



MEDMEN ENTERPRISES INC.

**UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE 13 AND 26 WEEKS ENDED

DECEMBER 28, 2019

AND

DECEMBER 29, 2018

(Expressed in United States Dollars Unless Otherwise Stated)

MEDMEN ENTERPRISES INC.
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MEDMEN ENTERPRISES INC.
Unaudited Interim Condensed Consolidated Statements of Financial Position
December 28, 2019 and June 29, 2019
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	December 28,	June 29,
	2019	2019
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 26,000,362	\$ 33,753,751
Restricted Cash	115,873	55,618
Accounts Receivable	1,357,363	1,487,430
Current Portion of Prepaid Rent - Related Party	-	1,580,205
Prepaid Expenses	6,652,852	14,147,213
Derivative Assets	282,785	5,213,126
Income Taxes Receivable	1,527,059	3,459,019
Biological Assets	2,432,150	3,076,158
Inventory	34,176,175	29,176,192
Assets Held for Sale	55,284,834	-
Other Current Assets	19,694,073	18,913,039
Due from Related Party	3,640,285	4,921,455
Total Current Assets	<u>151,163,811</u>	<u>115,783,206</u>
Non-Current Assets:		
Prepaid Rent - Related Party, Net of Current Portion	-	4,327,077
Property and Equipment, Net	436,880,106	220,989,461
Intangible Assets, Net	166,827,359	175,552,837
Goodwill	61,322,038	85,560,531
Other Assets	27,818,707	32,417,123
Total Non-Current Assets	<u>692,848,210</u>	<u>518,847,029</u>
TOTAL ASSETS	<u>\$ 844,012,021</u>	<u>\$ 634,630,235</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 83,928,235	\$ 49,794,041
Income Taxes Payable	26,563,112	16,873,177
Other Current Liabilities	20,532,350	10,550,240
Derivative Liabilities	1,313,781	9,343,485
Current Portion of Lease Liabilities	15,867,608	2,502,813
Current Portion of Notes Payable	20,269,053	20,229,641
Liabilities Held for Sale	15,434,001	-
Due to Related Party	4,922,974	5,640,817
Total Current Liabilities	<u>188,831,114</u>	<u>114,934,214</u>
Non-Current Liabilities:		
Lease Liabilities, Net of Current Portion	293,974,591	95,726,766
Other Non-Current Liabilities	10,175,936	30,877,794
Deferred Tax Liabilities	21,284,889	24,578,609
Senior Secured Convertible Credit Facility	141,438,823	90,270,837
Notes Payable, Net of Current Portion	70,551,431	77,392,749
Total Non-Current Liabilities	<u>537,425,670</u>	<u>318,846,755</u>
TOTAL LIABILITIES	<u>726,256,784</u>	<u>433,780,969</u>
SHAREHOLDERS' EQUITY:		
Share Capital	666,194,580	556,651,469
Contributed Surplus	72,800,302	63,026,656
Accumulated Deficit	(480,684,893)	(383,622,726)
Total Equity Attributable to Shareholders of MedMen Enterprises Inc.	258,309,989	236,055,399
Non-Controlling Interest	(140,554,752)	(35,206,133)
TOTAL SHAREHOLDERS' EQUITY	<u>117,755,237</u>	<u>200,849,266</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 844,012,021</u>	<u>\$ 634,630,235</u>

Nature of Operations (Note 1)
Commitments and Contingencies (Note 22)
Subsequent Events (Note 26)

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

MEDMEN ENTERPRISES INC.

Unaudited Interim Condensed Consolidated Statements of Operations and Comprehensive Loss 13 and 26 Weeks Ended December 28, 2019 and December 29, 2018

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	13 Weeks Ended		26 Weeks Ended	
	December 28, 2019	December 29, 2018	December 28, 2019	December 29, 2018
Revenue	\$ 44,065,882	\$ 29,417,295	\$ 83,735,878	\$ 50,877,490
Cost of Goods Sold	<u>39,519,070</u>	<u>16,379,734</u>	<u>56,904,668</u>	<u>26,189,068</u>
Gross Profit Before Fair Value Adjustments	4,546,812	13,037,561	26,831,210	24,688,422
Realized Fair Value of Inventory Sold	5,263,968	(244,343)	(5,477,005)	(2,196,923)
Unrealized Gain on Changes in Fair Value of Biological Assets	<i>Note 4</i> <u>2,963,849</u>	<u>2,878,271</u>	<u>8,458,688</u>	<u>2,882,915</u>
Gross Profit	<u>12,774,629</u>	<u>15,671,489</u>	<u>29,812,893</u>	<u>25,374,414</u>
Expenses:				
General and Administrative	52,494,758	64,148,223	99,830,424	129,887,674
Sales and Marketing	3,610,001	8,602,293	9,393,729	13,402,525
Depreciation and Amortization	<i>Notes 8 and 11</i> <u>13,137,432</u>	<u>3,379,803</u>	<u>23,886,064</u>	<u>5,830,123</u>
Total Expenses	<u>69,242,191</u>	<u>76,130,319</u>	<u>133,110,217</u>	<u>149,120,322</u>
Loss from Operations	<u>(56,467,562)</u>	<u>(60,458,830)</u>	<u>(103,297,324)</u>	<u>(123,745,908)</u>
Other Expense (Income):				
Interest Expense	12,247,416	2,269,040	23,865,465	4,389,325
Interest Income	(265,379)	(284,889)	(634,721)	(284,889)
Amortization of Debt Discount and Loan Origination Fees	4,283,443	2,001,820	7,215,248	2,350,326
Change in Fair Value of Derivatives	<i>Notes 14 and 17</i> (388,697)	(5,389,178)	(521,592)	(6,163,107)
Unrealized Gain on Changes in Fair Value of Investments	<i>Note 6</i> (5,034,160)	(1,194,000)	(16,514,481)	(1,194,000)
Unrealized Gain on Changes in Fair Value of Contingent Consideration	<i>Note 13</i> (4,630,589)	-	(1,887,146)	-
Other Expense	<i>Note 20</i> <u>6,035,378</u>	<u>3,152,422</u>	<u>26,468,035</u>	<u>3,258,049</u>
Total Other Expense	<u>12,247,412</u>	<u>555,215</u>	<u>37,990,808</u>	<u>2,355,704</u>
Loss from Continuing Operations Before Provision for Income Taxes	(68,714,974)	(61,014,045)	(141,288,132)	(126,101,612)
Provision for Income Taxes	<u>6,060,482</u>	<u>2,186,567</u>	<u>12,081,003</u>	<u>3,595,225</u>
Net Loss and Comprehensive Loss from Continuing Operations	(74,775,456)	(63,200,612)	(153,369,135)	(129,696,837)
Net Loss from Discontinued Operations, Net of Taxes	<i>Note 25</i> <u>(21,657,696)</u>	<u>(1,369,606)</u>	<u>(25,699,476)</u>	<u>(1,369,606)</u>
Net Loss and Comprehensive Loss	(96,433,152)	(64,570,218)	(179,068,611)	(131,066,443)
Net Loss and Comprehensive Loss Attributable to Non-Controlling Interest	<i>Note 18(d)</i> <u>(55,824,247)</u>	<u>(45,885,355)</u>	<u>(106,983,391)</u>	<u>(99,903,648)</u>
Net Loss and Comprehensive Loss Attributable to Shareholders of MedMen Enterprises Inc.	<u>\$ (40,608,905)</u>	<u>\$ (18,684,863)</u>	<u>\$ (72,085,220)</u>	<u>\$ (31,162,795)</u>
Loss Per Share - Basic and Diluted:				
From Continuing Operations Attributable to Shareholders of MedMen Enterprises Inc.	<u>\$ (0.09)</u>	<u>\$ (0.23)</u>	<u>\$ (0.24)</u>	<u>\$ (0.54)</u>
From Discontinued Operations	<u>\$ (0.10)</u>	<u>\$ (0.02)</u>	<u>\$ (0.13)</u>	<u>\$ (0.02)</u>
Weighted-Average Shares Outstanding - Basic and Diluted	<u>220,467,070</u>	<u>74,243,033</u>	<u>196,211,921</u>	<u>54,950,660</u>

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

MEDMEN ENTERPRISES INC.

Unaudited Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
26 Weeks Ended December 28, 2019 and December 29, 2018 (As Restated – See Note 21)

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	<u>Number of Shares / Units</u>		<u>\$ Amount</u>			<u>TOTAL EQUITY</u>			<u>TOTAL SHAREHOLDERS' EQUITY</u>
	<u>Share Capital</u>	<u>Super Voting Shares</u>	<u>Share Capital</u>	<u>Super Voting Shares</u>	<u>Contributed Surplus</u>	<u>Accumulated Deficit</u>	<u>ATTRIBUTABLE TO SHAREHOLDERS OF MEDMEN</u>	<u>Non-Controlling Interest</u>	
BALANCE AS OF JUNE 30, 2018 (As Restated - See Note 21)	45,215,976	1,630,590	\$ 129,145,994	\$ -	\$ 47,091,271	\$ (67,616,023)	\$ 108,621,242	\$ 87,029,016	\$ 195,650,258
Net Loss and Comprehensive Loss	-	-	-	-	-	(31,162,794)	(31,162,794)	(99,903,648)	(131,066,442)
Non-Controlling Interest	-	-	-	-	-	-	-	290,000	290,000
Issuance of Subordinate Voting Shares for:									
Cash Received, Net of Fees	29,321,818	-	115,289,679	-	-	-	115,289,679	-	115,289,679
Debt Issuance Costs	45,027	-	185,511	-	-	-	185,511	-	185,511
Redemption of MedMen Corp Redeemable Shares	13,197,874	-	17,994,369	-	-	-	17,994,369	(17,994,369)	-
Other Assets	569,995	-	1,946,290	-	-	-	1,946,290	-	1,946,290
Acquisition Costs	56,170	-	150,242	-	-	-	150,242	-	150,242
Acquisitions	5,677,949	-	18,434,907	-	-	-	18,434,907	-	18,434,907
Issuance of MedMen Corp Redeemable Shares for:									
Conversion of Convertible Debentures	-	-	3,802,381	-	-	-	3,802,381	-	3,802,381
Repayment of Notes Payable	-	-	6,759,125	-	-	-	6,759,125	-	6,759,125
Cash Exercise of Warrants	-	-	8,521,268	-	-	-	8,521,268	-	8,521,268
Other Assets	-	-	-	-	-	-	-	343,678	343,678
Acquisition Costs	-	-	597,320	-	-	-	597,320	-	597,320
Issuance of LLC Redeemable Units for an Acquisition	-	-	-	-	-	-	-	41,154,986	41,154,986
Derivative Liability Incurred on Issuance of Equity	-	-	(13,252,207)	-	-	-	(13,252,207)	-	(13,252,207)
Issuance of Warrants for Debt	-	-	(1,532,131)	-	20,227,116	-	18,694,985	-	18,694,985
Share-Based Compensation	-	-	-	-	12,753,015	-	-	9,900,884	22,653,899
BALANCE AS OF DECEMBER 29, 2018	94,084,809	1,630,590	\$ 288,042,748	\$ -	\$ 80,071,402	\$ (98,778,817)	\$ 269,335,333	\$ 20,820,547	\$ 290,155,880
BALANCE AS OF JUNE 29, 2019	173,010,922	1,630,590	\$ 556,651,469	\$ -	\$ 63,026,656	\$ (383,622,726)	\$ 236,055,399	\$ (35,206,133)	\$ 200,849,266
Net Loss and Comprehensive Loss	-	-	-	-	-	(72,085,220)	(72,085,220)	(106,983,391)	(179,068,611)
Controlling Interest Equity Transactions:									
At-the-Market Equity Financing Program, Net	Note 18(c)	9,789,300	-	12,399,252	-	-	12,399,252	-	12,399,252
Shares Issued for Cash		38,355,076	-	40,200,000	-	-	40,200,000	-	40,200,000
Shares Issued to Settle Debt and Accrued Interest	Note 16	1,231,280	-	2,441,912	-	-	2,441,912	-	2,441,912
Shares Issued to Settle Contingent Consideration	Note 13	10,691,455	-	10,811,219	-	-	10,811,219	-	10,811,219
Asset Acquisitions		7,373,034	-	4,904,381	-	-	4,904,381	-	4,904,381
Relative Fair Value of Convertible Debt - Debt Modification		-	-	-	7,042,108	-	7,042,108	-	7,042,108
Redemption of MedMen Corp Redeemable Shares	Note 18(d)	6,225,620	-	23,362,740	-	(23,959,869)	(597,129)	597,129	-
Shares Issued for Vested Restricted Stock Units	Note 19(c)	67,038	-	133,283	-	(133,283)	-	-	-
Shares Issued for Other Assets		3,107,315	-	2,336,925	-	-	2,336,925	-	2,336,925
Shares Issued for Acquisition Costs	Note 9	214,716	-	421,497	-	-	421,497	-	421,497
Shares Issued for Business Acquisition	Note 9	5,112,263	-	9,833,000	-	-	9,833,000	-	9,833,000
Stock Grants for Compensation	Note 19	1,889,646	-	2,698,902	-	-	2,698,902	35,217	2,734,119
Deferred Tax Impact On Conversion Feature		-	-	-	(2,600,326)	(1,017,078)	(3,617,404)	-	(3,617,404)
Share-Based Compensation	Note 19	-	-	-	5,465,147	-	5,465,147	-	5,465,147
Non-Controlling Interest Equity Transactions:									
Distributions	Note 18(d)	-	-	-	-	-	-	(310,633)	(310,633)
Share-Based Compensation	Note 19	-	-	-	-	-	-	1,313,059	1,313,059
BALANCE AS OF DECEMBER 28, 2019	257,067,665	1,630,590	\$ 666,194,580	\$ -	\$ 72,800,302	\$ (480,684,893)	\$ 258,309,989	\$ (140,554,752)	\$ 117,755,237

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

MEDMEN ENTERPRISES INC.
Unaudited Interim Condensed Consolidated Statements of Cash Flows
26 Weeks Ended December 28, 2019 and December 29, 2018
(Amounts Expressed in United States Dollars Unless Otherwise Stated)

