

VIREO HEALTH INTERNATIONAL, INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended
March 31, 2020 and 2019
(unaudited)

(Expressed in United States Dollars)

VIREO HEALTH INTERNATIONAL, INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

As at March 31, 2020 and December 31, 2019

(Unaudited - Expressed in United States Dollars)

	<i>Note</i>	March 31, 2020	December 31, 2019
ASSETS			
Current Assets			
Cash		\$ 11,729,866	\$ 7,641,673
Restricted Cash		1,592,500	1,592,500
Receivables		859,212	1,025,963
Inventories	5	30,460,205	32,437,308
Biological Assets	6	16,334,123	6,134,209
Prepaid Expenses		1,151,981	2,285,548
Deferred acquisition costs		28,136	28,136
		62,156,023	51,145,337
Long-Term Assets			
Right of Use Assets	7	32,019,710	25,921,603
Property and Equipment	7	13,533,060	13,326,337
Deposits		2,626,366	2,651,366
Deferred Loss on Sale Leaseback		-	30,481
Goodwill	13	3,132,491	3,132,491
Intangible Asset	13	8,847,047	9,001,237
		60,158,674	54,063,515
Total Assets		\$ 122,314,697	\$ 105,208,852
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable and Accrued Liabilities		\$ 4,285,630	\$ 3,140,086
Current portion of Right of Use Liability	9	480,610	619,827
Derivative Liability	10	2,229,101	-
		6,995,341	3,759,913
Long-Term Liabilities			
Deferred Income Taxes		6,767,000	4,528,000
Right of Use Liability	9	35,507,281	28,665,681
Long-Term Debt	9	1,110,000	1,110,000
Convertible debt	9	836,644	817,446
		51,216,266	38,881,040
Shareholders' Equity			
Share Capital	8	122,511,602	118,453,142
Reserves	8	10,698,447	7,962,509
Deficit		(62,111,618)	(60,087,839)
		71,098,431	66,327,812
Total Liabilities and Shareholders' Equity		\$ 122,314,697	\$ 105,208,852

Nature of operations (*Note 1*)

Subsequent events (*Note 19*)

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

VIRO HEALTH INTERNATIONAL, INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

For the Three Months Ended March 31, 2020 and 2019

(Unaudited - Expressed in United States Dollars)

	<i>Note</i>	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
REVENUE		\$ 12,118,567	\$ 5,777,792
Production Costs		(8,701,653)	(3,665,869)
Gross Profit Before Fair Value Adjustments		3,416,914	2,111,923
Realized Fair Value Amounts Included in Inventory Sold	5	(7,768,781)	(3,026,731)
Unrealized Fair Value Gain on Growth of Biological Assets	6	15,725,754	8,065,726
Gross Profit		11,373,887	7,150,918
EXPENSES			
Depreciation	7	315,278	373,779
Professional fees		729,121	574,260
Salaries and wages		3,564,715	1,152,940
Selling, general and administrative expenses		2,313,506	1,444,749
Share-Based Compensation	8	2,735,938	201,187
		9,658,558	3,746,915
OTHER INCOME (EXPENSE)			
Loss on sale of property and equipment	7	(13,800)	(484)
Interest expense		(1,712,656)	(1,023,815)
Accretion expense		(19,198)	(9,671)
Listing expense	4	-	(3,464,613)
Gain (Loss) on derivative liability	10	1,325,928	-
Inventory impairment	5	(139,008)	-
Other expense		(436,274)	(140,179)
Total Other Expense		(995,008)	(4,638,762)
INCOME (LOSS) BEFORE INCOME TAXES		720,321	(1,234,759)
Current income taxes		(505,100)	(745,000)
Deferred income taxes		(2,239,000)	(1,467,000)
PROVISION FOR INCOME TAXES		(2,744,100)	(2,212,000)
LOSS AND COMPREHENSIVE LOSS		\$ (2,023,779)	\$ (3,446,759)
Weighted Average Shares Outstanding - basic and diluted		88,519,845	59,757,979
Net Loss Per Share - basic and diluted		\$ (0.02)	\$ (0.06)

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

VIREO HEALTH INTERNATIONAL, INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2020 and 2019

(Unaudited - Expressed in United States Dollars)

	<i>Note</i>	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Cash Flows from Operating Activities:			
Net income (loss)		\$ (2,023,779)	\$ (3,446,759)
Item not affecting cash:			
Depreciation and amortization	7, 13	469,467	373,779
Loss on sale of property and equipment		13,800	484
Share-based compensation	8	2,735,938	201,187
Gain on derivative liability		(1,325,928)	-
Fair value adjustment on sale of inventory	5	7,768,781	3,026,731
Fair value adjustment on growth of biological assets	6	(15,725,754)	(8,065,726)
Interest expense		1,723,368	1,033,562
Deferred income taxes		2,239,000	1,467,000
Deferred financing costs		-	448,480
Listing expense	4	-	2,999,986
Amortization of deferred tenant improvements		-	(87,143)
Deferred gain/loss on sale leaseback		30,481	-
Changes in non-cash working capital	18	2,768,567	87,710
Cash Flows Used in Operating Activities		(1,326,059)	(1,960,709)
Cash Flows from Investing Activities:			
Purchase of property and equipment	7	(506,336)	(984,732)
Acquisition costs on business combinations and assets acquisitions, net of cash acquired		-	(12,715,901)
Deferred acquisition costs		-	(48,162)
Deposits		25,000	-
Cash Flows from Investing Activities		(481,336)	(13,748,795)
Cash Flows from Financing Activities:			
Proceeds from sale of stock, net of issuance costs	8	7,613,490	47,542,878
Lease payments	9	(183,876)	(126,251)
Interest paid	9	(1,534,026)	(930,325)
Cash Flows from Financing Activities		5,895,588	46,486,302
Net Change in Cash		\$ 4,088,193	\$ 30,776,798
Cash, Beginning of the Period		7,641,673	9,264,110
Cash, End of the Period		\$ 11,729,866	\$ 40,400,908

Supplemental cash flow information (*Note 18*)

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

VIRO HEALTH INTERNATIONAL, INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited - Expressed in United States Dollars)

