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**JUSHI HOLDINGS INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2019 AND  
FOR THE PERIOD FROM JANUARY 23, 2018 (INCEPTION DATE) TO DECEMBER 31, 2018**

*(Expressed in United States Dollars)*



**JUSHI HOLDINGS INC. AND SUBSIDIARIES**  
**Consolidated Financial Statements**  
**December 31, 2019**

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## **JUSHI HOLDINGS INC. AND SUBSIDIARIES**

### **MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING**

To the Board of Directors and Stockholders of  
Jushi Holdings Inc. and Subsidiaries:

The accompanying consolidated financial statements in this annual report were prepared by management of Jushi Holdings Inc. and Subsidiaries (“the Company”) and were reviewed and approved by the Board of Directors of Jushi Holdings Inc. and Subsidiaries.

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

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

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

/s/ James Cacioppo  
Chief Executive Officer

/s/ Kimberly Bambach  
Chief Financial Officer

May 6, 2020

## **Independent Auditor's Report**

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To the Shareholders of Jushi Holdings Inc.:

### **Opinion**

We have audited the consolidated financial statements of Jushi Holdings Inc. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Basis for Opinion**

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

### **Emphasis of Matter – Early Adoption of New Accounting Standard**

We draw attention to Notes 2 and 8 of the consolidated financial statements, which describes the early adoption of the Amendments to IFRS 3 *Business Combinations* for the year ended December 31, 2019. Our opinion is not modified in respect of this matter.

### **Emphasis of Matter – Prospective Change in Accounting Policy**

We draw attention to Note 11 to the consolidated financial statements which indicates that the Company has changed its accounting policy for leases and has applied that change prospectively. Our opinion is not modified in respect of this matter.

### **Other Matter**

The consolidated financial statements of the Company for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on May 17, 2019.

### **Other Information**

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be

materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is William E.K. Avery.

*MNP LLP*

Toronto, Ontario  
Accountants  
May 6, 2020

Chartered Professional  
Licensed Public Accountants



Certified  
Public  
Accountants

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of  
Jushi Holdings Inc. and Subsidiaries  
Boca Raton, Florida

### Opinion

We have audited the consolidated financial statements of Jushi Holdings Inc. and Subsidiaries (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of operations and comprehensive loss, changes in equity, and cash flows for the period from January 23, 2018 (inception date) to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the period from January 23, 2018 (inception date) to December 31, 2018 in accordance with International Financial Reporting Standards.

### Basis for Opinion

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

### Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

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

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

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

*Macias Gini & O'Connell LLP*

Los Angeles,  
California  
May 17, 2019



**JUSHI HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
*(Amounts Expressed in United States Dollars)*

	Note	December 31, 2019	December 31, 2018
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		\$ 38,935,652	\$ 38,113,861
Investments in securities	4	12,266,735	1,233,228
Other short-term financial assets	4	5,646,419	-
Accounts receivable	2	394,683	525,476
Prepaid expenses		2,565,020	353,495
Other current assets		188,007	-
Inventory	5	1,957,679	-
Biological assets	5	271,434	-
Deferred acquisition costs	6	2,320,000	-
Total current assets		<u>\$ 64,545,629</u>	<u>\$ 40,226,060</u>
<b>NON-CURRENT ASSETS:</b>			
Other long-term financial asset	4	\$ -	\$ 5,454,252
Property, plant and equipment	7	22,592,467	-
Other long-term assets		1,180,455	413,250
Other intangible assets, net	9	93,685,586	3,917,232
Goodwill, net	9	28,055,238	170,000
Total long-term assets		<u>\$ 145,513,746</u>	<u>\$ 9,954,734</u>
Total assets		<u>\$ 210,059,375</u>	<u>\$ 50,180,794</u>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable		\$ 1,182,819	\$ 404,260
Accrued expenses and other current liabilities	10	7,690,549	871,822
Short-term promissory notes payable	12	15,634,563	-
Short-term lease obligations	11	969,312	-
Short-term redemption liability	8	8,439,857	-
Total current liabilities		<u>\$ 33,917,100</u>	<u>\$ 1,276,082</u>
<b>LONG-TERM LIABILITIES:</b>			
Other liabilities		\$ 1,653	\$ -
Long-term promissory notes payable	12	9,988,044	-
Senior notes	13	10,735,752	-
Derivative warrants liability	13	5,528,555	-
Long-term lease obligations	11	5,528,928	-
Deferred tax liabilities	16	20,334,745	-
Long-term redemption liability	8	-	7,388,547
Total liabilities		<u>\$ 86,034,777</u>	<u>\$ 8,664,629</u>
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>EQUITY:</b>			
Share capital and share reserves	14,15	\$ 163,031,539	\$ 59,572,141
Accumulated deficit		(48,666,703)	(18,055,976)
Total Jushi stockholders' equity		<u>\$ 114,364,836</u>	<u>\$ 41,516,165</u>
Non-controlling interests	17	9,659,762	-
Total equity		<u>\$ 124,024,598</u>	<u>\$ 41,516,165</u>
Total liabilities and equity		<u>\$ 210,059,375</u>	<u>\$ 50,180,794</u>

*See accompanying notes to the consolidated financial statements.*

**JUSHI HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
*(Amounts Expressed in United States Dollars)*

	<u>Note</u>	Year Ended December 31, 2019	Period from January 23, 2018 (inception date) to December 31, 2018
Revenue		\$ 10,229,350	\$ 523,364
Cost of goods sold	5	<u>5,665,452</u>	<u>-</u>
Gross profit before fair value adjustments		\$ 4,563,898	\$ 523,364
Fair value adjustment on sale of inventory		-	-
Fair value adjustment on biological assets	5	<u>258,840</u>	<u>-</u>
Gross profit		<u>\$ 4,822,737</u>	<u>\$ 523,364</u>
Operating expenses:			
General and administrative expenses	19	\$ 13,789,518	\$ 4,823,519
Salaries, wages and employee related expenses		14,673,969	2,328,609
Share-based compensation expense	14,15	4,868,435	2,478,149
Acquisition and deal costs	8	2,662,636	378,433
Depreciation and amortization expense	7,9	2,163,095	210,768
Loss on inventory impairment	5	<u>819,537</u>	<u>-</u>
Total operating expenses		<u>\$ 38,977,190</u>	<u>\$ 10,219,478</u>
Loss from operations before other income (expense)		<u>\$ (34,154,453)</u>	<u>\$ (9,696,114)</u>
Other income (expense):			
Impairment of goodwill	9	\$ -	\$ (8,990,000)
RTO listing expense	3	(1,359,971)	-
Interest income		378,486	854,469
Gains on investments and financial assets	4	11,321,330	-
Expected credit loss	2	(172,144)	-
Interest expense and finance charges	8,11,12,13	(3,253,004)	(224,331)
Pre-acquisition expense	8	(4,000,000)	-
Other income (expense)	18	<u>4,977,827</u>	<u>-</u>
Total other income (expense)		<u>\$ 7,892,524</u>	<u>\$ (8,359,862)</u>
Net loss and comprehensive loss before tax		<u>\$ (26,261,929)</u>	<u>\$ (18,055,976)</u>
Income tax expense	16	<u>(4,509,009)</u>	<u>-</u>
Net loss and comprehensive loss after tax		<u>\$ (30,770,938)</u>	<u>\$ (18,055,976)</u>
Net loss attributable to non-controlling interests		<u>(160,211)</u>	<u>-</u>
Net loss and comprehensive loss attributable to Jushi shareholders - basic and diluted		<u>\$ (30,610,727)</u>	<u>\$ (18,055,976)</u>
Loss and comprehensive loss per share - basic and diluted		<u>\$ (0.37)</u>	<u>\$ (0.42)</u>
Weighted average shares outstanding - basic and diluted	2	<u>82,058,059</u>	<u>\$ 43,054,027</u>

*See accompanying notes to the consolidated financial statements.*

**JUSHI HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
*(Amounts Expressed in United States Dollars)*

	Number of Shares			Share Reserves					Other Share Capital	Accumulated Deficit	Total Jushi Stockholders' Equity	Non-Controlling Interests	Total Equity
	Super Voting Shares	Multiple voting Shares	Subordinate Voting Shares	Stock Options	Warrants	Restricted Shares	Share Capital						
Balances - January 23, 2018 (inception date)	-	-	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Issuance of shares and warrants for cash	90,947	4,000,000	1,650,000	-	4,275,963	-	3,196,366	-	-	7,472,329	-	7,472,329	
Issuance of shares and warrants as repayment to officers for capital contribution	58,053	-	-	-	1,683,537	-	1,219,134	-	-	2,902,671	-	2,902,671	
Issuance of shares and warrants for financial asset	-	-	250,000	-	72,500	-	52,500	-	-	125,000	-	125,000	
Issuance of shares and warrants for cash	-	-	37,194,281	-	1,301,800	-	41,510,481	-	-	42,812,281	-	42,812,281	
Issuance of shares and warrants for acquisition	-	-	5,000,000	-	175,000	-	4,825,000	-	-	5,000,000	-	5,000,000	
Capital raising costs	-	-	-	-	-	-	(1,218,289)	-	-	(1,218,289)	-	(1,218,289)	
Share-based payments	-	-	-	452,051	1,995,042	31,056	-	-	-	2,478,149	-	2,478,149	
Net loss	-	-	-	-	-	-	-	-	(18,055,976)	(18,055,976)	-	(18,055,976)	
<b>Balances -December 31, 2018</b>	<b>149,000</b>	<b>4,000,000</b>	<b>44,094,281</b>	<b>\$ 452,051</b>	<b>\$ 9,503,842</b>	<b>\$ 31,056</b>	<b>\$ 49,585,192</b>	<b>\$ -</b>	<b>\$ (18,055,976)</b>	<b>\$ 41,516,165</b>	<b>\$ -</b>	<b>\$ 41,516,165</b>	
Issuance of shares and warrants for cash	-	-	8,080,000	-	394,907	-	15,705,093	-	-	16,100,000	-	16,100,000	
Subscriptions receipts	-	-	-	-	-	-	-	68,200,270	-	68,200,270	-	68,200,270	
Shares issued on conversion of subscription receipts	-	-	24,800,098	-	1,029,548	-	67,170,722	(68,200,270)	-	-	-	-	
Shares and warrants issuance - RTO	-	-	413,266	-	224,730	-	1,136,481	-	-	1,361,211	-	1,361,211	
Capital raising costs	-	-	-	-	-	-	(4,781,597)	-	-	(4,781,597)	-	(4,781,597)	
Shares issued upon exercise of warrants	-	-	841,832	-	(97,092)	-	1,174,209	-	-	1,077,117	-	1,077,117	
Restricted stock grants and vesting, net of forfeitures	-	-	4,433,348	-	-	1,072,493	763,520	-	-	1,836,013	-	1,836,013	
Warrant expense, net of forfeitures	-	-	-	-	929,545	-	157,637	-	-	1,087,182	-	1,087,182	
Stock option expense, net of forfeitures	-	-	-	2,110,464	-	-	-	-	-	2,110,464	-	2,110,464	
Shares issued upon exercise of stock options	-	-	1,444,371	(635,164)	-	-	877,400	-	-	242,236	-	242,236	
Issuance of shares and warrants for acquisitions	-	-	7,735,442	-	406,887	-	15,819,615	-	-	16,226,502	-	16,226,502	
Dalitso - non-controlling interest	-	-	-	-	-	-	-	-	-	-	9,747,228	9,747,228	
Transactions with non-controlling interests, net	-	-	-	-	-	-	-	-	-	-	72,745	72,745	
Net loss	-	-	-	-	-	-	-	-	(30,610,727)	(30,610,727)	(160,211)	(30,770,938)	
<b>Balances - December 31, 2019</b>	<b>149,000</b>	<b>4,000,000</b>	<b>91,842,638</b>	<b>\$ 1,927,351</b>	<b>\$ 12,392,367</b>	<b>\$ 1,103,549</b>	<b>\$ 147,608,272</b>	<b>\$ -</b>	<b>\$ (48,666,703)</b>	<b>\$ 114,364,836</b>	<b>\$ 9,659,762</b>	<b>\$ 124,024,598</b>	

*See accompanying notes to the consolidated financial statements.*

**JUSHI HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(Amounts Expressed in United States Dollars)*

	Year Ended December 31, 2019	For the Period from January 23, 2018 (inception date) to December 31, 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (30,770,938)	\$ (18,055,976)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,226,704	210,768
Share-based payments	4,868,435	2,478,149
Non-cash listing expense	1,361,211	-
Gain on financial assets	(11,321,330)	-
Impairment of goodwill	-	8,990,000
Finance charge on lease liabilities	535,371	-
Non-cash interest expense (income), net	731,961	(301,841)
Change in present value of redemption liability	1,051,310	91,547
Deferred income tax expense	2,091,760	-
Change in fair value of biological assets	(258,840)	-
Inventory impairment adjustment	819,537	-
Non-cash other income, net	22,573	-
Allowance for credit losses	172,144	-
Payments for advances expensed	5,000,000	-
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	\$ (32,283)	\$ (417,477)
Prepaid expenses and other current assets	(2,083,261)	(311,494)
Inventory and biological assets	(1,366,109)	-
Other assets	(674,498)	(413,250)
Accounts payable and accrued expenses	4,856,433	1,167,082
Net cash flows used in operating activities	<u>\$ (22,769,820)</u>	<u>\$ (6,562,492)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for acquisitions, net of cash acquired	\$ (44,895,190)	\$ (1,137,000)
Payments for deferred acquisition costs	(2,270,000)	-
Payments for advances for acquisitions	(5,000,000)	-
Purchases of property, plant and equipment	(8,170,816)	-
Payments for other intangibles	(646,194)	-
Payments for investments in securities	-	(1,233,228)
Payments for investment in other financial asset	-	(5,329,252)
Proceeds from sale of investment or financial asset	134,628	105,000
Proceeds from notes receivable	-	9,128,034
Payments for investment in notes receivable	(100,000)	(3,934,522)
Net cash flows used in investing activities	<u>\$ (60,947,572)</u>	<u>\$ (2,400,968)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of shares for cash, net	\$ 79,518,673	\$ 49,066,321
Proceeds from issuance of senior notes and derivative warrants, net of financing costs	16,125,574	-
Payments on note payable	(11,548,687)	(1,989,000)
Payments on lease obligations	(853,156)	-
Proceeds from exercise of share-based compensation	1,319,352	-
Net cash flows provided by financing activities	<u>\$ 84,561,756</u>	<u>\$ 47,077,321</u>
Effect of currency translation on cash	(22,573)	-
<b>NET CHANGE IN CASH</b>	<u>\$ 821,791</u>	<u>\$ 38,113,861</u>
<b>CASH, BEGINNING OF PERIOD</b>	38,113,861	-
<b>CASH, END OF PERIOD</b>	<u>\$ 38,935,652</u>	<u>\$ 38,113,861</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ (1,746,385.98)	\$ -
Cash paid for income taxes	\$ -	\$ -
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Right of use assets from lease liabilities upon adoption of IFRS 16	\$ 614,074	\$ -
Right of use assets from lease liabilities	\$ 1,971,470	\$ -
Accrual for development of intangible assets	\$ 439,552	\$ -
Accrued capital expenditures	\$ 1,558,021	\$ -
Note obligations incurred for acquisitions	\$ 34,778,248	\$ -
License acquired, non-controlling interest	\$ 9,747,228	\$ -
Redemption liability incurred at acquisition	\$ -	\$ 7,296,568
Exchange of due from related party for note receivable	\$ -	\$ 1,989,000
Issuance of shares as repayment to officers for capital contribution	\$ -	\$ 2,902,671

*See accompanying notes to the consolidated financial statements.*

## **JUSHI HOLDINGS INC. AND SUBSIDIARIES**

### **Notes to the Consolidated Financial Statements**

**December 31, 2019 and 2018**

*(Amounts Expressed in United States Dollars)*

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## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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### **1. NATURE OF OPERATIONS**

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Jushi Holdings Inc. (the “Company” or “Jushi”), formerly known as Tanzania Minerals Corp. (“Tanzania”), was incorporated under the British Columbia’s Business Corporations Act (“BCBCA”), primarily to engage globally in the business of cultivation, manufacturing, distribution and retail of both medical and adult-use products derived from cannabis and hemp.

In the United States Jushi is focused on building a multi-state portfolio of branded cannabis and hemp-derived assets through opportunistic acquisitions, distressed workouts and competitive applications.

Jushi’s strategic approach to its business has been to target limited license medical markets such as Pennsylvania, Virginia and Ohio, as well as large adult-use markets such as Illinois, California and Nevada. Jushi has rights to or has purchased controlling interests in existing licenses as well as made applications for licenses directly. As of December 31, 2019, Jushi, through its subsidiaries, owns or manages cannabis operations and/or holds licenses in the adult use and/or medicinal cannabis marketplace in Illinois, Pennsylvania, Virginia, Nevada, and Ohio with ongoing expansion and build-out plans in these jurisdictions as well as in California. Jushi also has plans to expand into Europe.

Jushi’s hemp initiative targets Nevada, Florida, and New York for purposes of the cultivation, extraction, and processing of hemp-derived cannabidiol (“CBD”). Jushi is also marketing physician formulated consumer CBD products for retail.

In June 2019, Jushi Inc, completed a reverse takeover (“RTO”) of Tanzania. The RTO was structured as a series of transactions, including a Canadian three-cornered amalgamation. Prior to the RTO, Jushi Acquisition Corp., a special purpose corporation, completed a private placement. Refer to Note 3. “Reverse Takeover and Private Placement” for further information. Following the RTO, the Company’s subordinate voting shares (“SVS”) were listed on the NEO Exchange Inc. (“NEO”) under the symbol JUSH-B. The Company’s SVS were listed on the NEO until Friday, December 6, 2019. On December 9, 2019, the Company listed on the Canadian Securities Exchange (the “CSE”) and began trading under the ticker symbol “JUSH”. The Company’s SVS are also traded on the OTCQX under the symbol JUSHF.

The Company’s registered office is Suite 1700, Park Place, 666 Burrard Street, Vancouver, British Columbia, V6C 2X8.

### **2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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#### **Statement of Compliance**

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”) in effect for the year ended December 31, 2019 and for the period from January 23, 2018 (inception date) to December 31, 2018.

## **JUSHI HOLDINGS INC. AND SUBSIDIARIES**

### **Notes to the Consolidated Financial Statements**

**December 31, 2019 and 2018**

*(Amounts Expressed in United States Dollars)*

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These consolidated financial statements were approved by the Board of Directors on May 6, 2020.

#### **Basis of Measurement**

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

The Company's business activities, and the business activities of its subsidiaries, which operate in jurisdictions where the use of marijuana has been legalized under state and local laws, currently are illegal under U.S. federal law. The U.S. Controlled Substances Act classifies marijuana as a Schedule I controlled substance. Any proceeding that may be brought against the Company could have a material adverse effect on the Company's business plans, financial condition and results of operations.

#### **Functional Currency**

The Company and its affiliates' functional currency, as determined by management, is the United States ("U.S.") dollar. These consolidated financial statements are presented in U.S. dollars. Transactions in foreign currencies are recorded at a rate of exchange approximating the prevailing rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated the functional currency at the foreign exchange rate in effect at that date. Realized and unrealized exchange gains and losses are recognized through profit and loss.

#### **Reclassifications**

Where necessary, certain prior period data has been reclassified to conform to current period presentation. Salaries, wages and employee related expenses, and acquisition and deal costs are separately presented within the consolidated statements of operations in the current period, whereas in the comparative prior period these amounts were presented within general and administrative expenses. Share reserves are separately presented within the consolidated statements of equity in the current period, whereas in the comparative prior period these amounts were presented within share capital. Impairment of goodwill are presented within total other income (expense) whereas in the prior period it was presented within operating expenses. These reclassifications did not have an effect on net loss, earnings (loss) per share or cash flows for the periods presented.

#### **Basis of Consolidation**

These consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and entities over which the Company has control as defined in IFRS 10 *Consolidated Financial Statements*. 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 intercompany balances and transactions are eliminated on consolidation.

Non-controlling interests in the equity of Jushi's subsidiaries are shown separately in equity in the consolidated statements of financial position. Information on the Company's subsidiaries with non-controlling interests is included in Note 17. "Non-Controlling Interests." Acquisitions of subsidiaries and

## JUSHI HOLDINGS INC. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

(Amounts Expressed in United States Dollars)

businesses are accounted for using the acquisition method. Goodwill is measured as the difference between the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, and the identifiable net assets and liabilities assumed, at the acquisition date. Any excess of the fair value of the net assets acquired over the assumed consideration paid is recognized as a gain in the consolidated statements of operations and comprehensive loss. The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date. Refer to Note 8. “Business Combinations and Asset Acquisitions” and Note 17. “Non-Controlling Interests” for the election for non-controlling interests, if applicable.

The following are the Company’s subsidiaries that are included in these consolidated financial statements as of December 31, 2019:

NAME <sup>(1)(2)(3)</sup>	STATE OF INCORPORATION	OWNERSHIP PERCENTAGE
Jushi Inc	Delaware	100%
Bear Flag Assets, LLC <i>and its wholly owned Subsidiaries</i>	California	100%
JCVCA, LLC <sup>(5)</sup>	California	100%
TGS National Holdings, LLC <i>and its wholly owned Subsidiaries</i> <sup>(4)(5)</sup>	Colorado	51%
Jushi IP, LLC	Delaware	100%
JREH, LLC <i>and its wholly owned Subsidiaries</i>	Delaware	100%
Mend Products, LLC (formerly known as Medicinal Excellence for Neurological Disorders LLC) <sup>(4)(5)</sup>	Delaware	100%
Sound Wellness, LLC <sup>(5)</sup>	New York	100%
SW Retail Stores, LLC	New York	100%
JMGT, LLC <sup>(5)</sup>	Florida	100%
Production Excellence, LLC	Nevada	100%
Jushi Ampal NJ, LLC	New Jersey	75%
Jushi OH, LLC	Ohio	100%
Franklin Bioscience - Penn LLC <i>and its wholly owned Subsidiaries</i> <sup>(4)</sup>	Pennsylvania	100%
Jushi VA, LLC	Virginia	100%
Dalitso, LLC <sup>(4)</sup>	Virginia	61.765%

(1) The Company consolidates an Ohio Provisional License Holder, of which it has a 0% ownership percentage, since 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. Refer to Note 8. “Business Combinations and Asset Acquisitions”.

(2) The Company consolidates Franklin Bioscience NV, LLC, of which it currently has a 0% ownership percentage, since 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. Refer to Note 8. “Business Combinations and Asset Acquisitions.”

(3) Certain subsidiaries have been omitted since in aggregate they do not represent a significant subsidiary.

(4) Refer to Note 8. “Business Combinations and Asset Acquisitions” for a discussion of business combinations and asset acquisitions and of the Company’s interest in these subsidiaries.

(5) This subsidiary was also included in the consolidated financial statements of Jushi Inc and subsidiaries for the period from January 23, 2018 to December 31, 2018.

**JUSHI HOLDINGS INC. AND SUBSIDIARIES**  
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**Summary of Significant Accounting Policies**

**Cash and Cash Equivalents**

Cash and, if any, cash equivalents include cash deposits in financial institutions and other deposits that are readily convertible into cash, generally with an original maturity of three months or less.

**Investments in Securities**

Investments in securities represents trading securities in investments in mutual funds, and other investments in equity securities. These investments are classified as measured at fair value through profit or loss, whereby unrealized gains and losses are included in other income and expense in the consolidated statement of operations in the period in which they occur.

**Investments**

The Company first determines if it has control over an investee, and if so, whether the investee should be consolidated or if the Company has significant influence or does not have control or significant influence. Investments that are controlled are consolidated. Investments in which the Company has significant influence, but no control are considered investments in associates. Significant influence is the power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. Investments in associates are accounted for using the equity method of accounting. Investments in associates accounted for using the equity method are initially recognized at cost. Subsequent to initial recognition, the carrying value of the Company's investment in an associate is adjusted for the Company's share of income (loss) and distributions of the investee. The carrying value of investments in associates is assessed for impairment at each statement of financial position. Investments that are neither controlled, or the Company does not have significant influence, are first recognized at either fair value or cost. Refer to "Financial Instruments" below for further details.

**Accounts Receivable and Expected Credit Losses**

Accounts receivable are recorded at the invoiced amount and do not bear interest. Expected credit losses (or "allowance") reflects the Company's estimate of amounts in its existing accounts receivable that may not be collected due to customer claims or customer inability or unwillingness to pay. Collectability of trade receivables is reviewed on an ongoing basis. The expected credit losses are determined based on a combination of factors, including the Company's risk assessment regarding the credit worthiness of its customers, historical collection experience and length of time the receivables are past due. Account balances are charged off against the allowance when the Company believes it is probable the receivable will not be recovered.