	26 Weeks Ended	
	December 28, 2019	December 29, 2018
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Loss and Comprehensive Loss from Continuing Operations	\$ (153,369,135)	\$ (129,696,837)
Adjustments to Reconcile Net Loss and Comprehensive Loss to Net Cash Used in Continued Operating Activities:		
Unrealized Gain on Changes in Fair Value of Biological Assets	<i>Note 4</i> (8,458,688)	(2,882,915)
Deferred Tax Expense	274,320	-
Interest Expense	23,865,465	-
Realized Fair Value of Inventory Sold	5,263,968	2,196,924
Depreciation and Amortization	<i>Notes 8 and 11</i> 27,808,258	6,280,788
Loss on Sale of Property	-	2,626,216
Amortization of Debt Discount and Loan Origination Fees	<i>Notes 16 and 17</i> 7,215,248	2,001,820
Change in Fair Value of Contingent Consideration	<i>Note 13(b)</i> (1,887,146)	-
Accretion of Deferred Gain on Sale of Property	<i>Note 15</i> (504,168)	(84,995)
Unrealized Gain on Changes in Fair Value of Investments	<i>Note 6</i> (16,514,481)	(1,194,000)
Loss on Extinguishment of Debt	<i>Notes 16 and 17</i> 20,852,426	715,979
Share-Based Compensation	<i>Note 19</i> 9,512,325	22,653,899
Shares Issued for Acquisition Costs	<i>Note 9</i> 421,497	747,562
Change in Fair Value of Derivatives	<i>Notes 14 and 17</i> (521,592)	(6,163,107)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(165,585)	(152,820)
Prepaid Rent - Related Party	-	947,500
Prepaid Expenses	7,158,485	(6,483,803)
Income Taxes Receivable	1,931,510	-
Biological Assets	3,086,506	(34,410)
Inventory	(9,123,763)	(5,429,114)
Other Current Assets	(180,292)	(7,706,609)
Due from Related Party	59,516	(5,013,364)
Other Assets	(7,867,887)	3,841,116
Accounts Payable and Accrued Liabilities	30,120,908	6,680,725
Income Taxes Payable	11,589,422	-
Other Current Liabilities	732,695	(5,430,608)
Due to Related Party	(5,792,918)	(4,060,144)
NET CASH USED IN CONTINUED OPERATING ACTIVITIES	(54,493,106)	(125,640,197)
Net Cash Provided by Discontinued Operating Activities	<i>Note 25</i> 2,137,324	637,744
NET CASH USED IN OPERATING ACTIVITIES	(52,355,782)	(125,002,453)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property and Equipment	<i>Note 8</i> (47,972,430)	(54,765,288)
Internally-Developed Software Costs Capitalized	<i>Note 11</i> (2,973,983)	-
Proceeds from Sale of Assets Held for Sale	<i>Note 7</i> 4,952,822	-
Purchase of Investments	-	(8,304,833)
Proceeds from Sale of Property	<i>Note 15</i> 20,400,000	24,073,319
Proceeds from Sale of Investments	<i>Note 6</i> 12,500,000	-
Acquisition of Businesses, Net of Cash Acquired	<i>Note 9</i> (1,000,000)	(30,686,541)
Additions to Restricted Cash	(60,255)	2,998,619
NET CASH USED IN CONTINUED INVESTING ACTIVITIES	(14,153,846)	(66,684,724)
Net Cash Used in Discontinued Investing Activities	<i>Note 25</i> (1,491,328)	(496,440)
NET CASH USED IN INVESTING ACTIVITIES	(15,645,174)	(67,181,164)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Exercise of Warrants for MedMen Corp Redeemable Shares	-	8,521,268
Issuance of Subordinate Voting Shares for Cash	52,599,252	115,289,679
Cash Received in Advance for Issuance of Equity	2,000,000	-
Proceeds from Issuance of Senior Secured Convertible Credit Facility	<i>Note 17</i> 35,000,000	-
Proceeds from Issuance of Notes Payable	<i>Note 16</i> 2,750,000	93,943,539
Principal Repayments of Notes Payable	<i>Note 16</i> (13,482,371)	(24,739,101)
Lease Liability Payments	<i>Note 15</i> (11,824,757)	(42,775)
Interest Paid on Notes Payable and Senior Secured Convertible Credit Facility	(4,112,580)	-
Debt Issuance Costs	<i>Notes 16 and 17</i> (1,197,974)	(2,019,472)
(Distributions to) Contributions from Non-Controlling Interest	<i>Note 18(d)</i> (310,633)	290,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	61,420,937	191,243,138
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,580,019)	(940,479)
Cash Included in Assets Held for Sale	<i>Note 25</i> (1,173,370)	-
Cash and Cash Equivalents, Beginning of Period	33,753,751	79,159,970
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 26,000,362	\$ 78,219,491

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

MEDMEN ENTERPRISES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

13 and 26 Weeks Ended December 28, 2019 and December 29, 2018

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

1. NATURE OF OPERATIONS

MedMen Enterprises Inc. (“MedMen Enterprises” or the “Company”), formerly known as Ladera Ventures Corp., was incorporated under the Business Corporations Act (British Columbia) on May 21, 1987. The Company’s Class B Subordinate Voting Shares are listed on the Canadian Securities Exchange under the symbol “MMEN”, on the OTCQX under the symbol “MMNFF”, on the Frankfurt Stock Exchange under the symbol “OJS.F”, on the Stuttgart Stock Exchange under the symbol “OJS.SG”, on the Munich Stock Exchange under the symbol “OJS.MU”, on the Berlin Stock Exchange under the symbol “OJS.BE” and on the Dusseldorf Stock Exchange under the symbol “OJS.DU”. The head office and principal address of the Company is 10115 Jefferson Boulevard, Culver City, California 90232. The Company’s registered and records office address is 885 West Georgia Street, Suite 2200, Vancouver, British Columbia Canada V6C 3E8. The Company operates through its wholly-owned subsidiaries, MM CAN USA, Inc., a California corporation (“MM CAN” or “MedMen Corp”), and MM Enterprises USA, LLC, a Delaware limited liability company (“MM Enterprises USA”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards (“IAS”) 34, “*Interim Financial Reporting*” (“IAS 34”), using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

The unaudited interim condensed consolidated financial statements do not include all of the information required for full annual financial statements. The accounting policies and critical estimates applied by the Company in these unaudited interim condensed consolidated financial statements are the same as those applied in the Company’s audited consolidated financial statements as of and for the 52 weeks ended June 29, 2019, except as described beginning in Note 2(e). Unless otherwise stated, these policies have been consistently applied to all periods presented. These unaudited interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 26, 2020.

(b) Basis of Measurement

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

(c) Functional Currency

The Company and its subsidiaries’ functional currency, as determined by management, is the United States (“U.S.”) dollar. These unaudited interim condensed consolidated financial statements are presented in U.S. dollars. All references to “C\$” refer to Canadian dollars.

MEDMEN ENTERPRISES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

13 and 26 Weeks Ended December 28, 2019 and December 29, 2018

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Basis of Consolidation

These unaudited interim condensed consolidated financial statements as of and for the 13 and 26 weeks ended December 28, 2019 include the accounts of the Company, its wholly-owned subsidiaries and entities over which the Company has control as defined in IFRS 10. Subsidiaries over which the Company has control are fully consolidated from the date control commences until the date control ceases. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable are taken into account. All intercompany balances and transactions are eliminated on consolidation.

The following are MM Enterprises USA's wholly-owned and majority-owned subsidiaries and entities over which the Company has control that are included in these unaudited interim condensed consolidated financial statements as of and for the 13 and 26 weeks ended December 28, 2019, 52 weeks ended June 29, 2019 and 13 and 26 weeks ended December 29, 2018:

Corporate Entities

Entity		Location	Purpose
MedMen Enterprises Inc.	(7)	Canada	Parent Company
MM CAN USA, Inc.	(8)	California	Manager of MM Enterprises USA, LLC
MM Enterprises USA, LLC	(11)	Delaware	Operating Entity
Convergence Management Services, Ltd.	(10)	Canada	Public Relations Entity

Cultivation Entities

Subsidiaries		Location	Purpose
Project Mustang Development, LLC	(13)	Northern Nevada	Cultivation and Production Facility
The MedMen of Nevada 2, LLC	(13)		
MMNV2 Holdings I, LLC	(13)		
MMNV2 Holdings II, LLC	(13)		
MMNV2 Holdings III, LLC	(13)		
MMNV2 Holdings IV, LLC	(13)		
MMNV2 Holdings V, LLC	(13)		
Manlin DHS Development, LLC	(13)	Desert Hot Springs, California	Cultivation and Production Facility
Desert Hot Springs Green Horizons, Inc.	(8)		
Project Compassion Venture, LLC	(11)	Utica, New York	Cultivation and Production Facility
EBA Holdings, Inc.	(17)	Mesa, Arizona	Cultivation and Production Facility
Kannaboost Technology, Inc.	(17)	Tempe and Phoenix, Arizona	Cultivation and Production Facility
CSI Solutions, LLC	(16)		
MME Florida, LLC	(15)	Eustis, Florida	Cultivation and Production Facility

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(d) Basis of Consolidation (Continued)***Retail Entities*

Subsidiaries	Location	Purpose	
CYON Corporation, Inc.	(8)	Los Angeles - Beverly Hills	Dispensary
BH Fund II Group, LLC	(9)		
MMOF Downtown Collective, LLC	(9)	Los Angeles - Downtown	Dispensary
Advanced Patients' Collective	(8)		
DT Fund II Group, LLC	(8)		
Nature's Cure, Inc.	(1) (2) (8)	Los Angeles - LAX Airport	Dispensary
LAX Fund II Group, LLC	(1) (2) (9)		
Manlin, LLC	(1) (3) (9)	Los Angeles - West Hollywood	Dispensary
Farmacy Collective	(1) (4) (10)		
The Source Santa Ana	(1) (5) (8)	Orange County - Santa Ana	Dispensary
SA Fund Group RT			
MMOF San Diego Retail, Inc.	(9)	San Diego - Kearny Mesa	Dispensary
San Diego Retail Group II, LLC	(8)		
Venice Caregiver Foundation, Inc.	(1) (6) (8)	Venice Beach - Abbot Kinney	Dispensary
MMOF Venice, LLC	(9)	Venice Beach - Lincoln Blvd.	Dispensary
The Compassion Network	(8)		
MMOF PD, LLC	(9)	Palm Desert, California	Dispensary
MMOF Palm Desert, Inc.	(8)		
MMOF SM, LLC	(9)	Santa Monica, California	Dispensary
MMOF Santa Monica, Inc.	(8)		
MMOF Fremont, LLC	(13)	Las Vegas - Downtown Arts District	Dispensary
MMOF Fremont Retail, Inc.	(12)		
MME SF Retail, Inc.	(8)	San Francisco, California	Dispensary
MMOF Vegas, LLC	(13)	Las Vegas - North Las Vegas	Dispensary
MMOF Vegas Retail, Inc.	(12)		
MMOF Vegas 2, LLC	(13)	Las Vegas - Cannacopia	Dispensary
MMOF Vegas Retail 2, Inc.	(12)		
MME VMS, LLC	(9)	San Jose, California	Dispensary
Viktoriya's Medical Supplies, LLC	(9)		
Project Compassion Venture, LLC	(11)	New York	Dispensaries
Project Compassion Capital, LLC	(11)	(Manhattan / Syracuse /	
Project Compassion NY, LLC	(11)	Lake Success / Buffalo)	
MedMen NY, Inc.	(14)		
MME IL Group LLC	(18)	Oak Park, Illinois	Dispensary
Future Transactions Holdings, LLC	(18)		
MME Seaside, LLC	(9)	Seaside, California	Dispensary
PHSL, LLC	(9)		
MME Sorrento Valley, LLC	(9)	San Diego - Sorrento Valley	Dispensary
Sure Felt, LLC	(9)		
Rochambeau, Inc.	(8)	Emeryville, California	Dispensary
Kannaboost Technology, Inc.	(17)	Scottsdale and Tempe, Arizona	Dispensaries
CSI Solutions, LLC	(16)		
MME AZ Group, LLC	(16)	Mesa, Arizona	Dispensary
EBA Holdings, Inc.	(17)		
MattnJeremy, Inc.	(8)	Long Beach, California	Dispensary
Milkman, LLC	(9)	Grover Beach, California	Dispensary
MME 1001 North Retail, LLC	(18)	Chicago, Illinois	Dispensary
MME Evanston Retail, LLC	(18)	Evanston, Illinois	Dispensary

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(d) Basis of Consolidation (Continued)*****Real Estate Entities***

<u>Subsidiaries</u>	<u>Location</u>	<u>Purpose</u>
MMOF Venice Parking, LLC (9)	Venice Beach - Lincoln Blvd.	Parking Lot
MME RE AK, LLC (9)	Venice Beach - Abbot Kinney	Building
MMOF RE SD, LLC (9)	San Diego - Kearny Mesa	Building
MMOF RE Vegas 2, LLC (13)	Las Vegas - The Strip	Building
MMOF RE Fremont, LLC (13)	Las Vegas - Downtown Arts District	Building
MME RE BH, LLC (9)	Los Angeles - Beverly Hills	Building
NVGN RE Holdings, LLC (13)	Nevada	Genetics R&D Facility/ Warehouse

(1) *Subsidiary over which the Company has control. See “Note 2(d) – Basis of Consolidation” for further information. All intercompany balances and transactions are eliminated on consolidation.*

(2) *Nature’s Cure, Inc. is owned by MedMen Opportunity Fund II, LP and under control of the Company through a management agreement.*

(3) *Manlin, LLC contains the operations of the MedMen West Hollywood dispensary (“WeHo”). The Company had a management agreement with i5 Holdings Ltd. (“i5”) to manage WeHo, which was owned by i5, an entity controlled or owned by Captor Capital. On January 25, 2019, the Company acquired the non-controlling interest from i5.*

(4) *Farmacy Collective contains the operations of WeHo. The Company had a management agreement with i5 to manage WeHo, which was owned by i5, an entity controlled or owned by Captor Capital. On January 25, 2019, the Company acquired the non-controlling interest from i5.*

(5) *The Source Santa Ana contains the operations of the MedMen Santa Ana dispensary (“Santa Ana”). The Company had a management agreement with i5 to manage Santa Ana, which was owned by i5, an entity controlled or owned by Captor Capital. On January 25, 2019, the Company acquired the non-controlling interest from i5.*

(6) *Venice Caregivers Foundation, Inc. is owned by MedMen Opportunity Fund II, LP and under control of the Company through a management agreement.*

(7) *British Columbia, Canada Corporation*

(8) *California Corporation*

(9) *California Limited Liability Company*

(10) *British Columbia, Canada Limited Company*

(11) *Delaware Limited Liability Company*

(12) *Nevada Corporation*

(13) *Nevada Limited Liability Company*

(14) *New York Corporation*

(15) *Florida Limited Liability Company*

(16) *Arizona Limited Liability Company*

(17) *Arizona Corporation*

(18) *Illinois Limited Liability Company*

MEDMEN ENTERPRISES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

13 and 26 Weeks Ended December 28, 2019 and December 29, 2018

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Assets Held for Sale

The accounting policy for assets held for sale applied in these unaudited interim condensed consolidated financial statements is new in comparison to the audited consolidated financial statements as of and for the 52 weeks ended June 29, 2019. The Company classifies assets held for sale in accordance with IFRS 5, “*Non-Current Assets Held for Sale and Discontinued Operations*”. When the Company makes the decision to sell an asset or to stop some part of its business, the Company assesses if such assets should be classified as an asset held for sale. To classify as an asset held for sale, the asset or disposal group must meet all of the following conditions: i) the asset is available for immediate sale in its present condition, ii) management is committed to a plan to sell, iii) an active program to locate a buyer and complete the plan has been initiated, iv) the asset is being actively marketed for sale at a sales price that is reasonable in relation to its fair value, v) the sale is highly probable within one year from the date of classification, and vi) actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn. Assets held for sale are measured at the lower of its carrying amount or fair value less cost to sell (“FVLCTS”) unless the asset held for sale meets the exceptions as denoted by IFRS 5. FVLCTS is the amount obtainable from the sale of the asset in an arm’s length transaction, less the costs of disposal. Once classified as held for sale, any depreciation and amortization cease to be recorded. See “*Note 7 – Assets Held for Sale*” and “*Note 25 – Discontinued Operations*”.

(f) Discontinued Operations

The accounting policy for discontinued operations applied in these unaudited interim condensed consolidated financial statements is new in comparison to the audited consolidated financial statements as of and for the 52 weeks ended June 29, 2019. A component of an entity is identified as operations and cash flows that can be clearly distinguished, operationally and financially, from the rest of the entity. A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and meets one of the following conditions: i) represents a separate major line of business or geographical area of operations, ii) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or iii) is a subsidiary acquired exclusively with a view to resale. Discontinued operations are presented separately from continuing operations in the unaudited interim condensed consolidated statements of operations and comprehensive loss and the unaudited interim condensed consolidated statements of cash flows. See “*Note 25 – Discontinued Operations*”.

