# MEDMEN ENTERPRISES INC.

## AUDITED
## CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED
## JUNE 27, 2020
## AND
## JUNE 29, 2019

*(Expressed in United States Dollars Unless Otherwise Stated)*

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

## MEDMEN ENTERPRISES INC.
**Management's Responsibility for Financial Reporting**

To the Shareholders of MedMen Enterprises Inc.:

The accompanying consolidated financial statements and other financial information in this annual report were prepared by management of MedMen Enterprises Inc. (the "Company"), reviewed by the Audit Committee and approved by the Board of Directors.

Management is responsible for the consolidated financial statements and believes that they fairly present the Company's financial condition and results of operation in conformity with U.S. Generally Accepted Accounting Principles. Management has included in the Company's consolidated financial statements amounts based on estimates and judgments that it believes are reasonable, under the circumstances.

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

These financial statements have been audited by our auditors, MNP LLP and their report is presented herein.

| | | | |
|---|---|---|---|
| /s/ Tom Lynch | | /s/ Zeeshan Hyder | |
| *Chief Executive Officer* | | *Chief Financial Officer* | |

October 15, 2020

**MEDMEN ENTERPRISES INC.**
**Index to Consolidated Financial Statements**

MNP LLP

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of MedMen Enterprises Inc.

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of MedMen Enterprises Inc. (the “Company”) as of June 27, 2020 and June 29, 2019, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the 52 week periods then ended, and the related notes (collectively referred to as the consolidated financial statements).

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 27, 2020 and June 29, 2019, and the results of its operations and its cash flows for the 52 week periods then ended, in conformity with accounting principles generally accepted in the United States of America.

**Material Uncertainty Related to Going Concern**

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a net working capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Change in Accounting Principle**

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for leases as of June 30, 2019 due to the adoption of Financial Accounting Standards Board’s Accounting Standards Codification (ASC) Topic 842, Leases. As a result of the adoption of Topic 842, the Company also changed its deferred tax policy for lease transactions.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

MNP LLP

We have served as the Company’s auditor since 2018.

Calgary, Alberta, Canada

October 15, 2020

# MEDMEN ENTERPRISES INC.
## Consolidated Balance Sheets
## As of June 27, 2020 and June 29, 2019
*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

| | 2020 | 2019 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $ 10,093,925 | $ 33,226,370 |
| Restricted Cash | 9,873 | 55,618 |
| Accounts Receivable | 963,997 | 621,945 |
| Current Portion of Prepaid Rent - Related Party | - | 1,580,205 |
| Prepaid Expenses | 4,662,764 | 13,897,904 |
| Inventory | 22,638,120 | 25,481,122 |
| Current Assets Held for Sale | 33,459,879 | 7,395,018 |
| Other Current Assets | 9,105,457 | 18,913,039 |
| Due from Related Party | 3,109,717 | 4,921,455 |
| Total Current Assets | 84,043,732 | 106,092,676 |
| Prepaid Rent - Related Party, Net of Current Portion | - | 4,327,077 |
| Operating Lease Right-of-Use Assets | 116,354,828 | - |
| Property and Equipment, Net | 174,547,867 | 232,895,281 |
| Intangible Assets, Net | 148,081,030 | 201,101,415 |
| Goodwill | 33,861,150 | 53,786,872 |
| Non-Current Assets Held for Sale | - | 56,970,526 |
| Other Assets | 17,374,997 | 32,302,547 |
| **TOTAL ASSETS** | **$ 574,263,604** | **$ 687,476,394** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **LIABILITIES:** | | |
| Current Liabilities: | | |
| Accounts Payable and Accrued Liabilities | $ 79,530,930 | $ 47,610,197 |
| Income Taxes Payable | 38,599,349 | 13,658,111 |
| Other Current Liabilities | 19,732,305 | 3,646,380 |
| Derivative Liabilities | 546,076 | 9,343,485 |
| Current Portion of Operating Lease Liabilities | 9,757,669 | - |
| Current Portion of Finance Lease Liabilities | 1,644,044 | 4,153,935 |
| Current Portion of Notes Payable | 16,188,668 | 21,998,522 |
| Current Liabilities Held for Sale | 18,659,038 | 3,641,620 |
| Due to Related Party | 4,556,814 | 5,640,817 |
| Total Current Liabilities | 189,214,893 | 109,693,067 |
| Operating Lease Liabilities, Net of Current Portion | 131,045,238 | - |
| Finance Lease Liabilities, Net of Current Portion | 58,569,498 | 12,230,848 |
| Other Non-Current Liabilities | 4,215,533 | 24,929,028 |
| Non-Current Liabilities Held for Sale | - | 7,185,447 |
| Deferred Tax Liabilities | 48,928,492 | 84,562,776 |
| Senior Secured Convertible Credit Facility | 166,368,463 | 86,855,415 |
| Notes Payable, Net of Current Portion | 152,809,937 | 150,749,037 |
| **TOTAL LIABILITIES** | **751,152,054** | **476,205,618** |
| **MEZZANINE EQUITY** | | |
| Super Voting Shares (no par value, unlimited shares authorized, 815,295 and 1,630,590 shares issued and outstanding as of June 27, 2020 and June 29, 2019, respectively) | 82,500 | 164,999 |
| **SHAREHOLDERS' EQUITY:** | | |
| Preferred Shares (no par value, unlimited shares authorized and no shares issued and outstanding) | - | - |
| Subordinate Voting Shares (no par value, unlimited shares authorized, 403,907,218 and 173,010,922 shares issued and outstanding as of June 27, 2020 and June 29, 2019, respectively) | - | - |
| Additional Paid-In Capital | 791,172,613 | 613,356,006 |
| Accumulated Deficit | (631,365,865) | (370,382,824) |
| Total Equity Attributable to Shareholders of MedMen Enterprises Inc. | 159,889,247 | 243,138,181 |
| Non-Controlling Interest | (336,777,697) | (31,867,405) |
| **TOTAL SHAREHOLDERS' EQUITY** | **(176,888,450)** | **211,270,776** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **$ 574,263,604** | **$ 687,476,394** |