As of December 31, 2109, allowance for expected credit loss totaled \$25,000, which includes an approximate of all account receivable amounts greater than 90 days. During the year ended December 31, 2019, the Company recorded credit losses expense of \$172,144, which included \$147,000 related to revenue from a related party earned during the year ended December 31, 2019 and \$24,800 related to revenue earned from the same related party during the comparative period ended December 31, 2018. Accounts receivable as of December 31, 2018 included amounts due from TGS Illinois LLC ("TGSI"), a related party, of \$263,729. Refer to Note 19. "Related Party Transactions".



## **JUSHI HOLDINGS INC. AND SUBSIDIARIES**

### **Notes to the Consolidated Financial Statements**

**December 31, 2019 and 2018**

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#### **Inventory and Biological Assets**

Inventories of purchased finished goods, supplies, consumables, and products for resale are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less costs to sell at harvest which becomes the deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that the cost is less than net realizable value. Subsequent costs also include costs such as materials, labor and depreciation expense on equipment involved in packaging, labeling and inspection. All direct and indirect costs related to inventory are capitalized as they are incurred and they are subsequently recorded within 'cost of goods sold' on the statements of operations at the time of sale, except for realized fair value amounts included in inventory sold which are recorded as a separate line on the face of the statements of operations. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory are written down to net realizable value.

The valuation of biological assets at the point of harvest is the cost basis for all cannabis-based inventory and thus any critical estimates and judgements related to the valuation of biological assets are also applicable for inventory. The valuation of work-in-process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are all subsequently recorded within the line item 'cost of goods sold' on the statements of operations in the period that the related product is sold. Unrealized fair value gains/losses on growth of biological assets are recorded in a separate line in the statement of operations. The Company capitalizes pre-harvest costs as incurred. Biological assets are measured at their fair value less costs to sell on the balance sheet. Refer to Note 5. "Inventory and Biological Assets" for additional information.

#### **Property, Plant and Equipment**

Property, plant, and equipment ("PP&E") are stated at cost, less accumulated depreciation and are depreciated using the straight-line method over their estimated useful lives. Cost includes expenditures that are directly attributable to the acquisition of the asset.

PP&E are depreciated from the date of acquisition or at the date they become available for use, if these dates differ. Internally constructed assets are depreciated from the date the asset is available for use. Land has an unlimited useful life and is, therefore, not depreciated.

The useful life and depreciation method applied to each class of assets are reassessed at each reporting date. The useful lives applicable to each class of asset are as follows:

- Buildings and building components: 30 – 40 years
- Computer equipment: 3 years
- Leasehold improvements: The lesser of the term of the lease or the estimated useful life of the asset
- Furniture and fixtures: 3 – 10 years
- Machinery and equipment: 5 years

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ROU assets are amortized ranging in term from 2 years to 20 years.

On an annual basis, the Company reviews the carrying amounts of its PP&E to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating business unit to which the asset belongs. An asset's cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods. A reversal of an impairment loss is immediately recognized in comprehensive income. To date, the Company has recognized no impairments on its PP&E.

### **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. For finite-lived intangible assets, amortization is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any:

Franchise agreements:	14 years
Intellectual property:	10 - 10.5 years
Patient database:	5 - 15 years
Tradename:	1 - 15 years
Non-compete:	3 - 5 years
Website development:	3 years

The estimated useful lives, residual values and amortization methods are reviewed at each year-end, and any changes in estimates are accounted for prospectively.

Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired (a "triggering event"). Finite-lived assets are subject to impairment testing only upon a triggering event. Intangible assets with indefinite lives are comprised of acquired licenses, formulations and internally generated intangibles, all of which are estimated to have indefinite lives because they are expected to generate cash flows indefinitely.

### *Capitalization of Internally Generated Intangible Assets*

The Company capitalizes expenditures on the development phase of an internal project when all of the following criteria are met:

- the technical feasibility of completing the intangible asset so that it will be available for use or

## **JUSHI HOLDINGS INC. AND SUBSIDIARIES**

### **Notes to the Consolidated Financial Statements**

**December 31, 2019 and 2018**

*(Amounts Expressed in United States Dollars)*

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sale;

- its intention to complete the intangible asset to use it or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure the expenditure attributable to the intangible asset reliably during its development.

### **Segments**

The Company currently operates in one segment, retail operations. The Company's cultivation operations are not considered significant to the overall operations of the Company. Any intercompany sales and transactions are eliminated in consolidation. All wholesale and retail revenues for the year ended December 31, 2019, were generated within the United States, and all long-lived assets are located in the United States.

### **Goodwill**

Goodwill represents the excess for the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill is allocated to the cash generating unit ("CGU") or CGUs to which it relates. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company allocates goodwill to one or more CGUs for the purpose of impairment testing. The determination of these CGUs was based on management's judgment in regard to several factors such as shared infrastructure, geographical proximity, and exposure to market risk and materiality. Currently, the Company has one reportable segment.

Goodwill is not subject to amortization and is tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying amount of goodwill might be impaired. In order to determine if the value of goodwill has been impaired, the CGU to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill. Each store/location generates cash inflows that are largely independent from the cash flows of the other store, and therefore it is deemed that each store is its own CGU. The Company allocates goodwill and corporate assets to each CGU. Impairment is determined for goodwill by assessing if the carrying value of CGU, including goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs of disposal and the value in use. Impairment losses recognized in respect of the CGUs are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGUs. Any goodwill impairment is recorded in the consolidated statements of operations and comprehensive income (loss) in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

The Company performed its annual impairment tests on the goodwill acquired and calculated that the goodwill recoverable amounts were higher than the carrying amounts as of December 31, 2019, therefore, no impairment was recognized. The carrying amount tested was \$59.0 million and \$8.0 million for FBS Penn and FBS Nevada, respectively. For the year ended December 31, 2019, the Company estimated the

## **JUSHI HOLDINGS INC. AND SUBSIDIARIES**

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fair value using a value in use approach (“VIU”) for CGU’s in operation and a fair value less cost of disposal approach (“FVLCOD”) for CGU’s that have not begun operations. Under these approaches, a discounted cash flow methodology was used, considering: (i) management estimates, such as projections of revenue, operating costs and cash flows, taking into consideration historical and anticipated financial results; (ii) general industry, economic and market conditions; (iii) legal outlook assumptions; and (iv) the impact of planned business and operational strategies. The key assumptions include a five-year forecast period and a perpetual growth rate of 3% thereafter. These assumptions were based on industry and market trends. Estimated discount rates ranged from 13.0% to 14.5% and were determined using the Company’s estimated weighted average cost of capital at the time of the analysis. Expected cash flow was based on expectations of future income taking into account past experience, adjusted for anticipated growth. As the recoverable amount was higher than the carrying amount as at December 31, 2019, no impairment was recognized. A 100 basis point increase in the discount rate would have resulted in the total carrying values exceeding their fair values by 3% for Pennsylvania and 6% for Nevada.

During the period from January 23, 2018 (inception date) to December 31, 2018, the Company recognized an impairment loss of \$8,990,000 related to the goodwill associated with the acquisition of TGS National Holdings, LLC and Subsidiaries (“TGSNH”), which amount represented the total goodwill associated with the TGSNH acquisition. Refer to Note 9. “Goodwill and Other Intangible Assets”.

#### **Leases**

As of January 1, 2019, the Company adopted IFRS 16, *Leases*, which generally requires the recognition of both operating and financing lease liabilities with corresponding right-of-use assets on the balance sheet. Refer to “New Standards Adopted in the Current Year” below.

#### **Promissory Notes Payable**

Promissory notes payable and senior notes payable are classified as financial liabilities and are measured at fair value at initial recognition and subsequently at amortized cost. Transactions costs, if any, are deferred and amortized over the term of the liability.

#### **Derivative Warrants Liability**

The warrants issued in connection with the Company’s 10% senior secured notes (Refer to Note 13. “Senior Notes and Derivative Warrants Liability”) are deemed to be a derivative liability that arises due to the warrants not having a fixed number of shares and having a variable exercise price. The warrant derivative is initially measured at fair value and is subsequently measured at fair value with changes recognized in the statements of operations and comprehensive loss.

#### **Revenue Recognition**

For the year ended December 31, 2019, and for the period from January 23, 2018 (inception date) to December 31, 2018, the Company accounted for revenue under IFRS 15 “*Revenue from Contracts with Customers*” (“IFRS 15”).

IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted

## **JUSHI HOLDINGS INC. AND SUBSIDIARIES**

### **Notes to the Consolidated Financial Statements**

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for under other IFRS standards. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps: i) identify the contract with a customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations in the contract; and v) recognize revenue when (or as) the entity satisfies a performance obligation.

#### *Retail and Wholesale Revenues*

Under IFRS 15, revenue from the sale of goods is generally recognized at a point in time when control over the goods have been transferred to the customer. Payment is typically due upon transferring the goods to the customer or within a specified time period permitted under the Company's credit policy. Under IFRS 15 revenue is recognized upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control upon delivery and acceptance by the customer. Net revenue as presented in the consolidated statements of operations and comprehensive loss, represents revenue from the sale of goods, which is the selling price less applicable price discounts and incentives. The Company recognized total net retail and wholesale revenues of \$9.3 million for the year ended December 2019. For the period from January 23, 2018 (inception date) to December 31, 2018, the Company did not recognize any retail and wholesale revenues.

#### *Franchise Fees and Licensing Revenues*

Revenues earned by the Company for initial franchise fees and licensing are recognized over the time period beginning with initial application and ending after the Company's obligations related to the franchise sale (training, etc.) have been provided to the franchisee or licensee. The Company recognized franchise fee revenues of \$0.1 million for the year ended December 2019. For the period from January 23, 2018 (inception date) to December 31, 2018, the Company recognized franchise fee revenue of \$0.3 million, and the related accounts receivable was \$0.3 million as of December 31, 2019.

#### *Royalty Revenues*

The Company's franchise requires the reporting of volume and corresponding royalty payments to be made periodically. Royalty revenue is recognized when the related sale occurs over the life of the royalty agreement. For the year ended December 2019, the Company recognized royalty revenues of \$0.7 million, which revenues were earned from one customer. The Company will no longer recognize revenue from this customer subsequent to January 2020 due to sale of the entity/contract. Refer to Note 21. "Subsequent Events" for subsequent events related to TGSNH. For the period from January 23, 2018 (inception date) to December 31, 2018, the Company recognized royalty revenues of \$0.2 million.

#### *Consulting Revenues*

The Company recognizes revenue from consulting services on a straight-line basis over the term of third-party consulting agreements as services are provided. For the year ended December 31, 2019 consulting income was \$0.1 million. For the period from January 23, 2018 (inception date) to December 31, 2018, the Company did not recognize any consulting income.

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### **Share Capital and Share Reserves**

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

### **Share-Based Compensation**

The Company operates equity settled share-based remuneration plans for its eligible directors, officers, employees and consultants. All goods and services received in exchange for the grant of any share-based payments are measured at their fair value unless the fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods and services received, the Company shall measure their value indirectly by reference to the fair value of the equity instruments granted. For transactions with employees and others providing similar services, the Company measures the fair value of the services by reference to the fair value of the equity instruments granted.

Equity settled share-based payments under share-based payments plans are ultimately recognized as an expense in profit or loss with a corresponding credit to reserves for share-based payments, in the consolidated statements of changes in equity.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from the previous estimate. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior period if share options ultimately exercised are different to that estimated on vesting. Upon the exercise of stock options or warrants, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital. Upon the vesting of restricted stock awards, the related warrants reserve amount is transferred to share capital.

### **Income Taxes**

Tax expense recognized in profit or loss comprises the sum of current and deferred taxes not recognized in other comprehensive income or directly in equity. As noted further in Note 16. "Income Taxes", the Company is subject to the limitations of Section 280E of the Internal Revenue Code.

#### *Current Tax*

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



## **JUSHI HOLDINGS INC. AND SUBSIDIARIES**

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#### *Deferred Tax*

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

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

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

#### **Basic and diluted earnings (loss) per share**

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding (which includes all of the Company's shares outstanding on a non-converted basis) during the respective periods presented. Diluted earnings (loss) per share is calculated using the weighted average number of common shares that would have been outstanding during the respective period had all dilutive potential common shares outstanding at period-end been converted into shares at the beginning of the period and the proceeds used to repurchase the Company's common shares at the average market price for the period. If these computations prove to be anti-dilutive, diluted earnings (loss) per share is the same as basic earnings (loss) per share. No dilutive potential shares of common stock were included in the computation of diluted net loss per share for either the year ended December 31, 2019 or for the comparative period in 2018, because their effect would be anti-dilutive.

The outstanding number and type of securities that would potentially dilute basic loss per common share which were not included in the computation of diluted loss per share, because to do so would have reduced the loss per common share (anti-dilutive) for the years presented, are as follows: stock options, warrants (including derivative warrants ) and convertible promissory notes.

#### **Financial Instruments**

The Company accounts for financial instruments according to IFRS 9 "*Financial Instruments*" ("IFRS 9"), which requires all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also requires a single, forward-looking expected loss impairment model.

#### *Classification*

The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value through profit or loss ("FVTPL"); (ii) those to be measured subsequently at fair value through other comprehensive income (loss) ("FVOCI"); and (iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and whether the contractual cash flows represent solely payments

## **JUSHI HOLDINGS INC. AND SUBSIDIARIES**

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of principal and interest (“SPPI”). Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income (loss). Financial liabilities are not reclassified.

#### ***Financial Assets***

Under IFRS 9, financial assets are initially measured at fair value. In the case of a financial asset not categorized as fair value through profit or loss (“FVTPL”), transaction costs are included. Transaction costs of financial assets carried at FVTPL are expensed in net income (loss). Subsequent classification and measurement of financial assets depends on the Company’s business objective for managing the asset and the cash flow characteristics of the asset:

- **Amortized cost** - Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of trade receivables, other short-term financial assets, other long-term financial assets and certain other assets.
- **Fair value through other comprehensive income (loss)** - Assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive income (loss). Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income (loss). Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income (loss) is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income (loss).
- **Mandatorily at fair value through profit or loss** - Assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets’ carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash and cash equivalents, investments in securities, and other long-term financial assets..
- **Designated at fair value through profit or loss** – On initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets’ carrying amount are recognized in profit or loss. The Company does not hold any financial assets designated to be measured at fair value through profit or loss.

Refer to Note 20. “Financial Instruments and Financial Risk Management”.



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*Business model assessment*

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed, and information is provided to management. Information considered in this assessment includes stated policies and objectives.

*Contractual cash flow assessment*

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company’s claim to cash flows, and any features that modify consideration for the time value of money.

*Derecognition of Financial Assets*

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

*Impairment*

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset at the reporting date with the risk of default at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

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***Financial Liabilities***

***Recognition and Initial Measurement***

The Company initially recognizes financial liabilities at fair value on the date at which the Company becomes a party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss. The subsequent measurement of financial liabilities is determined based on their classification as either FVTPL or amortized cost.

- FVTPL – Derivative financial instruments entered into by the Company that do not meet hedge accounting criteria are classified as FVTPL. Gains or losses on these types of financial liabilities are recognized in net income (loss).
- Amortized cost – All other financial liabilities are classified as amortized cost using the effective interest method. Gains and losses are recognized in net income (loss) through the amortization process as well as when the liabilities are derecognized. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

Refer to Note 20. “Financial Instruments and Financial Risk Management” for a summary of the Company’s classification and measurement of financial assets and liabilities.

**Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the Company’s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below.

*(i) Going concern*

Each reporting period, management exercises judgement in assessing whether there is a going concern issue by reviewing the Company’s performance, resources and future obligations.

*(ii) Business Combinations*

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition, and whether control is obtained in the acquisition. In a business combination, all identifiable assets,

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liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities, and fair value of consideration transferred. Contingent consideration, if applicable, is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Judgement is required to assess whether the amounts paid at acquisition and on achievement of milestones represent contingent consideration or compensation for post-acquisition services. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with International Standards on Auditing (“IAS”) 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRS 9, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. See “Note 8. “Business Combinations and Asset Acquisitions”. Refer to “New Standards Adopted in the Current Year” below for a discussion of additional IFRS 3 considerations.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods, as if the accounting for the business combination had been completed at the acquisition date. However, the measurement period lasts only for one year from the acquisition date.

#### *(iii) Estimated Useful Lives*

Amortization of intangible assets is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, changes in useful lives or other relevant factors or changes.

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

#### *(iv) Share-Based Compensation*

The Company uses the Black-Scholes option-pricing model and the Monte Carlo Simulation Model, as appropriate, to determine the fair value of equity-based grants. In estimating fair value, management is required to make certain assumptions and estimates such as the expected term, volatility of the Company’s future share price, risk free rates, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results. Further information on estimates used in determining the fair value of share-based compensation is contained in Note 14. “Equity” and Note 15. “Share-Based Compensation”.

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(v) *Uncertain Tax Positions and Deferred Taxes*

The Company's tax provision requires management to assess the amount of tax payable on open tax positions where the liabilities remain to be agreed with tax authorities. Uncertain tax items for which a provision is made, relate principally to the interpretation of tax legislation regarding arrangements entered into by the Company. Due to the uncertainty associated with such tax items and any related deferred tax amounts, there is a possibility that, on conclusion of open tax matters at a future date, the final outcome may differ significantly. Refer to "New Standards Adopted in the Current Year" below.

Deferred tax assets, including those arising from tax loss carryforwards, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. Refer to "New Standards Adopted in the Current Year" below for a discussion of additional deferred tax considerations and refer to Note 16. "Income Taxes".

(vi) *Impairment*

Management is required to use judgement in determining the grouping of assets to identify their CGUs for the purposes of testing fixed assets for impairment. Judgement is further required to determine appropriate groupings of CGUs for the level at which goodwill and other intangible assets are tested for impairment. Goodwill and indefinite lived assets are tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying amount of goodwill or indefinite lived intangible assets has been impaired. In order to determine if the value of goodwill or indefinite lived assets has been impaired, the cash-generating unit to which goodwill has been allocated and the indefinite lived assets must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill. For example, declines in the estimated future profitability of individual reporting units due to economic or market conditions or otherwise, as well as adverse changes in legal, financial, political competitive and other conditions, or other adverse changes in the key valuation assumptions contributing to the estimated fair value of a reporting unit, could adversely affect the estimated fair values of the related reporting unit, which could result in an impairment of the recorded balances of goodwill or other intangible assets.

(vii) *Inventory and Biological Assets*

In calculating the value of the biological assets and inventory, management is required to make various estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and conversion factors. In calculating final inventory values, management compares the inventory cost to estimated net realizable value. Further information on estimates used in determining the fair value of biological assets is contained in Note 5. "Inventory and Biological Assets".

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(viii) *Leases*

Refer to “New Standards Adopted in the Current Year” below and to Note 11. “Lease Obligations” for a discussion of lease accounting and any related significant estimates and assumptions.

(ix) *Derivative Warrants Liability*

Refer to Note 13. “Senior Notes and Derivative Warrants Liability” for a discussion of the significant estimates and assumptions involved in the fair value calculation of the derivative warrants liability and the residual value allocated to the related senior notes.

(x) *Other Financial Instruments*

Refer to Note 4. “Investments in Securities and Other Financial Assets” for a discussion of the significant estimates and assumptions involved in the fair value calculation of warrant securities owned by the Company.

**New Standards Adopted in the Current Year**

*Leases*

(i) *Accounting Policy*

In January 2016, the IASB issued IFRS 16 *Leases* (“IFRS 16”) replaces IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

At commencement of a contract, the Company assesses whether a contract is, or contains, a lease by determining whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A ROU asset and lease liability is recognized at the lease commencement date. The lease liability is initially measured at the present value of all future lease payments that have not been paid as of the commencement date of the lease, discounted using the Company's incremental borrowing rate, in the absence of a readily identifiable rate of interest implicit to the lease. The Company's incremental borrowing rate ranged from 12.6% – 15.0% for the year ended December 31, 2019.

The ROU asset is initially measured at cost, which is calculated as the initial amount of the lease liability, with an adjustment for any initial direct costs incurred, plus adjustments for any lease payments made in advance of the commencement date, and less any lease incentives received. Subsequent to initial recognition, the ROU asset is depreciated on a straight-line basis over the term of the lease or the estimated useful life, with inclusion for any options to extend that the Company reasonably expects to exercise. ROU assets are tested for impairment in accordance with IAS 36 *Impairment of assets*.

The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for

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certain remeasurements of the lease liability. The lease liability is remeasured when there is a change in future lease payments resulting from a change in index or rate or if the Company changes its assessment of whether it will exercise an option to extend, purchase or terminate.

Should the corresponding right-of-use asset be reduced to zero when the lease liability is remeasured, the adjustment would be recorded through profit or loss.

The lease liability is subsequently measured at amortized cost using the effective interest method whereby the balance is increased by interest expense and decreased by lease payments. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

The Company has exercised judgment to determine both the applicable discount rate as well as the lease term for lease contracts that contain renewal options. The discount rate used is based on the Company's incremental borrowing rate and is risk-adjusted based on a variety of factors, such as location and planned use. The assessment of whether the Company is reasonably certain to exercise renewal options impacts the lease term, which directly affects the amount of right-of-use assets and lease liabilities recognized.

The Company has included the carrying values of ROU assets under property, plant, and equipment on the statement of financial position as of December 31, 2019.

**(ii) Impact of Transition to IFRS 16**

The Company previously classified leases as either operating or finance leases from the perspective of the lessee. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. The Company adopted IFRS 16 using the modified retrospective cumulative catch-up approach beginning on January 1, 2019. Under this approach, the Company did not restate its comparative amounts and recognized a right-of-use asset equal to the present value of the future lease payments.

The Company also used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Accounted for short-term leases for which the lease terms end within 12 months of the date of the initial application as short-term leases;
- Excluded initial direct costs from measuring the ROU assets at the date of initial application;
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease;
- Applied a single discount rate to the existing lease; and
- Applied IFRS 16 to contracts that were previously not identified as leases and did not reassess whether a contract is, or contains, a lease at the date of initial application.

When measuring lease liabilities, the Company discounted the lease payments using its incremental borrowing rate as of January 1, 2019. The Company's weighted-average incremental borrowing rate was 15% based on the underlying locations and asset class related risks.



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The following table reconciles the Company’s operating lease obligations as at December 31, 2018, as previously disclosed in the Company’s annual consolidated financial statements, to the lease obligation recognized on initial application of IFRS 16 at January 1, 2019:

Reconciliation - IAS 17 to IFRS 16:

Operating lease commitments as at December 31, 2018	\$ 1,055,136
Gross lease liability for lease not available for use at January 1, 2019 <sup>(1)</sup>	(185,136)
Gross lease liability for lease in service at January 1, 2019	\$ 870,000
Discounting for lease in service in January 1, 2019	(255,926)
Present value of IFRS 16 lease liabilities at January 1, 2019	\$ 614,074

- (1) Represents a lease not available for use as of January 1, 2019 and presented to reconcile the difference between lease commitments as at December 31, 2018 to the present value of IFRS 16 lease liabilities at January 1, 2019.

There were no low dollar or short-term leases that were part of the practical expedient during transition.

***IFRS 3 Business Combinations, as amended***

In October 2018, the IASB issued amendments to the guidance in IFRS 3 *Business Combinations* (“IFRS 3”). The amendments revised the definition of a business and provide a new framework to evaluate when an input and a substantive process are present. To be considered a business without outputs, an organized workforce must be present. In addition, the definition of the term outputs is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower cost and other economic benefits. An entity can apply a concentration test that, if met, eliminates the need for further assessment. Under this optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset, the assets acquired would not represent a business. The amendments are effective for business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2020 and early application is permitted. The Company has early adopted the guidance included in the amendment as of April 1, 2019, and has the option to elect to apply the guidance in this amendment. Refer to Note 8. “Business Combinations and Asset Acquisitions” for additional information.

***IFRIC 23 Uncertainty over Income Tax Treatments***

IFRIC 23 *Uncertainty over Income Tax Treatments* (“IFRIC 23”) clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes*, when there is uncertainty regarding income tax treatments. The Interpretation addresses whether an entity needs to consider uncertain tax treatments separately, the assumptions an entity should make about the examination of tax treatments by taxation authorities, and how an entity considers changes in facts and circumstances in such determinations. The adoption of IFRIC 23 did not have an impact on the Company’s consolidated financial statements as at the effective date of adoption.

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**3. REVERSE TAKEOVER AND PRIVATE PLACEMENT**

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As discussed in Note 1. “Nature of Operations”, the Company completed its previously announced RTO with Tanzania.