(g) Revenue Recognition

The accounting policy for revenue recognition applied in these unaudited interim condensed consolidated financial statements are the same as those applied the Company’s audited consolidated financial statements as of and for the 52 weeks ended June 29, 2019, except for the below which is new during the 26 weeks ended December 28, 2019.

Delivery Revenue

The Company recognizes revenue from the sale of cannabis delivered to its customer for a fixed price upon delivery of goods to customers at the point of delivery since at this time performance obligations are satisfied.

MEDMEN ENTERPRISES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

13 and 26 Weeks Ended December 28, 2019 and December 29, 2018

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Recent Adoption of Accounting Pronouncements Effective June 30, 2019

(i) IFRS 16 Leases

In January 2016, the IASB issued IFRS 16, “Leases”, which replaces IAS 17, “Leases” and related interpretations. The standard introduces a single lessee accounting model and requires lessees to recognize assets and liabilities for all leases with a term exceeding twelve months, unless the underlying asset is insignificant. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company adopted the standard on June 30, 2019 using the modified retrospective method, which provides lessees a method for recording existing leases at adoption with no restatement of prior comparative periods.

The Company elected to apply the following recognition exemptions and practical expedients, as described under IFRS 16:

- i) recognition exemption of short-term leases;
- ii) recognition exemption of low-value leases;
- iii) application of a single discount rate to a portfolio of leases with similar characteristics on transition;
- iv) exclusion of initial direct costs from the measurement of the right-of-use assets upon transition;
- v) application of hindsight in determining the applicable lease term at the date of transition; and
- vi) election to not separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The majority of the Company’s property leases, which were previously treated as operating leases, were impacted by IFRS 16. The adoption of IFRS 16 has resulted in:

- i) higher non-current assets related to the initial recognition of the present value of the Company’s unavoidable future lease payments as right-of-use assets under property and equipment, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized in the consolidated statement of financial position as of June 30, 2019;
- ii) higher current and non-current liabilities related to the concurrent recognition of lease liabilities, which are measured at the present value of the remaining fixed lease payments, discounted by our weighted-average incremental borrowing rate of 10.7% as of June 30, 2019;
- iii) replacement of rent expense previously recorded in cost of goods sold and general and administrative expense with depreciation expense of these right-of-use assets and higher finance costs related to the accretion and interest expense of the corresponding lease liabilities; and
- iv) variable lease payments that do not depend on an index or rate and non-lease components are expensed as incurred.

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(h) Recent Adoption of Accounting Pronouncements Effective June 30, 2019** *(Continued)***(i) IFRS 16 Leases** *(Continued)*

The new standard does not change the amount of cash transferred between the lessor and lessee but impacts the presentation of the operating and financing cash flows presented on the Company's unaudited interim condensed consolidated statement of cash flows by decreasing operating cash flows and increasing financing cash flows.

Adjustments to opening balances resulting from the initial adoption of IFRS 16, with the effects on transition being recognized directly to retained earnings is as follows:

	As Previously Reported Under IAS 17	IFRS 16 Transition Adjustments	As Reported Under IFRS 16
Prepaid Rent	\$ 7,985,050	(5,907,282)	\$ 2,077,768
Property and Equipment, Net	\$ 220,989,461	170,177,771	\$ 391,167,232
Lease Liabilities	\$ (98,229,579)	(164,270,489)	\$ (262,500,068)

A reconciliation of the operating lease commitments as of June 29, 2019 to the opening balance of lease liabilities at the date of adoption is as follows:

Operating Lease Commitments as of June 29, 2019	\$ 487,305,268
Lease Liabilities Recognized as of June 30, 2019	98,229,579
Effect of Discounting Using the Lessee's Incremental Borrowing Rate	<u>(323,034,779)</u>
Lease Liabilities Recognized as of June 30, 2019	<u>\$ 262,500,068</u>

As a result of adopting IFRS 16, the Company updated its lease accounting policies as follows:

In accordance with IFRS 16, the satisfaction of a performance obligation under IFRS 15 is applied to sale and leaseback transactions. As the seller-lessee, the Company measures the right-of-use asset arising from the transaction at the proportion of the previous carrying amount of the asset that relates to the right of use retained. The Company only recognizes the gain or loss that relates to the rights transferred to the buyer-lessor. Adjustments are made to measure the sale proceeds at fair value in which any below-market terms are accounted for as a prepayment of lease payments and any above-market terms are accounted for as an additional financing cost. Adjustments for any off-market terms are on the more readily determinable basis of the difference between the fair value of the consideration for the sale and the fair value of the asset, and the difference between the present value of the contractual payments for the lease and the present value of lease payments at market rates.

MEDMEN ENTERPRISES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

13 and 26 Weeks Ended December 28, 2019 and December 29, 2018

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Recent Adoption of Accounting Pronouncements Effective June 30, 2019 (Continued)

(i) IFRS 16 Leases (Continued)

A lease is recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and interest expense. The interest expense is recognized over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability. Lease liabilities represent the net present value of fixed lease payments; variable lease payments based on an index, rate, or subject to a fair market value renewal condition; amounts expected to be payable by the lessee under residual value guarantees; the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and payments of penalties for terminating the lease, if it is probable that the lessee will exercise that option.

The Company's lease liability is recognized net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the expected lease term, including renewal and termination options that the Company is reasonably certain to exercise.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in general and administrative expenses in the interim condensed consolidated statement of operations and comprehensive loss. Short-term leases are defined as leases with a lease term of twelve months or less. Variable lease payments that do not depend on an index, rate, or subject to a fair market value renewal condition are expensed as incurred and recognized in costs of goods sold and general and administrative expenses.

Right-of-use assets are measured at cost, which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term or economic life, which ranged between 10 to 20 years. Depreciation is recognized from the commencement date of the lease.

3. PREPAID EXPENSES

As of December 28, 2019 and June 29, 2019, prepaid expenses were comprised of the following:

	<u>December 28,</u> <u>2019</u>	<u>June 29,</u> <u>2019</u>
Prepaid Expenses	\$ 4,892,299	\$ 9,559,123
Prepaid Rent	-	2,077,768
Prepaid Insurance	<u>1,760,553</u>	<u>2,510,322</u>
Total Prepaid Expenses	<u>\$ 6,652,852</u>	<u>\$ 14,147,213</u>

MEDMEN ENTERPRISES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

13 and 26 Weeks Ended December 28, 2019 and December 29, 2018

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

4. BIOLOGICAL ASSETS

Biological assets consist of live cannabis plants. A reconciliation of the beginning and ending balances of biological assets for the 26 weeks ended December 28, 2019 is as follows:

Balance at Beginning of Period	\$ 3,076,158
Unrealized Gain on Changes in Fair Value of Biological Assets Related to Continuing Operations	8,458,688
Transferred to Inventory Upon Harvest	(7,905,393)
Net Unrealized Gain and Amount Transferred to Inventory Upon Harvest Related to Discontinued Operations	(125,949)
Transferred to Assets Held for Sale	(1,071,354)
Balance at End of Period	<u>\$ 2,432,150</u>

On average, the growing time for a full harvest approximates 16 weeks. As listed below, key estimates are involved in the valuation process of the cannabis plants. The Company's estimates are subject to changes that could result in future gains or losses on biological assets. Changes in estimates could result from volatility of sales prices, changes in yields, and variability of the costs necessary to complete the harvest. Prior to harvest, all production costs are expensed.

Biological assets are valued in accordance with IAS 41. The Company capitalizes the direct and indirect costs incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest. The Company then measures the biological assets at FVLCTS up to the point of harvest, which becomes the initial basis for the cost of finished goods inventories after harvest. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy.

The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions:

- The selling prices (which are based on average market prices in the states where the Company operated during the 26 weeks ended December 28, 2019);
- The cost to complete the cannabis production process post-harvest and the cost to sell;
- The stage of plant growth; and
- Expected yields from each cannabis plant.

The estimates of growing cycle, harvest yield and costs per gram are based on the Company's historical results. The estimate of the selling price per gram is based on the Company's historical sales in addition to the Company's expected sales price going forward. Management estimates the average selling price of whole flower is \$5.03 per gram in the valuation of biological assets.

MEDMEN ENTERPRISES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

13 and 26 Weeks Ended December 28, 2019 and December 29, 2018

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

4. BIOLOGICAL ASSETS (Continued)

The Company measures the yield of cannabis in active milligrams extracted from a plant. A plant typically produces a total of approximately 94.2 grams, which is comprised of THC and CBD. As of December 28, 2019 and June 29, 2019, biological assets were, on average, 36% and 38%, respectively, complete based on the number of days remaining to harvest. As of December 28, 2019 and June 29, 2019, the estimated FVLCTS of dry cannabis was \$3.88 and \$2.07, respectively, per gram. As of December 28, 2019, it is expected that the Company's biological assets will ultimately yield approximately 2,583.2 kilograms of cannabis.

The Company has quantified the sensitivity of the inputs in relation to the biological assets as of December 28, 2019 and June 29, 2019 and estimates the following effect on fair value:

Significant Inputs and Assumptions	Range of Inputs	Sensitivity	Effect on Fair Value as of:	
			December 28, 2019	June 29, 2019
Selling Price	\$3.25 to \$4.79 (December 28)	Increase 5%	\$ 158,882	\$ 166,119
Per Active Gram	\$3.26 to \$5.61 (June 29)	Decrease 5%	\$ (158,882)	\$ (166,119)
Estimated Yield	39.8 to 112.4 grams (December 28)	Increase 5%	\$ 154,328	\$ 153,808
Per Cannabis Plant	38.4 to 111.6 grams (June 29)	Decrease 5%	\$ (154,328)	\$ (153,808)

5. INVENTORY

As of December 28, 2019 and June 29, 2019, inventory consisted of the following:

	December 28, 2019	June 29, 2019
Raw Materials	\$ 3,392,286	\$ 3,787,858
Work-in-Process	7,482,702	7,273,358
Finished Goods	23,301,187	18,114,976
Total Inventory	\$ 34,176,175	\$ 29,176,192

During the 13 and 26 weeks ended December 28, 2019, inventory expensed to cost of goods sold related to continuing operations was \$35,539,161 and \$45,439,902, respectively. During the 13 and 26 weeks ended December 29, 2018, inventory expensed to cost of goods sold related to continuing operations was \$16,169,749 and \$25,979,082, respectively.

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***6. OTHER CURRENT ASSETS**

As of December 28, 2019 and June 29, 2019, other current assets were comprised of the following:

	December 28,	June 29,
	2019	2019
Investments	\$ 12,367,450	\$ 13,018,791
Excise Tax Receivable	6,074,973	5,721,945
Notes Receivable	700,000	-
Other Current Assets	551,650	172,303
Total Other Current Assets	\$ 19,694,073	\$ 18,913,039

A reconciliation of the beginning and ending balances of investments for the 26 weeks ended December 28, 2019 is as follows:

Balance at Beginning of Period	\$ 13,018,791
Unrealized Gain on Changes in Fair Value of Investments	16,514,481
Purchases	287,000
Sale of Investments	(12,500,000)
Transferred to Assets Held for Sale	(8,456,665)
Transferred in from Assets Held for Sale	3,503,843
Total Investments at End of Period	\$ 12,367,450

The fair value of certain investments included in other current assets are considered a Level 2 categorization in the IFRS fair value hierarchy. These investments are measured at fair value using the recent sale price. The fair value of the other investments included in other current assets are considered a Level 3 categorization in the IFRS fair value hierarchy. Investments in the Level 3 categorization of the IFRS fair value hierarchy are measured at fair value using a market approach and/or probability approach that are based on unobservable inputs. The significant estimates and inputs used to assess the fair value of Level 3 investments include the following assumptions:

- Long-term revenues based upon historical and/or future expected revenues;
- Business enterprise valuation multiples selected considering adjustments for size, growth, profitability and the results of ranking analysis; and
- Probability weighted expected return.

The Company has quantified the sensitivity of the inputs in relation to the investments as of December 28, 2019 and June 29, 2019 and estimates the following effect on fair value:

Significant Inputs and Assumptions	Range of Inputs	Sensitivity	Effect on Fair Value as of:	
			December 28, 2019	June 29, 2019
Long-Term Revenues and Business Enterprise Valuation Multiples	\$7,500,000 to \$12,720,000 1.75 to 4.25 multiple	Increase 5%	\$ 464,000	\$ 1,138,000
		Decrease 5%	\$ (464,000)	\$ (1,138,000)
Probability Weighted Expected Return	10.0% to 60.0%	Increase 5%	\$ -	\$ -
		Decrease 5%	\$ -	\$ -

MEDMEN ENTERPRISES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

13 and 26 Weeks Ended December 28, 2019 and December 29, 2018

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

7. ASSETS HELD FOR SALE

A reconciliation of the beginning and ending balances of assets held for sale for the 26 weeks ended December 28, 2019 is as follows:

	PharmaCann Assets ⁽¹⁾	Discontinued Operations ⁽²⁾	Investments	TOTAL
Balance at Beginning of Period	\$ -	\$ -	\$ -	\$ -
Transferred In	6,870,833	48,414,001	8,456,665	63,741,499
Transferred Out	-	-	(3,503,843)	(3,503,843)
Sale	-	-	(4,952,822)	(4,952,822)
Total Assets Held for Sale at End of Period	\$ 6,870,833	\$ 48,414,001	\$ -	\$ 55,284,834

(1) See "Note 10 – Termination of Previously Announced Acquisition" for further information.

(2) See "Note 25 – Discontinued Operations" for further information.

On October 17, 2019, the Company entered into an agreement to sell a portion of its interest in Old Pal LLC to Gotham Green Partners, a related party, and a third party. As a result, the Company classified the portion available for sale as an asset held for sale and recorded a gain on fair value of \$2,719,638 during the 26 weeks ended December 28, 2019. The interests sold consist of 86.80 Class B Units, or 6.9% of the outstanding units, resulting in an aggregate sale price of \$4,952,822. As of December 28, 2019, the Company holds 38.50 Class B Units, or 3.1% of the outstanding units, in Old Pal LLC.

On November 13, 2019, the Company entered into an agreement to sell its investment in The Hacienda Company, LLC, which owns Lowell Herb Co., for an aggregate sale price of \$3,503,843. As a result, the Company classified the investment as an asset held for sale and recorded a gain on fair value of \$1,294,843 during the 26 weeks ended December 28, 2019. The parties subsequently withdrew from the agreement and management retracted its commitment to sell the investment in the current or near future. Accordingly, the Company reclassified the asset as an investment as of December 28, 2019.