	<i>Note</i>	Share Capital		Reserves	Retained Earnings (Deficit)	Total Shareholders' Equity
		Number of Shares	Amount			
Balance as of December 31, 2018		66,198,748	\$ 41,965,556	\$ 2,766,050	\$ (3,077,353)	\$ 41,654,253
Shares issued on RTO transaction	4	705,879	2,999,986	-	-	2,999,986
Shares issued in private placement		12,090,937	46,041,217	1,723,741	-	47,764,958
Acquisition of Mayflower Botanicals	12(d)	3,704,700	15,996,524	-	-	15,996,524
Acquisition of AZ entities	12(b)	1,680,600	7,594,463	-	-	7,594,463
Acquisition of Red Barn	12(c)	672,100	3,130,306	-	-	3,130,306
Equity portion of convertible debt	8	-	-	463,446	-	463,446
Shares issued on conversion of debt	8	166,500	725,090	(294,025)	-	431,065
Stock-based compensation		-	-	3,303,297	-	3,303,297
Net Loss		-	-	-	(57,010,486)	(57,010,486)
Balance as of December 31, 2019		85,219,464	\$ 118,453,142	\$ 7,962,509	\$ (60,087,839)	\$ 66,327,812
Shares issued in private placement	8	13,651,574	4,058,460	-	-	4,058,460
Share-based compensation	8	-	-	2,735,938	-	2,735,938
Net Loss		-	-	-	(2,023,779)	(2,023,779)
Balance as of March 31, 2020		98,871,038	\$ 122,511,602	\$ 10,698,447	\$ (62,111,618)	\$ 71,098,431

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

VIROE HEALTH INTERNATIONAL, INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2020 and 2019

(Unaudited - Expressed in United States Dollars)

1. NATURE OF OPERATIONS

Vireo Health International Inc. (“Vireo International” or the “Company”) was incorporated under the Alberta Business Corporations Act on November 23, 2004. On March 18, 2019, the Company completed a Reverse Takeover Transaction (“RTO”) with Vireo Health Inc. (“Vireo U.S.”), whereby the Company acquired Vireo U.S. and the shareholders of Vireo U.S. became the controlling shareholders of the Company (*Note 4*). Following the RTO, the Company is listed on the Canadian Securities Exchange (the “CSE”) under ticker symbol “VREO”.

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 Arizona, Maryland, Minnesota, New Mexico, New York, Ohio, Pennsylvania, and Rhode Island through its subsidiaries.

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 Company’s business could be materially and adversely affected by the outbreak of a widespread epidemic or pandemic or other public health crisis, including arising from the novel strain of the coronavirus known as “COVID-19.” This has resulted in significant economic uncertainty and consequently, it is difficult to reliably measure the potential impact of this uncertainty on our future financial results.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and should be read in conjunction with the Company’s audited consolidated financial statements as of and for the year ended December 31, 2019. They do not include all the information required for a complete set of International Financial Reporting Standards (“IFRS”) financial statements. However, selected explanatory notes are included to explain events and transactions deemed significant to provide an understanding of the changes in the Company’s financial position and performance since its most recent annual financial statements.

These condensed consolidated interim financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on June 14, 2020.

(b) Basis of measurement

These condensed consolidated interim financial statements have been prepared in U.S. dollars on a historical cost basis except for cash, biological assets and derivative liabilities, 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 interim financial statements have been prepared using the accrual basis of accounting.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented.

(a) Critical accounting estimates and judgements

The application of the Company’s accounting policies requires management to make judgements, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes

VIROO HEALTH INTERNATIONAL, INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2020 and 2019

(Unaudited - Expressed in United States Dollars)

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:

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.

Estimated useful lives, impairment considerations and amortization of intangible assets

Amortization of intangible assets is dependent upon estimates of useful lives based on management's judgement.

Goodwill and indefinite life intangible asset impairment testing requires management to make estimates in the impairment testing model. On an annual basis, the Company tests whether goodwill and indefinite life intangible assets are impaired.

Impairment of definite-lived assets is influenced by judgement in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses.

The recoverable value of indefinite and definite long-lived assets is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

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 plant up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields of the cannabis plant. In calculating final inventory values, management is required to determine an estimated fail rate and compare the inventory cost to estimated net realizable value.

Expected credit loss

Management determines expected credit loss by evaluating individual receivable balances and considering customers' financial condition and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as income when received. All receivables are expected to be collected within one year of the year ended.

Intangible assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite life intangible assets is recognized on a straight-line basis over their estimated useful lives.

Impairment of long-lived assets

Long-lived assets, including property and equipment and intangible assets, are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs of disposal, 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

VIRO HEALTH INTERNATIONAL, INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2020 and 2019

(Unaudited - Expressed in United States Dollars)

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.

Derivative Liabilities

The fair value of the derivative liability is subject to assumptions. The valuation of the derivative liability is valued using pricing models such as the Black-Scholes valuation model. The valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the derivative liability has characteristics significantly different from those of traded options and because the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in estimates in future periods could be significant.

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.

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 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.

Business combinations

Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. In determining the allocation of the purchase price in a business combination, including any acquisition-related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is re-measured at subsequent reporting dates in accordance with IAS 39, or IAS 37, as appropriate, with corresponding gain or loss being recognized in profit or loss.

The Company measures all assets acquired and liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acquiree are measured on the basis of the non-controlling interests' proportionate share of this equity in the acquiree's identifiable net assets. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess aggregate of (a) the consideration transferred to obtain control, the amount of any non-controlling interest in the acquiree over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

(b) New or amended standards adopted effective January 1, 2020

The Company has not adopted any new or amended IFRS standards during the period ended March 31, 2020.

VIREO HEALTH INTERNATIONAL, INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2020 and 2019

(Unaudited - Expressed in United States Dollars)

4. REVERSE TAKE-OVER

On March 18, 2019, Vireo U.S. completed the reverse take-over transaction of Vireo Health International Inc. (formerly Darien Business Development Corp. or “Darien”) (the “Transaction”) whereby Vireo U.S. acquired all of the issued and outstanding shares of Darien. Following the completion of the Transaction, the former shareholders of Vireo U.S. acquired control of the Company, as they own a majority of the outstanding shares of the Company upon completion of the Transaction.

As the Transaction did not meet the definition of a business under IFRS, the Transaction was outside of the scope of IFRS 3, Business Combinations, and was accounted for as a share-based payment transaction in accordance with IFRS 2, Share-based Payments (“IFRS 2”). Under IFRS 2, the Transaction was measured at the fair value of the shares deemed to have been issued by Vireo U.S. in order for the ownership interest in the combined entity to be the same as if the transaction had taken the legal form of Vireo U.S. acquired 100% of Darien. Any difference between the fair value of the shares deemed to have been issued by Vireo U.S. and the fair value of Darien’s identifiable net assets acquired represents the value of the public listing received by Vireo U.S.

The Company recorded a listing expense* of \$3,562,883 in the consolidated statement of comprehensive loss, the details of which are as follows:

Consideration paid:		
705,879 subordinate voting shares	\$	2,999,986
Transaction costs		568,277
Total Consideration	\$	3,568,263
Fair value of net assets acquired:		
Cash	\$	428
Receivables		7,012
Prepaid expenses		7,715
Accounts payable and accrued liabilities		(9,775)
Net assets assumed	\$	5,380
Listing Expense*	\$	3,562,883

* During the year ended December 31, 2019, \$98,270 in transaction costs previously netted against the equity proceeds of the reverse take-over transaction were reclassified as a listing expense to flow through the statement of comprehensive loss.

