Compensation		139,374		259,840
Total	\$	397,066	\$	439,501

As at March 31, 2019, \$36,778 (December 31, 2018 - \$nil) was due from related parties. These amounts are unsecured, non-interest bearing, and due on demand.

19. SUPPLEMENTARY CASH FLOW INFORMATION

Non-cash activities during the three month period ended March 31, 2019 and 2018 were as follows:

	2019		2018	
Biological assets transferred to inventory	\$	5,538,782	\$	3,984,982
Transfer of members capital to share capital on conversion to C corp	\$	-	\$	23,268,508
Deferred tax incurred on conversion to C corp	\$	-	\$	4,255,000
Right of use assets on adoption of IFRS 16	\$	3,459,762	\$	-
Lease obligation on adoption of IFRS 16	\$	3,730,853	\$	-
Multiple voting shares issued in acquisitions	\$	20,030,675	\$	-
Subordinate voting shares issued in RTO Transaction	\$	2,999,986	\$	-
Deferred acquisition costs	\$	1,221,373	\$	-
Fair value of brokers warrants	\$	1,723,946	\$	-

20. SUBSEQUENT EVENTS

Subsequent to the nine month period ended March 31, 2019:

- On April 5, 2019, the Company acquired 73 acres of undeveloped land in the Town of Holland, Massachusetts, for use by Mayflower to cultivate, process and sell cannabis upon completion of necessary approvals and authorizations. The purchase price was \$1,309,948.70 paid in cash.
- On April 11, 2019, the Company completed the 100% acquisition of MJ Distributing C201, LLC and MJ Distributing P132, LLC ("MJ Distributing") which hold licenses to cultivate and distribute, respectively, medical cannabis in the state of Nevada. The Company closed in escrow pending the Department of Taxation's approval of change of ownership. The acquisition was accounted for in accordance with IFRS 3, "Business Combinations" ("IFRS 3"). As consideration, the Company paid cash of \$1,500,000 and issued convertible promissory notes in the total principal amount of \$2,500,000, with maturity dates of April 30, 2021, unless sooner repaid or converted into 8,403 multiple voting shares of the Company, bearing interest at four percent (4%) per annum for the first six (6) months and at eight percent (8%) per annum thereafter. As at December 31, 2018, the Company had paid \$550,000 in non-refundable deposits related to the acquisition.

VIREO HEALTH INTERNATIONAL, INC. (FORMERLY DARIEN BUSINESS DEVELOPMENT CORP.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(unaudited)

For the Three Month Period Ended March 31, 2019 and 2018

(Expressed in United States Dollars)

20. SUBSEQUENT EVENTS (cont'd)

The purchase price allocation for the acquisition, reflects various fair value estimates and analyses which are subject to change within the measurement period. The primary areas of the purchase price allocation that are subject to change relate to the fair values of certain tangible assets, the valuation of intangible assets acquired, and residual goodwill. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that the Company determines to be material will be applied retrospectively to the period of acquisition in the Company's consolidated financial statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could also be affected.

- On May 14, 2019, the Company entered into a sale and leaseback transaction for a cultivation and manufacturing facility in Pennsylvania whereby the Company sold the facility for net proceeds of \$1,018,123. The lease agreement is for 15 years with two options to extend for an additional five years respectively. As at March 31, 2019, a total of \$852,871 was included in construction in progress related to this facility.