In connection with the RTO, Tanzania (i) completed a consolidation of its common shares on the basis of one post-consolidation subordinate voting share for 22.75711 issued and outstanding pre-consolidation Tanzania Shares; (ii) amended the rights and restrictions of the existing class of common shares and re-designating such class as Subordinate Voting Shares, deleted the existing class of preferred shares and created a new class of Multiple Voting Shares and a new class of Super Voting Shares, such that an unlimited number of each class of shares are authorized to be issued without par value; and (iii) changed its name from “Tanzania Minerals Corp.” to “Jushi Holdings Inc.”

Prior to the RTO, Jushi Acquisition Corp. (“Jushi Acquisition”), a special purpose corporation, completed a brokered and non-brokered private placement of 24,800,098 subscription receipts (each, a “Subscription Receipt”) at a price of \$2.75 per Subscription Receipt for aggregate gross proceeds of \$68,200,270. As part of closing the RTO, the holders of Subscription Receipts received Subordinate Voting Shares of the Company on a one-for-one basis. Refer to Note 14. “Equity” for additional information.

After the completion of the RTO (including the conversion of the Subscription Receipts (“SR”) issued under the SR Offering into Subordinate Voting Shares, which occurred prior to the closing of the RTO), there were 82,758,266 Subordinate Voting Shares outstanding, with: (a) the current holders of Tanzania Shares holding 413,266 Subordinate Voting Shares (on a post-consolidation basis), representing approximately 0.5% of the issued and outstanding Subordinate Voting Shares; and (b) the holders of Jushi Inc shares (including from the conversion of the Subscription Receipts to Jushi Acquisition Shares) holding 82,345,000 Subordinate Voting Shares, representing approximately 99.5% of the issued and outstanding Subordinate Voting Shares.

In completing the RTO, the Company, 1207713 B.C. Ltd. (“Subco”) and Jushi Acquisition entered into a merger agreement, in respect of an amalgamation of Jushi Acquisition and Subco to form amalco, which was wholly owned by the Company and was subsequently dissolved. Jushi Inc, Jushi Merger Sub, Inc. (“Merger Sub”) and the Company entered into a merger agreement in respect of a merger of Jushi Inc with Merger Sub, whereby the shareholders of Jushi Inc were issued Subordinate Voting Shares, Multiple Voting Shares and/or Super Voting Shares of the Company, with Jushi Inc becoming a wholly owned subsidiary of the Company and the Company owning 100% of the shares of Jushi Inc.

The Subordinate Voting Shares began trading on the NEO Exchange Inc. on June 10, 2019, under the symbol “JUSH.B”. The Company’s SVS were listed on the NEO until Friday, December 6, 2019. On December 9, 2019, the Company listed on the Canadian Securities Exchange (the “CSE”) and began trading under the ticker symbol “JUSH”.

For accounting purposes, the transaction was accounted for as a capital transaction under IFRS 2, “*Share-Based Payment*”. The Amalgamation was accounted for as an RTO transaction that was not a business combination and effectively a capital transaction of Jushi Inc. Jushi Inc has been treated as the accounting acquirer (legal subsidiary) and Jushi Holdings Inc. has been treated as the accounting acquiree (legal parent) in these consolidated financial statements. As Jushi Inc was deemed to be the acquirer for



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accounting purposes, the consolidated financial statements are presented as a continuation of Jushi Inc.

In accordance with IFRS 2, the amount assigned to the reverse acquisition transaction costs in the consolidated statements of operations and comprehensive loss is \$1,359,971, being the difference between the estimated fair value of the Company's shares and warrants prior to the RTO, less the fair value of the net assets of Tanzania acquired (approximately \$1,000 in cash). The fair value of the Company's shares and warrants prior to the RTO of \$1,361,211 is based on the \$2.75 per share trading price of the Company. The fair value of the 413,266 shares and warrants issued in consideration for the RTO therefore totaled \$1,361,211, as reflected in the consolidated statements of equity. Refer to "Warrants" in Note 14. "Equity" for further details on these warrants. Listing expense of \$1,359,171 is included in the consolidated statements of operations and comprehensive loss for the year ended December 31, 2019.

These consolidated financial statements as of December 31, 2019, include the completion of the RTO. Jushi, the continuing entity for accounting purposes, is considered to have acquired the assets and liabilities of Tanzania through a capital transaction. Tanzania has no remaining net assets as of December 31, 2019.

#### 4. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

##### Investments in Securities

Details of investments in securities as of December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Investment in Cresco shares and warrants	\$ 10,994,535	\$ -
Investments in mutual funds	1,272,200	1,233,228
Total investments in securities	\$ 12,266,735	\$ 1,233,228

As of December 31, 2019, investments in securities represents trading securities in mutual funds, and investments in proportionate voting shares and warrants to purchase proportionate voting shares in Cresco Labs Inc. ("Cresco"). As of December 31, 2018, investment in securities represented investments in mutual funds. The Company has classified these investments as fair value through profit or loss.

##### *Investments in mutual funds*

Fair values of the investments in mutual funds are determined based on quoted market prices. For the year ended December 31, 2019, the Company recognized \$38,972 of interest income in the consolidated statements of operations and comprehensive loss, related to the investments in mutual funds. For the comparative period in 2018, the Company paid fees of \$10,914 relating to the initial purchase of investments in mutual funds.

##### *Investment in Cresco Shares and Warrants*

As of December 31, 2019, the Cresco shares and warrants, are valued at \$9,848,088 and \$1,146,447,

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respectively, for a total of \$10,994,535. The fair value of the tradeable shares was determined based on the quoted market price. The fair value of the warrants was determined based on a Black-Scholes model using the quoted market price of \$6.86 and the following assumptions: a strike price of \$4.24; an estimated life of 1.5 years; volatility of 70%; a risk-free rate of 1.59%; and a dividend rate of 0%. For the year ended December 31, 2019, the Company recognized a \$1,699,926 gain related to changes in the fair value of the shares and warrants, which is included in gains on investments and financial assets in the consolidated statements of operations and comprehensive loss. The Cresco shares and warrants were received in October 2019 in connection with the Company's sale of its 16.5% interest in Gloucester Street Capital, LLC ("GSC"). Refer to "Other Financial Assets" below. The Company owns 7,180 Cresco proportionate voting shares (which convert into a total of 1,436,000 Cresco subordinate voting shares) and 1,657 Cresco warrants for proportionate voting shares (which convert into 331,400 warrants for subordinate voting shares). The warrants are exercisable at any time and expire three years from the grant date.

#### Other Financial Assets

Details of other financial assets as of December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Cresco Notes and accrued interest	\$ 5,646,419	\$ -
Investment in GSC	-	5,454,252
Total	\$ 5,646,419	\$ 5,454,252
Other short-term financial assets	\$ 5,646,419	\$ -
Other long-term financial assets	\$ -	\$ 5,454,252

#### Investment in GSC and Cresco Notes

During 2018, the Company made purchases of equity for cash totaling \$5.4 million representing a 16.5% stake in Gloucester Street Capital, LLC ("GSC"), the parent company of New York state licensed cannabis operator Valley Agriceuticals, LLC. The Company did not have any significant influence over this investee. In the third quarter of 2019, Cresco Labs Inc. ("Cresco") received regulatory approval to acquire GSC, and in early October the Company completed the sale of its interest in GSC to Cresco. In October 2019, as consideration for its sale in GSC, the Company was issued 7,180 Cresco proportionate voting shares which convert into a total of 1,436,000 Cresco subordinate voting shares, 1,657 warrants for proportionate voting shares of Cresco which convert into 331,400 warrants for Cresco subordinate voting shares, received \$134,628 of cash, and \$5.2 million of short-term secured notes (the "Cresco Notes"). The Company is also eligible to receive certain contingency payouts, which are tied to both the performance of the Gloucester operations as well as the development of the New York market. The outcome of the contingency is not able to be estimated as of December 31, 2019, primarily because the New York market condition is unknown. The Cresco Notes which are payable in cash, and the related accrued interest of approximately \$0.5 million which is payable in Cresco shares, are both included in other short-term financial assets in the consolidated statements of financial position as of December 31, 2019. The related Cresco shares and warrants are reflected within investments in securities in the consolidated statement of financial position as of December 31, 2019. Refer to "Investments in Securities" above. The value of the financial asset at December 31, 2018 was \$5.4 million and was reflected within long-term financial asset.

For the year ended December 31, 2019, the Company recognized total gains related to the investments

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and financial assets of \$11.3 million, of which \$9.6 million relates to fair value adjustments to the Company's investment in GSC prior to the sale, and \$1.7 million relates to subsequent changes in the fair value of the Cresco shares and warrants. The gains are included in gains on investments and financial assets in the consolidated statements of operations and comprehensive loss.

A continuity of investments in securities and other financial assets, excluding investments in mutual funds, is as follows:

January 1, 2019	\$	5,454,252
Fair value gain on investment in GSC		9,621,404
Fair value gain on investment in Cresco shares and warrants		1,699,926
Cash received on sale of investment in GSC		(134,628)
December 31, 2019	\$	16,640,954
Investment in Cresco shares and warrants	\$	10,994,535
Other short-term financial assets	\$	5,646,419

Refer to Note 21. "Subsequent Events" for subsequent events.

### 2018 Notes Receivable Activity

#### (a) Beacon Note

The Company entered into a Note Purchase Agreement (the "Note Purchase") with Beacon Holding, LLC ("Beacon"), an affiliate of The Green Solution ("TGS Colorado"), on February 13, 2018. TGS Colorado is a large Colorado based cannabis operator affiliated with TGS National Holdings, LLC and Subsidiaries ("TGSNH"). Refer to Note 8. "Business Combinations and Asset acquisitions" for details on the 2018 acquisition of TGSNH. The Company agreed to purchase up to \$9,000,000 of original issue discount promissory notes, in three tranches ("Tranche 1 Note", "Tranche 1A Note", "Tranche 2 Note" and Tranche 3.).

- Tranche 1 Note: On February 13, 2018, the Company purchased a \$3,000,000, 3% original issue discount ("OID") secured promissory note bearing interest at 15% per annum with a maturity date of February 13, 2020. Two officers of the Company paid \$2,910,000 to Beacon for the Tranche 1 Note on behalf of the Company. The officers were subsequently reimbursed for their capital contribution through the Company's issuance of 5,805,342 common shares.
- Tranche 1A Note: On March 23, 2018, the Company purchased a \$428,034, 3% OID secured promissory note bearing interest at 15% per annum with a maturity date of September 22, 2018. The Company paid \$415,193 in accordance with a First Amendment to the Note Purchase Agreement dated March 23, 2018 ("Amendment No. 1 Note Purchase").
- Tranche 2 Note: On April 20, 2018, the Company purchased a \$2,300,000, 3% OID secured promissory note bearing interest at 15% per annum with a maturity date of February 13, 2020. The Company paid \$2,231,000 to Beacon for the Tranche 2 Note.

All obligations of Beacon under the Note Purchase including the payment of the original principal amount and other payments were guaranteed pursuant to a Guaranty Agreement dated February 13, 2018. Certain

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of the guarantors pledged collateral in a Pledge and Escrow Agreement entered into with the Company on February 13, 2018. The pledged collateral consisted of the following: (i) 95% of the TGS National Holdings, LLC (“TGSNH”) units beneficially owned by the pledging entities; (ii) 415,150 common shares of Organigram, Inc. (“OGI”) owned beneficially by the pledging entities; (iii) stock options to purchase 475,000 common shares of OGI at an exercise price of CAD\$1.58 per common share to the extent vested and/or future vested of which stock options are owned beneficially by the pledging entities; and (iv) certain Jushi common shares and warrants to purchase common shares which were issued in connection with the TGSNH acquisition which closed in March 2018. Refer to Note 8. “Business Combinations and Asset Acquisitions” for details.

The following schedule summarizes the Notes issued to the Company by Beacon:

<u>Original Principal Amount</u>	<u>Original Issue Discount</u>	<u>Issuance Price</u>	<u>Origination Date</u>	<u>Maturity Date</u>
\$ 3,000,000	3.0%	\$ 2,910,000	February 13, 2018	February 13, 2020
428,034	3.0%	\$ 415,193	March 23, 2018	September 22, 2018
<u>2,300,000</u>	<u>3.0%</u>	<u>\$ 2,231,000</u>	<u>April 20, 2018</u>	<u>February 13, 2020</u>
<u>\$ 5,728,034</u>		<u>\$ 5,556,193</u>		

On June 12, 2018, the Company entered into a Debt Sale and Assignment of Tranche Notes Agreement, (the “Notes Sale Agreement”) with Health Diagnostics, LLC (“HD”), a third-party willing investor. The terms of the Notes Sale Agreement included the non-recourse sale, transfer and assignment of the funded (Tranche 1, Tranche 1A and Tranche 2) and unfunded tranche notes (Tranche 3) for consideration of \$5,756,674 which included a pro-rata portion of interest for June 2018.

As a result of the pledged collateral including 95% of the TGSNH units beneficially by the pledging entities, as part of the Notes Sale Agreement, the Company was granted a call option to repurchase all \$9,000,00 or any part of the notes from Health Diagnostics for a purchase price as defined in the Notes Sale Agreement. The Company did not assign any value to the call option as of the date of the transaction, and as of December 31, 2019 as the Company determined that the value of the call option was immaterial. As partial consideration for entering into the Notes Sale Agreement the Company issued warrants to purchase 1,000,000 shares of Class B Common Stock (now, Subordinate Voting Shares) of Jushi Inc at an exercise price of \$2.00 per share at a grant date fair value of \$70,000. The warrants were issued to Black Fin Capital LLC as a designee of HD. Refer to Note 14. “Equity” for further details on warrants.

Refer to Note 21. “Subsequent Events” for details on a January 2020 transaction including the Beacon Notes.

(b) *San Felasco Nursery, Inc.*

On March 23, 2018 TGS National Franchise LLC (“TGS”), which is controlled by TGSNH, entered into a note with San Felasco Nursery, Inc. (“SFN”) in the amount of \$1,400,000, at 9% interest due at March 23, 2019 with no prepayment penalty. On November 21, 2018, SFN paid \$1,400,000 principal and \$41,841 in interest to the Company, which is reflected in proceeds from notes receivable in the consolidated statements of cash flows.

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(c) *TGS Illinois*

On April 11, 2018, TGSI, exchanged a due from related party balance assumed by the Company as part of its acquisition of TGSNH for a senior promissory note totaling \$2,000,000 with an original issue discount of 1.5% and a maturity date of October 11, 2018. The senior promissory note was repaid to the Company in full on its maturity date, and is reflected in proceeds from notes receivable in the consolidated statements of cash flows.

**5. INVENTORY AND BIOLOGICAL ASSETS**

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**Inventory**

Inventory as of December 31, 2019 consisted of the following:

	<u>December 31, 2019</u>
Finished goods	\$ 1,202,039
Work in progress and raw materials	823,268
Less: Inventory reserve	<u>(67,628)</u>
Total inventory	<u>\$ 1,957,679</u>

At December 31, 2019, raw materials and work in process included supplies, and finished goods consisted of harvested cannabis, cultivation inventory transferred from work in progress and purchased from third parties, as well as retail supplies, consumables, and products for resale. Inventory expensed for the year ended December 31, 2019 included in cost of goods sold was \$5.5 million.

During November 2018, the Company prepaid an amount for, and, in January 2019, the Company made certain purchases of, raw hemp for a total of \$685,000. The Company subsequently paid approximately \$135,000 of extraction and other costs related to this raw hemp. Testing of the product in its current form has shown that the material is not commercially viable, and as a result the Company recorded a loss relating to inventory impairment of \$819,537 for the year ended December 31, 2019, which is presented within operating costs in the statement of operations and comprehensive loss. The outcome of any disputes related to this item is unknown as of December 31, 2019 and may result in additional effects on the Company's statements of operations and comprehensive income (loss) in the future.

**Biological Assets**

As of December 31, 2019, the carrying amount of biological assets was \$271,434. A rollforward of biological assets for the year ended December 31, 2019 is as follows:

	<u>December 31, 2019</u>
Balance at beginning of period	\$ -
Purchased as part of a business acquisition	309,931
Cost incurred until harvest	410,618
Effect of unrealized change in fair value of biological assets	262,558
Transferred to inventory upon harvest	<u>(711,673)</u>
Balance at end of period	<u>\$ 271,434</u>

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The biological assets purchased as part of a business combination reflected in the table above relate to the FBS NV acquisition. Refer to Note 8. “Business Combinations and Asset Acquisitions” for additional details.

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. The following unobservable inputs, all of which are classified as Level 3 on the fair value hierarchy (Refer to Note 20. “Financial Instruments and Financial Risk Management”), were used by management as part of the biological asset models:

- Yield per plant – represents the expected number of grams of dry cannabis expected to be harvested from each plant.
- Selling price – determined using a combination of third-party cannabis spot price reports in addition to wholesale contract prices where applicable which, combined, are expected to approximate selling prices
- Stage of growth – represents the weighted average number of days remaining in cultivation prior to harvest.
- Wastage – represents the 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 the significant unobservable inputs, and also provides the effect of a 10% increase or decrease to each input on the calculation of the fair value of biological assets.

	<u>December 31, 2019</u>	Effect of 10% Change as at <u>December 31, 2019</u>
Selling price	\$2.58	\$71,100
Stage of growth	9 weeks	\$22,000
Yield by plant	83 grams	\$23,000
Wastage	10%	\$25,000
Post-harvest costs	\$0.35	\$8,000

The Company determines fair value of each plant according to its stage of growth. As a result, a cannabis plant that is 50% grown through its average 21-week growing cycle would be ascribed approximately 50% of its harvest date expected fair value (subject to wastage adjustments).



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**6. DEFERRED ACQUISITION COSTS**

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The Company makes advance payments and deposits to certain acquisition targets for which the transfer and/or closing is pending due to certain closing conditions inclusive of certain regulatory approvals prior to the acquisition date. Advance payments and deposits for certain acquisition targets are reflected as arm's length transactions and may not be refundable.

At December 31, 2019 and 2018, the Company had the following deferred acquisition costs and deposits, which are expected to be offset against the consideration payable for the related future purchases:

Acquisition Target	December 31, 2019	December 31, 2018
a) Santa Barbara adult use cannabis dispensary	\$ 2,250,000	\$ -
b) Pennsylvania dispensary permittee	70,000	50,000
Total	\$ 2,320,000	\$ 50,000

**a) *Santa Barbara Adult Use Cannabis Dispensary***

In February 2019, the Company entered into a binding term sheet to acquire (i) 100% of a Santa Barbara adult use cannabis dispensary, subject to the fulfillment of certain conditions, and (ii) the contract to purchase the associated real estate. The owners of the Santa Barbara adult use cannabis dispensary did not own the associated real estate. The Santa Barbara adult use cannabis dispensary has the right to operate one of only three adult use cannabis dispensaries in the City of Santa Barbara, California. The Company's acquisition of the real estate closed on March 3, 2019. Refer to Note 7. "Property, Plant and Equipment" for additional information. An escrow account was established to hold funds on behalf of the Company and the Santa Barbara adult use cannabis dispensary in accordance with a securities purchase agreement dated March 3, 2019, in the amount of \$2,250,000 that will be applied against the purchase price and \$1,500,000 of the total amount is a refundable deposit. It is expected that the closing will occur in the second quarter of 2020 and the Company will be required to pay an amount of \$375,000 to facilitators at such time.

**b) *Pennsylvania Dispensary Permittee***

A Pennsylvania dispensary permittee received a provisional dispensary permit in Round II from the Pennsylvania Department of Health and plans to open three dispensaries to sell medical cannabis. The Company has entered into definitive documents to purchase a majority stake in the Pennsylvania dispensary permittee subject to closing conditions being met. It is expected that the closing will occur in the second quarter of 2020. The Company has advanced \$70,000 as of December 31, 2019 that will be applied against the purchase price. As of December 31, 2018, \$50,000 had been advanced and was included in other long-term assets.

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**7. PROPERTY, PLANT AND EQUIPMENT**

A reconciliation of the beginning and ending balances of capital assets and accumulated depreciation during the year ended December 31, 2019 is as follows:

	Buildings and Improvements	Land	Leasehold Improvements	Machinery and Equipment	Computer Equipment	Furniture and Fixtures	ROU Assets (1)	Construction in Progress (2)	Total
<b>Cost</b>									
Balance, December 31, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transition adjustment	-	-	-	-	-	-	614,074	-	614,074
Additions from capital expenditures and leases	2,357,580	1,363,285	1,859,382	28,305	204,866	623,837	1,971,470	3,291,585	11,700,310
Additions from acquisitions	2,205,490	375,000	3,162,920	261,945	82,730	659,901	4,179,542	359,279	11,286,807
Balance, December 31, 2019	\$ 4,563,070	\$ 1,738,285	\$ 5,022,302	\$ 290,250	\$ 287,596	\$1,283,738	\$ 6,765,086	\$ 3,650,864	\$ 23,601,191
<b>Accumulated Depreciation</b>									
Balance, January 1, 2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation	(87,996)	-	(215,163)	(63,608)	(55,186)	(105,396)	(481,375)	-	(1,008,724)
Balance, December 31, 2019	\$ (87,996)	\$ -	\$ (215,163)	\$ (63,608)	\$ (55,186)	\$ (105,396)	\$ (481,375)	\$ -	\$ (1,008,724)
<b>Carrying amount</b>									
At December 31, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
At December 31, 2019	\$ 4,475,074	\$ 1,738,285	\$ 4,807,139	\$ 226,642	\$ 232,410	\$1,178,342	\$ 6,283,711	\$ 3,650,864	\$ 22,592,467

- (1) A right-of-use asset of \$614,074 was recognized at January 1, 2019 in connection with the adoption of IFRS 16. Refer to Note 2. "Summary of Significant Accounting Policies" for further information. Substantially all of the Company's ROU assets pertain to building leases. Refer to Note 11. "Lease Obligations" for further details on lease obligations.
- (2) Construction in Progress primarily represents assets under construction related to building and leasehold improvements in process for buildings acquired during the year ended December 31, 2019 not yet completed or otherwise not ready for use.

Total depreciation expense for the year ended December 31, 2019 was \$1,008,724, and for the period from January 23, 2018 (inception date) to December 31, 2018 was \$nil. Of the total expense, \$63,608 was allocated to inventory for the year ended December 31, 2019 and none was allocated to inventory for the period from January 23, 2018 (inception date) to December 31, 2018.

The Company's land and buildings are not considered investment properties nor held for capital appreciation as they are to be used in the Company's retail and wholesale operations. A summary of building and land additions completed for the year ended December 31, 2019 is as follows:

- (i) In January 2019, the Company purchased a commercial property in Reading, Pennsylvania for approximately \$201,000. The Company agreed to develop and lease the property to a provisional dispensary permit holder.
- (ii) In March 2019, the Company purchased a commercial property located in Santa Barbara, California for approximately \$3,146,000. The property includes a building with suitable retail space of approximately 3,900 square feet. The Company agreed to develop and lease a portion of the property to a Santa Barbara adult use cannabis dispensary.
- (iii) In March 2019, the Company purchased a commercial property in Pottsville, Pennsylvania for approximately \$364,000. The Company agreed to develop and lease the property to a provisional dispensary permit holder.

As of December 31, 2019, the Company had incurred a total of \$1,156,000 to develop the Reading,



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Pottsville and Santa Barbara properties, which amount is included in Construction in Process (“CIP”). The cost of the construction will be depreciated once the construction is complete and available for use. These properties are still under development and were not yet occupied as of December 31, 2019.

Other CIP details as of December 31, 2019 are as follows:

- (i) In July 2019, Jushi completed the purchase of the real estate associated with the Franklin Bioscience NV, LLC (“FBS NV”) facility in North Las Vegas, Nevada, from Farman, LLC, an affiliate of FBS NV. The facilities acquired include two adjacent buildings with cultivation, manufacturing and distribution capabilities. The buildings may be combined and expanded further. Refer to Note 8. “Business Combinations and Asset Acquisitions” for further information on FBS NV. As of December 31, 2019, the Company has incurred \$34,000 to develop the purchased commercial property.
- (ii) In connection with the Dalitso acquisition, the Company is developing a facility in Virginia. Currently, the buildout of this facility is under way and \$1,354,000 has been incurred post acquisition as of December 31, 2019.
- (iii) The majority of other CIP at December 31, 2019 relates to other retail buildouts, including \$182,000 incurred in connection with the property associated with a potential Malibu acquisition. Refer to Note 21. “Subsequent Events”.