5. INVENTORIES

Inventory is comprised of:

	March 31, 2020	December 31, 2019
Work in process - harvested cannabis bud and trim	\$ 10,871,216	\$ 10,765,599
Work in process - cannabis oil	10,240,329	13,534,434
Finished goods - cannabis	8,875,249	7,791,081
Accessories	83,962	323,880
Packaging Materials	389,449	22,314
	\$ 30,460,205	\$ 32,437,308

Cost of inventory is recognized as an expense when sold and included in cost of goods sold. Included in costs of goods sold for the three months ended March 31, 2020, is \$7,768,781 (2019 - \$3,026,731) from changes in fair value of biological assets which was transferred to inventory upon harvest. The Company recorded an inventory impairment for the three months ended March 31, 2020 of \$139,008 (2019 - \$nil).

VIRO HEALTH INTERNATIONAL, INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the Three Months Ended March 31, 2020 and 2019

(Unaudited - Expressed in United States Dollars)

6. BIOLOGICAL ASSETS

Biological assets are comprised of:

	Capitalized Costs	Fair Value Adjustment	Balance
December 31, 2018	\$ 938,038	\$ 5,029,112	\$ 5,967,150
Fair value adjustment on growth of biological assets	-	21,209,166	21,209,166
Purchased as part of acquisition (<i>Note 12</i>)	1,651,452	-	1,651,452
Production costs capitalized	10,446,443	-	10,446,443
Transferred to inventory upon harvest	(9,572,130)	(23,567,872)	(33,140,002)
December 31, 2019	\$ 3,463,803	\$ 2,670,406	\$ 6,134,209
Fair value adjustment on growth of biological assets	-	15,725,754	15,725,754
Production costs capitalized	3,050,405	-	3,050,405
Transferred to inventory upon harvest	(2,980,556)	(5,595,689)	(8,576,245)
March 31, 2020	\$ 3,533,652	\$ 12,800,471	\$ 16,334,123

As of March 31, 2020, and December 31, 2019, the carrying value of biological assets consisted entirely of live cannabis plants.

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:

- i) 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
- ii) Percentage of completion – represents the percentage of total expected costs incurred from growing biological assets as of the measurement date.
- iii) Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant
- iv) Wastage – represents the weighted average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested
- v) 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, 2020	December 31, 2019	10% Change as of 3/31/2020	10% Change as of 12/31/2019
Selling price	\$ 9.04	\$ 11.11	\$ 3,546,000	\$ 4,224,000
% of Completion	65%	66%	\$ 1,616,000	\$ 613,000
Yield by plant (grams)	151	159	\$ 1,658,000	\$ 614,000
Wastage	16%	17%	\$ (75,000)	\$ (55,000)
Post-harvest costs	\$ 1.60	\$ 2.89	\$ (1,244,000)	\$ (1,699,000)

Biological assets were on average at a less advanced stage of growth in 2020 (65% complete) compared to December 31, 2019 (66% complete). 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).

VIREO HEALTH INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019
(Unaudited - Expressed in United States Dollars)

7. PROPERTY AND EQUIPMENT AND RIGHT OF USE ASSETS

	Land	Building & Improvements	Furniture & Equipment	Software	Vehicles	Construction in Progress	Assets under Capital Lease	Total
Cost								
Balance December 31, 2018	\$ -	\$ 3,586,255	\$ 2,508,454	\$ 105,968	\$ 171,517	\$ 1,575,907	\$ 17,083,758	\$ 25,031,859
Adoption of IFRS 16	-	-	-	-	-	-	(17,083,758)	(17,083,758)
Additions	1,309,949	1,141,470	2,344,506	-	227,785	2,667,043	-	7,690,753
Acquisitions	-	795,655	310,770	-	-	-	-	1,106,425
Disposals	-	-	(81,314)	-	-	(978,248)	-	(1,059,562)
Balance December 31, 2019	\$ 1,309,949	\$ 5,523,380	\$ 5,082,416	\$ 105,968	\$ 399,302	\$ 3,264,702	\$ -	\$ 15,685,717
Additions	-	32,466	135,503	13,337	-	325,030	-	506,336
Disposals	-	-	-	-	-	(13,800)	-	(13,800)
Balance March 31, 2020	\$ 1,309,949	\$ 5,555,846	\$ 5,217,919	\$ 119,305	\$ 399,302	\$ 3,575,932	\$ -	\$ 16,178,253
Depreciation								
Balance December 31, 2018	\$ -	\$ 714,963	\$ 556,704	\$ 103,395	\$ 38,006	\$ -	\$ 771,508	\$ 2,184,576
Adoption of IFRS 16	-	-	-	-	-	-	(771,508)	(771,508)
Additions	-	237,432	675,697	2,573	66,699	-	-	982,401
Disposals	-	-	(36,089)	-	-	-	-	(36,089)
Balance December 31, 2019	\$ -	\$ 952,395	\$ 1,196,312	\$ 105,968	\$ 104,705	\$ -	\$ -	\$ 2,359,380
Additions	-	215,770	48,967	1,111	19,965	-	-	285,813
Disposals	-	-	-	-	-	-	-	-
Balance March 31, 2020	\$ -	\$ 1,168,165	\$ 1,245,279	\$ 107,079	\$ 124,670	\$ -	\$ -	\$ 2,645,193
Net book Value								
Carrying Amount December 31, 2019	\$ 1,309,949	\$ 4,570,985	\$ 3,886,104	\$ -	\$ 294,597	\$ 3,264,702	\$ -	\$ 13,326,337
Carrying Amount March 31, 2020	\$ 1,309,949	\$ 4,387,681	\$ 3,972,640	\$ 12,226	\$ 274,632	\$ 3,575,932	\$ -	\$ 13,533,060

VIREO HEALTH INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019
(Unaudited - Expressed in United States Dollars)

The Company initially adopted IFRS 16 effective January 1, 2019, whereby the amount recognized as a right-of-use asset was equal to the present value of the future lease payments due under outstanding leases at January 1, 2019. The right-of-use assets are being depreciated on a straight-line basis over the remaining term of the underlying lease as there are no options to acquire or otherwise transfer ownership of the underlying asset to the Company at the end of the lease term. Right of use assets consist of the following:

	Right of Use
Balance, January 1, 2019	\$ 21,727,835
Acquisition	207,096
Additions	6,206,226
Depreciation	(2,219,554)
Balance, December 31, 2019	\$ 25,921,603
Additions	6,715,280
Depreciation	(617,173)
Balance, March 31, 2020	32,019,710

During the three months ended March 31, 2020, \$315,278 (2019 - \$373,779) in depreciation expense was included in the statement of loss and \$587,708 (2019 - \$59,995) was capitalized to biological assets relating to property and equipment and right of use assets.