MEDMEN ENTERPRISES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

13 and 26 Weeks Ended December 28, 2019 and December 29, 2018

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

8. PROPERTY AND EQUIPMENT

A reconciliation of the beginning and ending balances of property and equipment for the 26 weeks ended December 28, 2019 is as follows:

Cost	Land and Buildings	Right-of-Use Real Estate ⁽¹⁾	Right-of-Use Land ⁽¹⁾	Furniture and Fixtures	Leasehold Improvements	Equipment and Software	Construction in Progress	TOTAL
Balance as of June 29, 2019	\$ 16,262,905	\$ 99,344,083	\$ -	\$ 14,525,330	\$ 28,779,274	\$ 34,990,655	\$ 40,143,696	\$ 234,045,943
Additions	-	-	-	725,971	1,107,470	1,504,934	44,634,055	47,972,430
IFRS 16 Transition ⁽¹⁾	-	133,372,065	36,805,706	-	-	-	-	170,177,771
Non-Cash Additions	-	46,466,044	3,492,763	-	-	-	-	49,958,807
Addition from Discontinued Operations	-	-	-	56,294	35,644	573,389	826,001	1,491,328
Transferred to Assets Held for Sale	-	(6,032,144)	-	(3,314,054)	(43,927)	(1,144,982)	(1,773,343)	(12,308,450)
Disposals and Transfers	(12,647,499)	(770,167)	-	425,636	2,459,717	(7,482,083)	(4,497,042)	(22,511,438)
Business Acquisitions	-	-	-	11,861	410,199	8,561	-	430,621
Balance as of December 28, 2019	\$ 3,615,406	\$ 272,379,881	\$ 40,298,469	\$ 12,431,038	\$ 32,748,377	\$ 28,450,474	\$ 79,333,367	\$ 469,257,012
Accumulated Depreciation								
Balance as of June 29, 2019	\$ (217,746)	\$ (2,645,412)	\$ -	\$ (1,593,045)	\$ (2,790,135)	\$ (5,810,144)	\$ -	\$ (13,056,482)
Depreciation	(82,140)	(13,201,318)	(342,591)	(798,719)	(2,991,954)	(3,057,696)	-	(20,474,418)
Transferred to Assets Held for Sale	-	350,355	-	412,476	1,646	153,025	-	917,502
Included in Discontinued Operations	-	(350,355)	-	(228,123)	(1,419)	(98,899)	-	(678,796)
Disposals and Transfers	261,962	160,771	-	26,653	79,726	386,176	-	915,288
Balance as of December 28, 2019	\$ (37,924)	\$ (15,685,959)	\$ (342,591)	\$ (2,180,758)	\$ (5,702,136)	\$ (8,427,538)	\$ -	\$ (32,376,906)
Net Book Value								
June 29, 2019	\$ 16,045,159	\$ 96,698,671	\$ -	\$ 12,932,285	\$ 25,989,139	\$ 29,180,511	\$ 40,143,696	\$ 220,989,461
December 28, 2019	\$ 3,577,482	\$ 256,693,922	\$ 39,955,878	\$ 10,250,280	\$ 27,046,241	\$ 20,022,936	\$ 79,333,367	\$ 436,880,106

⁽¹⁾ See "Note 15 – Lease Liabilities" for further information.

Depreciation expense related to continuing operations of \$9,480,027 and \$20,474,418 was recorded for the 13 and 26 weeks ended December 28, 2019, respectively, of which \$258,334 and \$3,922,194, respectively, is included in cost of goods sold. Depreciation expense related to continuing operations of \$2,017,999 and \$3,537,648 was recorded for the 13 and 26 weeks ended December 29, 2018, respectively, of which \$239,034 and \$450,664, respectively, is included in cost of goods sold.

During the 13 and 26 weeks ended December 28, 2019, borrowing costs totaling \$1,432,632 and \$2,308,728, respectively, were capitalized using an average capitalization rate of 8.6% and 8.7%, respectively. During the 13 and 26 weeks ended December 29, 2018, borrowing costs totaling \$752,745 and \$1,374,733, respectively, were capitalized using an average capitalization rate of 7.0% and 7.0%, respectively.

In addition, during the 13 and 26 weeks ended December 28, 2019, total labor-related costs of \$339,905 and \$776,069, respectively, were capitalized to Construction in Progress, of which \$36,269 and \$172,655, respectively, was share-based compensation. During the 13 and 26 weeks ended December 29, 2018, no labor-related costs, including share-based compensation, were capitalized to Construction in Progress.

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9. ACQUISITIONS

(a) MattnJeremy, Inc. d/b/a One Love Beach Club

On September 3, 2019, the Company completed the acquisition of MattnJeremy, Inc., d/b/a One Love Beach Club (“One Love”), a licensed medical and recreational cannabis dispensary located in Long Beach, California.

The Company acquired all of the issued and outstanding shares of One Love for aggregate consideration of \$12,708,000 which is comprised of \$1,000,000 in cash at closing, \$1,000,000 deferred payment to be paid six months after closing, \$1,000,000 deferred payment to be paid one year after closing and the issuance of 5,112,263 Subordinate Voting Shares with an aggregate value of \$9,833,000 at closing. Pursuant to a Lock-Up Agreement with the sellers, the shares cannot be sold or transferred for a period of one year from the closing date. As consideration for the lock up of the shares, the Company agreed to issue additional shares if the value of the shares decline prior to the expiration of the lock up period. The shares were valued at the present value of the \$10,000,000 over a one year period. The deferred payments were present valued at \$1,875,000 and were included in other current liabilities in the consolidated statement of financial position as of December 28, 2019. In addition, the Company may have a working capital adjustment based upon the closing inventory. In no case will the Company be required to pay additional consideration. However, if the working capital adjustment is negative, the Company will be not be required to pay some deferred payments.

The purchase price allocation for the acquisition, as set forth in the table below, reflects various preliminary fair value estimates and analyses that are subject to change within the measurement period as valuations are finalized. The primary areas of the preliminary purchase price allocation that are not yet finalized relate to the fair values of certain tangible assets, the valuation of intangible assets acquired, and residual goodwill. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that the Company determines to be material will be applied retrospectively to the period of acquisition in the Company’s consolidated financial statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could be affected. The Company expects to finalize the accounting for the acquisition by August 2020.

The following table summarizes the consideration for the acquisition and the preliminary accounting estimates of the acquisition with a purchase price of \$12,708,000:

Cash Paid	\$ 1,000,000
Present Value of Deferred Payments	1,875,000
Contingent Consideration	<u>9,833,000</u>
Total Consideration	<u>\$ 12,708,000</u>
Inventory	\$ 405,000
Intangible Assets:	
Customer Relationships	830,000
Dispensary License	<u>5,100,000</u>
Total Identifiable Net Assets	6,335,000
Goodwill	<u>6,373,000</u>
Net Assets Acquired	<u>\$ 12,708,000</u>

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9. ACQUISITIONS (Continued)

(a) **MattnJeremy, Inc. d/b/a One Love Beach Club** (Continued)

The goodwill arising from the acquisition represents expected synergies, future income and growth, and other intangibles that do not qualify for separate recognition. Generally speaking, the goodwill related to dispensaries acquired within a state adds to the footprint of the MedMen dispensaries within that state, giving customers more access to the Company's branded stores.

If the acquisition had been completed on June 30, 2019, the Company estimates it would have recorded increases in revenues and net income of approximately \$52,000 and \$10,000, respectively.

Acquisition costs expensed during the 26 weeks ended December 28, 2019 include amounts paid in cash and equity. Of the acquisition costs paid in equity, the Company issued 214,716 Subordinate Voting Shares valued at \$1.96 per share, the trading price of the Subordinate Voting Shares on the date of issuance, for a total value of \$421,497.

For the 26 weeks ended December 28, 2019, One Love contributed \$1,380,580 in revenues and \$8,824,640 in net loss.

(b) **MME Evanston Retail, LLC**

In connection with the termination of the PharmaCann Acquisition, on December 2, 2019, the Company received 100% of the membership interests in MME Evanston Retail, LLC ("Evanston"), which includes a retail location in Evanston, Illinois and related licenses, and a retail license in Greater Chicago, Illinois. The Company acquired all of the issued and outstanding shares of Evanston for aggregate consideration of \$6,930,557. See "Note 10 – Termination of Previously Announced Acquisition" for further information.

The purchase price allocation for the acquisition, as set forth in the table below, reflects various preliminary fair value estimates and analyses that are subject to change within the measurement period as valuations are finalized. The primary areas of the preliminary purchase price allocation that are not yet finalized relate to the fair values of certain tangible assets, the valuation of intangible assets acquired, and residual goodwill. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that the Company determines to be material will be applied retrospectively to the period of acquisition in the Company's consolidated financial statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could be affected. The Company expects to finalize the accounting for the acquisition by December 2020.

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9. ACQUISITIONS (Continued)

(b) MME Evanston Retail, LLC (Continued)

The following table summarizes the consideration for the acquisition and the preliminary accounting estimates of the acquisition with a purchase price of \$6,930,557:

Total Consideration	<u>\$ 6,930,557</u>
Cash	\$ 1,023
Inventory	536,748
Property and Equipment, Net	430,621
Intangible Assets:	
Customer Relationships	300,000
Dispensary License	<u>4,500,000</u>
Total Identifiable Net Assets	5,768,392
Goodwill	<u>1,162,165</u>
Net Assets Acquired	<u>\$ 6,930,557</u>

The goodwill arising from the acquisition represents expected synergies, future income and growth, and other intangibles that do not qualify for separate recognition. Generally speaking, the goodwill related to dispensaries acquired within a state adds to the footprint of the MedMen dispensaries within that state, giving customers more access to the Company's branded stores.

There were no acquisition costs incurred during the 26 weeks ended December 28, 2019.

For the 26 weeks ended December 28, 2019, Evanston contributed \$205,169 in revenues and \$497,270 in net income.

10. TERMINATION OF PREVIOUSLY ANNOUNCED ACQUISITION

On October 11, 2018, the Company entered into a binding letter of intent with PharmaCann, LLC ("PharmaCann") to acquire all outstanding equity interests in PharmaCann in an all-stock transaction (the "PharmaCann Acquisition"), valued at \$682,000,000 based on the closing price of the Subordinate Voting Shares on October 9, 2018 (such value being subject to change based on the daily closing price of the Subordinate Voting Shares). In connection with the letter of intent, the Company provided PharmaCann with a \$20,000,000 line of credit which bears interest at a rate of 7.5% per annum paid-in-kind. In the event the PharmaCann Acquisition does not close, any outstanding principal and interest shall become due and payable within twelve months of termination.

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10. TERMINATION OF PREVIOUSLY ANNOUNCED ACQUISITION (Continued)

On October 7, 2019, the Company and PharmaCann entered into a mutual agreement to terminate the PharmaCann Acquisition. As compensation for the termination, the Company and PharmaCann agreed to accept a transfer of assets in exchange for repayment of the line of credit. The assets transferred were 100% of the membership interests (“Transfer of Interest”) in three entities holding the following assets:

- MME Evanston Retail, LLC (“Evanston”), which holds a retail location in Evanston, Illinois and related licenses, and a retail license for Greater Chicago, Illinois;
- PharmaCann Virginia, LLC (“Staunton”), which holds a license for a vertically-integrated facility in Staunton, Virginia; and
- PC 16280 East Twombly LLC (“Hillcrest”), which holds an operational cultivation and production facility in Hillcrest, Illinois and related licenses.

Each delivery of the Transfer of Interest, after successful regulatory approval, if any, will relieve one-third of the line of credit and any accrued interest due from PharmaCann. Concurrent with the termination agreement, the Company and PharmaCann entered into a membership interest purchase agreement which detailed the assets to be delivered to the Company. The Company entered into plans to sell the Staunton and Hillcrest assets while the Evanston assets will be owned and operated by the Company.

As of December 28, 2019, the Company successfully received the membership interests in Evanston and Staunton and relieved approximately \$13,801,000 of the amount due from PharmaCann. The remaining balance of approximately \$7,100,000 due from PharmaCann will be relieved upon delivery of the Hillcrest assets which had not yet occurred as of December 28, 2019.

The Evanston assets received were accounted for as a business combination in accordance with IFRS 3, “*Business Combinations*” as the Evanston assets met the definition of a business. Pursuant to IFRS 3, the fair value of the consideration paid, which is the portion of the line of credit relieved, approximates its carrying value. See “*Note 9 – Acquisitions*” for further information on the acquisition of Evanston.

The Company determined that the cost of the Staunton assets received was equal to the fair value of the assets given up as consideration, being the portion of the line of credit relieved. Accordingly, no gain or loss was recorded upon receipt of the Staunton assets. The Staunton assets were classified as assets held for sale in accordance with IFRS 5, “*Non-Current Assets Held for Sale and Discontinued Operations*” and are measured at the lower of its carrying amount or FVLCTS. As of December 28, 2019, the Company recorded \$6,870,833 in assets held for sale related to Staunton. See “*Note 7 – Assets Held for Sale*” for further information. The Company expects to complete the sale of the Staunton assets by fiscal year end 2020 and is actively seeking buyers.

Upon receipt of the Hillcrest assets, the Company will classify the assets as held for sale in accordance with IFRS 5. Subsequent to December 28, 2019, the Company transferred its rights to the Hillcrest assets. See “*Note 26 – Subsequent Events*” for further information.

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***11. INTANGIBLE ASSETS**

A reconciliation of the beginning and ending balances of intangible assets for the 26 weeks ended December 28, 2019 is as follows:

Cost	Definite Life Intangible Assets Subject to Amortization					TOTAL
	Dispensary Licenses	Customer Relationships	Management Agreement	Capitalized Software	Intellectual Property	
Balance as of June 29, 2019	\$ 153,064,574	\$ 23,625,200	\$ 6,000,000	\$ 3,084,097	\$ 6,026,411	\$ 191,800,282
Additions	4,904,381	-	-	2,973,983	-	7,878,364
Transfers	-	-	-	-	449,000	449,000
Transferred to Assets Held for Sale	(16,310,000)	(5,210,000)	-	-	-	(21,520,000)
Business Acquisitions	9,600,000	1,130,000	-	-	-	10,730,000
Balance as of December 28, 2019	\$ 151,258,955	\$ 19,545,200	\$ 6,000,000	\$ 6,058,080	\$ 6,475,411	\$ 189,337,646
Accumulated Amortization						
Balance as of June 29, 2019	\$ (9,825,484)	\$ (5,524,583)	\$ (366,667)	\$ (530,711)	\$ -	\$ (16,247,445)
Amortization	(4,636,484)	(1,843,187)	(100,000)	(634,436)	(119,733)	(7,333,840)
Transferred to Assets Held for Sale	1,023,500	1,015,831	-	-	-	2,039,331
Amortization Charge Included in Discontinued Operations	(543,666)	(424,667)	-	-	-	(968,333)
Balance as of December 28, 2019	\$ (13,982,134)	\$ (6,776,606)	\$ (466,667)	\$ (1,165,147)	\$ (119,733)	\$ (22,510,287)
Net Book Value						
June 29, 2019	\$ 143,239,090	\$ 18,100,617	\$ 5,633,333	\$ 2,553,386	\$ 6,026,411	\$ 175,552,837
December 28, 2019	\$ 137,276,821	\$ 12,768,594	\$ 5,533,333	\$ 4,892,933	\$ 6,355,678	\$ 166,827,359

During the 26 weeks ended December 28, 2019, additions to intangible assets from business acquisitions consisted of dispensary licenses and customer relationships totaling \$10,730,000, while additions to intangible assets from asset purchases consisted of a dispensary license for \$4,904,381. During the 26 weeks ended December 28, 2019, the Company capitalized \$2,973,983 of internally-developed software costs, of which \$70,988 was related to share-based compensation.

The Company recorded amortization expense related to continuing operations of \$3,915,739 and \$7,333,840 for the 13 and 26 weeks ended December 28, 2019, respectively. The Company recorded amortization expense related to continuing operations of \$1,600,838 and \$2,743,139 for the 13 and 26 weeks ended December 29, 2018, respectively.

12. OTHER ASSETS

As of December 28, 2019 and June 29, 2019, other assets consisted of:

	December 28, 2019	June 29, 2019
Long-Term Security Deposits for Leases	\$ 12,098,340	\$ 10,565,957
Other Long-Term Security Deposits	14,370,367	20,501,166
Other Assets	1,350,000	1,350,000
Total Other Assets	\$ 27,818,707	\$ 32,417,123

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***13. OTHER CURRENT LIABILITIES AND OTHER NON-CURRENT LIABILITIES**

As of December 28, 2019 and June 29, 2019, other current liabilities consisted of:

	December 28, 2019	June 29, 2019
Accrued Construction Commitments	\$ 623,428	\$ 6,903,860
Accrued Interest Payable	9,018,742	2,819,594
Contingent Consideration	8,273,324	774,000
Other Current Liabilities ⁽¹⁾	2,616,856	52,786
Total Other Current Liabilities	<u>\$ 20,532,350</u>	<u>\$ 10,550,240</u>

⁽¹⁾ Other current liabilities include \$1,875,000 of deferred payments from an acquisition. See "Note 9 – Acquisitions" for further information.