## **8. BUSINESS COMBINATIONS AND ASSET ACQUISITIONS**

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### ***2019 Business Combinations***

#### **Franklin BioScience – Penn, LLC**

On July 10, 2019, the Company acquired 100% of the equity interests of Franklin BioScience – Penn, LLC and its subsidiaries (“FBS Penn”). The aggregate purchase price was approximately \$63 million, subject to working capital and other adjustments, and is payable by: (i) \$28 million in cash; (ii) \$28.1 million by way of certain 10% secured convertible notes due to the sellers (refer to Note 12. “Promissory Notes Payable”); and (iii) the issuance of approximately 3.38 million Subordinate Voting Shares to the sellers (at a closing date price of \$2.07) of which 1.5 million shares were issued subject to certain escrow provisions and will be released from escrow to the registered holders on the six-month anniversary of the acquisition. The 1.5 million shares were released from escrow in 2020. An option to convert \$10.6 million of the 10% secured convertible notes and interest due to sellers, at a fixed conversion price of \$3.30, expired in September 2019. The option was not considered to be significant for separate accounting. In addition, in March 2019, and under the terms of a letter of intent allowing the Company to negotiate definitive documents with FBS Penn, the Company had made an exclusivity payment of \$1.0 million to FBS Penn. The \$1.0 million amount was for bona fide business expenses and was not applied against the purchase price and was thus expensed and is included in acquisition and deal costs in the consolidated statements of operations and comprehensive loss for the year ended December 31, 2019. In addition, a \$4.0 million advanced payment was paid in the second quarter of 2019, which also was not treated as additional purchase consideration because the amount was expected to be reimbursed or offset against the final purchase price. The amount was ultimately not

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reimbursed or offset and was thus expensed, and is included in pre-acquisition expense in the consolidated statements of operations and comprehensive loss for the year ended December 31, 2019.

FBS Penn holds one Phase I and three Phase II dispensary permits issued by the Pennsylvania Department of Health under its Medical Marijuana Program allowing for 12 medical marijuana dispensaries in the Commonwealth of Pennsylvania. The existing retail dispensary brand, “Beyond/Hello”, has six operational dispensaries located in Philadelphia, Bristol, Johnstown, Scranton and West Chester as of December 31, 2019. Jushi acquired the “Beyond/Hello” brand and related intellectual property as part of its acquisition of FBS Penn.

The following table summarizes the preliminary purchase price allocation and the total fair value of the consideration:

Cash and cash equivalents	\$	3,885,911
Prepays		9,000
Inventory		379,909
Property, plant and equipment		7,961,301
Intangible assets - licenses		40,600,000
Intangible assets - trade name		5,290,000
Intangible assets - non-compete		120,000
Other non-current assets		108,438
Total assets	\$	<u>58,354,559</u>
Accounts payable and accrued liabilities		(522,146)
Lease liabilities		(4,079,133)
Deferred taxation liabilities		(17,571,935)
Total liabilities	\$	<u>(22,173,214)</u>
Net assets acquired	\$	<u>36,181,345</u>
Consideration paid in cash	\$	27,999,463
Consideration paid in notes		28,122,000
Consideration paid in shares		6,981,990
Total consideration	\$	<u>63,103,453</u>
Goodwill	\$	<u>26,922,108</u>

The consideration has been allocated to the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition and remains preliminary as of December 31, 2019. The goodwill recognized from the acquisition is attributable to synergies expected from integrating FBS Penn into the Company’s existing business. The goodwill acquired is not deductible for tax purposes.

### Franklin BioScience NV, LLC

On July 24, 2019, the Company entered into a purchase agreement to acquire 100% equity ownership of Franklin BioScience NV, LLC (“FBS NV”), subject to state and local approvals, pending which it has entered into a management services agreement. Subsequently in July 2019, the Company received local City of North Las Vegas authorization to enter the greater Las Vegas, Nevada market under the management services agreement with FBS NV. FBS NV holds medical and adult use cannabis cultivation, processing

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and distribution licenses issued by the Nevada Department of Taxation and currently operates cannabis cultivation and production facilities in North Las Vegas, Nevada. An application for change of ownership has been submitted with the State of Nevada Department of Taxation and is pending. The closing of the equity acquisition is subject to receipt of applicable regulatory approvals. The Company consolidates FBS NV, of which it currently has a 0% legal ownership percentage, since 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. The Company controls FBS NV through the Management Services Agreement (“MSA”), which enables the Company to make all operating decisions for this facility and will therefore have the ability to use its power through the MSA to affect its returns.

The following table summarizes the preliminary purchase price allocation and the total fair value of the consideration:

Cash and cash equivalents	\$	50,014
Accounts receivable and other current assets		66,109
Inventory and biological assets		1,043,794
Property, plant and equipment		2,845,477
Intangible assets - licenses		5,200,000
Intangible assets - patient database		270,000
Intangible assets - trade name		40,000
Intangible assets - non-compete		40,000
Total assets	\$	<u>9,555,394</u>
Accounts payable and other liabilities	\$	(293,729)
Deferred taxation liabilities		(671,050)
Intercompany note		(192,279)
Total liabilities	\$	<u>(1,157,058)</u>
Net assets acquired	\$	<u>8,398,336</u>
Consideration paid in cash	\$	6,736,466
Consideration paid in notes		2,625,000
Total consideration	\$	<u>9,361,466</u>
Goodwill	\$	<u>963,130</u>

Refer to Note 12. “Promissory Notes Payable” for additional details on the notes issued in consideration for this acquisition.

The consideration has been allocated to the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition and remains preliminary as of December 31, 2019. The goodwill recognized from the acquisition is attributable to synergies expected from integrating FBS NV into the Company’s existing business. Additionally, the Nevada Department of Agriculture has issued FBS NV a Hemp Handler license. The goodwill acquired is not deductible for tax purposes.

#### Preliminary Fair Value Estimates

The purchase price allocations for the acquisitions, as set forth in the tables above, reflect various preliminary fair value estimates and analyses that are subject to change within the measurement period as valuations are

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finalized. The primary areas of the preliminary purchase price allocations that are not yet finalized relate to the valuation of deferred tax liabilities, 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 be affected.

### **Acquisition Results and Unaudited Supplemental Pro Forma Financial Information**

Total revenue of \$8,947,000 and net losses of \$3,884,000 from the business combinations above are included in the consolidated statements of operations and comprehensive loss from the dates of the respective acquisitions. Had the acquisitions occurred on January 1, 2019, additional revenues of \$5.1 million and additional net losses of \$2.1 million would have been included in the consolidated statements of operations and comprehensive loss for the year ended December 31, 2019.

For the year ended December 31, 2019, acquisition and deal costs relating to these two business combinations totaled \$1.3 million and are included in the total acquisition and deal costs of \$2.7 million in the consolidated statements of operations and comprehensive loss for the year ended December 31, 2019. For the year ended December 31, 2019, \$4.0 million of additional costs relating to FBS Penn is included in pre-acquisition expense in the consolidated statements of operations and comprehensive loss for the year ended December 31, 2019.

Refer to Note 21. "Subsequent Events" for a business combination subsequent to December 31, 2019.

### ***Other 2019 Acquisitions***

#### **Dalitso LLC**

On September 23, 2019, the Company acquired 61.765% of the membership interests in Dalitso LLC ("Dalitso"). The aggregate purchase price was \$16 million and consisted of \$7.8 million in cash, \$3.4 million in Subordinate Voting Shares at a closing date price of \$1.61 per share (2.1 million shares), approximately 1 million warrants valued at \$0.4 million to purchase Subordinate Voting Shares at a fixed price of \$3.00 per share (expiring two years from issuance) and \$4.0 million in promissory notes. Refer to Note 12. "Promissory Notes Payable" for additional information. The warrants, which meet equity classification requirements, were valued using the Black-Scholes model, with the following inputs: stock price of \$1.61; time to maturity of two years; annual risk-free rate of 1.68%; volatility of 78%; and a dividend yield of zero. Dalitso is currently one of only five applicants to have received conditional approval for a permit issued by the Virginia Board of Pharmacy to cultivate and process medical cannabis, and to dispense and deliver CBD oil and THC-A oil extracts in Virginia. It is expected that the Virginia Board of Pharmacy will fully approve the Dalitso license in the future. As part of the transactions, the Company will lend up to \$15 million to Dalitso in a 9% secured note to support the continued build-out, equipment purchases and other working capital needs. As of December 31, 2019, the balance of the 9% secured note, totaled \$1,973,944 and was eliminated on consolidation.

The Company early adopted IFRS 3, as amended and determined that this transaction did not qualify as a business combination because the assets acquired did not constitute a business, as evident from the practical

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screen test which concluded that substantially all of the fair value of the acquisition is concentrated in a single identifiable asset (the license). Refer to Note 2. “Summary of Significant Accounting Policies” for additional information. The Company is exposed, or has rights, to variable returns from Dalitso and has the power to govern the financial and operating policies of Dalitso so as to obtain economic benefits, and therefore the Company has consolidated Dalitso from the date of acquisition.

The following table summarizes the allocation of the estimated fair values of the assets and liabilities acquired in the asset acquisition as of the acquisition date based on the fair value of the consideration:

Cash and cash equivalents	\$	20,933
Prepays and other assets		69,715
Property, plant and equipment		328,679
Intangible assets - license		25,700,466
Other non-current assets		34,270
Total assets	\$	<u>26,154,063</u>
Accounts payable and accrued liabilities		(146,707)
Intercompany note		(425,894)
Total liabilities	\$	<u>(572,601)</u>
Net assets acquired	\$	<u>25,581,462</u>
Non-controlling interest	\$	<u>(9,747,228)</u>
Total net assets acquired net of non-controlling interest	\$	<u>15,834,234</u>
Consideration paid in cash	\$	7,815,628
Capitalized acquisition costs		207,520
Consideration paid in notes		4,031,248
Consideration paid in shares and warrants		3,779,838
Total consideration	\$	<u>15,834,234</u>

The non-controlling interest was measured at the proportionate share method.

Refer to Note 17. “Non-Controlling Interests” for further details on non-controlling interests.

### Provisional Licensed Medical Marijuana Processor in Ohio

On June 27, 2019, the Company entered into a definitive agreement with a provisionally licensed medical marijuana processor (“Provisionally Licensed Holder”) in Ohio to acquire 100% of the voting and economic interest of the Provisionally Licensed Holder. Concurrently, the parties also entered into a MSA whereby the Company will provide ongoing management and consulting services to the Provisionally Licensed Holder. The Provisionally Licensed Holder does not currently have any business operations.

Total consideration paid on signing was \$2.0 million in cash and \$1.5 million in 18-month secured sellers’ notes (“Sellers’ Notes”). Refer to Notes 11. “Promissory Notes Payable” for further details. Upon issuance of the license, and closing of the transaction, the Company will receive 100% of the voting units of the Provisionally Licensed Holder in exchange for \$100.00 and the acceleration of all outstanding principal and

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interest due under the Sellers' Notes. It is expected that the Ohio Department of Commerce will fully approve this Ohio license and that the closing of the transaction will occur in the second half of 2020. The related license is provisional and there is no assurance that this temporary license will ultimately be granted.

The Company has early adopted IFRS 3, as amended and determined that this transaction did not qualify as a business combination because the assets acquired did not constitute a business, as evident from the practical screen test which concluded that substantially all of the fair value of the acquisition is concentrated in a single identifiable asset (the license). Refer to Note 2. "Summary of Significant Accounting Policies" for additional information. The Company consolidates the Provisionally Licensed Holder, since 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 through the MSA.

The following table summarizes the allocation of the estimated fair values of the assets and liabilities acquired in the asset acquisition as of the acquisition date based on the fair value of the consideration:

Cash and cash equivalents	\$	5,678
Accounts receivable and other current assets		9,067
Property, plant and equipment		151,349
Intangible assets - license		3,500,000
Total assets	\$	<u>3,666,095</u>
Accounts payable and other liabilities	\$	(29,798)
Lease liabilities		(151,349)
Total liabilities	\$	<u>(181,147)</u>
Total net assets acquired	\$	<u>3,484,948</u>
Consideration paid in cash	\$	1,984,948
Consideration paid in notes		1,500,000
Total consideration	\$	<u>3,484,948</u>

**The Clinic**

In June 2019, the Company purchased certain intellectual property and consulting agreements held by HMS, LLC ("The Clinic"), for total consideration of \$9,579,675, which included (i) \$4,115,000 in cash (including cash of \$650,000 related to pre-combination services to The Clinic employees) and (ii) \$5,464,675 in equity (2,267,500 shares). The fair value of the shares was determined based on the Company's closing share price on June 10, 2019 of CAD\$3.20 per share.

The Clinic's expertise as an integrated operator and cannabis industry pioneer with sophisticated intellectual property, key performance measurements and standard operating procedures complements the Company's expanding platform. The acquired intellectual property includes The Clinic's wholly owned consulting service's trade secrets and other proprietary intellectual information related to cannabis brands. The "Bank" brand includes intellectual property related to cultivation and genetics of over 150 different strains. The "Lab" brand includes intellectual property consisting of proprietary concentrates and extraction techniques.

The Company early adopted IFRS 3, as amended and determined that The Clinic purchases did not qualify as a business combination because substantially all of the fair value of the gross assets acquired are



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concentrated in a single asset (intellectual property). Refer to Note 2. “Summary of Significant Accounting Policies” for additional information.

The following table summarizes the allocation of the estimated fair values of the assets and liabilities acquired in the asset acquisition as of the acquisition date based on the fair value of the consideration:

Intangible assets - intellectual property	<u>9,579,675</u>
Total assets acquired	<u>\$ 9,579,676</u>
Consideration paid in cash	\$ 4,115,000
Consideration paid in shares	<u>5,464,675</u>
Total consideration	<u>\$ 9,579,675</u>

### ***2018 Business Combinations***

#### **TGS National Holdings, LLC and Subsidiaries**

On February 13, 2018, the Company entered a series of transactions with TGS National Holdings, LLC and Subsidiaries (“TGSNH”) that closed on March 19, 2018 (“Closing Date”). TGSNH is a franchisor affiliated with a large Colorado based cannabis operator, The Green Solution (“TGS Colorado”). At the time, TGSNH held a number of franchise agreements with state-licensed cannabis operators. The Company purchased 51% of TGSNH for consideration of \$5,000,000, to be paid in equity consisting of 5,000,000 shares of Jushi’s common shares and warrants to purchase 2,500,000 common shares at an exercise price of \$2.00 per share (“Tranche 1”). The acquisition was accounted for in accordance with IFRS 3.

In addition to acquiring 51% of TGSNH in Tranche 1, the Company had the exclusive right (the “Call Option”) to purchase the remaining 49,000 units, or 49%, of TGSNH (“Tranche 2”) for a period of 30 months from the Closing Date (the “Option Period”). The Seller also had the right to require the Company to purchase the remaining 49% no earlier than 12 months from the Closing Date, but before the end of the Option Period (the “Put Option”).

The consideration to be paid for either the Call Option or Put Option (the “Redemption Liability”) was \$7,000,000 if purchased within 18 months from the Tranche 1 closing, or \$8,500,000 if purchased on or after 18 months through the end of the Option Period. The purchase price was subject to an adjustment for working capital as defined in the Equity Interest Purchase Agreement. The consideration for Tranche 2 was payable in the form of the Company’s common shares. The adjusted present value of the Redemption Liability was \$8,439,857 and \$7,388,547 as of December 31, 2019, and 2018, respectively.

The total change in the redemption liability is included in interest expense and finance charges in the consolidated statements of operations and comprehensive loss. The total change in the redemption liability for the year ended December 31, 2019 was \$1,051,310, and for the period from acquisition to December 31, 2018 was \$91,547.

The redemption liability related to the acquisition of 49% of TGSNH is recorded at fair value through profit or loss and is estimated using the present value of the Put Option and Call Option and is therefore considered to be a Level 3 measurement. The Company has the exclusive right (“Call Option”) to purchase the remaining 49% of TGS for a period of 30 months from February 13, 2018 (“Option Period”). Concurrently, the seller



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may require the Company (“Put Option) to purchase the remaining 49% no earlier than 12 months from February 13, 2018, but before the end of the Option Period.

The consideration to be paid for either the Call Option or Put Option 49% of TGS shall be \$7,000,000 if purchased within 18 months from February 13, 2018, or \$8,500,000 if purchased on or after 18 months through the end of the Option Period. The consideration under the Put Option shall be paid in the form of Jushi common shares.

The fair value of the redemption liability at December 31, 2019, and 2018 related to the acquisition of 49% of TGSNH was calculated using a probability weighted discounted cash flow method based on the following assumptions:

	December 31, 2019	December 31, 2018
Risk-free annual interest rate	1.79% - 1.91%	2.45% - 2.87%
Expected time to redemption	0 - 0.7 years	0 - 2 years

A 10% decrease or increase the assumptions would not have a material effect on the fair value of the redemption value as of December 31, 2019.

Although the Company owns 51% of TGSNH, it fully consolidates TGSNH due to the terms of the series of transactions entered into on March 19, 2018, which terms include the written Put option with a fixed price that is accompanied by the similarly priced Call option which are exercisable at the same future date and are similar in substance to a fixed price forward. Fixed price forwards that will settle with shares of the non-controlling interest’s shares for fair value result in a transfer of risks and rewards of ownership of the shares to the parent on the date the contract is written. When the risks and rewards of ownership transfer to the acquiring company, the non-controlling interest is not presented in the acquiring company’s financial statements.

On April 11, 2018, TGSI exchanged a due from related party balance assumed by the Company as part of its acquisition of TGSNH for a senior promissory note totaling \$2,000,000 with an original issue discount of 1.5% and a maturity date of October 11, 2018. The senior promissory note was repaid to the Company in full on its maturity date.

Refer to Note 18. “Commitments and Contingencies” and to Note 21. “Subsequent Events.”

#### **Medicinal Excellence for Neurological Disorders, LLC**

On November 6, 2018, the Company acquired all of the membership interests in Medicinal Excellence for Neurological Disorders, LLC (“MEND”), a Delaware limited liability company in exchange for \$525,000. MEND owns rights to the ‘MEND’ brand and certain formulations. The acquisition was accounted for in accordance with IFRS 3.

On November 6, 2018, the Company also purchased the rights to certain anonymized cannabinoid treatment data developed by Dr. Laszlo Mechtler of the Dent Neurologic Group LLP and the Dent Cannabis Clinic (the “Data Purchase Agreement”) for a combination of an upfront payment of \$625,000 and contingent cash and equity consideration. An Advisory and Consulting Agreement was also executed between the Company and Dr. Mechtler, naming him the Medical Director of the Company, and a Consultant. The Company accounted for the acquisition of MEND and the upfront cash payment for the Data Purchase Agreement of

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\$625,000 as one business combination due to the fact that these transactions are linked and would not have been completed unless each transaction was completed. Since the future payments under both the Advisory and Consulting Agreement and the Data Purchase Agreement are contingent on Dr. Mechtler's participation and continuing effort which may be terminated by Dr. Mechtler or the Company at any point, those future payments, which consisted of the following two cash payments: \$312,500 paid on May 7, 2019 and \$312,500 which paid in December 2019; and two equity issuances of \$312,500 issued on May 5, 2019 (156,249 restricted shares) and issued in January 2020 (242,248 restricted shares) of Class B Common Stock (now, Subordinate Voting Shares) with a three-year vesting period, are considered post-combination compensation under IFRS 3.B55 and will be accounted for separately from the business combination. The future payments and unvested restricted stock will be forfeited if the related milestones are not met. Refer to Note 15. "Share-Based Compensation".

The following table summarizes the consideration for the business combinations during the period from January 23, 2018 (inception date) to December 31, 2018:

	TGSNH	MEND	Total
Closing date:	March 19, 2018	November 6, 2018	
Cash and cash equivalents	\$ 13,000	\$ -	\$ 13,000
Accounts receivable	7,000	-	7,000
Investment	105,000	-	105,000
Other assets	42,000	-	42,000
Due from affiliates	2,090,000	-	2,090,000
Intangible assets:			
Franchise agreements	1,850,000	-	1,850,000
Licensed intellectual property	1,290,000	-	1,290,000
Non-compete	8,000	-	8,000
Patient database	-	880,000	880,000
Trademark	-	50,000	50,000
Formulations	-	50,000	50,000
Total intangible assets	\$ 3,148,000	\$ 980,000	\$ 4,128,000
Total assets	\$ 5,405,000	\$ 980,000	\$ 6,385,000
Other liabilities assumed	\$ 109,000	\$ -	\$ 109,000
Note payable assumed	1,989,000	-	1,989,000
Redemption liability	7,297,000	-	7,297,000
Total liabilities	\$ 9,395,000	\$ -	\$ 9,395,000
Net (liabilities assumed) assets acquired	\$ (3,990,000)	\$ 980,000	\$ (3,010,000)
Consideration paid in cash	\$ -	\$ 1,150,000	\$ 1,150,000
Consideration paid in shares and warrants	5,000,000	-	5,000,000
Total consideration	\$ 5,000,000	\$ 1,150,000	\$ 6,150,000
Goodwill <sup>(1)</sup>	\$ 8,990,000	\$ 170,000	\$ 9,160,000

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- (1) As of the closing date of the TGSNH business combination, the Company noted indications of significant decline in TGSNH's market value. Accordingly, the Company recognized an impairment loss of \$8,990,000 related to the goodwill associated with the acquisition of TGSNH.

Unaudited supplemental pro forma revenue for the period from January 23, 2018 (inception date) to December 31, 2018 was \$610,739 and the unaudited supplemental pro forma net loss was \$18,143,538. This unaudited supplemental pro forma information presents revenues and net loss of the Company for the period from January 23, 2018 (inception date) to December 31, 2018 as if the TGSNH acquisition had been completed on January 1, 2018. MEND did not have any operations prior to its acquisition by the Company.

**9. GOODWILL AND OTHER INTANGIBLE ASSETS**

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**Goodwill**

The change in goodwill, net of accumulated impairment loss for the year ended December 31, 2019 and for the period from January 23, 2018 (inception date) to December 31, 2018 was as follows:

Balance at January 23, 2018	\$ -
Additions from business combinations	9,160,000
Impairment	<u>(8,990,000)</u>
Goodwill, net as of December 31, 2018	<u>\$ 170,000</u>
Additions from new business combinations	<u>27,885,238</u>
Goodwill, net as of December 31, 2019	<u>\$ 28,055,238</u>
Goodwill, gross as of December 31, 2019	<u>\$ 37,045,238</u>
Goodwill, accumulated impairment loss as of December 31, 2019	<u>\$ (8,990,000)</u>

Goodwill, net as of December 31, 2019 is comprised of goodwill from: a) the FBS PA acquisition of \$26,922,108; b) the FBS NV acquisition of \$963,130; and c) the MEND acquisition of \$170,000.

As of the date of the 2018 TGS National acquisition, the Company noted indications of significant decline in TGSNH's market value. Accordingly, the Company recognized an impairment loss of \$8,990,000 for the period from January 23, 2018 (inception date) to December 31, 2018 related to the goodwill associated with the acquisition of TGSNH. Refer to Note 8. "Business Combinations and Asset Acquisitions" for additional information regarding business combinations.

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**Other Intangible Assets**

The changes in other intangible assets for the year ended December 31, 2019 and 2018 were as follows:

	Finite Life Intangible Asset						Indefinite Life Intangible Asset			Total
	Franchise Agreements	Intellectual Property	Patient Database	Tradename	Non-Compete	Website Development	Licenses	Formulations	Internally Generated Intangibles	
<u>Cost:</u>										
Balance at January 23, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions <sup>(1)</sup>	1,850,000	1,290,000	880,000	50,000	8,000	-	-	50,000	-	4,128,000
Balance at December 31, 2018	\$ 1,850,000	\$ 1,290,000	\$ 880,000	\$ 50,000	\$ 8,000	\$ -	\$ -	\$ 50,000	\$ -	\$ 4,128,000
Additions <sup>(1)</sup>	-	9,579,675	270,000	5,330,000	160,000	60,806	75,000,466	-	585,387	90,986,334
Balance at December 31, 2019	\$ 1,850,000	\$ 10,869,675	\$ 1,150,000	\$ 5,380,000	\$ 168,000	\$ 60,806	\$ 75,000,466	\$ 50,000	\$ 585,387	\$ 95,114,334
<u>Accumulated amortization:</u>										
Balance at January 23, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Amortization expense	(103,904)	(96,603)	(8,519)	(484)	(1,258)	-	-	-	-	(210,768)
Balance at December 31, 2018	\$ (103,904)	\$ (96,603)	\$ (8,519)	\$ (484)	\$ (1,258)	\$ -	\$ -	\$ -	\$ -	\$ (210,768)
Amortization expense	(132,942)	(682,415)	(80,823)	(284,500)	(27,165)	(10,135)	-	-	-	(1,217,980)
Balance at December 31, 2019	\$ (236,846)	\$ (779,018)	\$ (89,342)	\$ (284,984)	\$ (28,423)	\$ (10,135)	\$ -	\$ -	\$ -	\$ (1,428,748)
<u>Net book value:</u>										
Balance at December 31, 2018	\$ 1,746,096	\$ 1,193,397	\$ 871,481	\$ 49,516	\$ 6,742	\$ -	\$ -	\$ 50,000	\$ -	\$ 3,917,232
Balance at December 31, 2019	\$ 1,613,154	\$ 10,090,657	\$ 1,060,658	\$ 5,095,016	\$ 139,577	\$ 50,671	\$ 75,000,466	\$ 50,000	\$ 585,387	\$ 93,685,586
Estimated useful life	14 years	10 - 10.5 years	5-15 years	1-15 years	3-5 years	3 years				

(1) In 2019, all additions other than internally generated intangibles and website development were from acquisitions. In 2018, all additions were from acquisitions. Refer to Note 8. "Business Combinations and Asset Acquisitions" for further details.

Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. The Company recorded amortization expense of \$1,217,980 for the year ended December 31, 2019, and \$210,768 for the period from January 23, 2018 (inception date) to December 31, 2018. These amounts are recorded within depreciation and amortization expense in the consolidated statements of operations and comprehensive loss.

Estimated future amortization expense for finite life intangible assets for the years ending December 31, 2020 and thereafter is as follows:

Year Ending December 31,	Estimated Future Amortization Expense
2020	1,991,741
2021	1,917,737
2022	1,892,181
2023	1,862,981
2024	1,840,265
2025 & Thereafter	8,544,828
<b>Total</b>	<b>18,049,733</b>

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**10. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Details of accrued expenses and other current liabilities as of December 31, 2019 and 2018 are as follows:

	December 31, 2019	December 31, 2018
Accrued taxes - federal and state	\$ 2,417,249	\$ -
Accrued taxes - other	\$ 77,282	
Accrued capital expenditures	1,558,021	-
Accrued employee related expense	967,552	3,672
Accrued interest - promissory notes payable	426,670	-
Accrued interest - 10% Senior Notes	40,306	-
Other accrued expenses and current liabilities	2,203,469	868,150
	<u>\$ 7,690,549</u>	<u>\$ 871,822</u>

Refer to Note 12. “Promissory Notes Payable” for details on the promissory notes payable, to Note 13. “Senior Notes and Derivative Warrant Liabilities” for details on the 10% Senior Notes and to Note 16. “Income Taxes” for details on accrued federal and state income taxes..

**11. LEASE OBLIGATIONS**

The Company leases certain business facilities for corporate, retail and cultivation purposes in Florida, Pennsylvania, Ohio, California, New York, and Colorado from third parties under lease agreements that specify minimum rentals. The expiry dates of the leases, including reasonably certain estimated renewal periods, are between 2020 and 2039 and contain certain renewal provisions.

Some property leases may contain variable payment terms that are linked to sales generated from a store or cannabis regulation changes. Variable payment terms may be used for a variety of reasons, including minimizing the fixed costs base for newly established stores. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs. Variable lease payments, which are included in cost of goods sold, totaled \$34,500 for the year ended December 31, 2019. All extension options that are reasonably certain to be exercised have been included in the measurement of lease obligations. The Company reassesses the likelihood of extension option exercise if there is a significant event or change in circumstances within its control.

The Company’s rent expense related to low-value and short-term leases entered into during the year ended December 31, 2019, is included in general and administrative expenses and was \$237,000 for the year ended December 31, 2019. For the period from January 23, 2018 (inception date) to December 31, 2018 the Company’s rent expense was \$64,000.

Refer to Note 2. “Basis of Presentation and Summary of Significant Accounting Policies” for details regarding the 2019 adoption of IFRS 16.

A continuity of lease liabilities for the year ended December 31, 2019 is as follows:

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IFRS 16 lease liabilities at January 1, 2019	\$ 614,074
Lease additions	1,971,469
Lease additions from acquisitions	4,230,483
Lease payments	(853,156)
Interest expense on lease liabilities	535,370
IFRS 16 lease liabilities at December 31, 2019	<u>\$ 6,498,240</u>

At December 31, 2019 estimated future minimum lease payments under non-cancelable operating leases having an initial or remaining term of more than one year are as follows:

Less than one year	\$ 1,155,552
One to five years	4,493,372
Greater than five years	10,075,730
Total undiscounted lease obligations	<u>\$ 15,724,654</u>
Interest	<u>9,226,414</u>
Lease obligations at December 31, 2019	<u>\$ 6,498,240</u>

The estimated future minimum lease payments under non-cancelable leases above do not include payments that are not yet reasonably certain because of potential changes in state cannabis regulations. The increases in estimated future minimum lease payments as a result of changes in state cannabis regulations could be significant.

As of December 31, 2019, estimated future minimum lease payments under non-cancelable operating leases having an initial term of one year or less were \$41,000 and are not capitalized in the consolidated statement of financial position.

Lease liabilities included in the statement of financial position at December 31, 2019 are as follows:

Short-term lease obligations	\$ 969,312
Long-term lease obligations	\$ 5,528,928
	<u>\$ 6,498,240</u>

Refer to Note 19. "Related Party Transactions" for a related party lease transaction.

## **12. PROMISSORY NOTES PAYABLE**

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Promissory notes payable which are acquisition related, consisted of the following as of December 31, 2019:

Short-term notes payable	\$ 15,634,563
Long-term notes payable	9,988,044
Total notes payable	<u>\$ 25,622,607</u>

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A continuity of promissory notes payable is as follows:

Opening balance	\$	-
Notes issued:		
FBS Penn	\$	28,122,000
FBS NV		2,625,000
Dalitso		4,031,248
Provisionally licensed holder		1,500,000
	\$	<u>36,278,248</u>
Principal payments:		
FBS Penn	\$	(10,622,000)
Dalitso		(33,641)
	\$	<u>(10,655,641)</u>
Closing balances:		
FBS Penn	\$	17,500,000
FBS NV		2,625,000
Dalitso		3,997,607
Provisionally licensed holder		1,500,000
Total notes payable at December 31, 2019	\$	<u>25,622,607</u>

Interest expense related to promissory notes for the year ended December 31, 2019 was \$1,319,716, of which \$893,046 was paid and \$426,670 was accrued at December 31, 2019. The accrued interest payable is included in accrued expenses and other current liabilities in the consolidated statements of financial position. Refer to Note 10. “Accrued Expenses and Other Current Liabilities”.

The carrying values at the dates of issuance of the promissory notes were determined to approximate their respective fair values as the interest rates for these liabilities approximated a market rate for similar instruments.

**Secured Promissory Notes – FBS Penn**

In July 2019, in connection with the FBS Penn acquisition, the Company issued \$28.1 million by way of certain 10% secured notes due to the sellers, with principal payments, together with accrued interest through each such date, due in tranches. \$10.6 million in principal was paid on September 30, 2019, \$7.5 million in principal is due on March 9, 2020, \$5.0 million in principal is due on September 9, 2020 and the remaining balance is due on March 9, 2021. Refer to Note 8. “Business Combinations and Asset Acquisitions” for additional information. The secured notes are secured by Jushi Inc’s a pledge of the equity Jushi Inc. directly and indirectly acquired in the acquisition. The pledge agreement contains standard non-financial covenants.

**Secured Promissory Notes – FBS NV**

In July 2019, in connection with the FBS NV management services and purchase agreements and the related acquisition of the associated real estate, the Company issued \$2.25 million in promissory and \$0.4



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million in other secured notes as part of the consideration. The notes bear interest at 10% per annum. Of the \$2.25 million in promissory notes, 50% will mature on the one-year anniversary of issuance and the remaining amount will mature on the second-year anniversary. The \$0.4 million note will mature in July 2021 and is subject to acceleration based upon consummation of the closing as defined in the purchase agreement and is secured by the real estate. Refer to Note 8. “Business Combinations and Asset Acquisitions” for additional information. In connection with these notes, Production Excellence, LLC granted a security interest in all of its assets and JREHNV, LLC granted a second lien priority security interest on certain real property.

#### **Promissory Notes – Dalitso**

In September 2019, in connection with the Dalitso acquisition, the Company issued: (i) approximately \$2.7 million in 6% secured promissory notes issued to the sellers maturing September 23, 2021 and convertible at the option of the holders on or prior to the maturity date into Subordinate Voting Shares at a conversion price of \$6.00 per share; and (ii) approximately \$1.3 million in 9% unsecured notes issued to certain sellers maturing September 20, 2021, with quarterly instalments of approximately \$34,000. Refer to Note 8. “Business Combinations and Asset Acquisitions” for additional information.

#### **Secured Promissory Notes – Provisionally Licensed Holder**

In June 2019, the Company entered into a definitive agreement with a provisionally licensed medical marijuana processor in Ohio and issued \$1.5 million in 18-month secured sellers’ notes as part of the consideration. The notes bear interest at 10% per annum and are payable quarterly, and are subject to acceleration based upon consummation of the closing as defined in the purchase agreement. Refer to Note 8. “Business Combinations and Asset Acquisitions” for additional information. In connection with these notes, Jushi OH, LLC granted a security interest in all of its assets.

### **13. SENIOR NOTES AND DERIVATIVE WARRANTS LIABILITY**

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During the month and year ended December 31, 2019, the Company issued \$16,660,000 of 10% senior secured notes (the “Senior Notes”) and 7,695,531 5-year warrants to purchase Subordinate Voting Shares of the Company (the “Warrants”) and received cash proceeds of \$16,760,000, as part of a private placement. On December 31, 2019, \$100,000 of subscriptions were received after close of business and the senior note was therefore not issued until January 2, 2020. The notes mature on January 15, 2023 (the “Maturity Date”) and bear interest at 10.0% per annum, payable in cash quarterly.

The Senior Notes were issued in connection with the December 23, 2019 announcement of the receipt of binding subscriptions totaling \$27.460 million for the Senior Notes and the Warrants (collectively, the “Offering”). The remainder of the receipts, as well as additional subscriptions, were received in January 2020. Refer to Note 21. “Subsequent Events” for additional details. The Senior Notes are not convertible, and the Senior Notes and Warrants may be sold, but with prior consent of the Company.

The purchasers of the Senior Notes received Warrants at 75% coverage of the note amount with an expiry date of December 23, 2024, at an exercise price equal to ~\$1.58 (~CAD\$2.08 as of December 23, 2019), which was equal to a 25% premium to the volume weighted average price for the prior 20 trading days ending December 20, 2019. An additional 25% warrant coverage may be issued if the Company does not raise aggregate gross proceeds of \$50 million (which shall include all proceeds raised by the Company in connection with the Offering) within the six months following the initial closing of the Offering, pursuant

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to one or more additional closings, equity offerings or Warrant exercises. The exercise price may be subject to downward adjustment for certain future debt or equity issuances. The warrants may be settled only with cash for the first year but may be net share settled after one year. The Warrants are being issued by the Company in connection with, but are detached from, the Company's issuance of the Senior Notes. As of December 31, 2019, 7,695,531 Warrants had been issued to Senior Notes holders, and 303,374 warrants has been issued to a broker in connection with the debt raise. As of December 31, 2019, 570,089 Warrants had not yet been issued as a result of the Company not having issued the related Senior Note or not having received the full subscribed amount relating to a Senior Note. The broker warrants are not subject to either the downward adjustment or the potential additional 25% warrant coverage and have an expiry date of December 23, 2021. In addition, the Company incurred other cash debt issuance costs (see below).

If the additional 25% warrant coverage or the downward adjustment protection on the Warrants is enacted, there would be variability in the number of shares issuable on conversion. In accordance with IFRS, a contract to issue a variable number of equity shares fails to meet the definition of equity and must instead be classified as a derivative liability and measured at fair value with changes in fair value recognized in the consolidated statement of operations at each period-end. The derivative liabilities will ultimately be converted into the Company's equity (Subordinate Voting Shares) when the Warrants are exercised and will not result in the outlay of any additional cash by the Company. The derivative liabilities are classified as long-term because these derivative warrant liabilities will ultimately be settled for common shares and therefore the classification is not relevant. The broker warrants are classified as equity.

At initial recognition as of December 23, 2019, the Company recorded a derivative liability related to the Warrants of \$5,528,555, which was based on the estimated fair value of the Warrants at the date of grant. The residual consideration of \$11,231,445 was allocated to the Senior Notes liability. The fair value of the derivative warrants was estimated using the Monte Carlo simulation model. This is a Level 3 recurring fair value measurement. The assumptions used in the calculation included: volatility of 75%; dividend yield of 0%; risk-free rate of 1.74%; remaining life 5 years; exercise price range of \$0.03 - \$1.58; and a stock price of \$1.32. The calculation also considered the potential effect of the dilution that the Warrants would have on the total outstanding share capital of the Company if exercised. There was no material change in the fair value between the issuance date of December 23, 2019 and December 31, 2019. Future changes in fair value of the derivative liability will be recognized in the consolidated statement of operations and comprehensive income (loss) with a corresponding debit or credit to the derivative liability. The Company considers expected volatility of its common shares in estimating its future stock price volatility. The risk-free interest rate for the expected life of the Warrants was based on the yield available on government benchmark bonds with an approximate equivalent remaining term at the time of the grant. The expected life is based on the contractual term. Key Level 3 inputs used by management to estimate the fair value include the market price and the expected volatility. If any of the assumptions used in the calculation were to increase or decrease, this could result in a material increase or decrease in the estimated fair value of the derivative liability as of December 31, 2019. For example, a 10% decrease in the stock price would decrease the estimated fair value of the derivative liability by \$0.7 million and a 10% increase in the stock price would increase the estimated fair value of the derivative liability by \$0.7 million, as of December 31, 2019. A 10% decrease in the volatility would decrease the estimated fair value of the derivative liability by \$0.6 million, and a 10% increase in the volatility would increase the estimated fair value of the derivative liability by \$0.5 million, as of December 31, 2019.

The total cash debt issuance costs of \$634,426 were allocated to the Senior Notes and to the derivative liability based on their relative fair values: debt issuance costs of \$210,532 were allocated to the derivative liability and were expensed as incurred and are reported within interest expense in the consolidated statements of operations and comprehensive loss, and \$423,894 of debt issuance costs allocated to the

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Senior Notes are being amortized over the life of the Senior Notes. For the year ended December 31, 2019, the Company recognized \$38,596 in accretion and amortization of deferred debt issuance costs, and \$40,306 in coupon rate interest expense, both of which are included in interest expense in the consolidated statements of operations and comprehensive loss. As of December 31, 2019, the accrued interest payable of \$40,306, which will be paid together with the March 31, 2020 payment, is included in accrued liabilities in the statements of financial position. Refer to Note 10. "Accrued Expenses and Other Current Liabilities".

The fair value of the broker warrants was estimated using the Black-Scholes Merton model. This is a Level 3 fair value measurement. The assumptions used in the calculation included: volatility of 85%; dividend yield of 0%; risk-free rate of 1.64%; remaining life 2 years; exercise price range of \$1.58; and a current stock price of \$1.32.

A reconciliation of initial and ending balances of the 10% Senior Notes, derivative warrants liability and related warrants reserves from the time of issuance and for year ended December 31, 2019 is as follows:

	Senior Notes	Derivative Warrants Liability	Warrants Reserves	Accrued Interest	Expense
10% Senior Notes principal amount	\$ 16,660,000	\$ -	\$ -	\$ -	\$ -
10% Senior Notes - subscription received	100,000				
Fair value of derivative warrant liability on issuance date	(5,528,555)	5,528,555	-	-	-
Cash based debt issuance costs	(423,894)	-	-	-	(210,532)
Warrants transactions costs	(110,395)	-	165,224	-	(54,829)
Accretion and amortization expense	38,596	-	-	-	(38,596)
Accrued interest	-	-	-	40,306	(40,306)
As of December 31, 2019	<u>\$ 10,735,752</u>	<u>\$ 5,528,555</u>	<u>\$ 165,224</u>	<u>\$ 40,306</u>	<u>\$(344,263)</u>

#### ***Optional and Mandatory Redemption***

The Senior Notes may be prepaid or redeemed by the Company in whole or in part, only as follows:

(i) ***Optional Redemptions***

A redemption may be initiated by the Company at any time upon 3 days written notice and may redeem all or any portion of the Senior Notes at par plus accrued interest plus a premium equal to (i) 10% of the aggregate principal amount of the Senior Notes being redeemed prior to the first anniversary of the issue date, and (ii) 5% of the aggregate principal amount of the Senior Notes being redeemed on or after the first anniversary of the issue date but prior to the second anniversary of the issue date. The Company (at its option) may redeem all or any portion of the 2019 Senior Secured Notes at par plus accrued interest (without any premium) on or after the second anniversary of the date of issuance.

Prior to the twelve month anniversary of the issue date, the Company may redeem all or any portion of the Senior Note with up to 33% of the net proceeds received by the Company or any of its subsidiaries (including the Guarantors) from any equity offerings at a redemption price equal to par plus accrued interest plus a premium equal to 1% of the aggregate principal amount of the Senior Note being redeemed.

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*(ii) Mandatory Redemptions*

Following the twelve month anniversary of the issue date, the Company shall repurchase the Senior Notes using 33% of the net proceeds from any equity offerings by the Company or any of its subsidiaries (including the Guarantors), at a purchase price equal to par plus accrued but unpaid interest (no premiums).

The Company shall offer to repurchase the Senior Notes at par plus accrued interest with 100% of the net cash proceeds resulting from: i) non-ordinary course sales or other dispositions of assets consummated by the Company or any subsidiary, and/or; ii) as a result of casualty or condemnation as described in the Senior Note agreement, subject to certain limitations, including Permitted Reinvestments during a two-year Reinvestment Period, both as defined in the Senior Note agreement and/or; iii) change of control – if a change of control transaction pursuant to which the Company receives all cash or liquid securities prior to the Maturity Date, at the election of the Holder, the Company shall prepay the Senior Note by paying the holder 101% of the principal amount of this note plus all accrued but unpaid interest.

***Guarantees and Seniority***

The Company's obligations under the Senior Notes are secured by the Company's assets and certain of its Subsidiaries (subject to certain exclusions) and are guaranteed by certain Subsidiaries (the "Guarantors").

The Senior Notes are: (a) subordinated in right of payment to any existing indebtedness or obligation of the Company or any future permitted bank indebtedness, as defined ("Senior Indebtedness"); (b) pari passu in right of payment to any permitted indebtedness, as defined, not constituting Senior Indebtedness and: (c) senior to all other indebtedness of the Company. The maximum liability of each Guarantor under the Senior Notes does not, in any event, exceed the amount which can be guaranteed by such Guarantor according to the terms of the Senior Notes agreements and under United States federal and state Applicable Laws (as defined under the Senior Notes agreement) relating to the insolvency of debtors, including Applicable Laws relating to fraudulent conveyances or fraudulent transfers. The guarantee under the Notes will remain in full force and effect until all of the Senior Notes shall have been paid in full. As of December 31, 2019, no loss is anticipated by reason of such guarantees and it is unlikely that these guarantees will be drawn upon.

***Default Provisions***

The Senior Notes agreement provides for customary events of default, as well as customary remedies upon an event of default as defined in the Senior Notes agreement ("Event of Default"), including acceleration of repayment of outstanding amounts. In addition, automatically upon the occurrence and during the continuance of an Event of Default, the interest rate accruing on the outstanding principal amount of the Note shall be 3% more than the rate otherwise payable under the Senior Notes.

***Covenants***

The Senior Notes are subject to certain customary non-financial provisions and covenants. The covenants, among other things, generally limit the ability of the Company and certain of its subsidiaries, subject to certain exceptions, to (i) incur certain additional debt; (ii) pay dividends or make distributions from certain subsidiaries; (iii) sell certain assets; and (iv) effect certain transactions including mergers. As of December 31, 2019, the Company was in compliance with all provisions and covenants.

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#### ***Related Parties***

As of December 31, 2019, insiders and founders had committed \$18.5 million in connection with the Offering, of which \$8.5 million had been received as of December 31, 2019. The remainder of the funds and additional subscriptions were received in January 2020. Refer to Note 21. “Subsequent Events”. Jushi Chairman & CEO Jim Cacioppo, and entities he controls, led the subscription with \$10 million with other insiders subscribing for an additional \$8.5 million. The participation of the insiders of the Company in the Offering constituted a related party transaction. The Company formed a special committee from the board of directors of the Company (the “Special Committee”), comprised of Erich Mauff, Stephen Monroe and Benjamin Cross, to set, review, negotiate and approve of the terms of the Offering. The Special Committee engaged AltaCorp Capital Inc. who provided its opinion that the terms of the Offering were fair, from a financial perspective, to the Company.

Refer to Note 21. “Subsequent Events”.

## **14. EQUITY**

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### **(a) Authorized**

As of December 31, 2019, the authorized share capital consists of common shares with an unlimited number of Subordinate Voting Shares, an unlimited number of Multiple Voting Shares, and an unlimited number of Super Voting Shares.

#### **(i) Subordinate Voting Shares (“SVS”)**

Holders of Subordinate Voting Shares (“Subordinate Voting Holder”) shall be entitled to notice of and to attend at any meeting of the shareholders of the Company, except a meeting of which only holders of another particular class or series of shares of the Company shall have the right to vote. At each such meeting Subordinate Voting Holders shall be entitled to one vote in respect of each Subordinate Voting Share held. As long as any Subordinate Voting Shares remain outstanding, the Company will not, without the consent of the holders of the Subordinate Voting Shares by separate special resolution, prejudice or interfere with any right or special right attached to the Subordinate Voting Shares.

Subordinate Voting Holders shall be entitled to receive as and when declared by the directors, dividends in cash or property of the Company. No dividend will be declared or paid on the Subordinate Voting Shares unless the Company simultaneously declares or pays, as applicable, equivalent dividends on the Multiple Voting Shares (on an as-converted to Subordinate Voting Share basis) and Super Voting Shares (on an as-converted to Subordinate Voting Share basis).

In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the Subordinate Voting Holders shall, subject to the prior rights of the holders of any shares of the Company ranking in priority to the Subordinate Voting Shares be entitled to participate ratably along with all other holders of Multiple Voting Shares (on an as-converted to Subordinate Voting Share basis) and Super Voting Shares (on an as-converted to Subordinate Voting Share basis).



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**(ii) Multiple Voting Shares (“MVS”)**

The holders of Multiple Voting Shares (the “Multiple Voting Holders”) shall have the right to 10 votes for each Subordinate Voting Share into which such Multiple Voting Shares could then be converted, which for greater certainty, shall initially equal 10 votes per Multiple Voting Share, and with respect to such vote, such holder shall have full voting rights and powers equal to the voting rights and powers of the Subordinate Voting Holders, and shall be entitled to notice of any shareholders’ meeting and shall be entitled to vote, together with holders of Subordinate Voting Shares, with respect to any question upon which Subordinate Voting Holders have the right to vote. Fractional votes shall not, however, be permitted and any fractional voting rights available on an as converted basis (after aggregating all Subordinate Voting Shares into which Multiple Voting Shares could be converted) shall be rounded to the nearest whole number (with one-half being rounded upward). Except as provided by law and by certain Company Article provisions, Multiple Voting Holders shall vote the Multiple Voting Shares together with the Subordinate Voting Holders and Super Voting Holders as a single class.

As long as any Multiple Voting Shares remain outstanding, the Company will not, without the consent of the holders of the Multiple Voting Shares and Super Voting Shares by separate special resolution, prejudice or interfere with any right or special right attached to the Multiple Voting Shares. In connection with the exercise of the voting rights for this purpose, each holder of Multiple Voting Shares will have one vote in respect of each Multiple Voting Share held.

The Multiple Voting Holders shall have the right to receive dividends, out of any cash or other assets legally available therefore, *pari passu* (on an as-converted basis, assuming conversion of all Multiple Voting Shares into Subordinate Voting Shares at the applicable Conversion Ratio and ignoring any limitations on conversion as outlined in the Company Articles) as to dividends and any declaration or payment of any dividend on the Subordinate Voting Shares. No dividend will be declared or paid on the Multiple Voting Shares unless the Company simultaneously declares or pays, as applicable, equivalent dividends on the Subordinate Voting Shares and Super Voting Shares (on an as-converted to Subordinate Voting Share basis).

In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the Multiple Voting Holders shall, subject to the prior rights of the holders of any shares of the Company ranking in priority to the Multiple Voting Shares, be entitled to participate ratably, on an as-converted to Subordinate Voting Share basis, along with all other holders of Subordinate Voting Shares and Super Voting Shares (on an as-converted to Subordinate Voting Share basis).

The Multiple Voting Holders shall have optional and mandatory conversion rights as outlined in the Company’s Articles. Any Multiple Voting Share converted shall be retired and cancelled and may not be reissued as shares of such series or any other class or series, and the Company may thereafter take such appropriate action (without the need for stockholder action) as may be necessary to reduce the authorized number of Multiple Voting Shares accordingly.