8. SHARE CAPITAL

(a) Authorized

The Company has authorized an unlimited number of Subordinate Voting Shares, Multiple Voting Shares, and Super Voting Shares, all with no par value. All share classes are included within share capital in the consolidated statements of shareholders' equity on an as converted basis. Each share class is entitled to notice of and to attend at any meeting of the shareholders, except a meeting of which only holders of another particular class of shares will have the right to vote. All share classes are entitled to receive dividends, as and when declared by the Company, on an as-converted basis, and no dividends will be declared by the Company on any individual class unless the Company simultaneously declares or pays dividends on all share classes. No subdivision or consolidation of any share class shall be made without simultaneously subdividing or consolidating all share classes in the same manner.

Subordinate Voting Shares

Holders of Subordinate Voting Shares are entitled to one vote in respect of each Subordinate Voting Share held.

Multiple Voting Shares

Holders of Multiple Voting Shares will be entitled to one hundred votes for each Multiple Voting Share held. Multiple Voting Shares each have the restricted right to convert to one hundred Subordinate Voting Shares subject to adjustments for certain customary corporate changes.

Super Voting Shares

Holders of Super Voting Shares will be entitled to ten votes in respect of each Subordinate Voting Share into which such Super Voting share could ultimately then be converted, which for greater certainty, shall initially equal one thousand votes per Super Voting Share. Each super voting share shall be convertible into one Multiple Voting Share.

VIREO HEALTH INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019
(Unaudited - Expressed in United States Dollars)

(b) Issued and outstanding

At March 31, 2020 the Company has 37,952,477 shares issued and outstanding, as follows:

Series	Shares Outstanding	As Converted to SVS Shares
Subordinate Voting Shares (“SVS”)	37,337,138	37,337,138
Multiple Voting Shares (“MVS”)	549,928	54,992,800
Super Voting Shares	65,411	6,541,100
Total	37,952,477	98,871,038

On conversion to a C corporation, 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 have a par value of \$0.0001 per share.

(c) Transactions during the three months ended March 31, 2020:

- i) On March 9, 2020, the Company closed the first tranche of a non-brokered private placement and issued 13,651,574 Units at a price of C\$ \$0.77 per Unit. Each Unit is comprised of one subordinate voting share of the Company and one subordinate voting share purchase warrant. Each warrant entitles the holder to purchase one subordinate voting share for a period of three years from the date of issuance at an exercise price of C\$ \$0.96 per subordinate voting share. The Company has the right to force the holders of the Warrants to exercise the Warrants into Shares if, prior to the maturity date, the five-trading-day volume weighted-average price of the Shares equals or exceeds C\$ \$1.44. Proceeds from this transaction were \$7,613,490 net of share issuance costs of \$104,173.

Because of the Canadian dollar denominated exercise price, these warrants do not qualify to be classified within equity and are therefore classified as derivative liabilities at fair value through profit or loss “FVTPL”. On March 9, 2020, the warrants were valued using the Black Scholes option pricing model at \$3,555,030 using the following assumptions: Share Price: USD 0.52; Exercise Price: USD 0.70; Expected Life: 3 years; Annualized Volatility: 90%; Dividend yield: 0%; Discount Rate: 0.38%; C\$ Exchange Rate: 1.37.

On March 31, 2020, the warrants were revalued using the Black Scholes option pricing model. The change in value is reflected in the statement of comprehensive loss. Refer to *Note 10* for additional detail.

(d) Transactions during the year ended December 31, 2019:

- i) The Company issued 12,090,937 Subordinate Voting Shares of the Company at \$4.25 per share for gross proceeds of \$51,386,482. In connection with the financing, the Company paid a cash fee to the agents equal to \$2,826,739 and the agents were granted a combined 763,111 in compensation warrants. The agent’s compensation 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 \$379,785. Of total costs, \$448,840 was incurred during the year ended December 31, 2018. The compensation warrants have been valued at \$1,723,741 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%.
- ii) The Company issued 705,879 Subordinate Voting Shares with a fair value of \$2,999,986 as part of the RTO Transaction (*Note 4*) in exchange for all outstanding shares of Vireo U.S.
- iii) The Company acquired all 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 (equivalent of 1,680,600 SVS shares) of the Company with a fair value of \$7,594,463 (*Note 12(b)*).

VIREO HEALTH INTERNATIONAL, INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the Three Months Ended March 31, 2020 and 2019

(Unaudited - Expressed in United States Dollars)

- iv) The Company acquired all the assets of Silver Fox Management Services, LLC. As consideration, the Company paid cash, issued 6,721 Multiple Voting Shares (equivalent of 672,100 SVS shares) with a fair value of \$3,130,306 (*Note 12(c)*).
- v) 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 (equivalent of 3,032,500 SVS shares) with a fair value of \$13,094,032. The Company issued 6,722 Multiple Voting Shares (equivalent of 672,200 SVS shares) as a finder's fee on the acquisition. The shares issued had a fair value of \$2,902,492 (*Note 12(d)*).
- vi) The Company converted a convertible note to equity (*Note 9*). The Company converted a note with a face value of \$700,000 and a carrying value of \$431,065 into 1,665 Multiple Voting Shares (equivalent of 166,500 SVS shares). On conversion, \$294,025 was transferred from reserves to share capital.
- vii) The Company redeemed 26,699 Multiple Voting Shares and converted them into 2,669,900 subordinate voting shares.

(e) 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.

	Options Outstanding		Weighted Avg. Exercise Price
Balance, December 31, 2018	22,215,547	\$	0.29
Forfeitures	(225,040)		0.33
Granted	1,672,093		1.13
Balance, December 31, 2019	23,662,600		0.35
Forfeitures	(1,109,972)		0.39
Granted	175,949		1.50
Balance March 31, 2020	22,728,577	\$	0.35

VIREO HEALTH INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019
(Unaudited - Expressed in United States Dollars)

As at March 31, 2020 the Company has the following options outstanding and exercisable:

Grant Date	Exercise Price	Options Outstanding	Options Exercisable	Weighted Average Life Remaining (years)
January 1, 2018	\$ 0.19	6,648,307	5,814,674	7.76
May 1, 2018	\$ 0.33	775,193	775,193	3.09
May 1, 2018	\$ 0.33	3,725,532	3,725,532	3.09
May 1, 2018	\$ 0.33	5,123,881	2,591,476	8.09
October 1, 2018	\$ 0.33	853,262	520,396	8.51
November 5, 2018	\$ 0.33	-	-	-
December 20, 2018	\$ 0.33	3,833,111	1,349,278	8.69
December 2, 2019	\$ 1.13	1,593,342	6,518	9.64
January 1, 2020	\$ 1.13	60,949	-	9.53
January 31, 2020	\$ 1.70	115,000	115,000	9.15
Total		22,728,577	14,898,067	7.24