On November 12, 2019, the Company entered into an agreement to amend a potential \$15,000,000 cash earn out due in December 2020 for a previously announced acquisition to \$10,000,000 in Class B Subordinate Voting Shares due in December 2019. In conjunction with the amendment to settle the contingent consideration, the Company issued 10,691,455 Subordinate Voting Shares in full settlement, recognizing a gain of \$9,374,486. The gain was recorded as a component of the change in fair value of the contingent consideration in the unaudited interim condensed consolidated statement of operations and comprehensive loss.

As of December 28, 2019 and June 29, 2019, other non-current liabilities consisted of:

	December 28, 2019	June 29, 2019
Deferred Gain on Sale of Assets ⁽¹⁾⁽²⁾	\$ 10,175,936	\$ 10,680,104
Contingent Consideration	-	20,197,690
Total Other Non-Current Liabilities	<u>\$ 10,175,936</u>	<u>\$ 30,877,794</u>

⁽¹⁾ See "Note 15 – Lease Liabilities" for further information.

⁽²⁾ The current portion of Deferred Gain on Sale of Assets of \$1,008,337 is recorded in Accounts Payable and Accrued Liabilities.

During the 26 weeks ended December 28, 2019, the Company recorded an expense of \$7,487,340 for the change in fair value of the contingent considerations, which was offset by the gain on contingent consideration as noted above.

(a) Accrued Construction Commitments

As part of the sale and leaseback transactions, the Company is responsible to pay for future development costs. Accordingly, the Company recorded accrued construction commitments of \$8,927,697 on the transaction close date. As of December 28, 2019, the commitment balance was \$623,428. The provision for future development costs represents the estimated remaining construction cost related to previously sold land and/or building structures, including all direct and indirect costs expected to be incurred during the remainder of the servicing period, net of expected recoveries. The provision is reviewed periodically and, when the estimate is known to be different from the actual costs incurred or expected to be incurred, an adjustment is made to the provision for future development costs and a corresponding adjustment is made to general and administrative expense. See "Note 15 – Lease Liabilities" for further information.

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***13. OTHER CURRENT LIABILITIES AND OTHER NON-CURRENT LIABILITIES (Continued)****(b) Contingent Consideration**

Contingent consideration recorded relates to business acquisitions. Certain contingent considerations are based upon the potential earn out of a location's revenue in the following year it is opened and is measured at fair value using a discounted cash flow model that is based on unobservable inputs. The other contingent consideration is based upon fair value of the additional shares required to be paid upon the expiration of the lock-up and is based upon the fair market value of the Company's trading stock and is considered a Level 1 categorization in the IFRS fair value hierarchy. The determination of the fair value of the contingent consideration payable related to the earn out is primarily based on the Company's expectations of the amount of revenue to be achieved within the specified time period of the agreement. The fair value of contingent consideration is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of contingent consideration include the following assumptions:

- The revenues expected to be generated which range from \$4,219,000 to \$7,000,000; and
- The discount rate, which was estimated to range from 9.1% to 15.0%.

The Company has quantified the sensitivity of the inputs in relation to the contingent consideration as of December 28, 2019 and June 29, 2019 and estimates the following effect on fair value:

Significant Inputs and Assumptions	Range of Inputs	Sensitivity	Effect on Fair Value as of:	
			December 28, 2019	June 29, 2019
Projected Revenues	\$4,219,000 to \$7,000,000	Increase 5%	\$ -	\$ 1,490,865
		Decrease 5%	\$ -	\$ (1,490,865)
Discount Rate	9.1% to 15.0%	Increase 5%	\$ 84,358	\$ (191,135)
		Decrease 5%	\$ (84,358)	\$ 191,135

14. DERIVATIVE LIABILITIES

A reconciliation of the beginning and ending balance of derivative liabilities for the 26 weeks ended December 28, 2019 is as follows:

Balance as of June 29, 2019	\$ 9,343,485
Change in Fair Value of Derivative Liabilities	<u>(8,029,704)</u>
Balance as of December 28, 2019	<u>\$ 1,313,781</u>

Fair value was measured based on Level 1 inputs on the fair value hierarchy since there are quoted prices in active markets for these warrants. The Company used the closing price of the publicly-traded warrants to estimate the fair value of derivative liabilities as of December 28, 2019.

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15. LEASE LIABILITIES

A reconciliation of the beginning and ending balance of lease liabilities for the 26 weeks ended December 28, 2019 is as follows:

Balance as of June 29, 2019	\$ 98,229,579
IFRS 16 Transition ⁽¹⁾	164,270,489
Lease Additions	49,958,807
Interest Expense	15,862,465
Termination of Leases	(747,150)
Included in Liabilities Held for Sale	(5,907,234)
Payments of Principal and Interest	<u>(11,824,757)</u>
Balance as of December 28, 2019	309,842,199
Less Current Portion of Lease Liabilities	<u>(15,867,608)</u>
Lease Liabilities, Net of Current Portion	<u>\$ 293,974,591</u>

⁽¹⁾ See "Note 2(h) – Recent Adoption of Accounting Pronouncements Effective June 30, 2019" for further information.

Certain lease agreements include monthly lease payments compounded annually at various rates up to 3.0%, which are included in the determination of the present value of total lease payments.

During the 26 weeks ended December 28, 2019, the Company entered into sale and leaseback transactions with Treehouse Real Estate Investment Trust (the "REIT"), resulting in total gross proceeds of \$20,400,000. A net loss of \$136,128 was recognized in relation to these transactions as a result of off-market terms within the lease.

Upon transition to IFRS 16, the Company did not reassess historical sale and leaseback transactions and did not record any retrospective adjustments. Gains on sale previously recorded under IAS 17 continue to be amortized over the remaining term of the lease. As of December 28, 2019, the total deferred gain recorded for historical sale and leaseback transactions is as follows:

Balance as of June 29, 2019	\$ 11,688,441
Accretion	<u>(504,168)</u>
Balance as of December 28, 2019	11,184,273
Less Current Portion of Deferred Gain	<u>(1,008,337)</u>
Deferred Gain on Sale of Assets, Net of Current Portion	<u>\$ 10,175,936</u>

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***16. NOTES PAYABLE**

As of December 28, 2019 and June 29, 2019, notes payable consisted of the following:

	<u>December 28, 2019</u>	<u>June 29, 2019</u>
Promissory notes dated between January 15, 2019 through March 29, 2019, issued for deferred payments on acquisitions, which mature on varying dates from August 3, 2019 to June 30, 2020 and bear interest at rates ranging from 8.0% to 30.0% per annum.	\$ 19,500,000	\$ 26,750,000
Secured promissory note dated November 27, 2019, issued to refinance property acquisition loans, which matures on May 31, 2020 and bears interest at a rate of 9.5% per annum.	750,000	6,050,000
Non-revolving, senior secured term note dated October 1, 2018, issued to accredited investors, which matures on October 1, 2020, and bears interest at a fixed rate of 7.5% per annum and requires monthly payments of all accrued and unpaid interest in amounts that may vary until the maturity date. In January 2020, the maturity date was amended to January 31, 2022 and the interest rate was increased to 15.5%. See "Note 26 - Subsequent Events".	77,675,000	77,675,000
Promissory notes dated November 7, 2018, issued to lessor for tenant improvements as part of sale and leaseback transactions, which mature on November 7, 2028, and bear interest at a rate of 10.0% per annum and require minimum monthly payments of \$15,660 and \$18,471.	2,408,708	2,484,357
Other	<u>19,053</u>	<u>21,120</u>
Total Notes Payable	100,352,761	112,980,477
Less Unamortized Debt Issuance Costs and Loan Origination Fees	<u>(9,532,277)</u>	<u>(15,358,087)</u>
Net Amount	\$ 90,820,484	\$ 97,622,390
Less Current Portion of Notes Payable	<u>(20,269,053)</u>	<u>(20,229,641)</u>
Notes Payable, Net of Current Portion	<u>\$ 70,551,431</u>	<u>\$ 77,392,749</u>

During the 13 weeks ended September 28, 2019, the Company entered into an agreement with a noteholder to issue 1,231,280 Subordinate Voting Shares valued at \$2,441,912 based on the closing trading price on the agreement date. The remaining principal and interest at the agreement date was \$1,893,342 and \$135,000, respectively. The Company recorded a loss on extinguishment of debt of \$413,570. The loss was recorded as a component of other expense in the unaudited interim condensed consolidated statement of operations and comprehensive loss.

A reconciliation of the beginning and ending balances of notes payable for the 26 weeks ended December 28, 2019 is as follows:

Balance at Beginning of Period	\$ 97,622,390
Cash Payments	(13,482,371)
Issuance of Shares for Repayment of Notes Payable	(1,893,342)
Proceeds from Issuance of Notes Payable	2,750,000
Loan Fees	(61,500)
Amortization of Debt Discount	<u>5,885,307</u>
Balance at End of Period	<u>\$ 90,820,484</u>

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17. SENIOR SECURED CONVERTIBLE CREDIT FACILITY

As of December 28, 2019 and June 29, 2019, senior secured convertible credit facility consisted of the following:

	<u>Tranche</u>	<u>December 28, 2019</u>	<u>June 29, 2019</u>
Senior secured convertible notes dated April 23, 2019, issued to accredited investors, which mature on April 23, 2022 and bear interest at LIBOR plus 6.0% per annum.	1	\$ 20,000,000	\$ 20,000,000
Senior secured convertible notes dated May 22, 2019, issued to accredited investors, which mature on May 22, 2022 and bear interest at LIBOR plus 6.0% per annum.	1	80,000,000	80,000,000
Senior secured convertible notes dated July 12, 2019, issued to accredited investors, which mature on July 12, 2022 and bear interest at LIBOR plus 6.0% per annum.	2	25,000,000	-
Senior secured convertible notes dated November 27, 2019, issued to accredited investors, which mature on November 27, 2022 and bear interest at LIBOR plus 6.0% per annum.	3	10,000,000	-
Amendment fee converted to senior secured convertible notes dated October 29, 2019, which mature on October 29, 2022 and bear interest at LIBOR plus 6.0% per annum.	-	<u>18,750,000</u>	<u>-</u>
Total Drawn on Senior Secured Convertible Credit Facility		153,750,000	100,000,000
Add Fair Value of Forced Conversion Option		4,061,204	4,670,284
Less Unamortized Debt Issuance Costs and Loan Origination Fees		(688,180)	(5,329,676)
Less Unamortized Conversion Option		<u>(15,684,201)</u>	<u>(9,069,771)</u>
Net Amount		141,438,823	90,270,837
Less Current Portion of Senior Secured Convertible Credit Facility		<u>-</u>	<u>-</u>
Senior Secured Convertible Credit Facility, Net of Current Portion		<u>\$ 141,438,823</u>	<u>\$ 90,270,837</u>

A reconciliation of the beginning and ending balances of senior secured convertible credit facility for the 26 weeks ended December 28, 2019 is as follows:

	<u>Tranche 1</u>	<u>Tranche 2</u>	<u>Tranche 3</u>	<u>Amendment Fee Notes</u>	<u>TOTAL</u>
Balance at Beginning of Period	\$ 90,270,837	\$ -	\$ -	\$ -	\$ 90,270,837
Amounts Drawn	-	25,000,000	10,000,000	-	35,000,000
Amendment Fee Converted to Convertible Debt	-	-	-	18,750,000	18,750,000
Cash Paid for Debt Issuance Costs	-	(448,294)	(688,180)	-	(1,136,474)
Forced Conversion Option Recognized	-	677,516	-	-	677,516
Conversion Option Recognized as Equity	-	(2,837,365)	-	-	(2,837,365)
Extinguishment of Convertible Facility Resulting from Significant Modifications	(90,436,769)	(22,391,857)	-	-	(112,828,626)
Fair Value of Amended Convertible Facility	100,000,000	25,000,000	-	-	125,000,000
Conversion Option Classified as Equity on Amended Convertible Facility	(10,486,332)	(2,701,967)	(1,409,270)	(2,347,624)	(16,945,193)
Forced Conversion Option Recognized on Amended Convertible Facility	2,888,313	826,081	18,109	328,701	4,061,204
Amortization of Debt Discount	<u>970,585</u>	<u>223,724</u>	<u>42,607</u>	<u>93,025</u>	<u>1,329,941</u>
Balance at End of Period	<u>\$ 93,206,634</u>	<u>\$ 23,347,838</u>	<u>\$ 7,963,266</u>	<u>\$ 16,824,102</u>	<u>\$ 141,341,840</u>

MEDMEN ENTERPRISES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

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17. SENIOR SECURED CONVERTIBLE CREDIT FACILITY (Continued)

On April 23, 2019, the Company entered into a securities purchase agreement for a senior secured convertible credit facility (the “Convertible Facility”) of up to \$250,000,000 from funds managed by Gotham Green Partners (“GGP”), a related party. As of December 28, 2019, the Company has drawn down \$100,000,000 from Tranche 1, \$25,000,000 from Tranche 2 and \$10,000,000 from Tranche 3.

On August 12, 2019, the Company amended certain provisions of the Convertible Facility led by GGP. The Company agreed to pay GGP 15% of the \$125,000,000 drawn down prior to entering into the amendment as an amendment fee, which was calculated at \$18,750,000 and was subsequently converted into convertible notes on October 29, 2019 at a conversion price of \$1.28 per Class B Subordinate Voting Share (“the Amendment Fee Notes”). The amendment fee may be cancelled in the event that either: the obligations, excluding the amendment fee, are paid in full, whether by prepayment or when due; or the lender elects to convert a portion of the obligations and the price per share is greater than \$2.95. The amount of funds available to the Company in Tranche 3 and Tranche 4 was amended to \$50,000,000 and \$75,000,000, respectively. The amendments to the Convertible Facility were deemed to be significant modifications in accordance with IFRS 9, “*Financial Instruments*”. As a result of the amendments, the Company extinguished the existing Convertible Facility at its carrying value on the date of modification and recorded the amended Convertible Facility at its fair value. The result was a loss on modification of debt in the amount of \$20,438,856. The loss was recorded as a component of other expense in the unaudited interim condensed consolidated statement of operations and comprehensive loss for the 26 weeks ended December 28, 2019.

On October 29, 2019, the Company completed the second amendment of the Convertible Facility with Gotham Green Partners (the “Amendment”) wherein certain reporting and financial covenants were modified. The Amendment removed the senior debt to market capitalization ratio covenant. The conversion of any portion of the obligations into shares is restricted until on or after October 29, 2020. As a result of the Amendment, the Company has the right to repay, in whole or in part, the outstanding principal amount of the Note together with accrued and unpaid interest and fees, plus the applicable premium which is five percent (5%) of the principal amount being repaid before the second anniversary of the date of issuance of each convertible note, and three percent (3%) of the principal amount being repaid thereafter. The amount of available credit in the remaining tranches was amended to \$10,000,000 for Tranche 3 and \$115,000,000 for Tranche 4. The aggregate amount available to be borrowed remained the same. Further, the Amendment provided that the funding of Tranche 4 will require the consent of both the Company and the lenders under the Convertible Facility. The new terms of the Amendment do not qualify as a significant modification under IFRS 9.