**(iii) Super Voting Shares (“SV”)**

The holders of Super Voting Shares (the “Super Voting Holders”) shall have the right to 10 votes for each Subordinate Voting Share into which such Super Voting Shares could then be converted

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(as outlined in the Company's Articles), which for greater certainty, shall initially equal 1,000 votes per Super Voting Share, and with respect to such vote, such holder shall have full voting rights and powers equal to the voting rights and powers of the Subordinate Voting Holders, and shall be entitled, to notice of any shareholders' meeting and shall be entitled to vote, together with holders of Subordinate Voting Shares, with respect to any question upon which Subordinate Voting Holders have the right to vote. Fractional votes shall not, however, be permitted and any fractional voting rights available on an as converted basis (after aggregating all Subordinate Voting Shares into which Super Voting Shares could be converted) shall be rounded to the nearest whole number (with one-half being rounded upward). Except as provided by law and by the provisions of the Company's Articles, Super Voting Holders shall vote the Super Voting Shares together with the Subordinate Voting Holders and Multiple Voting Holders as a single class.

In addition to any other rights provided by law, the Company shall not amend, alter or repeal the preferences, special rights or other powers of the Super Voting Shares or any other provision of the Company's constating documents that would adversely affect the rights of the Super Voting Holders, without the written consent or affirmative vote of the holders of at least 66-2/3% of the then outstanding aggregate number of Super Voting Shares, as such changes relate to the Super Voting Shares, given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a class of the holders of Super Voting Shares (a "Super Majority Vote"). The Company shall have authority to issue one or more additional classes or series of shares, which may have rights and preferences superior or subordinate to the Super Voting Shares.

All shares of Super Voting Shares shall be identical with each other in all respects. The Super Voting Shares shall rank pari passu to the Subordinate Voting Shares as to dividends and upon liquidation, as described below. Any amounts herein shall be subject to appropriate adjustments in the event of any stock splits, consolidations or the like.

The Super Voting Holders shall have the right to receive dividends, out of any cash or other assets legally available therefor, pari passu (on an as converted basis, assuming conversion of all Super Voting Shares into Subordinate Voting Shares at the applicable Conversion Ratio and ignoring any limitations on conversion as outlined in the Company Articles) as to dividends and any declaration or payment of any dividend on the Subordinate Voting Shares.

In the event of any Liquidation Event (as defined in the Company Articles), either voluntary or involuntary, the holders of Super Voting Shares shall be entitled to receive the assets of the Company available for distribution to shareholders, distributed among the holders of Super Voting Shares on a pro rata basis based on the number of Super Voting Shares (on an as converted to Subordinate Voting Shares basis, assuming conversion of all Super Voting Shares into Subordinate Voting Shares at the applicable Conversion Ratio and ignoring any limitations on conversion as outlined in the Company Articles) issued and outstanding on the record date.

The Super Voting Holders shall have optional and mandatory conversion rights as outlined in the Company's Articles. Any Super Voting Share converted shall be retired and cancelled and may not be reissued as shares of such series or any other class or series, and the Company may thereafter take such appropriate action (without the need for stockholder action) as may be necessary to reduce the authorized number of Super Voting Shares accordingly. In addition, before any Super Voting Holder shall be entitled to convert Super Voting Shares into Subordinate Voting Shares, the Board of Directors (or a committee thereof) shall designate an officer of the Company to determine if any Conversion Limitation (as set forth in the Company Articles) shall apply.



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#### **(b) Issued and Outstanding**

Refer to the consolidated statements of changes in equity for a reconciliation of the beginning and ending amounts of the issued and outstanding shares and the related share capital and share reserves. The issued and outstanding shares reflected in the consolidated statements of changes in equity for the year ended December 31, 2019 includes 250,000 Jushi Inc shares held in escrow that may be transferred into 250,000 Jushi Holdings Inc. Subordinate Voting Shares subject to certain conditions being met. The issued and outstanding shares reflected in the consolidated statements of changes in equity for the year ended December 31, 2019 and for the comparative period in 2018 do not include 200,000 Jushi Inc shares held in escrow that may be transferred into 200,000 Jushi Holdings Inc. Subordinate Voting Shares subject to certain conditions being met.

#### **(i) Restricted Stock Grants**

Refer to Note 15. “Share-Based Compensation” for details of restricted stock grants.

#### **(ii) Private Placements of Common Stock**

- (a) In June 2019, the Company through Jushi Acquisition Corp. (a special purpose corporation) completed a brokered and non-brokered private placement of 24,800,098 subscription receipts (each, a “Subscription Receipt”) at a price of \$2.75 per Subscription Receipt for aggregate gross proceeds of approximately \$68,200,270. As part of closing the Business Combination, each subscription receipt automatically converted into one Class B common share that was exchanged into one voting share of common stock of Jushi Holdings Inc. (at the time of the RTO the Class B Common shares were exchanged into Subordinate Voting Shares of Jushi Holdings Inc. ) without any further action by the holder on the satisfaction of the escrow release conditions which included the following:
- the completion or satisfaction of all conditions precedent to the RTO having occurred, been satisfied or been waived other than the filing of the applicable documentation as may be required under corporate law and release of the escrowed funds; and
  - the receipt of all required shareholder, third party (as applicable) and regulatory approvals in connection with the RTO, including the conditional approval for the listing of the Subordinate Voting Shares on the NEO Exchange.
- (b) In February and March 2019, Jushi completed a non-brokered private placement consisting of 8,080,000 shares of Senior Subordinated Shares at a price of \$2.00 per share and warrants to purchase an additional 4,040,000 shares of Senior Subordinated Shares at \$3.00 per share for gross proceeds of \$16,160,000. The Company incurred \$158,522 of costs related to the private placement.
- (c) In February and March 2018, the Company completed a non-brokered private placement consisting of 14,944,658 shares of Common Stock and warrants to purchase an additional 14,944,658 shares of Common Stock at \$1.00 per share for gross proceeds of \$7,472,329. Upon the amendment and restatement of the Company’s certificate of incorporation, each share of Common Stock was automatically changed and converted into one share of Class A Common Stock, and each warrant to purchase Common Stock was automatically changed and converted

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into one warrant to purchase Class A Common Stock. Between March and October 2018, the Company completed three non-brokered private placements consisting of an aggregate of 37,194,281 shares of Class B Common Stock and warrants to purchase an additional 18,597,139 shares of Class B Common Stock at \$2.00 per share for total gross proceeds of \$42,812,281. (At the time of the RTO, the Class A Common shares were exchanged into 149,000 Super Voting and 4,000,000 Multi Voting shares of Jushi Holdings Inc., and the Class B Common shares were exchanged into Subordinate Voting Shares of Jushi Holdings Inc.) Refer to Note 3. “Reverse Takeover and Private Placement” for further details on the RTO. The Company incurred \$1,218,289 of costs related to the private placements during the period from January 23, 2018 to December 31, 2018.

**(iii) Warrants**

Each whole Super Voting warrant, each Multi-Voting warrant, and each Subordinate Voting warrant, entitles the holder to purchase one Super Voting Share, one Multi-Voting Share and one Subordinate Voting Share, respectively. Refer to Note 14. “Equity” for information on how Super Voting Shares and Multi-Voting Shares convert into Subordinate Voting Shares.

A reconciliation of the beginning and ending balances of the warrants outstanding is as follows:

	Number of Warrants	Weighted - Average Exercise Price
Opening balance	-	\$ -
Granted <sup>(1)</sup>	35,172,385	1.63
Balance as of December 31, 2018 <sup>(1)(2)</sup>	35,172,385	\$ 1.63
Granted <sup>(3)</sup>	16,951,826	2.11
Cancelled	(100,000)	2.00
Expired	(215,760)	2.73
Exercised <sup>(4)</sup>	(841,832)	1.19
Balance as of December 31, 2019 <sup>(1)(2)(3)</sup>	50,966,619	\$ 1.75

- (1) Excludes 200,000 Jushi Inc warrants held in escrow that may be transferred into 200,000 Jushi Holdings Inc. Subordinate Voting Warrants subject to certain conditions being met. For the period from January 23, 2018 (inception date) to December 31, 2018, the weighted average grant date fair value per share for warrants issued in connection with services rendered was \$0.25.
- (2) Number of outstanding warrants on an as-converted basis was 67,078,869<sup>(3)</sup> and 51,284,635, as of December 31, 2019 and 2018, respectively. The 162,750 outstanding warrants for Super Voting Shares equal 16,275,000 warrants on an as-converted basis. Refer to table below for details of warrants outstanding.
- (3) Includes 7,695,531 warrants issued in connection with the 10% Senior Notes in December 2019 with an exercise price of \$1.58, which warrants represent a derivative liability and are therefore not classified as equity in the statement of financial position. For the year ended December 31, 2019, the weighted average per share grant date fair value for warrants issued for services and consulting was \$0.58.
- (4) The weighted average share price for 750,000 warrants exercised in October 2019 was \$1.73 per share at the date of exercise. The weighted average share price for 91,832 shares exercised during June 2019 was \$2.39 per share for the 15 trading days that the Company’s shares were trading on the NEO in June 2019.

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

Security Issuable	Exercise Price	Number of Warrants		Expiration Date
Super Voting Shares	\$ 0.50	13,750	(1)(7)	June 6, 2029
Super Voting Shares	\$ 1.00	149,000	(2)(7)	June 6, 2029
Total Super Voting Shares		162,750		
Multiple Voting Shares	\$ 0.50	2,750,000	(1)(7)	June 6, 2029
Multiple Voting Shares	\$ 1.00	4,000,000	(2)(7)	June 6, 2029
Total Multiple Voting Shares		6,750,000		
Subordinate Voting	\$ 1.50	750,000	(1)	May 10, 2020
Subordinate Voting	\$ 2.00	750,000	(1)	October 11, 2020
Subordinate Voting	\$ 2.00	100,000	(4)	March 24, 2021
Subordinate Voting	\$ 2.00	17,597,135	(2)(7)(8)	June 6, 2021
Subordinate Voting	\$ 2.00	1,000,000	(5)(7)	June 6, 2021
Subordinate Voting	\$ 2.00	2,500,000	(6)(7)(8)	June 6, 2021
Subordinate Voting	\$ 2.25	1,000,000	(2)(7)(8)	June 6, 2021
Subordinate Voting	\$ 2.75	943,328	(1)	June 6, 2021
Subordinate Voting	\$ 3.00	4,040,000	(2)(7)(8)	June 6, 2021
Subordinate Voting	\$ 1.50	325,000	(9)	September 27, 2023
Subordinate Voting	\$ 1.50	750,000	(1)	March 18, 2024
Subordinate Voting	\$ 1.35	1,000,000	(1)(7)(8)	June 6, 2029
Subordinate Voting	\$ 1.50	467,875	(1)	January 1, 2029
Subordinate Voting	\$ 2.00	1,500,000	(1)	April 17, 2029
Subordinate Voting	\$ 0.50	687,500	(1)(7)	June 6, 2029
Subordinate Voting	\$ 1.00	1,900,000	(2)(7)	June 6, 2029
Subordinate Voting	\$ 3.00	1,047,500	(3)(8)	September 23, 2021
Subordinate Voting	\$ 1.58	7,392,157	(10)(11)	December 23, 2024
Subordinate Voting	\$ 1.58	303,374	(10)	December 23, 2021
Total Subordinate Voting Shares		44,053,869		
Total warrants		50,966,619		

(1) Issued for services rendered. See below for details.

(2) Issued with the sale of stock.

(3) Issued in connection with the acquisition of Dalitso. Refer to Note 8. "Business Combinations and Asset Acquisitions" for further details.

(4) Issued in connection with the Nevada Dispensary Certificate Agreement. See below for details.

(5) Issued 1,000,000 warrants in connection with the sale of notes receivable. Refer to Note 4. "Investments in Securities and Other Financial Assets".

(6) Issued 2,500,000 warrants in connection with the acquisition of TGSNH. These warrants were cancelled subsequent to year end. Refer to Note 21. "Subsequent Events".

(7) Subject to exercise trigger/liquidity event noted below.

(8) Subject to accelerated expiration or forced exercise noted below.

(9) Issued in connection with a contemplated financing. Refer to "Bridge Warrants" in Note 19. "Related Party Transactions".

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- (10) Issued in connection with the 10% Senior Notes. Refer to Note 13. “Senior Notes and Derivative Warrants Liability”
- (11) These warrants represent a derivative liability and are therefore not classified as equity in the statement of financial position. Refer to Note 13. “Senior Notes and Derivative Warrants Liability” for further details.

As of December 31, 2019, 47,926,131 warrants are exercisable. Of the 2,774,542 warrants which are unvested, 1,319,292 will vest in 2020, 619,292 will vest in 2021 and 835,958 will vest in 2022. Certain warrants may be net share settled.

As of December 31, 2019, warrants issued and outstanding have a weighted-average remaining contractual life of 3.9 years. As of December 31, 2018, warrants issued and outstanding had a weighted-average remaining contractual life of 5 months. The majority of the warrants issued in 2018, and prior to the RTO in 2019 have expiration dates that were subject to certain terms described in the warrant agreements. Specifically, many of the warrants have an expiration date that did not start until there was an exercise trigger/liquidity event. For this purpose, an exercise trigger/liquidity event is an amalgamation, share exchange, merger, plan or arrangement, or other form of business combination pursuant to which the Company’s Common Stock (or the common shares of the resulting issuer) becomes listed on the Canadian Securities Exchange or any other securities exchange. The RTO transaction completed on June 6, 2019 qualified as an exercise trigger/liquidity event. In addition, several of the warrants contain terms under which the Company can force exercise and many of the warrants contain terms under which the Company can accelerate the expiration date following a liquidity event if the volume weighted average price for any 20 consecutive trading days equals or exceeds a certain per share price.

***2019 Warrant Activity***

For the year ended December 31, 2019, the Company recorded share-based compensation expense of \$921,958, which related to warrants issued for services and consulting, and of which \$896,941 was in connection with related parties. For the year ended December 31, 2019, the Company granted 2,917,875 warrants in connection with services rendered and consulting arrangements, including 2,697,875 warrants issued to related parties, with grant date fair values ranging from \$0.40 to \$0.55 per warrant. In addition, the Company also incurred a capital raising cost of \$1,029,548 in connection with the brokered and non-brokered private placement of 24,800,098 subscription receipts, which is included in warrant reserves in the consolidated statements of changes in equity. In addition, the Company recognized \$55,532 in interest expense in the consolidated financial statements of operations and comprehensive loss related to warrants issued for broker services rendered in connection with the December 2019 Debt Offering. Refer to Note 13. “Senior Notes and Derivative Warrants Liability” for additional information.

Additional details of 2019 activity are as follows:

***(i) Warrants Issued for Services and Consulting***

- i. The Company amended a consulting agreement with an individual into an employment agreement and issued warrants to purchase 467,875 Subordinate Voting Shares exercisable at \$1.50 per share. The warrants are subject to vesting restrictions: one third of the warrants will vest on each of January 1, 2020, 2021 and 2022, respectively.
- ii. The Company entered into a consulting agreement with an individual for services and issued

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warrants to purchase 750,000 Subordinate Voting Shares exercisable at \$1.50 per share. The warrants are subject to vesting restrictions: one third of the warrants will vest on each of January 1, 2020, 2021 and 2022, respectively.

- iii. In April 2019, the Company entered into various consulting agreements for services and issued aggregate warrants to purchase 1,500,000 Subordinate Voting Shares with an exercise price of \$2.00 per share. The warrants are subject to vesting restrictions. As of December 31, 2019, 210,000 of the awards were vested, and for the 1,290,000 unvested awards, one third of will vest on each anniversary of the grant date. Refer to Note 19. "Related Party Transactions" for additional details on related party transactions.
- iv. The Company entered into a consulting agreement with an entity for services and issued warrants to purchase 100,000 Subordinate Voting Shares exercisable at \$2.00 per share and subject to vesting restrictions. These warrants were cancelled in April 2019 and the previously recorded expense of \$6,903 was cancelled.
- v. The Company entered into the Nevada Dispensary Certificate Agreement, which was an agreement which provided an option to acquire certain cannabis licenses which were in the application phase, with a group of entities and individuals. In connection with this agreement, the Company issued warrants to purchase an aggregate of 100,000 Subordinate Voting Shares exercisable at \$2.00 per share.

#### (ii) *Other Warrant Activity*

- i. The Company issued 4,040,000 warrants, with an exercise price of \$3.00 per share, in connection with the non-brokered private placement. Refer to *Private Placement of Common Stock* above.
- ii. The Company issued warrants in connection with the RTO to purchase 307,592 Subordinate Voting Shares with an exercise price of CAD\$2.73 per share, and a grant date fair value of \$0.73. In June 2019, 91,832 of these warrants were exercised for cash proceeds of \$329,000 and the rest expired unexercised in July 2019.
- iii. The Company issued 943,328 warrants, with an exercise price of \$2.75 per share, and a grant date fair value of \$1,029,548 in connection with the brokered and non-brokered private placement of 24,800,098 subscription receipts. Refer to *Private Placement of Common Stock* above. The warrants are not subject to vesting restrictions.
- iv. In September 2019, the Company acquired 61.765% of the membership interests in Dalitso and issued aggregate warrants to purchase 1,047,500 Subordinate Voting Shares with an exercise price of \$3.00 per share. The warrants are not subject to vesting restrictions and were included in the purchase price. Refer to Note 8. "Business Combinations and Asset Acquisitions" for further details.
- v. In October 2019, a Jushi warrant holder exercised 750,000 warrants at \$1.00 per share, for a total cash consideration of \$750,000. The warrants had an expiration date of November 10, 2019.
- vi. In December 2019, in connection with the issuance of the 10% Senior Notes, the Company

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issued warrants to purchase 7,695,531 Subordinate Voting Shares with an exercise price of ~\$1.58 per share. The warrants are not subject to vesting restrictions. Refer to Note 13. “Senior Notes and Derivative Warrants Liability” for further details.

Refer to Note 21. “Subsequent Events” for warrant activity subsequent to December 31, 2019.

***2018 Warrant Activity***

During the period from January 23, 2018 (inception date) to December 31, 2018, the Company recorded \$1,995,042 in share-based compensation expense related to 8,026,250 warrants issued for services and in connection with certain other transactions described below.

During the period from January 23, 2018 (inception date) to December 31, 2018, the Company recorded share-based compensation expense related to warrants issued for services rendered of \$1,869,792, including \$1,516,667 in connection with related parties for 6,701,250 warrants including 3,763,750 to related parties, issued with a fair value ranging from \$0.04 to \$0.35 per warrant.

During the period from January 23, 2018 (inception date) to December 31, 2018, the Company recorded expense related to warrants issued in the sale of the Beacon Notes to Health Diagnostics. The expense which is included in share-based compensation expense was \$70,000, and 1,000,000 warrants were issued with a fair value of \$0.07 per warrant, and an exercise price of \$2.00.

During the period from January 23, 2018 (inception date) to December 31, 2018, the Company recorded expense related to warrants issued for the commitment of capital by a group of shareholders which was intended to fund an acquisition that did not occur. The expense which is included in share-based compensation expense was \$55,250 and 325,000 warrants were issued with a fair value of \$0.17 per warrant, and an exercise price of \$1.50 per share.

The other warrant issuances in 2018 related to the sale of stock and the TGSNH acquisition. Refer to “Private placements of Common Stock” above and to Note 8. “Business Combinations and Asset Acquisitions”.

***Grant Date Fair Value***

Refer to Note 13. “Senior Notes and Derivative Warrants Liability” for details on the fair value and assumptions used in the calculation of the derivative warrants issued in connection with the December 2019 Debt Offering and refer to Note 8. “Business Combinations and Asset Acquisitions” for details on the fair value and assumptions used in the calculation of the warrants issued in connection with business combinations and asset acquisitions.

The fair value of the warrants issued for services during the year ended December 31, 2019, was determined, depending on the terms of the issuance, using, as applicable, either: a) a Monte Carlo simulation model taking into account the fair value of a share of the Company’s stock on the date of grant and into the future encompassing a wide range of possible future market conditions; or b) the Black-Scholes option-pricing model.



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The fair value of warrants issued for services during the period from January 23, 2018 (inception date) to December 31, 2018, was determined using a Monte Carlo simulation model taking into account the fair value of a share of the Company's stock on the date of grant and into the future encompassing a wide range of possible future market conditions.

The following assumptions were used for the calculations at the time of issuance or grant of the warrants issued for services:

	For the Year Ended December 31, 2019	For the Period from January 23, 2018 (inception date) to December 31, 2018
Stock price	\$0.86 - \$2.75	\$0.41 - \$0.86
Risk-free annual interest rate	2.31% - 2.62%	2.40% - 2.94%
Expected annual dividend yield	nil	nil
Expected stock price volatility	70% - 85%	75% - 85%
Expected life of warrants	2 - 6 years	1 - 11 years

Volatility was estimated by using a weighting of the average historical volatility of comparable companies from a representative peer group of publicly traded cannabis companies and the Company volatility. The expected life in years represents the period of time that warrants issued are expected to be outstanding. The risk-free rate is based on U.S. Treasury bills with a remaining term equal to the expected life of the warrants. The Company currently does not anticipate paying dividends in the foreseeable future. As a result, the expected annual dividend yield is assumed to be 0%.

**(iv) Stock Options**

Refer to Note 15. "Share-Based Compensation" for details on stock options.

**15. SHARE-BASED COMPENSATION**

A summary of all share-based compensation expense for the year ended December 31, 2019 is as

	For the Year Ended December 31, 2019	For the Period from January 23, 2018 (inception date) to December 31, 2018
Total stock options	\$ 2,110,464	452,051
Restricted stock grants	1,836,013	31,056
Warrant expense	921,958	1,995,042
follows: Total share-based compensation	\$ 4,868,435	\$ 2,478,149



### **Equity Incentive Plan**

In February 2018, the Company adopted the 2018 Equity Incentive Plan (the “Plan”). The Plan authorizes the issuance of the lesser of: (i) 20,000,000 shares and (ii) 10% of the number of outstanding shares of common stock (of all classes) of the Company. On May 7, 2019, the Company adopted the 2019 Equity Incentive Plan which was amended on June 7, 2019 (the “2019 Plan”). Under the 2019 Plan, non-transferable options to purchase Subordinate Voting Shares of the Company may be issued to directors, officers, employees, or consultants of the Company. The plan authorizes the issuance of up to 15% of the number of outstanding shares of common stock (of all classes) of the Company (the “Share Reserve”). Incentive stock options are limited to the Share Reserve as of June 6, 2019. As of December 31, 2019, the maximum number of incentive plan awards, and the number of incentive stock option awards available for issuance under the 2019 Plan was 4.7 million and 3.4 million, respectively. As of December 31, 2019, incentive share-based awards issued include stock options and restricted stock.

#### **(a) Stock Options**

The stock options issued by the Company are options to purchase Subordinate Voting Shares of the Company. All stock options issued have been issued to employees of certain subsidiaries of the Company under the Company’s Plan. Such options generally expire in ten years from the date of grant and generally have the following vesting conditions: 1/3 of the options vest on each anniversary of the grant date. The options may be net share settled.

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A reconciliation of the beginning and ending balance of stock options outstanding is as follows:

	Number of Stock Options	Weighted-Average Per Share Exercise Price
Opening balance	-	\$ -
Granted	6,574,998 <sup>(1)</sup>	\$ 1.10
Issued and outstanding as of December 31, 2018	6,574,998 <sup>(2)</sup>	\$ 1.10
Granted	10,036,333 <sup>(3)</sup>	\$ 2.02
Exercised	(2,796,152) <sup>(4)</sup>	\$ 1.00
Forfeited	(2,053,846) <sup>(5)</sup>	\$ 1.69
Converted	(2,700,000) <sup>(6)</sup>	\$ 1.53
Issued and outstanding as of December 31, 2019	9,061,333	\$ 1.89
Exercisable as of December 31, 2019	370,000	\$ 1.28

- 1) The weighted-average per share grant date fair value was \$0.17 for the period from January 23, 2018 to ended December 31, 2018.
- 2) There were no options exercisable as of December 31, 2018.
- 3) The weighted-average per share grant date fair value was \$0.39 for the year ended December 31, 2019.
- 4) The weighted-average share price at the date of exercise was \$2.40.
- 5) For awards which were not fully vested at the time of forfeiture, the previously recorded expense was reversed.
- 6) Converted to restricted stock. Refer to “Restricted Stock Grants” below for details.

The following table summarizes the issued and outstanding stock options as of December 31, 2019:

Expiration Date	Stock Options Outstanding	Exercise Price	Stock Options Exercisable
May 25, 2028	300,000	\$ 1.00	100,000
October 12, 2028	578,333	\$ 1.35	198,333
December 1, 2028	200,000	\$ 1.35	66,667
April 17, 2029	6,638,000 <sup>(1)</sup>	\$ 2.00	-
May 1, 2029	5,000	\$ 3.00	5,000
June 7, 2029	455,000	\$ 2.75	-
September 3, 2029	275,000	\$ 1.80	-
December 2, 2029	610,000	\$ 1.26	-
	<u>9,061,333</u>		<u>370,000</u>

- (1) Includes 5,098,000 of stock options issued to key senior management of the Company under the Company’s Plan.