During the three months ended March 31, 2020, the Company recognized \$372,125 in share-based compensation (2019 - \$201,187) relating to stock options vesting. In determining the amount of share-based compensation related to options issued during the period, the Company used the Black-Scholes option pricing model to establish fair value of options granted:

	March 31, 2020	March 31, 2019
Risk-Free Interest Rate	1.37% - 1.48%	N/A
Expected Life of Options (years)	8.01 - 10.00	N/A
Expected Annualized Volatility	100.00%	N/A
Expected Forfeiture Rate	nil	N/A
Expected Dividend Yield	nil	N/A
Black-Scholes Value of Each Option	\$ 0.899 - 0.963	N/A

(f) Warrants

Subordinate Voting Share (SVS) warrants entitle the holder to purchase one subordinate voting share of the Company. Multiple Voting Share (MVS) warrants entitle the holder to purchase one multiple voting share of the Company. A summary of the status of the warrants outstanding is as follows:

SVS Warrants	Warrants Outstanding	Weighted Avg. Exercise Price
Balance, December 31, 2018	867,198	\$ 1.50
Issued	15,763,111	2.39
Balance December 31, 2019, and March 31, 2020	16,630,309	\$ 2.34

VIRO HEALTH INTERNATIONAL, INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2020 and 2019

(Unaudited - Expressed in United States Dollars)

MVS Warrants	Warrants Outstanding	Weighted Avg. Exercise Price
Balance, December 31, 2018	-	\$ -
Issued	13,583	194.66
Balance December 31, 2019, and Balance March 31, 2020	13,583	\$ 194.66

SVS Warrants Denominated in C\$	Warrants Outstanding	Weighted Avg. Exercise Price (C\$)
Balance, December 31, 2019	-	-
Issued	13,651,574	0.96
Balance March 31, 2020	13,651,574	\$ 0.96

These warrants have an exercise price denominated in Canadian dollars. Because of the Canadian denominated exercise price, these warrants do not qualify to be classified within equity and are therefore classified as derivative liabilities at fair value through profit or loss “FVTPL”.

As of March 31, 2020, the Company has the following warrants outstanding and exercisable:

Grant Date	Exercise Price	Warrants Outstanding	Warrants Exercisable	Weighted Average Life Remaining (years)
July 20, 2018 ⁽¹⁾	\$ 1.50	509,241	509,241	0.30
July 20, 2018 ⁽¹⁾	\$ 1.50	294,047	294,047	0.30
July 20, 2018 ⁽¹⁾	\$ 1.50	18,903	18,903	0.30
October 24, 2018 ⁽¹⁾	\$ 1.50	45,007	45,007	0.56
March 18, 2019 ⁽¹⁾	\$ 4.25	763,111	763,111	0.96
March 29, 2019 ⁽²⁾	\$ 297.50	1,695	847	0.99
September 11, 2019 ⁽²⁾	\$ 180.00	11,888	11,888	2.45
November 7, 2019 ⁽¹⁾	\$ 1.02	10,000,000	-	4.60
November 7, 2019 ⁽¹⁾	\$ 3.81	2,500,000	-	4.60
November 7, 2019 ⁽¹⁾	\$ 5.86	2,500,000	-	4.60
March 9, 2020 ⁽³⁾	C\$ 0.96	13,651,574	13,651,574	2.94
		30,295,466	15,294,618	4.09

⁽¹⁾ Consists of SVS warrants

⁽²⁾ Consists of MVS warrants

⁽³⁾ Consists of SVS warrants denominated in C\$

During the year ended December 31, 2019, the Company issued 15,000,000 SVS compensation warrants. During the three months ended March 31, 2020, \$2,309,596 in share-based compensation expense was recorded in connection with the SVS compensation warrants vesting during the period.

During the year ended December 31, 2019, the Company issued 13,583 MVS warrants and recorded \$54,217 in share-based compensation in connection with the MVS warrants for the three months ended March 31, 2020 vesting during the period.

VIREO HEALTH INTERNATIONAL, INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the Three Months Ended March 31, 2020 and 2019

(Unaudited - Expressed in United States Dollars)

In determining the amount of the warrant compensation expense related to SVS and MVS warrants issued during the three months ended March 31, 2020 and 2019, and to revalue the SVS warrants with a CAD denominated exercise price, the Company used the Black-Scholes option pricing model to establish fair value of warrants issued on their measurement date by applying the following weighted average assumptions:

	March 31, 2020	March 31, 2019
SVS Warrants		
Risk-Free Interest Rate	N/A	2.31%
Expected Life of Options (years)	N/A	2.00
Expected Annualized Volatility	N/A	100%
Expected Forfeiture Rate	N/A	nil
Expected Dividend Yield	N/A	nil
Black-Scholes Value of Each Warrant	N/A	\$ 2.259

	March 31, 2020	March 31, 2019
MVS Warrants		
Risk-Free Interest Rate	N/A	2.31%
Expected Life of Options (years)	N/A	2.00
Expected Annualized Volatility	N/A	100%
Expected Forfeiture Rate	N/A	nil
Expected Dividend Yield	N/A	nil
Black-Scholes Value of Each Warrant	N/A	266.87

	March 31, 2020	March 31, 2019
SVS Warrants Denominated in CAD		
Risk-Free Interest Rate	0.23%	N/A
USD to CAD Exchange Rate	1.41	N/A
Expected Life of Options (years)	2.94	N/A
Expected Annualized Volatility	90%	N/A
Expected Forfeiture Rate	nil	N/A
Expected Dividend Yield	nil	N/A
Black-Scholes Value of Each Warrant (USD)	\$ 0.163	N/A

9. DEBT AND LEASE OBLIGATIONS**(a) Long-term debt**

	March 31, 2020	December 31, 2019
Beginning of year	\$ 1,110,000	\$ 1,010,000
Proceeds	-	100,000
End of year	\$ 1,110,000	\$ 1,110,000
Less: Current portion	-	-
Long-term debt	\$ 1,110,000	\$ 1,110,000

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. Effective November 13, 2019, the Company's promissory note payable in the amount of \$1,010,000 was modified to increase the amount payable to \$1,110,000 and extended the maturity date to December 31, 2021.