All convertible notes will have a maturity date of 36 months from the date of issuance (the “Maturity Date”), with a twelve-month extension feature available to the Company on certain conditions, including payment of an extension fee of 1.0% of the principal amount under the outstanding Convertible Facility. The Convertible Facility will bear interest from their date of issue at LIBOR plus 6.0% per annum. During the first twelve months, interest may be paid-in-kind (“PIK”) at the Company’s option such that any amount of PIK interest will be added to the outstanding principal of the Convertible Facility. The Company shall have the right after the first year, to prepay the outstanding principal amount of the Convertible Facility prior to maturity, in whole or in part, upon payment of 105% of the principal amount in the second year and 103% of the principal amount thereafter.

The Convertible Facility (including all accrued interest and fees thereon) will be convertible, at the option of the holder, into Subordinate Voting Shares at any time prior to the close of business on the last business day immediately preceding the Maturity Date. The conversion price for each tranche of the convertible notes, as amended, is as follows:

- Tranche 1 convertible notes: The conversion price per share is equal to \$2.55.
- Tranche 2 convertible notes: The conversion price per share is equal to \$2.17.

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17. SENIOR SECURED CONVERTIBLE CREDIT FACILITY (Continued)

- Tranche 3 and 4 convertible notes: The lesser of (i) the 20 trading day weighted-average trading price (“VWAP”) of the Subordinate Voting Shares as of the trading day immediately preceding the date the applicable tranche is called by the Company, (ii) the 20 trading day VWAP of the Subordinate Voting Shares as of the trading day immediately preceding the date of issue of the applicable tranche, and (iii) \$2.55.

The Convertible Facility allows for the Company to force the conversion of up to 75% of the then outstanding convertible notes if the VWAP of the Subordinate Voting Shares (converted to U.S. dollars) is at least \$6.20, as amended, for any 20 consecutive trading day period, at a conversion price per Subordinate Voting Share equal to \$6.20, as amended. If 75% of the then outstanding Convertible Facility is converted by the Company, the term of the remaining 25% of the then outstanding Convertible Facility will be extended by twelve months (if such extended period is longer than the maturity date of such Convertible Facility), subject to an outside date of 48 months from the closing date.

Upon issuance of Convertible Facility pursuant to any tranche, the lenders will be issued share purchase warrants of the Company (“Warrants”), each of which would be exercisable to purchase one Subordinate Voting Share for 36 months from the date of issuance. The number of Warrants to be issued will represent an approximate 50% Warrant coverage for each tranche. The exercise prices for each tranche of Warrants issued or to be issued are as follows:

- Tranche 1 Warrants:
 - 78% of such Warrants have an exercise price per share equal to \$3.72.
 - 22% of such Warrants have an exercise price per share equal to \$4.29.
- Tranche 2 Warrants:
 - 78% of such Warrants have an exercise price per share equal to \$3.16.
 - 22% of such Warrants have an exercise price per share equal to \$3.65.
- Tranche 3 Warrants:
 - 78% of such Warrants have an exercise price per share equal to \$1.01.
 - 22% of such Warrants have an exercise price per share equal to \$1.17.
- Tranche 4 Warrants:
 - 78% of such Warrants will have an exercise price per share equal to a 30% premium to the 20 trading day VWAP of the Subordinate Voting Shares as of the trading day immediately preceding the date of the issuance of the Tranche 4 convertible notes (as reported on the Canadian Securities Exchange (the “CSE”) and converted to U.S. dollars).
 - 22% of such Warrants will have an exercise price per share equal to 50% premium to the 20 trading day VWAP of the Subordinate Voting Shares as of the trading day immediately preceding the date of the issuance of the Tranche 4 convertible notes (as reported on the CSE and converted to U.S. dollars).

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***17. SENIOR SECURED CONVERTIBLE CREDIT FACILITY (Continued)**

The following table summarizes Warrants issued to the lenders and outstanding as of December 28, 2019:

<u>Tranche</u>	<u>Exercise Price</u>	<u>Number of Warrants</u>
1	\$3.72	10,086,064
	\$4.29	<u>2,913,750</u>
Total Tranche 1		<u>12,999,814</u>
2	\$3.16	2,967,708
	\$3.65	<u>857,336</u>
Total Tranche 2		<u>3,825,044</u>
3	\$1.01	3,708,772
	\$1.17	<u>1,071,421</u>
Total Tranche 3		<u>4,780,193</u>
		<u>21,605,051</u>

Under IAS 32, “*Financial Instruments*”, the conversion option and warrants were recorded as equity instruments that the Company valued based on the difference between the face value of each Note issued and the net proceeds received.

While the Notes are outstanding, the lenders will be entitled to the collective rights to (a) nominate an individual to the Board of Directors of the Company, and (b) appoint a representative to attend all meetings of the Board of Directors in a non-voting observer capacity. Pursuant to the Side Letter executed on October 29, 2019 in conjunction with the Amendment, GGP has the right to nominate a majority of the Company’s Board of Directors while the aggregate principal amount outstanding under the Notes being more than \$25,000,000.

The Notes and the Warrants, and any Subordinate Voting Shares issuable as a result of a conversion of the Notes or exercise of the Warrants, will be subject to a four-month hold period from the date of issuance of such Notes or such Warrants, as applicable, in accordance with applicable Canadian securities laws.

Closing of any tranche of the Convertible Facility subsequent to Tranche 1 is subject to certain conditions being satisfied including, but not limited to, there is no event of default, reconfirmation of representations and warranties and compliance with applicable covenants and agreements.

As noted above, the Convertible Facility has a prepayment option, a forced conversion option and an extension option. These options meet the definition of a derivative. The Company has performed an analysis on these derivative features at inception and at December 28, 2019 and determined that the fair value of the repayment option derivative and the extension option derivative were nil. The Company determined the fair value of the forced conversion option was more than nil and accordingly recorded a derivative asset. The Company used a barrier option-pricing model taking into account the fair value of the Company’s Subordinate Voting Shares on the date of grant and into the future encompassing a wide range of possible future market conditions to estimate the fair value of the derivative asset at issuance and at each reporting date. This barrier option-pricing model uses Level 3 inputs in its valuation model. The key Level 3 inputs used by management to determine the fair value are the expected future volatility in the price of the Company’s Class B Subordinate Voting Shares, the risk-free interest rate and the expected life of the forced conversion option.

MEDMEN ENTERPRISES INC.

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17. SENIOR SECURED CONVERTIBLE CREDIT FACILITY (Continued)

For the 26 weeks ended December 28, 2019 and 52 weeks ended June 29, 2019, the fair value of the forced conversion option derivative asset was determined using the barrier option-pricing model using the following assumptions at the time of issuance and at each reporting period:

	26 Weeks Ended December 28, 2019	52 Weeks Ended June 29, 2019
Weighted-Average Stock Price	C\$0.62	C\$3.32
Weighted-Average Probability	2.8% - 22.3%	22.3%
Weighted-Average Risk-Free Interest Rate	1.5% - 1.6%	1.7% - 2.2%
Weighted-Average Life in Years	2.6 - 3.0	2.8 - 3.0
Volatility	101.0% - 102.0%	87.7% - 88.9%

A reconciliation of the beginning and ending balance of the derivative assets for the 26 weeks ended December 28, 2019 is as follows:

Balance as of June 29, 2019	\$ 5,213,126
Initial Recognition of Derivative Asset Prior to Amendment - Tranche 2	677,516
Change in Fair Value of Derivative Asset Prior to Amendment	(3,729,693)
Extinguishment of Derivative Asset Resulting from Significant Modifications to Convertible Facility	(2,160,949)
Initial Recognition of Derivative Asset Resulting from Significant Modifications to Convertible Facility	3,714,394
Initial Recognition of Derivative Asset - Tranche 3 and Converted Amendment Fee	346,810
Change in Fair Value of Derivative Asset Subsequent to Amendment	(3,778,419)
Balance as of December 28, 2019	<u>\$ 282,785</u>

18. SHAREHOLDERS' EQUITY

(a) **Authorized**

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

(i) ***Unlimited Number of Class B Subordinate Voting Shares***

Holders of Subordinate Voting Shares are entitled to notice of and to attend at any meeting of the shareholders of the Company, except a meeting of which only holders of another particular class or series of shares of the Company will have the right to vote. At each such meeting, holders of Subordinate Voting Shares are 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 attached to the Subordinate Voting Shares. Holders of Subordinate Voting Shares are entitled to receive as and when declared by the directors of the Company, dividends in cash or property of the Company.

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***18. SHAREHOLDERS' EQUITY (Continued)****(a) Authorized (Continued)****(ii) Unlimited Number of Class A Super Voting Shares**

Holders of Super Voting Shares are not entitled to receive dividends. They are entitled to notice of and to attend at any meeting of the shareholders of the Company, except a meeting of which only holders of another particular class or series of shares of the Company have the right to vote. At each such meeting, holders of Super Voting Shares are entitled to 1,000 votes in respect of each Super Voting Share held. As long as any Super Voting Shares remain outstanding, the Company will not, without the consent of the holders of the Super Voting Shares by separate special resolution, prejudice or interfere with any right or special right attached to the Super Voting Shares.

(iii) Unlimited Number of Preferred Shares

The Preferred Shares may be issued at any time or from time to time in one or more series. The Board of Directors of the Company may, by resolution, alter its Notice of Articles of the Company to create any series of Preferred Shares and to fix before issuance, the designation, rights, privileges, restrictions and conditions to attach to the Preferred Shares of each series, including the rate, form, entitlement and payment of preferential dividends, the dates and place for payment thereof, the redemption price, terms, procedures and conditions of redemption, if any, voting rights and conversion rights, if any, and any sinking fund, purchase fund or other provisions attaching to the Preferred Shares of such series; provided, however, that no Preferred Shares of any series shall be issued until the Company has filed an alteration to its Notice of Articles with the British Columbia Registrar of Companies.

(b) Issued and Outstanding

A reconciliation of the beginning and ending issued and outstanding shares for the 26 weeks ended December 28, 2019 is as follows:

MEDMEN ENTERPRISES INC.	Subordinate Voting Shares	Super Voting Shares
	<u> </u>	<u> </u>
Balance as of June 29, 2019	173,010,922	1,630,590
At-the-Market Equity Financing Program, Net	9,789,300	-
Shares Issued for Cash	38,355,076	-
Shares Issued to Settle Debt	1,231,280	-
Shares Issued to Settle Contingent Consideration	10,691,455	-
Asset Acquisitions	7,373,034	-
Redemption of MedMen Corp Redeemable Shares	6,225,620	-
Shares Issued for Vested Restricted Stock Units	67,038	-
Other Assets	3,107,315	-
Acquisition Costs	214,716	-
Business Acquisition	5,112,263	-
Stock Grants for Compensation	1,889,646	-
Balance as of December 28, 2019	<u>257,067,665</u>	<u>1,630,590</u>

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***18. SHAREHOLDERS' EQUITY (Continued)****(b) Issued and Outstanding (Continued)**

<i>MM CAN USA INC.</i>	MedMen Corp Redeemable Shares	MedMen Corp Voting Shares
Balance as of June 29, 2019	319,193,215	173,010,922
Redemption of MedMen Corp Redeemable Shares	(6,225,620)	6,225,620
Stock Grant for Compensation	49,818	-
Issuance of Tracking Shares	-	77,831,123
Balance as of December 28, 2019	<u>313,017,413</u>	<u>257,067,665</u>

<i>MM ENTERPRISES USA, LLC</i>	LLC Redeemable Units	LLC Non- Redeemable Units
Balance as of June 29, 2019	725,016	492,204,137
Issuance of Tracking Shares	-	77,880,941
Balance as of December 28, 2019	<u>725,016</u>	<u>570,085,078</u>

(c) At-the-Market Equity Financing Program

On April 10, 2019, the Company entered into an equity distribution agreement with Canaccord Genuity Corp. pursuant to which the Company may, from time to time, sell Subordinate Voting Shares for aggregate gross proceeds of up to C\$60,000,000. The At-the-Market Equity Financing Program (the "ATM Program") is designed to enable the Company to issue Subordinate Voting Shares from treasury at a lower cost than traditional offerings, without discount and at prevailing trading prices. The Company intends to use the net proceeds from the sale of Subordinate Voting Shares under the ATM Program principally for general and administrative expenses, working capital needs and other general corporate purposes. During the 26 weeks ended December 28, 2019, the Company issued 9,789,300 Subordinate Voting Shares under the ATM Program for net proceeds of \$12,399,252.

(d) Non-Controlling Interest

Non-controlling interest represents the net assets of the subsidiaries the holders of the Subordinate Voting Shares do not directly own. The net assets of the non-controlling interest are represented by the holders of the MedMen Corp Redeemable Shares and the holders of the LLC Redeemable Units of MM Enterprises USA. Non-controlling interest also represents the net assets of the entities the Company does not directly own but controls through a management agreement. As of December 28, 2019 and June 29, 2019, the holders of the MedMen Corp Redeemable Shares represent approximately 55% and 65%, respectively, of the Company and holders of the LLC Redeemable Units represent approximately 0.13% and 0.15%, respectively, of the Company.

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***18. SHAREHOLDERS' EQUITY (Continued)****(d) Non-Controlling Interest (Continued)**

A reconciliation of the beginning and ending balances for non-controlling interest for the 26 weeks ended December 28, 2019 is as follows:

Balance as of June 29, 2019	\$ (35,206,133)
Share-Based Compensation	1,348,276
Distributions	(310,633)
Redemption of MedMen Corp Redeemable Shares	597,129
Share of Net Loss and Comprehensive Loss	<u>(106,983,391)</u>
Balance as of December 28, 2019	<u><u>\$ (140,554,752)</u></u>

As of December 28, 2019 and June 29, 2019, non-controlling interest included the following amounts before intercompany eliminations:

	<u>December 28, 2019</u>	<u>June 29, 2019</u>
Current Assets	\$ 85,121,539	\$ 76,539,678
Non-Current Assets	<u>390,202,855</u>	<u>338,979,686</u>
Total Assets	<u><u>\$ 475,324,394</u></u>	<u><u>\$ 415,519,364</u></u>
Current Liabilities	\$ 97,090,630	\$ 53,070,423
Non-Current Liabilities	<u>525,054,000</u>	<u>422,672,544</u>
Total Liabilities	<u><u>\$ 622,144,630</u></u>	<u><u>\$ 475,742,967</u></u>

For the 13 and 26 weeks ended December 28, 2019 and December 29, 2018, non-controlling interest included the following amounts before intercompany eliminations:

	<u>13 Weeks Ended</u>		<u>26 Weeks Ended</u>	
	<u>December 28, 2019</u>	<u>December 29, 2018</u>	<u>December 28, 2019</u>	<u>December 29, 2018</u>
Revenues	\$ 34,241,404	\$ 26,665,737	\$ 60,617,707	\$ 46,521,770
Net Loss and Comprehensive Loss				
Attributable to Non-Controlling Interest	\$ (55,824,247)	\$ (45,885,355)	\$(106,983,391)	\$ (99,903,648)

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***19. SHARE-BASED COMPENSATION**

The Company has a stock and equity incentive plan (the “Incentive Plan”) under which the Company may issue various types of equity instruments to any employee, officer, consultant, advisor or director. The types of equity instruments issuable under the Incentive Plan encompass, among other things, stock options, stock grants, restricted stock grants, long-term incentive plan units (“LTIP Units”), P units and warrants (together, “Awards”). To the extent that the Company has not appointed a Compensation Committee, all rights and obligations under the Incentive Plan shall be those of the full Board of Directors or the Board of Directors delegated executive. The maximum number of Awards that may be issued under the Incentive Plan shall be determined by the Compensation Committee or the Board of Directors or the Board of Directors delegated executive in the absence of a Compensation Committee. Any shares subject to an Award under the Incentive Plan that are forfeited, canceled, expire unexercised, are settled in cash, or are used or withheld to satisfy tax withholding obligations, shall again be available for Awards under the Incentive Plan. Vesting of Awards will be determined by the Compensation Committee or Board of Directors in absence of one. The exercise price for Awards (if applicable) will generally not be less than the fair market value of the Award at the time of grant and will generally expire after 10 years.