In determining the amount of share-based compensation expense related to options issued, the Company used the Black-Scholes option-pricing model to establish the measurement date fair value of stock options granted during the year ended December 31, 2019 and during the comparative period

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ended December 31, 2018. The following assumptions were applied at the time of grant:

	For the Year Ended December 31, 2019	For the Period from January 23, 2018 (inception date) to December 31, 2018
Stock price	\$0.86 - \$1.69	\$0.41 - \$0.86
Risk-free annual interest rate	1.35% - 2.58%	2.64% - 3.10%
Expected annual dividend yield	0%	0%
Volatility	70% - 85%	85%
Expected life of stock options	2 - 6 years	6 - 7 years
Forfeiture rate	0%	0%

Volatility was estimated by using a weighting of the average historical volatility of comparable companies from a representative peer group of publicly traded cannabis companies and the Company volatility. The expected life in years represents the period of time that stock options issued are expected to be outstanding. The risk-free rate is based on U.S. Treasury bills with a remaining term equal to the expected life of the options. The Company does not anticipate paying dividends in the foreseeable future. As a result, the expected annual dividend yield is expected to be 0%.

As of December 31, 2019, stock options outstanding have a weighted-average remaining contractual life of 9.49 years.

**(b) Restricted Stock Grants**

During the year ended December 31, 2019 and the period ended December 31, 2018, the Company granted restricted Subordinated Voting Shares to former owners of acquired businesses or assets, independent directors, management, consultants and other employees.

	Number of Restricted Subordinate Voting Shares
Opening balance	-
Granted <sup>(1)</sup>	650,001
Unvested restricted stock as of December 31, 2018	650,001
Granted <sup>(2)</sup>	4,150,014
Cancelled	(366,667)
Vested	(894,063)
Unvested restricted stock as of December 31, 2019	3,539,285

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- 1) The weighted-average per share grant date fair value was \$0.86 for the period from January 23, 2018 to December 31, 2018.
- 2) The weighted-average per share grant date fair value was \$1.57 for the year ended December 31, 2019.

Of the total unvested restricted shares, 1,651,785 will vest in 2020, 1,302,083 will vest in 2021 and 585,416 will vest in 2022.

Of the total restricted shares granted during the year ended December 31, 2019, 2,700,000 awards, which had a weighted average exercise price of \$1.53 and an incremental weighted average grant date fair value of \$0.45 per share, were issued as a result of an offering to exercise non-qualified stock options previously issued to employees into restricted shares. The exercise price pertaining to the previously granted options was funded by the Company through a promissory note receivable executed with the individuals. As the Company does not have full recourse to the employees in respect of the promissory notes and the interest rate is below market, it was determined that the substance of these promissory notes and the related restricted stock awards were akin to an option. Accordingly, the terms were assessed for modification accounting and determined to be replacement equity instruments and the incremental fair value, as noted above, was recognized in expense. The awards vest over three years from the original grant date. In addition, there were 786,667 in awards to made to employees or consultants during the year ended December 31, 2019, with a weighted average grant date fair value of \$1.78 per share.

Of the total restricted shares issued during the year ended December 31, 2019, 207,098 awards, with a weighted average grant date fair value of \$1.69 per share were granted to independent directors of the board. The awards will be fully vested on the completion of one year from grant date.

In accordance with the terms of the Advisory and Consulting Agreement and the Data Purchase Agreement related to the MEND transaction completed in November 2018, the Company paid \$312,500 in both May 2019 and December 2019, and on May 5, 2019 issued \$312,500 of restricted Senior Subordinated Shares, for a total of 156,249 shares with a three-year vesting period to Dr. Mechtler and another former owner of MEND for services rendered. Refer to Note 21. "Subsequent Events" for additional restricted stock issued in January 2020. Refer to Note 8. "Business Combinations and Asset Acquisitions" for additional details on the MEND transaction.

In connection with the Clinic acquisition during the year ended December 31, 2019, the Company entered into consulting agreements with pre-existing employees of the Clinic and issued 300,000 of restricted stock, with a weighted average grant date fair value of \$0.94 per share, half of which vested in November 2019, and the remainder of which will vest in the second quarter of 2020.

During the period from January 23, 2018 (inception date) to December 31, 2018, the Company granted to 650,001 restricted Class B Common Stock shares to consultants. The restricted shares will vest one-third on each anniversary of the grant date. These shares were valued using the Company stock valuation.

The restricted stock granted during the year ended December 31, 2019, and for the period from January 23, 2018 to December 31, 2018, were valued using the Company stock valuations at the grant date if issued prior to the RTO, or the Company's share price at the time of issuance if issued subsequent to the RTO.

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**16. INCOME TAXES**

The Company is subject U.S. federal taxation and is also subject to income taxes in various state jurisdictions. For the year ended December 31, 2019 and for the comparative period in 2018, income tax expense consisted of the following:

	For the Year Ended December 31, 2019	For the Period from January 23, 2018 (inception date) to December 31, 2018
Current:		
Federal	\$ 1,760,278	\$ -
State	656,971	-
Total current expense	<u>2,417,249</u>	<u>-</u>
Deferred:		
Federal	\$ 1,513,869	\$ -
State	577,891	-
Total deferred expense	<u>2,091,760</u>	<u>-</u>
Total income tax expense	<u>\$ 4,509,009</u>	<u>\$ -</u>

The reconciliation between the effective tax rate on income from operations and the statutory rate is as follows:

	For the Year Ended December 31, 2019	For the Period from January 23, 2018 (inception date) to December 31, 2018
Income (loss) before income taxes	\$ (26,261,930)	\$ (18,055,976)
Statutory tax rate	<u>27.28%</u>	<u>21%</u>
Expense (recovery) based on statutory rates	(7,165,192)	(3,791,755)
Permanent non- deductible Items	11,601,650	3,791,755
Pass-through's and noncontrolling interests	43,711	-
Difference in tax rates	(557,181)	-
Other differences	6,960	-
Prior period adjustment	215,779	(4,718)
Valuation allowance	<u>363,282</u>	<u>4,718</u>
Total income tax expense	<u>\$ 4,509,009</u>	<u>\$ -</u>

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As of December 31, 2019, and 2018, the components of deferred tax assets and liabilities were as follows:

	December 31,	
	2019	2018
Deferred Tax Assets:		
Net operating losses	\$ 707,613	\$ 4,718
Start-up costs	852,007	
Total deferred tax assets	<u>\$ 1,559,620</u>	<u>\$ 4,718</u>
Valuation allowance	(368,000)	(4,718)
Total net deferred tax assets	<u>\$ 1,191,620</u>	<u>\$ -</u>
Deferred Tax Liabilities:		
Property and Equipment	\$ (2,674,481)	\$ -
Intangible Assets	(15,730,942)	-
Investments in 50% or less owned companies	(3,088,863)	-
Other	(32,079)	-
Total deferred tax liabilities	<u>\$ (21,526,365)</u>	<u>\$ -</u>
Net deferred tax liabilities	<u>\$ (20,334,745)</u>	<u>\$ -</u>
Federal & state purchase accounting adjustment to goodwill	\$ 18,242,985	\$ -
Total deferred tax expense	<u>\$ (2,091,760)</u>	<u>\$ -</u>

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

The movement in net deferred tax liabilities is as follows:

	December 31,	
	2019	2018
Balance at the beginning of the year	\$ -	\$ -
Recognized in profit/loss	2,091,760	-
Recognized in goodwill	18,242,985	-
Balance at the end of the year	<u>\$ 20,334,745</u>	<u>\$ -</u>

*Unrecognized Deferred Tax Assets*

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

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	December 31,	
	2019	2018
NOL - States	\$ 4,079,010	\$ -
Start-up cost - US. federal and states	\$ 3,463,474	\$ -
Non-capital losses carried forward - Canada	\$ 2,169,866	\$ -
Share issuance cost - Canada	\$ 4,784,154	\$ -

The Company's Canadian non-capital income tax losses of \$2,169,866 expire in 2039.

The Company's U.S. net operating losses expire as follows:

Carryforward indefinitely - Colorado	7,690,700
2039 - California	2,643,691
Total	\$ 10,334,391

Federal and state laws can impose substantial limitations on the utilization of net operating loss and tax credit carry-forwards in the event of an “ownership change”, as defined in Section 382 of the Internal Revenue Code. As of December 31, 2019, management has not determined the effect, if any, of this limitation in future years.

IFRIC 23, Uncertainty over Income Tax Treatments (“IFRIC 23”) clarifies the application of recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers uncertain tax treatments separately or as a group, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted. The Company early adopted IFRIC 23 as of December 31, 2018, and the standard did not have a material impact to the consolidated financial statements as of December 31, 2018 and December 31, 2019.

Internal Revenue Code (“IRC”) Section 280E denies, at the US federal level, deductions and credits attributable to a trade or business trafficking in controlled substances. Case law shows that “cost of goods sold” has been permitted as a deduction in determining taxable income. Certain subsidiaries of the Company with medical and recreational cannabis operations are subject to IRC Section 280E, for those subsidiaries, the Company’s US tax is based on gross receipts less cost of goods sold. As of December 31, 2019, all tax filings remain open for assessment.



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**17. NON-CONTROLLING INTERESTS**

The following table presents the summarized financial information as of, and for the year ended December 31, 2019 for the Company's subsidiaries that have non-controlling interests. This information represents amounts before intercompany eliminations.

	Dalitso	Other Non-Material Interests	Total
Cash and cash equivalents	\$ 650,615	\$ -	\$ 650,615
Prepaid expenses	64,270	77,500	141,770
Other current assets and receivables	-	72,745	72,745
Property, plant and equipment	1,682,920	5,000	1,687,920
Other intangible assets, net	25,700,466	-	25,700,466
Other long-term assets	34,270	-	34,270
<b>Total assets</b>	<b>\$ 28,132,541</b>	<b>\$ 155,245</b>	<b>\$ 28,287,786</b>
Accounts payable and accrued liabilities	\$ 956,175	\$ 30,000	\$ 986,175
Loan payable	1,973,944	281,981	2,255,925
Non-controlling interests	9,642,387	17,375	9,659,762
Equity attributable to Jushi	15,560,035	(174,111)	15,385,924
<b>Total liabilities and equity</b>	<b>\$ 28,132,541</b>	<b>\$ 155,245</b>	<b>\$ 28,287,786</b>
Net loss	\$ (385,443)	\$ (229,482)	\$ (614,925)
Net loss attributable to non-controlling interests	104,841	55,370	160,211
Net loss and comprehensive loss attributable to Jushi shareholders	\$ (280,602)	\$ (174,112)	\$ (454,714)

There were no revenues included in the consolidated statements of operations and comprehensive loss for these entities for the year for the year ended December 31, 2019, and the net losses for these entities relate to expenses which are included in the consolidated statements of operations and comprehensive loss for the year for the year ended December 31, 2019.

The net change in the non-controlling interests is as follows:

	Dalitso	Other Non-Material Interests	Total
Balance as of January 1, 2019	\$ -	\$ -	\$ -
Acquisitions	9,747,228		9,747,228
Net (loss)	(104,841)	(55,370)	(160,211)
Net transactions with non-controlling interests	-	72,745	72,745
<b>Balance as of December 31, 2019</b>	<b>\$ 9,642,387</b>	<b>\$ 17,375</b>	<b>\$ 9,659,762</b>

Other non-material interests in the tables above includes the non-controlling interests in Jushi Ampal NJ, LLC, which is measured using the proportionate share method.

## **18. COMMITMENTS AND CONTINGENCIES**

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### **(a) Contingencies**

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management of the Company believes that the Company is in compliance with applicable local and state regulations as of December 31, 2019, marijuana regulations continue to evolve and are subject to differing interpretations. As a result, the Company could be subject to regulatory fines, penalties or restrictions in the future. In addition, refer to Note 16. "Income Taxes" for tax related contingencies.

### **(b) Claims and Litigation**

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. Other than the civil disputes described below and another legal matter noted in Note 6. "Inventory and Biological Assets", to Jushi's knowledge, there are no material legal proceedings or regulatory actions to which Jushi is a party, or has been a party to, or of which any of its property is or was the subject matter of, and no such proceedings or actions are known by Jushi to be contemplated. 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.

#### *TGS and TGSIH*

On June 1, 2018, TGS National Holdings LLC, which was acquired by the Company in 2018 and which controls TGS National Franchise, LLC ("TGS"), a franchisor, filed a lawsuit in Colorado state court against San Felasco Nurseries, Inc. ("SFN"), as assignee of Florida Compassionate Growers, LLC. The case is currently on appeal in Colorado state court. The action was filed primarily out of TGS's 2018 exercise of a contractual right of first refusal to purchase SFN, its franchisee, following SFN entering into a letter of intent to sell its franchise to a third-party. The state court lawsuit sought equitable relief. On August 14, 2018, the state trial court dismissed the lawsuit without reaching the merits. Based on a contractual provision entitling the prevailing party to attorneys' fees and costs, the trial court also ordered TGS to pay SFN \$211,781 in combined attorney's fees and costs which were paid by the Company in 2018. TGS has appealed both the dismissal and the award of attorney's fees and costs. TGS filed its opening brief, SFN filed a response brief, and TGS filed a reply brief. The Company is pursuing this matter vigorously; however, if the appeal is unsuccessful, additional attorney fees and costs may be assessed against the Company in the future.

On October 22, 2018, TGS filed a claim in an arbitration action against SFN pending before the American Arbitration Association ("AAA"). During 2018, SFN terminated the franchise agreements between it and TGS. SFN then sold its business to a third-party. TGS contends the termination and transfer were wrongful and in late 2018 initiated arbitration seeking to recover its monetary damages. The arbitration has been stayed pending the resolution of the state court action. The Company is pursuing this matter vigorously. As of December 31, 2019, \$222,000 was accrued for legal and professional fees in connection with this matter, of which \$10,000 was accrued during the year ended December 31, 2019.

A minority interest holder in TGS Illinois Holdings LLC ("TGSIH") sued the majority interest holders in TGSIH and Jushi Inc (including a Jushi-affiliated entity) in state court in Illinois relating to the confidential settlement agreement it entered with the owners of TGS National to purchase its interests

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in TGSIH. The state trial court dismissed the claims against Jushi and its affiliated entity. The minority interest holder filed a notice of appeal. This legal matter was settled subsequent to year end.

Refer to Note 21. "Subsequent Events".

#### *Legal Settlement Proceeds*

In October 2019, the Company received proceeds of \$5 million related to a confidential legal settlement, the effect of which was determined and recorded in other income for the year ended December 31, 2019.

### **(c) Commitments**

In addition to the contractual obligations outlined in Note 20. "Financial Instruments and Financial Risk Management" and the redemption liability outlined in Note 8. "Business Combinations and Asset Acquisitions", the Company has the following commitments as of December 31, 2019:

#### **(i) Property and Construction Commitments**

The Company has various lease commitments related to various office space, retail locations and warehouses. The Company has certain operating leases with optional renewal terms that the Company may exercise at its option. Refer to Note 11. "Lease Obligations" for further details.

In connection with various license applications, the Company may enter into conditional leases or other property commitments which will be executed if the Company is successful in obtaining the applicable license and/or resolving other contingencies related to the license or application.

In addition, the Company expects to incur capital expenditures of \$15 million - \$20 million during 2020 for leasehold improvements and construction of buildouts of certain locations, including for properties for which the lease is conditional on obtaining the applicable related license or for which other contingencies exist. If the Company were to be unsuccessful in obtaining a particular license or certain other conditions are not met, the previously capitalized improvements relating to that license may need to be expensed in the statement of operations and comprehensive income (loss).

In connection with certain acquisitions, the Company may agree to lend amounts to the acquiree for the build-out, equipment purchases and other working capital needs, for example the Company will lend up to \$15 million to Dalitso in a 9% secured note for such purposes. In addition, Dalitso has entered into a commitment to purchase \$2 million in equipment. Refer to Note 8. "Business Combinations and Asset Acquisitions" for additional information on Dalitso.

Also refer to "Pending Acquisitions" below.

#### **(ii) Consulting Agreements**

In July 2019, the Company was identified as one of three applicants to move forward in the application process for a business license to operate a retail storefront within Culver City, California. If awarded, the Company is obligated to pay, under various consulting arrangements, success fees of approximately \$300,000 and, subject to regulatory approvals, grant a 5% equity interest in the applicant entity. A commitment fund will also be set up to fund \$100,000 annually towards non-profit organizations in Culver City, California.

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In addition, the Company has entered into various consulting and service agreements in the ordinary course of business for services to be performed for the Company. Also, refer to Note 19. “Related Party Transactions” for related party consulting agreements and commitments.

**(iii) Pending Acquisitions and Arrangements**

**a) Pennsylvania dispensary permittee**

In September 2019, Jushi Inc signed a definitive agreement which includes an option to acquire 80% of the economic and voting interests in a Pennsylvania dispensary permittee, pending regulatory approvals. The Pennsylvania dispensary permittee received a provisional dispensary permit in Round II from the Pennsylvania Department of Health to open up to three dispensaries to sell medical cannabis in the Philadelphia area. Closing of the transaction is subject to regulatory and other customary closing conditions. Related to this transaction, in February and March 2019, Jushi Inc’s subsidiary purchased two commercial properties from unrelated parties in Reading and Pottsville, Pennsylvania, and agreed to develop and lease these properties to the Pennsylvania dispensary permittee. Refer to Note 7. “Property, Plant and Equipment” for further details. In addition, the Company has entered into a consulting agreement with the current owner, whereby the Company is committed to pay up to \$12,500 per month for consulting services.

**b) Santa Barbara Adult Use Cannabis Dispensary**

In February 2019, the Company entered into a binding term sheet to acquire 100% of the economic and voting interest in a Santa Barbara adult use cannabis dispensary for \$4.9 million, of which \$2.25 million has been paid as of December 31, 2019, subject to the fulfillment of certain conditions, \$1,500,000 of the total amount is a refundable deposit held in escrow. The Company acquired the associated real estate during March 2019. Refer to Note 6. “Deferred Acquisition Costs” and Note 7. “Property, Plant and Equipment” for additional information. In connection with the acquisition of the Santa Barbara adult use cannabis dispensary, the Company will be required to pay an amount of \$375,000 to facilitators at closing.

**c) San Diego Dispensary**

In July 2019, the Company entered into a securities purchase and exchange agreement with a corporation owning and operating a San Diego dispensary, and the stockholders thereof, dated July 2, 2019 for the acquisition by the Company of 75% of the issued and outstanding shares of the San Diego dispensary. The closing of the acquisition is subject to regulatory and other customary closing conditions and has been delayed, including as a result of pending closing conditions to be met by the sellers.

**d) Jushi Europe**

In the fourth quarter of 2019, the Company entered into definitive agreements to acquire 51% percent in Jushi Europe SA (“Jushi Europe”). Jushi Europe is headquartered in Switzerland and aims to supply medical cannabis products to patients in Europe. A subsidiary of the Company has entered into a definitive agreement to acquire 33 acres of land in Europe for approximately €400,000. Closing of the land transaction is contingent upon regulatory approval to build a medical cannabis cultivation facility on-site. Refer to Note 21. “Subsequent Events”.

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#### *(iv) Senior Notes and Derivative Warrants*

Senior Notes and Warrants will be issued by the Company in connection with the December 23, 2019 announcement of the Offering. An additional 25% warrant coverage may be issued if the Company does not raise aggregate gross proceeds of \$50 million (which shall include all proceeds raised by the Company in connection with the Offering) within the six months following the Offering, pursuant to one or more additional closings, equity offerings or Warrant exercises. Refer to Note 13. “Senior Notes and Derivative Warrants Liability” and to Note 21. “Subsequent Events” for additional details.

#### *(v) Joint Arrangements*

From time to time, the Company may enter into arrangements to work together to obtain a license. Such arrangements may include capital contributions for application and real estate costs.

## **19. RELATED PARTY TRANSACTIONS**

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Transactions with related parties are entered into during the normal course of business and are measured at the amount established and agreed to by the parties. The Company had the following related party transactions during the year ended December 31, 2019, and during the period from January 23, 2018 to December 31, 2018:

#### *Services Agreements*

In July 2018, the Company entered into a services agreement with One East Management Services LLC (“OEMS”) (a wholly owned subsidiary of One East Capital Advisors, LP (“OECA”), of which James Cacioppo is the Managing Partner). James Cacioppo is the CEO of Jushi. The services agreement, as amended, provides for, among other things, sourcing and assisting in mergers and acquisitions and capital transactions for Jushi. Pursuant to the OEMS Services Agreement, OEMS earned an initial services fee of \$50,000 and quarterly fees of \$125,000, and was issued warrants exercisable for 1,000,000 of Jushi’s Class B common stock (now, Subordinate Voting Shares – each Class B share was converted to a Subordinate Voting Share) at an exercise price of \$1.35, plus reimbursement of its expenses. The grant date fair value of the warrants was \$0.25 each and the Company has recorded \$177,083 and \$72,917 of share-based compensation expense related to the warrants for the year ended December 31, 2019 and for the comparative period in 2018, respectively.

On February 13, 2018, the Company issued One East Capital Advisors, LLP (“OECA”) a warrant to purchase 1,375,000 shares with an exercise price of \$0.50 that vested upon issuance with a total grant date fair value of \$481,250 for reimbursement of services rendered prior to entering into the services agreement, which was recognized in share-based payment expense during the period January 23, 2018 (inception date) to December 31, 2018. Pursuant to an amendment entered into on April 17, 2019, as consideration for OECA’s ongoing provision of financial and research-related advice, OECA earned a step-up fee of \$75,000 and was issued warrants exercisable for 800,000 of Jushi’s Class B common stock (now, Subordinate Voting Shares) at an exercise price of \$2.00. The grant date fair value of the warrants was \$0.43 each and the Company has recorded \$152,419 of share-based compensation expense related to the warrants for the year ended December 31, 2019. The OEMS Services Agreement terminates on May 31, 2020. The Company paid OEMS \$125,000 and \$341,667 for services rendered during the year ended December 31, 2019 and the period January 23, 2018 (inception date) to December 31, 2018, respectively. Prepaid consulting fees were



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\$83,333 as of both December 31, 2019 and December 31, 2018. As of December 31, 2019, accruals for reimbursement to OEMS totaled \$6,670.

In December 2019, the Company entered into a services agreement with ST2 LLC (a wholly owned subsidiary of OECA) (the “ST2 Services Agreement”) for the shared costs of administrative services for James Cacioppo. Pursuant to the ST2 Services Agreement, Jushi will pay ST2 LLC \$10,000 quarterly until termination by either party. Prepaid fees to ST2 LLC were \$6,667 as of December 31, 2019.

On March 18, 2018, the Company entered into a Services Agreement with TGS National to provide certain management, advisory and consulting services, whereby the Company would provide these services to TGS National. Jushi acquired 51% of TGSNH on March 18, 2018. The term of the Services Agreement was in effect through February 17, 2019, with automatic one-year extensions unless terminated by either party with sixty-day written notice. The Services Agreement was terminated on December 31, 2018. The monthly service fee was \$30,000 and was prorated for partial months. TGS National paid the Company \$300,539 for services rendered during the period January 23, 2018 (inception date) to December 31, 2018, which has been eliminated in consolidation. There was no amount due from TGS National at December 31, 2018.

#### *Franchise Agreements*

On February 29, 2016, TGS National Franchise, LLC (“TGSNF”) entered into a Franchise Agreement with TGS Illinois LLC (“TGSI”), to provide certain franchise systems for the operation of a retail cannabis business. The term of the Franchise Agreement was for a period of ten years. Per the Franchise Agreement, a weekly royalty fee based on gross sales was to be remitted to TGSNF. For the period from January 23, 2018 (inception date) to December 31, 2018, the Company recognized revenue of \$233,919 under this agreement and at December 31, 2018, the amount due from TGSI was \$263,729. TGSNF is a wholly owned subsidiary of TGS National Holdings, LLC, in which Jushi acquired 51% on March 18, 2018.