VIREO HEALTH INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019
(Unaudited - Expressed in United States Dollars)

(b) Convertible debt

	March 31, 2020	December 31, 2019
Opening balance	\$ 817,446	\$ -
Additions	-	1,650,000
Equity component of convertible debt	-	(463,446)
Accretion of loan discount	19,198	52,096
Accrued interest	-	9,861
Conversion to MVS shares	-	(431,065)
Ending balance	\$ 836,644	\$ 817,446
Less: Current portion	-	-
Long-term debt	\$ 836,644	\$ 817,446

During the year ended December 31, 2019, the Company issued a convertible promissory note payable in the amount \$700,000 in connection with the acquisition of High Gardens, Inc. (*Note 12(a)*). The note bears interest at 3% per annum with interest payments required on a monthly basis. All the unpaid principal balance of this note shall be converted to shares of the Company at the option of the holder of the note. The Company recognized \$294,025 as the equity portion of the convertible debt. The loan was converted into 1,655 multiple voting shares during the year ended December 31, 2019 (*Note 8*).

During the year ended December 31, 2019, the Company signed a convertible promissory note payable in the amount \$900,000 in connection with the acquisition of XAAS Agro, Inc. (*Note 12(e)*). The note bears interest at 5% per annum with interest payments required on a monthly basis. All the unpaid principal balance of this note shall be converted to shares of the Company at the option of the holder or the Company. The Company recognized \$154,697 as the equity portion of the convertible debt. The loan is repayable in full in June 2021.

During the year ended December 31, 2019, the Company signed two convertible promissory notes payable in the amount \$25,000 each in connection with the acquisition of Midwest Hemp Research, LLC (*Note 12(f)*). The notes bear interest at 2.76% per annum with interest payments required on a monthly basis. All of the unpaid principal balance of these notes shall be converted to shares of the Company at the option of the holder or the Company. The Company recognized \$14,724 as the equity portion of the convertible debts. The loans are repayable in full in December 2021.

During the year ended December 31, 2019, the Company signed two separate convertible promissory notes payable in the amount \$1,250,000 each in connection with the acquisition of MJ Distributing, Inc. (*Note 12(g)*). The note bears interest at 4% per annum for the first six months and 8% per annum thereafter with interest payments required on a monthly basis. All the unpaid principal balance of this note shall be converted to shares of the Company at the option of the holder or the Company. The loan is repayable in full in April 2021. The acquisition of MJ Distributing, Inc. has yet to close as at March 31, 2020, and as such the convertible promissory notes payable have yet to be recorded.

VIREO HEALTH INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019
(Unaudited - Expressed in United States Dollars)

(c) Lease obligations

	March 31, 2020	December 31, 2019
Opening balance	\$ 29,285,508	\$ 17,301,115
Adoption of IFRS 16	-	5,686,676
Acquired through acquisitions <i>(Note 12(b) and (c))</i>	-	207,096
Additions	6,716,114	6,206,226
Interest	1,492,401	4,486,403
Interest Payments	(1,492,401)	(4,486,403)
Interest Accretion	170,145	501,540
Principal Payments	(183,876)	(617,145)
Ending balance	\$ 35,987,891	\$ 29,285,508
Less: Current portion	(480,610)	(619,827)
Long-term debt	\$ 35,507,281	\$ 28,665,681

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

	March 31, 2020
2020	\$ 5,147,901
2021	6,892,860
2022	7,096,301
2023	7,237,728
2024	7,420,482
Thereafter	100,472,444
Total minimum lease payments	134,267,716
Effect of discounting	(98,279,825)
Present value of minimum lease payments	35,987,891
Current portion lease obligations	(480,610)
Long term lease obligations	\$ 35,507,281

The Company has entered into various lease agreements for the use of buildings used in production and retail sales of cannabis products.

On January 14, 2020 the Company signed a second amendment to the existing lease agreements for the cultivation and manufacturing facilities in Pennsylvania. Under the terms of the second amendment, the term of the lease was extended to December 7, 2038 and provides for additional tenant improvements of up to \$8,336,670. The amended agreement for the cultivation and manufacturing facility in Minnesota requires regular monthly payments of \$182,419.

During the year ended December 31, 2019, the Company entered into sale and leaseback transactions for Cultivation Facilities. As part of the transaction, the Company entered a lease agreement for the Cultivation Facilities as follows:

- The lease agreement for a processing and manufacturing facility in Ohio with a fair value of \$1,018,123 is for 15 years with two consecutive options to extend for an additional 5 years each. The effective interest rate on the lease is 15% and requires regular monthly payments of \$42,000, which increase by 3.5% each year. Principal repayments begin in 2028. The lease also provides for a Tenant Improvement (“TI”) allowance up to \$2,581,887.

VIREO HEALTH INTERNATIONAL, INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2020 and 2019

(Unaudited - Expressed in United States Dollars)

- On September 25, 2019 the Company signed a second amendment to the existing lease agreements for the cultivation and manufacturing facilities in Minnesota. Under the terms of the second amendment, the term of the lease was extended to December 7, 2038 and provides for additional tenant improvements of up to \$5,588,000. The amended agreement for the cultivation and manufacturing facility in Minnesota requires regular monthly payments of \$111,263.
- The amended agreement for the cultivation and manufacturing facility in Minnesota requires regular monthly payments of \$111,263 which increases by 3.5% each year beginning in October 2019 over the remaining term of the agreement. Principal repayments begin in 2024. The agreement has two optional consecutive options to extend for an additional 5 years. Also, the amendment provides for additional tenant improvement (TI) allowance up to \$5,588,000.

10. DERIVATIVE LIABILITIES

On March 9, 2020, the Company closed the first tranche of a non-brokered private placement and issued 13,651,574 Units at a price of C\$ \$0.77 per Unit. Each Unit is comprised of one subordinate voting share of the Company and one subordinate voting share purchase warrant.

Because of the Canadian denominated exercise price, these warrants do not qualify to be classified within equity and are therefore classified as derivative liabilities at fair value through profit or loss "FVTPL". On March 9, 2020, the warrants were valued using the Black Scholes option pricing model at \$3,555,029 using the following assumptions: Share Price: USD 0.52; Exercise Price: USD 0.70; Expected Life: 3 years; Annualized Volatility: 90%; Dividend yield: 0%; Discount Rate: 0.38%; C\$ Exchange Rate: 1.37.

March 31, 2020, the warrants were subsequently revalued using the Black Scholes option pricing model at \$2,229,101 using the following assumptions: Share Price: USD 0.38; Exercise Price: USD 0.68; Expected Life: 2.94 years; Annualized Volatility: 90%; Dividend yield: 0%; Discount Rate: 0.23%; C\$ Exchange Rate: 1.41. The resulting gain upon revaluation of \$1,325,928 is reflected in the statement of comprehensive loss.

11. ASSESSMENT OF CONTINGENT LIABILITIES

(a) 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. As of March 31, 2020, 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.

(b) 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 believes that the Company is in compliance with applicable local and state regulation as of March 31, 2020, medical marijuana 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.

12. BUSINESS COMBINATIONS AND ASSET ACQUISITIONS

(a) High Gardens, Inc.