A summary of share-based compensation expense for the periods indicated is as follows:

	<u>13 Weeks Ended</u>		<u>26 Weeks Ended</u>	
	<u>December 28, 2019</u>	<u>December 29, 2018</u>	<u>December 28, 2019</u>	<u>December 29, 2018</u>
Stock Options	\$ 967,231	\$ 4,307,392	\$ 2,654,504	\$ 8,780,171
LTIP Units	479,528	3,499,763	1,313,059	9,900,884
Stock Grants for Services	1,859,064	-	2,734,119	-
Restricted Stock Grants	<u>1,130,018</u>	<u>3,663,208</u>	<u>2,810,643</u>	<u>3,972,844</u>
Total Share-Based Compensation	<u>\$ 4,435,841</u>	<u>\$ 11,470,363</u>	<u>\$ 9,512,325</u>	<u>\$ 22,653,899</u>

(a) Stock Options

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

	<u>Number of Stock Options</u>	<u>Weighted- Average Exercise Price</u>
Balance as of June 29, 2019	13,538,102	\$4.31
Granted	5,405,545	\$1.62
Forfeited	<u>(1,742,137)</u>	\$3.84
Balance as of December 28, 2019	<u>17,201,510</u>	\$2.99

MEDMEN ENTERPRISES INC.

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19. SHARE-BASED COMPENSATION (Continued)

(a) Stock Options (Continued)

The following table summarizes the stock options that remain outstanding as of December 28, 2019:

Security Issuable	Exercise Price	Expiration Date	Stock Options Outstanding	Stock Options Exercisable
Subordinate Voting Shares	\$3.26	February 2029	316,085 (3)	263,404
Subordinate Voting Shares	\$3.41	August 2021	32,974 (4)	20,609
Subordinate Voting Shares	\$3.84	July 2023	200,000 (6)	200,000
Subordinate Voting Shares	\$4.14	May 2028	3,858,884 (5)	2,548,234
Subordinate Voting Shares	\$4.05	August 2028	61,950 (7)	-
Subordinate Voting Shares	\$4.05	August 2028	376,746 (7)	-
Subordinate Voting Shares	\$4.03	October 2028	35,000 (5)	11,666
Subordinate Voting Shares	\$5.71	October 2028	1,049,949 (5)	405,959
Subordinate Voting Shares	\$3.42	January 2029	884,622 (5)	194,847
Subordinate Voting Shares	\$2.60	None	1,585,288 (1)	-
Subordinate Voting Shares	\$2.64	None	1,714,699 (1)	-
Subordinate Voting Shares	\$3.36	February 2029	311,763 (2)	95,261
Subordinate Voting Shares	\$3.06	April 2029	528,615 (5)	32,022
Subordinate Voting Shares	\$2.79	April 2029	358,444 (5)	-
Subordinate Voting Shares	\$2.36	May 2029	101,000 (5)	-
Subordinate Voting Shares	\$2.66	June 2029	212,000 (5)	-
Subordinate Voting Shares	\$2.17	June 2029	724,645 (8)	724,645
Subordinate Voting Shares	\$2.02	July 2029	1,476,389 (5)	-
Subordinate Voting Shares	\$1.99	August 2029	676,662 (5)	-
Subordinate Voting Shares	\$1.55	September 2029	676,690 (5)	-
Subordinate Voting Shares	\$2.02	None	645,705 (1)	-
Subordinate Voting Shares	\$1.38	October 2029	507,400 (5)	-
Subordinate Voting Shares	\$0.44	December 2029	866,000 (5)	-
			17,201,510	4,496,647

- (1) Issued to certain officers of the Company under the Company's stock and incentive plan. Such options will vest contingent upon achievement of certain price targets in respect of the Subordinate Voting Shares, whereby 1,585,288 of such options, one third will vest when the price of the Subordinate Voting Shares reaches US\$10 in the open market, another third will vest when such share price reaches US\$15 in the open market and another third will vest when such share price reaches US\$20 in the open market, and 1,714,699 of such options, one third will vest when the price of the Subordinate Voting Shares reaches US\$15 in the open market, another third will vest when such share price reaches US\$30 in the open market and another third will vest when such share price reaches US\$60 in the open market. In addition 645,705 of such options, 215,235 will vest when the price of the Subordinate Voting Shares reaches C\$15 in the open market, another 215,235 will vest when such share price reaches C\$30 in the open market and another 215,235 will vest when such share price reaches C\$60 in the open market. These options have no expiration date. Such share price will be determined as a 5-day volume weighted-average trading price on any exchange on which the Subordinate Voting Shares are traded.
- (2) Issued to a certain officer of the Company under the Company's stock and incentive plan. Such options expire in ten years from the date of grant and 1/36th of the options will vest upon each successive month after the grant date.
- (3) Issued to a consultant in connection with services rendered under the Company's stock and incentive plan. Such options expire in one year from the date of grant and 1/12th of the options will vest upon each successive month after March 1, 2019.
- (4) Issued to certain directors of the Company under the Company's stock and incentive plan. Such options expire in August 2021 and 1/8th of the options will vest upon each successive month after the grant date.
- (5) Issued to employees of certain subsidiaries of the Company under the Company's stock and incentive plan. Such options expire in ten years from the date of grant and have the following vesting conditions: Such option will vest over a period of four years from the employees hire date as 1/4th of the options vest on the first anniversary of the hire date and, 1/48th of the options will vest upon each successive month after the first anniversary of the employee's hire date for a period of three years.
- (6) Issued to a consultant in connection with services rendered under the Company's stock and incentive plan. Such options fully vest on the grant date. Such options expire in five years from the grant date.
- (7) Issued to certain directors of the Company under the Company's stock and incentive plan. 61,950 of such options vest at the end of the first year of service and 376,746 of such options vest at the end of three years of service. All options expire in ten years from the date of grant.
- (8) Issued to a certain officer of the Company under the Company's stock and incentive plan. Such options expire in ten years from the date of grant and were vested immediately upon the grant date.

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***19. SHARE-BASED COMPENSATION (Continued)****(a) Stock Options (Continued)**

For the 26 weeks ended December 28, 2019 and 52 weeks ended June 29, 2019, the fair value of stock options granted with a fixed exercise price was determined using the Black-Scholes option-pricing model with the following assumptions at the time of grant:

	26 Weeks Ended December 28, 2019	52 Weeks Ended June 29, 2019
Weighted-Average Risk-Free Annual Interest Rate	1.7%	2.0%
Weighted-Average Expected Annual Dividend Yield	0.0%	0.0%
Weighted-Average Expected Stock Price Volatility	85.1%	87.8%
Weighted-Average Expected Life in Years	7.5	6.2
Weighted-Average Estimated Forfeiture Rate	40.0%	33.0%

Stock price volatility was estimated by using the average historical volatility of comparable companies from a representative peer group of publicly-traded cannabis companies. The expected life represents the period of time that stock options granted are expected to be outstanding. The risk-free rate was based on Bank of Canada zero coupon bond with a remaining term equal to the expected life of the options.

For the 26 weeks ended December 28, 2019 and 52 weeks ended June 29, 2019, the fair value of stock options granted with vesting contingent upon achievement of certain price targets was determined using a Monte Carlo simulation model taking into account the fair value of the Company's Subordinate Voting Shares on the date of grant and into the future encompassing a wide range of possible future market conditions. The following assumptions were used at the time of grant:

	26 Weeks Ended December 28, 2019	52 Weeks Ended June 29, 2019
Weighted-Average Stock Price	C\$2.65	C\$4.10
Weighted-Average Probability	6.6%	6.0%
Weighted-Average Term in Years	3.0	3.0
Weighted-Average Volatility	83.3%	72.0%

During the 26 weeks ended December 28, 2019 and 52 weeks ended June 29, 2019, the weighted-average fair value of stock options granted was \$1.14 per option and \$2.67 per option, respectively. As of December 28, 2019 and June 29, 2019, stock options outstanding have a weighted-average remaining contractual life of 9.0 and 9.1 years, respectively.

During the fiscal fourth quarter ended June 29, 2019, the Company modified the Company's stock option plan for all outstanding employee stock options, modifying the vesting period to begin on the date of hire. All future grants to employees will be granted using the modified vesting. Previously, the vesting period commenced on the grant date. The Company analyzed the impact of the modification on its financials and determined the modification accelerated the vesting and expense recognition. The Company determined the amount of additional expense recognized for this modification did not have a significant impact on its statements of operations and comprehensive loss and financial position as of and for the 52 weeks ended June 29, 2019.

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***19. SHARE-BASED COMPENSATION (Continued)****(b) LTIP Units and LLC Redeemable Units**

A reconciliation of the beginning and ending balances of the LTIP Units and LLC Redeemable Units issued for compensation is as follows:

	<u>LTIP Units</u>		<u>LLC</u>
	<u>Issued and Outstanding</u>	<u>Vested</u>	<u>Redeemable Units</u>
Balance as of June 29, 2019	25,627,265	5,175,244	725,016
Vesting of LTIP Units	-	1,181,487	-
Balance as of December 28, 2019	<u>25,627,265</u>	<u>6,356,731</u>	<u>725,016</u>

(c) Restricted Stock Grants

During the 13 and 26 weeks ended December 28, 2019, the Company granted an entitlement to restricted Subordinate Voting Shares totaling nil and 1,935,589, respectively, to certain officers and directors.

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

	<u>Issued and Outstanding</u>	<u>Vested ⁽¹⁾</u>
Balance as of June 29, 2019	1,018,861	2,962
Granted	1,935,589	-
Redemption of Vested Stock	(67,038)	(67,038)
Vesting of Restricted Stock	-	358,886
Balance as of December 28, 2019	<u>2,887,412</u>	<u>294,810</u>

⁽¹⁾ *Restricted stock grants will vest as follows:*

- *1,885,408 of the restricted stock grants on July 30, 2019 will vest on July 30, 2021, the second anniversary of the grant date.*
- *50,181 of the restricted stock grants on August 27, 2019 will vest on August 27, 2020, the first anniversary of the grant date.*

Generally, restricted stock vests monthly for those that have time vesting. Certain restricted stock granted has vesting which is based on market conditions. For restricted stock that has no market condition vesting, the fair value was determined using the trading value of the Subordinate Voting Shares on the date of grant. For the restricted stock that has market condition vesting, these shares were valued using a Monte Carlo simulation model taking into account the trading value of the Company's Subordinate Voting Shares on the date of grant and into the future encompassing a wide range of possible future market conditions. For the 13 and 26 weeks ended December 28, 2019, there were no restricted stock grants with a market vesting condition.

MEDMEN ENTERPRISES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

13 and 26 Weeks Ended December 28, 2019 and December 29, 2018

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

19. SHARE-BASED COMPENSATION (Continued)

(d) Warrants

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

	Number of Warrants Outstanding			Weighted-Average Exercise Price
	Subordinate Voting Shares	MedMen Corp Redeemable Shares	Total	
Balance as of June 29, 2019	12,999,815	17,234,540	30,234,355	\$4.48
Issued	8,605,237	-	8,605,237	\$2.04
Balance as of December 28, 2019	<u>21,605,052</u>	<u>17,234,540</u>	<u>38,839,592</u>	\$3.92

The following table summarizes the warrants that remain outstanding as of December 28, 2019:

Security Issuable	Exercise Price	Number of Warrants	Expiration Date
MedMen Corp Redeemable Shares	\$4.97	16,211,284	April 1, 2021
MedMen Corp Redeemable Shares	\$4.73	1,023,256	April 3, 2021
Total MedMen Corp Redeemable Shares		<u>17,234,540</u>	
Subordinate Voting Shares	\$3.72	1,949,973	April 23, 2022
Subordinate Voting Shares	\$4.29	649,991	April 23, 2022
Subordinate Voting Shares	\$3.72	7,799,888	May 22, 2022
Subordinate Voting Shares	\$4.29	2,599,963	May 22, 2022
Subordinate Voting Shares	\$3.16	2,967,708	July 12, 2022
Subordinate Voting Shares	\$3.65	857,336	July 12, 2022
Subordinate Voting Shares	\$1.01	3,708,772	November 27, 2022
Subordinate Voting Shares	\$1.17	1,071,421	November 27, 2022
Total Subordinate Voting Shares		<u>21,605,052</u>	
Total Warrants Outstanding		<u>38,839,592</u>	

As of December 28, 2019 and June 29, 2019, warrants outstanding have a weighted-average remaining contractual life of 23.5 months and 27.9 months, respectively.

20. OTHER EXPENSE

For the 13 and 26 weeks ended December 28, 2019 and December 29, 2018, other expense from continuing operations consisted of the following:

	13 Weeks Ended		26 Weeks Ended	
	December 28, 2019	December 29, 2018	December 28, 2019	December 29, 2018
Restructuring Expenses	\$ 5,279,276	\$ -	\$ 5,631,205	\$ -
Loss on Extinguishment of Debt	-	610,940	20,852,426	715,979
Loss on Disposal of Assets	977,873	2,541,222	845,815	2,541,222
Other Miscellaneous (Income) Expense	(221,771)	260	(861,411)	848
Total Other Expense	<u>\$ 6,035,378</u>	<u>\$ 3,152,422</u>	<u>\$ 26,468,035</u>	<u>\$ 3,258,049</u>

MEDMEN ENTERPRISES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

13 and 26 Weeks Ended December 28, 2019 and December 29, 2018

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

21. PRIOR PERIOD ADJUSTMENT

During the 52 weeks ended June 29, 2019, the Company identified a prior period adjustment related to accounting for deferred tax liabilities arising from its acquisitions during the prior years. As such, the Company has retrospectively restated its previously reported consolidated financial statements to reflect the understated amounts.

In addition, current taxes were adjusted based on gross profits in each entity and deferred tax provision was adjusted to actual as a result of the previously unrecorded deferred tax liabilities on prior year acquisitions.

22. COMMITMENTS AND CONTINGENCIES

(a) Contingencies

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of these 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 28, 2019, marijuana regulations continue to evolve and are subject to differing interpretations. As a result, the Company may be subject to regulatory fines, penalties or restrictions in the future.

(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. As of December 28, 2019, there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on the results of the Company's operations. As of December 28, 2019, there are also no proceedings in which any of the Company's directors, officers or affiliates is an adverse party to the Company or has a material interest adverse to the Company's interest.

A legal claim has been filed against the Company relating to a financial transaction and seeking damages of approximately \$3.5 million. The claim is at a very early stage and the Company believes the likelihood of a loss contingency is remote. As a result, no amount has been set up for potential damages in these financial statements.

In late January 2019, the Company's former Chief Financial Officer ("CFO") filed a complaint against MM Enterprises USA in the Superior Court of California, County of Los Angeles, seeking damages for claims relating to his employment. The Company is currently defending against this lawsuit, which seeks damages for wrongful termination, breach of contract, and breach of implied covenant of good faith. The former CFO's employment agreement provided for the payment of severance in the event of termination without cause. The Company disputes the claims set forth in this lawsuit and believes that the outcome is neither probable nor estimable; therefore, no amounts have been accrued in relation to the claim.