#### *Consulting Agreements*

On February 13, 2018, the Company and Mr. Denis Arsenault entered into a Consulting Agreement. Mr. Arsenault is to provide general business consulting and advice on the cannabis industry. Mr. Arsenault is a significant shareholder of the Company and a former director of the Board of Directors of Jushi Inc. The term of the Consulting Agreement was for a period of (5) five years. As consideration for the consulting services, the Company issued Mr. Arsenault warrants to purchase 2,750,000 shares of the Company’s Class A Common Stock (now, Multi Voting Shares) at a price of \$0.50 per share with a grant date fair value was \$962,500 that vested upon issuance, and was recognized as share-based payment expense during the period January 23, 2018 (inception date) to December 31, 2018. On April 8, 2019, the Company amended its Consulting Agreement dated February 13, 2018, with Denis Arsenault (“Amendment No. 1 Consulting”), a significant shareholder of the Company. The following are the amendments included in Amendment No. 1 Consulting: (1) issue an additional warrant to Mr. Arsenault to purchase 500,000 shares of Senior Subordinated Shares at an exercise price of \$2.00 per share that vest over a three-year period beginning one year after the grant date with an expiration date of April 18, 2029; (ii) payment of an additional one-time step up fee of \$150,000; and (iii) annual compensation of \$50,000 to be paid quarterly and prorated for partial periods for so long as Mr. Arsenault continues to consult for the Company. The grant date fair value of the warrants was \$0.43 each and the Company recorded \$93,343 of share-based compensation expense related to the warrants for the year ended December 31, 2019. The Company recognizes expenses related to this consulting agreement as the services are performed. At December 31, 2019, amounts accrued for the consulting fees were \$12,500.

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On April 9, 2019 and September 12, 2019, the Company amended its Consulting Agreement dated February 25, 2019, with Brooke Gehring (“Amendment No. 1 Consulting - Gehring” and “Amendment No. 2 Consulting - Gehring”, respectively). Brooke Gehring is the wife of a member of the Company’s key management team and director of the Board of Directors of the Company as of December 31, 2019. The following are the amendments included in Amendment No. 1 Consulting - Gehring: (i) issue warrants to Mrs. Gehring to purchase 200,000 shares of Senior Subordinated Shares at an exercise price of \$2.00 per share that vested over the six month period beginning on February 25, 2019 with an expiration date of February 25, 2029; and (ii) monthly compensation of \$19,583 while providing services to the Company. “Amendment No. 2 Consulting – Gehring extended the term of the agreement through March 1, 2020. The Company recognizes expenses related to this consulting agreement as the services are performed. The grant date fair value of the warrants was \$0.40 each and the Company recorded \$79,794 of share-based compensation expense related to the warrants for the year ended December 31, 2019. At December 31, 2019, amounts accrued for the consulting fees were \$39,166.

#### *Remuneration of Directors and Key Management*

The Company’s key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company’s executive management team. The remuneration for services awarded directly to senior key management includes the following:

	For the Year Ended December 31, 2019	For the Period from January 23, 2018 (inception date) to December 31, 2018
Salary and wages	\$ 2,685,896	\$ 529,384
Share-based compensation	1,914,166	339,677
Total	\$ 4,600,062	\$ 869,061

The compensation for each independent director is \$50,000 per year commencing on July 1, 2019, to be paid quarterly, and an initial grant of \$100,000 in restricted stock, which will vest after one complete year of service. The Audit Committee Chair will receive an additional \$50,000 in restricted stock for the first year commencing on July 1, 2019, which will vest quarterly. The Company has recorded \$75,000 of independent director fees expense, and \$127,746 of share-based compensation expense related to the restricted stock awards for the year ended December 31, 2019. At December 31, 2019, amounts accrued for independent director fees were \$37,500.

#### *Lease Agreements*

- (i) On January 1, 2019, the Company entered into a short-term commercial lease agreement with Erich Mauff, a member of the Board of Directors, for an apartment to be used as office space in Brooklyn, New York. The monthly rental fee was \$2,550, payable in biannual installments. On April 1, 2019, the lease was terminated by the Company and Mr. Mauff.
- (ii) In addition, in the ordinary course of business, the Company may enter into lease or property related agreements with former owners of acquired assets or businesses. Refer to Note 11. “Lease Obligations” for details of variable lease payments. At December 31, 2019, amounts accrued for



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related party variable lease payments were \$14,808.

*Bridge Warrants*

On September 27, 2018, Jushi entered into a Bridge Loan Facility with a syndicate of lenders to provide for a \$20,000,000 senior unsecured bridge loan facility. The syndicate of lenders who signed the Bridge Loan Facility, collectively, committed to make loans to the Company in an amount per lender as set forth in the Bridge Loan Agreement. Upon the syndicate of lenders signing the Bridge Loan Facility, each was entitled to receive a warrant to purchase such number of shares of Class B Common Stock of Jushi equal to the individual lenders (i) signing coverage amount multiplied by (ii) such lender's bridge loan commitment percentage. The total warrants for the initial bridge loan maximum of \$20,000,000 was 500,000 shares of Class B Common Stock (now, Subordinate Voting Shares). The bridge warrants are exercisable for a period of five years from issuance, have an exercise price of \$1.50 per share of Class B Common Stock and vested upon issuance. The following bridge warrants were issued to related parties upon execution of the Bridge Loan Facility: (i) OECP received 175,000 bridge warrants with a grant date fair value of \$29,750; (ii) Mr. Denis Arsenault received 62,500 bridge warrants with a grant date fair value of \$10,625 and; (iii) Mr. Erich Mauff (member of the Board of Directors) received 25,000 bridge warrants with a grant date fair value of \$4,250. The Bridge Loan Facility was terminated during October 2018.

Refer to Note 13. "Senior Notes and Derivative Warrants Liability" for information regarding senior notes issued to related parties. Refer to Note 14. "Equity" and Note 15. "Share-Based Compensation" for additional details of equity issued to related parties. Refer to Note 4. "Investments in Securities and Other Financial Assets" for 2018 notes receivable activity relating to a related party.

## **20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

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### **Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, investments in securities, financial assets, accounts receivable, other assets, refundable deferred acquisition costs, certain other long-term assets, accounts payable and accrued expenses, senior notes, derivative warrants liability, promissory notes payable, and the redemption liability.

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

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

There were no transfers between fair value levels during the year ended December 31, 2019 and 2018.

Financial instruments are measured at amortized cost or at fair value through profit and loss. The following table provides a summary of the Company's classification and measurement of financial assets and liabilities:

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	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>Classification and</u> <u>Measurement</u>
<u>Financial Assets:</u>			
Cash and cash equivalents	\$ 38,935,652	\$ 38,113,861	Amortized Cost
Investments in securities	\$ 12,266,735	\$ 1,233,228	FVTPL
Other short-term financial assets	\$ 5,646,419	\$ -	Amortized Cost
Other long-term financial asset	\$ -	\$ 5,454,252	FVTPL
Accounts receivable	\$ 394,683	\$ 525,476	Amortized Cost
Other current assets	\$ 188,007 <sup>(1)</sup>	\$ -	Amortized Cost
Other long-term assets	\$ 1,180,455 <sup>(2)</sup>	\$ 413,250	Amortized Cost
<u>Financial Liabilities:</u>			
Accounts payable	\$ 1,182,819	\$ 404,260	Amortized Cost
Accrued expenses and other current liabilities	\$ 7,690,549	\$ 871,822	Amortized Cost
Promissory notes	\$ 25,622,607	\$ -	Amortized Cost
Senior notes	\$ 10,735,752	\$ -	Amortized Cost
Derivative warrants liability	\$ 5,528,555	\$ -	FVTPL
Redemption liability	\$ 8,439,857	\$ 7,388,547	FVTPL
Other liabilities	\$ 1,653	\$ -	Amortized Cost

(1) Other current assets approximate their fair values at the balance sheet and includes a \$100,000 advance relating to a pending acquisition (Refer to Note 18. "Commitments and Contingencies; a non-controlling interest related receivable of \$9,375; and other receivables.)

(2) Other long-term assets, which primarily includes escrow and other deposits, approximates its fair value at the balance sheet due. Certain deposits or escrow may relate to pending license applications and therefore may be expensed in future periods if such licenses are not granted.

The carrying values of cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued expenses are carried at cost which approximates fair value due to the relatively short maturity of those instruments. Other financial instruments measured at amortized cost include promissory notes and senior notes. The carrying value of these liabilities approximates fair value as the interest rates for these liabilities approximates a market rate for similar instruments as of December 31, 2019.

The following table presents the fair value hierarchy for the Company's financial assets and financial liabilities that are re-measured at their fair values periodically:

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	December 31, 2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in securities	\$ 11,120,288	\$ -	\$ 1,146,447	\$ 12,266,735
Derivative warrants liability	-	-	5,528,555	5,528,555
Redemption liability	-	-	8,439,857	8,439,857

  

	December 31, 2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in securities	\$ 1,233,228	\$ -	\$ -	\$ 1,233,228
Other long-term financial asset	-	-	5,454,252	5,454,252
Redemption liability	-	-	7,388,547	7,388,547

*Investments in Securities*

Certain of the Company’s investments in securities are considered to be Level 1 instruments because they are comprised of shares of public companies and there is an active market for the shares with observable market data or inputs. The remainder of the investments in securities and the Company’s financial assets are considered to be Level 3 instruments because they are comprised of convertible warrants of a company; and there was no active market for the convertible warrants. Refer to Note 4. “Investments in Securities and Other Financial Assets” for further details on the valuation and a continuity of these securities.

*Other Financial Assets*

As of December 31, 2019, the Company’s other financial assets are considered to be a Level 3 instrument because they are comprised of a short-term note receivable and related accrued interest; and there was no active market for the short-term note receivable. As of December 31, 2018, the Company’s other financial asset is considered to be a Level 3 instrument because it is comprised of shares of a private company and there was no active market for these shares. Refer to Note 4. “Investments in Securities and Other Financial Assets” for additional details and a continuity of these assets.

*Derivative Warrants Liability*

As of December 31, 2019, the derivative warrant liability is measured at fair value based on the Monte Carlo valuation model, which uses Level 1, 2, and 3 inputs. Refer to Note 13. “Senior Notes and Derivative Warrants Liability” for additional details and a continuity of the derivative warrants liability.

*Redemption Liability*

The redemption liability related to the acquisition of 49% of TGSNH is recorded at fair value and is estimated using the present value of the Put Option and Call Option and is therefore considered to be a Level 3 measurement. Refer to Note 8. “Business Combinations and Asset Acquisitions” for additional details on the valuation of the redemption liability during the year ended December 31, 2019 and the comparative period in 2018.

**Financial Risk Management**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board

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mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

**(a) Credit Risk**

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at December 31, 2019, is the carrying amount of cash and cash equivalents, accounts receivable, other short-term financial assets and other current assets. The Company does not have significant credit risk with respect to its customers. All cash and cash equivalents are placed with major U.S. or Canadian financial institutions. Although some cash is placed with major U.S. financial institutions, there has been no change in the U.S. federal banking laws related to the deposit and holding of funds derived from activities related to the cannabis industry. Given that U.S. federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from business involved with the marijuana industry.

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash deposits. Accounts at each institution are insured by either the Canada Deposit Insurance Corporation ("CDIC") up to CAD\$100,000, or the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000, as applicable. As December 31, 2019, the Company had \$36.6 million in excess of the CDIC or FDIC insured limits.

The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk but has limited risk as the majority of its sales are transacted with cash. As of December 31, 2019, the Company is not exposed to any significant credit risk from its customers. As of December 31, 2019, 100% of the Company's accounts receivable, net of allowance, was less than 90 days. As of December 31, 2019, one customer accounted for 56% or \$221,000, and a second customer accounted for 26% or \$101,000, of the total accounts receivable, net of allowance. The majority of these balances were received by the Company in January 2020.

The Company recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. ECLs are a probability-weighted estimate of credit losses. The Company applies a three-stage approach to measure ECLs. The Company measures loss allowance at an amount equal to 12 months of expected losses for performing loans receivable if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1) and at an amount equal to lifetime expected losses on loans receivable that have experienced a significant increase in credit risk since origination (Stage 2) and at an amount equal to lifetime expected losses which are credit impaired (Stage 3).

The Company considers a significant increase in credit risk to have occurred if contractual payments are more than 30 days past due and considers the loans receivable to be in default if they are 90 days past due. A significant increase in credit risk or default may have also occurred if there are other qualitative factors (including forward looking information) to consider; such as borrower specific information (i.e. change in credit assessment). Such factors include consideration relating to whether the counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable the counterparty will enter into bankruptcy or a financial reorganization.

As of December 31, 2019, the Company's other financial assets are comprised of a short-term note

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receivable and related accrued interest. Refer to Note 4. “Investments in Securities and Other Financial Assets” for additional details. The Company is not exposed to any significant credit risk from these short-term financial assets. The proceeds from the settlement of the note receivable and a portion of the related accrued interest were received in the first quarter of 2020. Refer to Note 21. “Subsequent Events.”

#### (b) Asset Forfeiture Risk

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

#### (c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company’s approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. During the year ended December 31, 2019, the Company completed several equity financings and in December 2019, the Company announced a debt financing. Refer to Note 14. “Equity” and Note 13. “Senior Notes and Derivative Warrants Liability”.

These consolidated financial statements have been prepared under the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company plans to use existing funds, as well as funds from the future sale of products, to fund operations and expansion activities. However, the Company may attempt to issue new shares or issue new debt for acquisitions. There can be no assurance that the Company will be able to continue raising capital in this manner.

In addition to the commitments outlined in Note 18. “Commitments and Contingencies” and the redemption liability outlined in Note 8. “Business Combinations and Asset Acquisitions”, the Company has the following estimated future contractual payment obligations, excluding interest payments, as of December 31, 2019:

	<u>&lt; 1 Year</u>	<u>1 to 3 Years</u>	<u>3 to 5 Years</u>	<u>&gt; 5 Years</u>	<u>Total</u>
Accounts payable	\$ 1,182,819	\$ -	\$ -	\$ -	\$ 1,182,819
Accrued expenses and other current liabilities	\$ 7,690,549	\$ -	\$ -	\$ -	\$ 7,690,549
Promissory notes	\$ 15,634,563	\$ 9,988,044	\$ -	\$ -	\$ 25,622,607
Senior notes	\$ -	\$ -	\$ 16,760,000	\$ -	\$ 16,760,000
Leases	\$ 1,196,552	\$ 2,374,942	\$ 2,118,430	\$ 10,075,730	\$ 15,765,654

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**(d) Market Risk**

*(i) Currency Risk*

The operating results and financial position of the Company are reported in U.S. dollars. The Company had limited to no exposure to foreign currency transactions for the year ended December 31, 2019.

*(ii) Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company's financial debts have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

*(iii) Price Risk*

Price risk is the risk of variability in fair value due to movements in equity or market prices. Investments in securities are linked to market rates and therefore expose the Company to fair value price risk.

*(iv) Regulatory Risk*

Regulatory risk pertains to the risk that the Company's business objectives are contingent, in part, upon the compliance of regulatory requirements. Due to the nature of the industry, the Company recognizes that regulatory requirements are more stringent and punitive in nature. Any delays in obtaining, or failure to obtain regulatory approvals can significantly delay operational and product development and can have a material adverse effect on the Company's business, results of operation, and financial condition.

The Company is cognizant of the advent of regulatory changes occurring in the cannabis industry on the city, state, and national levels. Although regulatory outlook on the cannabis industry has been moving in a positive trend, the Company is aware of the effect of unforeseen regulatory changes can have on the goals and operations of the business as a whole.

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**21. SUBSEQUENT EVENTS**

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**Executive Officer**

On January 8, 2020, Max Cohen resigned as the Company's Chief Operating Officer in order to focus on other business obligations. Mr. Cohen will continue to serve Jushi as a member of the Company's Board of Directors. In February 2020, the Company issued 73,529 in restricted Subordinated Voting Shares as compensation as a member of the Board of Directors, which will vest over his service period.



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**Business Combinations and Asset Acquisitions**

***a) TGS Illinois Holdings LLC***

On January 29, 2020, the Company acquired an approximately 75% interest in TGS Illinois Holdings LLC (the “TGS Transaction”) and became the owner of two cannabis dispensaries in Illinois - one in Sauget, and one in Normal. TGS Illinois Holdings LLC (“TGSIH”), through its operating subsidiary, TGS Illinois LLC (“TGSIL”), owns and operates the two cannabis dispensaries. The TGSIH transfer is a part of a series of transactions under a settlement agreement between Jushi Inc and its respective affiliates, and The Green Solution and its respective affiliates and their owners (“TGS”). The transactions included: (1) Jushi Inc returning its 51% majority stake in TGS National Holdings, LLC (“TGS National”) to TGS and terminating the purchase agreement with TGS National which includes certain restrictive covenants, employment agreements and exclusive intellectual property licenses in Jushi’s favor; (2) the transfer to Jushi Inc of approximately 75% interest in the TGSIH units; (3) Jushi Inc’s assumption and/or payoff of approximately \$12 million in TGS debt including interest and expenses relating to the debt; (4) the transfer to Jushi Inc of 416,060 common shares of Organigram Holdings Inc., and 5,000,000 common shares of Jushi Holdings Inc. and warrants with an exercise price of \$2.00 to purchase 2,500,000 common shares of Jushi Holdings, Inc. which will be cancelled; (5) the payment to Jushi Inc of approximately \$480,000; and (6) the transfer to a third party designee of Jushi Inc 200,000 common shares of Jushi Inc and warrants to purchase 200,000 common shares of Jushi Inc at an exercise price equal to \$1.00 per common share pursuant to a confidential settlement agreement.

As a result of this transaction the Company will no longer as of the transaction date consolidate TGSNH (51% stake sold) and will thus no longer earn royalties or franchise fees from such intangibles held by TGSNH.

The \$12 million in debt noted above includes \$9.6 million of debt which was negotiated with the holder to be exchanged for Jushi Holdings, Inc. Senior Notes. Refer to “Senior Notes and Derivative Warrants Liability – January 2020” below. The \$9.6 million was comprised of the three tranches of the Beacon Notes held by HD plus unpaid accrued interest. Subsequent to the original Beacon Notes agreement and sale of the Beacon Notes to Health Diagnostics in 2018, Health Diagnostics had funded “Tranche 3” and the notes were amended to \$9.4 million in total. Refer to Note 4. “Investments in Securities and Other Financial Assets” for details on the Beacon Notes.

***b) Acquisition of Remaining 25% Interest in TGS Illinois Holdings from Non-Controlling Shareholders***

The previous litigation involving a minority interest holder in TGSIH was settled resulting in an agreement for Jushi Inc to purchase the remaining interest in TGSIH held by the minority interest holders. On February 21, 2020, the Company acquired the remaining approximately 25% interest in TGSIH (the “TGS Minority Transaction”), for consideration comprised of \$2,000,000 in cash, 633,432 Subordinate Voting Shares, 950,148 warrants to acquire Subordinate Voting Shares and \$2.0 million in 10% Senior Notes. Refer to “Senior Notes and Derivative Warrants Liability – January 2020” below. The terms of the Senior Notes and warrants are those described in Note 13. “Senior Notes and Derivative Warrants Liability”. The Company now owns 100% percent of TGSIH. The indebtedness incurred by the Company is on the same terms as other investors in the Company’s recent debt Offering.



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#### ***c) Jushi Europe***

In February 2020, the Company acquired 51% percent in Jushi Europe SA (“Jushi Europe”). As consideration for the Company’s interest in Jushi Europe, the Company contributed licenses to certain intellectual property and the non-controlling interest contributed cash of \$2 million. Closing of the land transaction is contingent upon regulatory approval to build a medical cannabis cultivation facility on-site. Refer to Note 18. “Commitments and Contingencies”.

#### ***d) Malibu Dispensary***

In 2020, the Company has terminated a previously disclosed transaction to acquire a medical and adult-use dispensary in Malibu pursuant to the terms of the definitive agreement. Additionally, the Company terminated its sublease with this Malibu dispensary.

In October 2018, the Company signed a lease giving it the right, subject to the fulfillment of certain regulatory conditions, to occupy approximately 3,000 square foot of space in a prime retail location on Pacific Coast Highway in Malibu. The Company was developing the location for a retail dispensary as of December 31, 2019. Refer to Note 7. “Property, Plant and Equipment” for further details.

The Company had advanced \$100,000 to the Malibu dispensary as of December 31, 2019, which is included in prepaid expenses and other current assets. In addition, the Company incurred expenses in connection with the agreement with the Malibu dispensary. The Company expects to recover these amounts from the Malibu dispensary.

#### ***e) San Diego Dispensary***

In July 2019, the Company announced a transaction to acquire 75% equity in a medicinal and adult-use dispensary in San Diego. On April 8, 2020, the Company notified the sellers that the agreement is terminable due to certain breaches by the sellers and provided sellers with the required 30-day period to cure such breaches. Sellers responded on April 21, 2020 that they have not breached the agreement and that the Company is in breach for not closing the transaction.

#### ***f) Santa Barbara Adult Use Cannabis Dispensary***

In April 2020, the Company entered into definitive documents for a sale and leaseback transaction related to the real estate acquired from a third party in connection with the Santa Barbara adult use cannabis dispensary pending acquisition. Refer to Note 18. “Commitments and Contingencies” for additional details on the pending acquisition and purchase of the associated real estate. The sale and leaseback is expected to close in 2020.

### **Senior Notes and Derivative Warrants – January 2020**

In the first quarter of 2020, the Company announced the upsizing and closing of the Offering. The upsizing was as a result of participation by new investors, additional participation by existing Jushi shareholders, exchanged debt, debt issued related to the TGS Transaction and debt issued in connection with the TGS Minority Acquisition. The Company has issued an additional \$32 million in Senior Notes and an additional 9.1 million Warrants in connection with the Offering. The total Senior Notes issued in connection with the Offering is now approximately \$49 million, and to date, the Company has received cash proceeds of \$35.65 million, of which \$18.9 million was received during the first quarter of 2020. During the first quarter of 2020,

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\$9.56 million of debt was assumed in 2020 TGS Transaction and was exchanged for Senior Notes with a slightly different redemption right (subject to an unrelated contingency) and \$2.0 million of debt was issued in connection with the TGS Minority Acquisition.

In January 2020, all investors were given the option of two financing structures. The first structure was consistent with the structure that existed as of December 31, 2019: senior secured promissory notes ("Warrant Notes") that will mature on January 15, 2023, will bear interest at 10.0% per annum, payable in cash quarterly, and are issued with warrants to acquire Class B Subordinate Voting Shares of the Company at 75% coverage. The Warrants issued to noteholders have an expiration date of December 23, 2024, and an exercise price of \$1.58. The second structure was original issue discount senior secured promissory notes ("OID Notes") maturing on January 15, 2023. The OID Notes will bear interest at 10.0% per annum, payable in cash quarterly. In addition to the maturity dates, both structures have the same key terms. The Company's obligations under both the Warrant Notes and the OID Notes are secured by the assets of the Company and certain of its Subsidiaries (subject to certain exclusions) and are guaranteed by certain Subsidiaries. Warrant Notes of \$0.5 million that were issued in December 2019 were exchanged for OID Notes of \$0.6 million in January 2020, and the related warrants that were issued in December 2019 were also cancelled. Warrant Notes of \$5.0 million that were issued in January 2020 were subsequently also exchanged for OID Notes of \$5.8 million, and the related warrants that were issued in connection with the Warrant Notes were also cancelled. Subsequent to the first closing of the Offering in January 2020, the additional 25% warrant coverage that may be issued under certain circumstances is no longer offered in connection with the Offering.

In addition, during the first quarter of 2020, the Company issued 154,179 additional broker warrants in connection with the Offering.

#### **Other Financial Assets – Short-Term Secured Note**

In January 2020, the Company received proceeds of \$5.2 million from the repayment of a short-term secured note which the Issuer had received in connection with its sale of certain equity securities in Gloucester Street Capital, LLC, which was completed in October 2019. In addition, in February 2020, the Company received approximately \$0.2 million in Cresco Labs Inc. proportionate voting shares as partial payment for the interest accrued on the short-term secured note, and expects to receive the remainder of the accrued interest during the second quarter of 2020. In January 2020, the Company converted its Cresco proportionate voting shares into Cresco subordinate voting shares, which are marketable securities.

#### **Other Agreements**

- (i) In January 2020, the Company issued 242,248 restricted stock in accordance with the terms of the Advisory and Consulting Agreement and the Data Purchase Agreement related to the MEND transaction completed in November 2018.
- (ii) In January 2020, the Company issued 450,000 warrants with exercise prices ranging from \$1.35 - \$1.47 to consultants in connection with services rendered or to be rendered to the Company. Of the total warrants issued, 100,000 are currently exercisable and the remainder vest as follows: 175,000 on August 2, 2020 and 175,000 on February 2, 2021 but are subject to certain accelerated vesting.
- (iii) In April 2020, TGS Illinois LLC entered into a non-exclusive wholesale purchase agreement, whereby the TGS Illinois LLC will regularly purchase inventory during 2020, with total prepayments of \$2 million to be made during April and May 2020.

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**COVID-19**

In the first quarter of 2020, the world experienced an outbreak of the virus that causes the disease COVID-19. As a result, many Companies have experienced significant declines in the values of their businesses and related assets. For example, the Company has experienced a significant decline in its stock price as well as in investments in securities as of March 31, 2020. In January 2020, the Company invested certain amounts in investments in securities, which amounts had been raised from the December 2019 Offering.