On January 4, 2019, the Company acquired all of the issued and outstanding shares of High Gardens, Inc. The purpose of this acquisition was to acquire a medical marijuana license in the State of Rhode Island. The acquisition was financed with cash on hand and borrowings. The acquisition was accounted for as an asset acquisition in accordance with IFRS 3, and related operating results are included in the accompanying consolidated statements of operations, changes in shareholders' equity, and statement of cash flows commencing from the date of acquisition.

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

Consideration paid:	
Cash	\$ 300,000
Convertible Debt (<i>Note 9</i>)	700,000
Transaction costs	26,256
	<u>\$ 1,026,256</u>
Fair value of net assets acquired:	
Intangible asset	<u>\$ 1,026,256</u>

VIREO HEALTH INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019
(Unaudited - Expressed in United States Dollars)

(b) Elephant Head Farm, LLC and Retail Management Associates, LLC

On March 22, 2019, the Company acquired all of the equity interests of Elephant Head Farm, LLC and Retail Management Associates, LLC (collectively, the “AZ entities”). The purpose of this acquisition was to acquire the exclusive right to manage and control Arizona Natural Remedies, an Arizona nonprofit corporation with licenses to cultivate and distribute medical cannabis in the state of Arizona. The acquisition was financed with cash on hand and equity. The acquisition was accounted for as a business combination in accordance with IFRS 3, and related operating results are included in the accompanying consolidated statements of operations, changes in shareholders’ equity, and statement of cash flows for periods subsequent to the acquisition date. Revenue and net loss of the AZ entities included in the consolidated statements of operations from the acquisition date through December 31, 2019 was \$4,631,052 and \$5,415,373 respectively.

Total transaction costs related to the acquisition were approximately \$723,272, including a finders’ fee of \$620,000, and have been included in consolidated statement of operations for the year ended December 31, 2019. Goodwill arose because the consideration paid for the business acquisition reflected the benefit of expected revenue growth and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill 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 production.

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

Consideration paid:	
Cash	\$ 10,500,000
Issuance of 16,806 multiple voting shares (<i>Note 8</i>)	7,594,463
	\$ 18,094,463
Fair value of net assets acquired:	
Cash	\$ 340,507
Inventory	557,017
Biological assets	1,470,983
Other current assets	277,340
Property and equipment	1,033,135
Right of Use Asset	81,603
Intangible asset license	6,800,000
Goodwill	7,792,605
Accounts payable and accrued liabilities	(177,124)
Right of Use Liability	(81,603)
	\$ 18,094,463

VIREO HEALTH INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019
(Unaudited - Expressed in United States Dollars)

(c) Red Barn Growers

On March 25, 2019, the Company acquired substantially all of the assets of Silver Fox Management Services, LLC (“Silver Fox”) including all intellectual property, contracts, leases, license rights and inventory. The purpose of this acquisition was to acquire the exclusive right to manage and control Red Barn Growers, Inc. (“Red Barn Growers”), a New Mexico nonprofit corporation with licenses to cultivate and distribute medical cannabis in the state of New Mexico. The acquisition was accounted for in accordance with IFRS 3, and related operating results are included in the accompanying consolidated statements of operations, changes in shareholders’ equity, and statement of cash flows for periods subsequent to the acquisition date. Revenue and net loss of Red Barn Growers included in the consolidated statements of operations from the acquisition date through December 31, 2019 were approximately \$1,085,332 and \$4,022,077 respectively.

Total transaction costs related to the acquisition were approximately \$16,608 and have been included in consolidated statement of operations for the year ended December 31, 2019. Goodwill arose because the consideration paid for the business acquisition reflected the benefit of expected revenue growth and future market development. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill 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 production.

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

Consideration paid:	
Cash	\$ 2,000,000
Issuance of 6,721 multiple voting shares (<i>Note 8</i>)	<u>3,130,306</u>
	<u>\$ 5,130,306</u>
Fair value of net assets acquired:	
Cash	\$ 75,695
Inventory	369,107
Biological assets	180,469
Other current assets	497
Property and equipment	73,290
Right of Use Asset	125,493
Intangible asset license	569,400
Goodwill	3,878,300
Accounts payable and accrued liabilities	(16,452)
Right of Use Liability	<u>(125,493)</u>
	<u>\$ 5,130,306</u>

VIREO HEALTH INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019
(Unaudited - Expressed in United States Dollars)

(d) 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 purpose of this acquisition was to acquire a medical marijuana license in the State of Massachusetts. The acquisition was financed with cash on hand and equity. The acquisition was accounted for as an asset acquisition in accordance with IFRS 3, and related operating results are included in the accompanying consolidated statements of operations, changes in shareholders' equity, and statement of cash flows for periods subsequent to the acquisition date.

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

Consideration paid:	
Cash	\$ 1,001,165
Issuance of 30,325 multiple voting shares (<i>Note 8</i>)	13,094,032
Issuance of 6,722 multiple voting shares as finder's fee (<i>Note 8</i>)	2,902,492
Transaction costs	59,900
	\$ 17,057,589
Fair value of net assets acquired:	
Intangible asset license	\$ 17,057,589

(e) XAAS Agro, Inc.

On June 19, 2019, the Company completed the 100% acquisition of XAAS Agro, Inc., a Puerto Rico corporation which has licenses to cultivate and distribute medical and adult use cannabis in Puerto Rico. The purpose of this acquisition was to acquire a medical marijuana license in the territory of Puerto Rico. The acquisition was financed with cash on hand and borrowings. The acquisition was accounted for as an asset acquisition in accordance with IFRS 3, and related operating results are included in the accompanying consolidated statements of operations, changes in shareholders' equity, and statement of cash flows for periods subsequent to the acquisition date.

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

Consideration paid:	
Cash	\$ 900,000
Convertible debt (<i>Note 9</i>)	900,000
Transaction costs	91,863
	\$ 1,891,863
Fair value of net assets acquired:	
Intangible asset license	\$ 1,891,863

VIREO HEALTH INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019
(Unaudited - Expressed in United States Dollars)

(f) Midwest Hemp Research, LLC

During the year ended December 31, 2019, the Company completed the 100% acquisition of Midwest Hemp Research, LLC., a Minnesota limited liability company which has licenses to cultivate and distribute industrial hemp. The purpose of this acquisition was to acquire an industrial hemp license in the State of Minnesota. The acquisition was financed with borrowings. The acquisition was accounted for as an asset acquisition in accordance with IFRS 3, and related operating results are included in the accompanying consolidated statements of operations, changes in shareholders' equity, and statement of cash flows for periods subsequent to the acquisition date.