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***23. RELATED PARTY TRANSACTIONS****(a) Key Management Compensation**

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive directors. Compensation provided to key management for the periods indicated was as follows:

	<u>13 Weeks Ended</u>		<u>26 Weeks Ended</u>	
	<u>December 28, 2019</u>	<u>December 29, 2018</u>	<u>December 28, 2019</u>	<u>December 29, 2018</u>
Short-Term Employee Benefits, including Salaries and Fees	\$ 597,300	\$ 1,170,224	\$ 1,422,359	\$ 14,957,724
Share-Based Compensation - Directors	374,461	425,120	863,307	964,655
Share-Based Compensation - Executives	<u>1,399,120</u>	<u>6,931,449</u>	<u>3,563,178</u>	<u>13,332,570</u>
Total Key Management Compensation	<u>\$ 2,370,881</u>	<u>\$ 8,526,793</u>	<u>\$ 5,848,844</u>	<u>\$ 29,254,949</u>

(b) Related Party Balances

All related party balances due from or due to the Company as of December 28, 2019 and June 29, 2019 did not have any formal contractual agreements regarding payment terms or interest.

As of December 28, 2019 and June 29, 2019, amounts due from related parties were as follows:

<u>Name and Relationship to Company</u>	<u>Transaction</u>	<u>December 28, 2019</u>	<u>June 29, 2019</u>
MMOF GP II, LLC ("Fund LP II"), an entity which Mr. Adam Bierman, Mr. Andrew Modlin and Mr. Christopher Ganan each holds 33.3% indirect voting interest. The shareholders each hold 27.1% of indirect equity interest in Fund LP II, the General Partner of Fund II, which both hold equity interests in a subsidiary of the Company.	Management Fees	\$ 1,820,904	\$ 1,820,904
MedMen Opportunity Fund GP, LLC ("Fund LP"), an entity which Mr. Adam Bierman, Mr. Andrew Modlin and Mr. Christopher Ganan each holds 33.3% indirect voting interest. The shareholders each hold 24.2% of indirect equity interest in Fund LP, the General Partner of Fund I, which both hold equity interests in a subsidiary of the Company.	Management Fees	1,228,259	1,228,259
MedMen Canada Inc., a 50/50 joint venture partnership between the Company and Cronos Group Inc.	Advance	-	1,153,200
Other		<u>591,122</u>	<u>719,092</u>
Total Amounts Due from Related Parties		<u>\$ 3,640,285</u>	<u>\$ 4,921,455</u>

During the 13 weeks ended December 28, 2019, the advance receivable due from MedMen Canada Inc. was repaid.

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***23. RELATED PARTY TRANSACTIONS (Continued)****(b) Related Party Balances (Continued)**

As of December 28, 2019 and June 29, 2019, amounts due to related parties were as follows:

<u>Name and Relationship to Company</u>	<u>Transaction</u>	<u>December 28, 2019</u>	<u>June 29, 2019</u>
Fund LP II, an entity which Mr. Adam Bierman, Mr. Andrew Modlin and Mr. Christopher Ganan each holds 33.3% indirect voting interest. The shareholders each hold 27.1% of indirect equity interest in Fund LP II, the General Partner of Fund II, which both hold equity interests in a subsidiary of the Company.	Working Capital, Construction and Tenant Improvements, Lease Deposits and Cash Used for Acquisitions	\$ (1,093,896)	\$ (1,093,896)
Fund LP, an entity which Mr. Adam Bierman, Mr. Andrew Modlin and Mr. Christopher Ganan each holds 33.3% indirect voting interest. The shareholders each hold 24.2% of indirect equity interest in Fund LP, the General Partner of Fund I, which both hold equity interests in a subsidiary of the Company.	Working Capital, Management Fees and Cash Used for Acquisitions	(2,862,647)	(2,862,647)
Other		(966,431)	(1,684,274)
Total Amounts Due to Related Parties		<u>\$ (4,922,974)</u>	<u>\$ (5,640,817)</u>

(c) Leases – Related Parties

In January 2017, Bloomfield Industries, Inc. entered into a 10-year lease agreement with UN East LLC, a related party, to occupy a temporary facility and for five acres of land for future development. The lease provides, among other things, for the issuance of a 10% initial members' equity interest in Project Compassion NY, LLC valued at \$3,500,000.

(d) Equity Placement – Related Parties

On December 11, 2019, the Company announced that Benjamin Rose, the Executive Chairman of the Board, was granted a limited proxy of 815,295 Class A Super Voting Shares, which represents 50% of the total Class A Super Voting Shares, for a period of one year. As a result of the proxy, Mr. Rose has joint control of the Company. Under IAS 24, "Related Party Disclosures", Mr. Rose is a member of the key management personnel of Wicklow Capital, Inc. and accordingly, Wicklow Capital is a related party of the Company.

On July 10, 2019, the Company announced an equity commitment from its existing creditor, Gotham Green Partners, with participation from Wicklow Capital, in the amount of \$30,000,000. As a result, the Company issued 14,634,147 Subordinate Voting Shares to the investors.

On December 10, 2019, the Company executed a term sheet for a non-brokered private placement wherein Wicklow Capital participated in the offering. As of December 28, 2019, the Company issued 23,720,929 Subordinate Voting Shares for gross proceeds of \$10,199,999 in connection with the equity investment. See "Note 26 – Subsequent Events" for further information.

MEDMEN ENTERPRISES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

13 and 26 Weeks Ended December 28, 2019 and December 29, 2018

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

23. RELATED PARTY TRANSACTIONS *(Continued)*

(e) Other Related Party Transactions

As of December 28, 2019, the Company determined GGP to be a related party as a result of GGP having significant influence over the Company. See “*Note 17 – Senior Secured Convertible Credit Facility*” for a full disclosure of transactions and balances related to GGP.

24. SEGMENTED INFORMATION

The Company currently operates in one segment, retail cannabis operations. The Company’s cultivation operations are not considered significant to the overall operations of the Company. Intercompany sales and transactions are eliminated in consolidation.

25. DISCONTINUED OPERATIONS

On December 3, 2018, the Company acquired Monarch, an Arizona-based medical cannabis license holder with dispensary, cultivation and processing operations, from WhiteStar Solutions LLC (“WhiteStar”) through the acquisition of Omaha Management Services, LLC. As part of the acquisition of Monarch, the Company acquired a dispensary license and customer relationships, including co-manufacturing and licensing agreements within the state of Arizona. The Company recorded goodwill of \$16,912,951 as a result of the business acquisition.

On February 13, 2019, the Company acquired Kannaboost Technology Inc. and CSI Solutions LLC (collectively referred to as “Level Up”). As part of the acquisition of Level Up, the Company acquired licenses for two vertically-integrated operations in Arizona, which include retail locations in Scottsdale and Tempe and cultivation and production facilities in Tempe and Phoenix. The Company recorded goodwill of \$14,860,708 as a result of the business acquisition.

During the 13 weeks ended December 28, 2019, the Company contemplated the divestiture of non-core assets and management entered into a plan to sell its operations in the state of Arizona. On December 26, 2019, the Company entered into a non-binding term sheet to sell its operations in the state of Arizona, which is comprised of the assets acquired during the 52 weeks ended June 29, 2019 and the related management entities.

Consequently, assets and liabilities allocable to the operations within the state of Arizona were classified as a disposal group. Revenue and expenses, gains or losses relating to the discontinuation of Arizona operations have been eliminated from profit or loss from the Company’s continuing operations and are shown as a single line item in the unaudited interim condensed consolidated statements of operations and comprehensive loss. The assets associated with the Arizona disposal group have been measured at the lower of its carrying amount or FVLCTS. This resulted in an impairment of goodwill of \$24,749,324 during the 13 weeks ended December 28, 2019 due to the receipt of a third-party purchase offer. The remaining goodwill balance is \$7,024,335 as of December 28, 2019. The contemplated transaction is subject to customary closing conditions and is expected to close by within the next twelve months.

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***25. DISCONTINUED OPERATIONS (Continued)**

The Company will continue to operate the Arizona operations until the ultimate sale of the disposal group. Net operating loss of the discontinued operations and the gain or loss from remeasurement of assets and liabilities classified as held for sale are summarized as follows:

	<u>13 Weeks Ended</u>		<u>26 Weeks Ended</u>	
	<u>December 28, 2019</u>	<u>December 29, 2018</u>	<u>December 28, 2019</u>	<u>December 29, 2018</u>
Revenue	\$ 4,276,772	\$ 513,063	\$ 8,581,521	\$ 513,063
Cost of Goods Sold including Fair Value Adjustments for Biological Assets	<u>1,867,760</u>	<u>250,049</u>	<u>5,996,892</u>	<u>250,049</u>
Gross Profit	2,409,012	263,014	2,584,629	263,014
Expenses:				
General and Administrative	1,847,936	1,548,464	3,578,733	1,548,464
Sales and Marketing	42,057	-	42,057	-
Depreciation and Amortization	<u>567,662</u>	<u>43,874</u>	<u>1,099,094</u>	<u>43,874</u>
Total Expenses	<u>2,457,655</u>	<u>1,592,338</u>	<u>4,719,884</u>	<u>1,592,338</u>
Loss from Operations	<u>(48,643)</u>	<u>(1,329,324)</u>	<u>(2,135,255)</u>	<u>(1,329,324)</u>
Other Expense (Income):				
Interest Expense	170,531	-	170,531	-
Impairment of Goodwill	24,749,324	-	24,749,324	-
Other Expense	<u>-</u>	<u>-</u>	<u>5,385</u>	<u>-</u>
Total Other Expense	<u>24,919,855</u>	<u>-</u>	<u>24,925,240</u>	<u>-</u>
Loss on Discontinued Operations Before Provision for Income Taxes	(24,968,498)	(1,329,324)	(27,060,495)	(1,329,324)
Provision for Income Taxes	<u>(3,310,802)</u>	<u>40,282</u>	<u>(1,361,019)</u>	<u>40,282</u>
Loss on Discontinued Operations	<u>\$ (21,657,696)</u>	<u>\$ (1,369,606)</u>	<u>\$ (25,699,476)</u>	<u>\$ (1,369,606)</u>

MEDMEN ENTERPRISES INC.**Notes to Unaudited Interim Condensed Consolidated Financial Statements****13 and 26 Weeks Ended December 28, 2019 and December 29, 2018***(Amounts Expressed in United States Dollars Unless Otherwise Stated)***25. DISCONTINUED OPERATIONS (Continued)**

The carrying amounts of assets and liabilities in the disposal group are summarized as follows:

	December 28, 2019
Assets:	
Cash and Cash Equivalents	\$ 1,173,370
Accounts Receivable	1,398,976
Prepaid Expenses	188,334
Income Taxes Receivable	277,621
Biological Assets	1,071,354
Inventory	6,293,817
Property and Equipment, Net	11,390,948
Intangible Assets, Net	19,480,670
Goodwill	7,024,335
Other Assets	114,576
Assets Classified as Held for Sale	<u>\$ 48,414,001</u>
Liabilities:	
Accounts Payable and Accrued Liabilities	\$ 3,128,002
Income Taxes Payable	1,020,398
Other Current Liabilities	12,024
Lease Liabilities	5,907,234
Deferred Tax Liabilities	5,366,343
Liabilities Classified as Held for Sale	<u>\$ 15,434,001</u>

Cash flows generated by the disposal group are summarized as follows:

	26 Weeks Ended	
	December 28, 2019	December 29, 2018
Net Cash Provided by Operating Activities	\$ 2,137,324	\$ 637,744
Net Cash Used in Investing Activities	(1,491,328)	(496,440)
Cash Flows From Discontinued Operations	<u>\$ 645,996</u>	<u>\$ 141,304</u>

MEDMEN ENTERPRISES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

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(Amounts Expressed in United States Dollars Unless Otherwise Stated)

26. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through February 26, 2020, which is the date these unaudited interim condensed consolidated financial statements were issued, and has concluded that the following subsequent events have occurred that would require recognition in the interim condensed consolidated financial statements or disclosure in the notes to the interim condensed consolidated financial statements.

(a) Change in Corporate Governance

Subsequent to the fiscal second quarter of 2020, Adam Bierman resigned as Chief Executive Officer of the Company. Effective February 1, 2020, Ryan Lissack, the Chief Technology Officer, will serve as the Company's interim Chief Executive Officer. Mr. Bierman continues to serve on the Company's Board of Directors. In addition, Andrew Modlin is no longer President of the Company or a member of its Board of Directors. Effective January 30, 2020, Mr. Modlin's new title is Chief Brand Officer of the Company.

Mr. Bierman and Mr. Modlin agreed to surrender all of their Class A Super Voting Shares to the Company. Mr. Modlin's surrender would occur upon the expiration of the limited proxy granted to Benjamin Rose, Executive Chairman of the Board, in December 2020. As a result, the Company expects to have no outstanding Class A Super Voting Shares by the end of calendar year 2020.

(b) Senior Secured Term Loan Facility

On January 14, 2020, the Company completed the amendment of its existing term loan facility in the principal amount of \$77,675,000 with Hankey Capital wherein the maturity date was extended from October 1, 2020 to January 31, 2022 and the interest rate was increased from a fixed rate of 7.5% per annum to 15.5% per annum. In addition, the Company may prepay the amounts outstanding, on a non-revolving basis, at any time and from time to time, in whole or in part, without penalty.

Further, the Company will cancel the existing 16,211,284 and 1,023,256 warrants issued to the lenders exercisable at \$4.97 and \$4.73 per share, respectively, representing 100% of the loan amount. The Company will issue new warrants to the lenders totaling 40,455,729 warrants exercisable at \$0.60 per share until December 31, 2022, representing approximately 31% of the loan amount. The new warrants may be exercised at the election of their holders on a cashless basis.

(c) Closing of Equity Placement

On January 13, 2020, the Company completed a non-brokered offering of Class B Subordinate Voting Shares for aggregate gross proceeds of approximately \$20,000,000 at a price of \$0.43 per share for a total of 46,962,648 Subordinate Voting Shares. As of December 28, 2019, the Company issued 23,720,929 Subordinate Voting Shares in connection with the offering for gross proceeds of \$10,199,999. The remaining 23,241,719 shares were funded subsequent to December 28, 2019 for approximately \$9,990,000.

MEDMEN ENTERPRISES INC.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

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(Amounts Expressed in United States Dollars Unless Otherwise Stated)

26. SUBSEQUENT EVENTS *(Continued)*

(d) Business Acquisitions Amended

(i) *Kannaboost Technology Inc. and CSI Solutions LLC*

Subsequent to December 28, 2019, the Company amended the secured promissory note issued in connection with the acquisition of Level Up wherein the principal amount was amended from \$15,000,000 to \$13,000,000 and the maturity date was extended to April 8, 2020.

(ii) *Viktoriya's Medical Supplies LLC, d/b/a Buddy's Cannabis*

On February 15, 2020, the Company amended the promissory note issued in connection with the acquisition of Viktoriya's Medical Supplies LLC, d/b/a Buddy's Cannabis wherein the Company will issue Class B Subordinate Voting Shares as payment of the outstanding principal and accrued interest balance of approximately \$2,770,000.

(e) Assets Held for Sale

Subsequent to December 28, 2019, the Company entered into definitive agreements to assign its rights to acquire a cultivation and manufacturing license in Hillcrest, Illinois, and the related facility, to be received as part of its termination of the PharmaCann Acquisition. See "*Note 10 – Termination of Previously Announced Acquisition*" for further information. Of the total gross proceeds of \$17,000,000, the Company received partial proceeds of \$10,000,000 and the remaining payment of \$7,000,000 is due prior to closing (subject to customary regulatory approvals).