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

Consideration paid:	
Convertible debt (<i>Note 9</i>)	\$ 50,000
Transaction costs	12,229
	\$ 62,229
Fair value of net assets acquired:	
Intangible asset license	\$ 62,229

(g) Acquisition Pending Regulatory Approval

On April 10, 2019, the Company entered into a definitive agreement to acquire 100% of the membership interests in MJ Distributing C201, LLC and MJ Distributing P132, LLC ("MJ Distributing") which hold provisional licenses to cultivate and distribute, respectively, medical cannabis in the state of Nevada. The purpose of this acquisition was to acquire a medical marijuana license in the state of Nevada. The acquisition was financed with cash on hand and borrowings.

As of March 31, 2020, the Company had made cash deposits with the sellers and in escrow of \$1,592,500 and placed convertible promissory notes in the amount of \$2,500,000 in escrow, as consideration for the equity (*Note 9*). Additionally, as of March 31, 2020, there were deferred acquisition costs of \$28,136. The completion of the acquisition of MJ Distributing is conditional upon the Nevada Department of Taxation's approval of the change in ownership.

13. GOODWILL AND INTANGIBLE ASSETS

During the years ended December 31, 2019 and 2018 the Company acquired cannabis licenses in Arizona, Maryland, Massachusetts, New Mexico, Puerto Rico, and Rhode Island (*Note 12*). During the year ended December 31, 2019 the license and goodwill were allocated a fair value of \$39,078,242 (2018- \$2,204,982) 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.

(a) Goodwill

A summary of goodwill is as follows:

Balance, December 31, 2018	\$ -
Acquisition	11,670,905
Impairment	(8,538,414)
Balance December 31, 2019, and March 31, 2020	\$ 3,132,491

VIREO HEALTH INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019
(Unaudited - Expressed in United States Dollars)

(b) Licenses

A summary of licenses is as follows:

Balance, December 31, 2018	\$ 2,184,565
Acquisition (<i>Note 12(a),(b),(c),(d),(e) and (f)</i>)	27,407,337
Amortization	(864,229)
Impairment	(19,726,436)
Balance, December 31, 2019	9,001,237
Amortization	(154,190)
Balance, March 31, 2020	\$ 8,847,047

During the three months ended March 31, 2020, amortization of \$154,190 (2019 - \$93,680) was recorded in selling, general and administration expenses.

14. FINANCIAL RISK MANAGEMENT

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

(a) 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.

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

The fair value of the derivative liability is classified within level 3 of the fair value hierarchy (*Note 10*).

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

(b) 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. A small portion of cash is held on hand, from which management believes the risk of loss is remote. Receivables relate primarily to wholesale sales. 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, New York, Ohio, Pennsylvania, Puerto Rico and Rhode Island with respect to cultivating, processing, and/or distributing 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.

VIREO HEALTH INTERNATIONAL, INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2020 and 2019

(Unaudited - Expressed in United States Dollars)

(c) 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 of March 31, 2020, 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.

(d) Legal Risk

Vireo U.S. operates in the United States. The United States federal government regulates drugs through the Controlled Substances Act (21 U.S.C. § 811), which places controlled substances, including cannabis, in a schedule. Cannabis is classified as a Schedule I drug. Under United States 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 accepted safety for the use of the drug under medical supervision. The United States Food and Drug Administration has not approved marijuana as a safe and effective drug for any indication. In the United States marijuana is largely regulated at the state level. State laws regulating cannabis are in direct conflict with the federal Controlled Substances Act, which makes cannabis use and possession federally illegal.

(e) 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.

(f) 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.

(g) Price risk

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

15. CAPITAL RISK MANAGEMENT

The Company defines capital as shareholders' equity. The Company manages its capital structure and adjusts 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 considering 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 year ended March 31, 2020. The Company is not subject to externally imposed capital requirement.

VIREO HEALTH INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019
(Unaudited - Expressed in United States Dollars)

16. SEGMENTED INFORMATION

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

The cannabis cultivation and production segment are the manufacturing and sales of refined cannabis products, which has operations in Arizona, Maryland, Massachusetts, Minnesota, New Mexico, New York, Ohio, Pennsylvania, , and Rhode Island.

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

All of the Company’s non-current assets are located in the United States and all revenue was earned in the United States.

17. 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 consists of all six directors, the Company’s Chief Executive Officer, and the Company’s Chief Financial Officer.

Key management personnel compensation during the year ended March 31, 2020 and 2019 were as follows:

	March 31, 2020		March 31, 2019	
Salaries and Wages	\$	225,891	\$	257,692
Directors fees		-		-
Share Based Compensation		2,445,913		139,374
Total	\$	2,671,804	\$	397,066

As at March 31, 2020, \$87,500 (December 31, 2019 - \$106,113) owing to related parties was included in accounts payable and accrued liabilities.

During the year ended December 31, 2019, the Company acquired Midwest Hemp Research, LLC which was 50% owned by the CEO of the Company (*Note 12(f)*). As consideration for the acquisition, the Company issued a \$25,000 convertible note to the CEO.

For the three months ended March 31, 2020, the Company paid a related party for contract staffing expenses in the amount of \$79,356 (2019 \$nil).

VIREO HEALTH INTERNATIONAL, INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2020 and 2019
(Unaudited - Expressed in United States Dollars)

18. SUPPLEMENTARY CASH FLOW INFORMATION

Changes in non-cash working capital:

	March 31, 2020	March 31, 2019
Receivables	\$ 166,751	\$ 1,394,003
Due from related party	-	(36,778)
Inventory and biological assets	321,871	(2,082,673)
Prepaid expenses	1,133,567	(495,455)
Deposits	-	231,260
Income Taxes Payable	-	670,000
Deferred rent	-	-
Accounts payable and accrued liabilities	1,146,378	407,353
Total	\$ 2,768,567	\$ 87,710

Non-cash activities during the three months ended March 31, 2020 and 2019 were as follows:

	March 31, 2020	March 31, 2019
Biological assets transferred to inventory	\$ 8,576,245	\$ 5,538,782
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

Cash paid for interest and income taxes:

	March 31, 2020	March 31, 2019
Interest	\$ 1,534,026	\$ 930,325
Income taxes	-	-

19. SUBSEQUENT EVENTS

On April 10, 2020, the Company, through several of its subsidiaries, entered into three (3) lease amendments to provide additional funding to complete improvements to properties in Minnesota, New York and Pennsylvania. These amendments included, among other things, increased available leasehold improvement funds, the extension of lease term and increased required monthly payment amounts.

On June 8, 2020, the Company elected to terminate its employment agreement with the Company's Executive Chairman, Bruce Linton. As a result of this termination, if Mr. Linton executes a mutual release, the Company will be obligated to continue his salary for a period of twelve months. In addition, the warrants granted to him on November 6, 2019, in conjunction with his employment, all vested on the termination date and now have an expiration date of June 8, 2021.