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

# MEDMEN ENTERPRISES INC.
## Consolidated Statements of Operations
## Fiscal Years Ended June 27, 2020 and June 29, 2019
*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

| | 2020 | 2019 |
|---|---|---|
| Revenue | $ 157,112,281 | $ 119,919,169 |
| Cost of Goods Sold | 98,991,307 | 64,468,357 |
| Gross Profit | 58,120,974 | 55,450,812 |
| Expenses: | | |
| General and Administrative | 200,273,872 | 239,344,688 |
| Sales and Marketing | 10,641,912 | 27,548,784 |
| Depreciation and Amortization | 39,953,805 | 22,055,590 |
| Total Expenses | 250,869,589 | 288,949,062 |
| Loss from Operations | (192,748,615) | (233,498,250) |
| Other Expense (Income): | | |
| Interest Expense | 40,425,315 | 12,381,121 |
| Interest Income | (766,035) | (701,790) |
| Amortization of Debt Discount and Loan Origination Fees | 9,061,967 | 8,308,751 |
| Change in Fair Value of Derivatives | (8,797,409) | (3,908,722) |
| Realized and Unrealized Gain on Investments, Assets Held For Sale and Other Assets | (16,373,788) | (4,259,000) |
| Realized and Unrealized Gain on Changes in Fair Value of Contingent Consideration | 8,951,801 | - |
| Impairment Expense | 239,509,415 | - |
| Loss On Disposals of Assets, Restructuring Fees and Other Expenses | 50,588,435 | 17,706,894 |
| Total Other Expense | 322,599,701 | 29,527,254 |
| Loss from Continuing Operations Before Provision for Income Taxes | (515,348,316) | (263,025,504) |
| Provision for Income Tax (Expense) Benefit | 39,598,946 | 6,369,046 |
| Net Loss from Continuing Operations | (475,749,370) | (256,656,458) |
| Net Loss from Discontinued Operations, Net of Taxes | (50,781,039) | (1,264,196) |
| Net Loss | (526,530,409) | (257,920,654) |
| Net Loss Attributable to Non-Controlling Interest | (279,266,058) | (188,840,766) |
| **Net Loss Attributable to Shareholders of MedMen Enterprises Inc.** | **$ (247,264,351)** | **$ (69,079,888)** |
| **Loss Per Share - Basic and Diluted:** | | |
| **From Continuing Operations Attributable to Shareholders of MedMen Enterprises Inc.** | **$ (0.73)** | **$ (0.64)** |
| **From Discontinued Operations Attributable to Shareholders of MedMen Enterprises Inc.** | **$ (0.19)** | **$ (0.01)** |
| **Weighted-Average Shares Outstanding - Basic and Diluted** | **270,418,842** | **105,915,105** |

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

# MEDMEN ENTERPRISES INC.
## Consolidated Statements of Changes in Shareholders' Equity
## Fiscal Year Ended June 27, 2020
*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

| | Mezzanine Equity | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Units* | $ Amount | *Units* | $ Amount | | | TOTAL EQUITY | | |
| | *Super Voting Shares* | Super Voting Shares | *Subordinate Voting Shares* | Subordinate Voting Shares | Additional Paid-In Capital | Accumulated Deficit | ATTRIBUTABLE TO SHAREHOLDERS OF MEDMEN | Non-Controlling Interest | TOTAL SHAREHOLDERS' EQUITY |
| **BALANCE AS OF JUNE 30, 2019** | ***1,630,590*** | **$ 164,999** | ***173,010,922*** | **$ -** | **$ 613,356,006** | **$ (370,382,824)** | **$ 243,138,181** | **$ (31,867,405)** | **$ 211,270,776** |
| Net Loss | - | - | - | - | - | (247,264,351) | (247,264,351) | (279,266,058) | (526,530,409) |
| Controlling Interest Equity Transactions | | | | | | | | | |
| At-the-Market Equity Financing Program, Net | - | - | *9,789,300* | - | 12,399,252 | - | 12,399,252 | - | 12,399,252 |
| Shares Issued for Cash | - | - | *61,596,792* | - | 50,193,938 | - | 50,193,938 | - | 50,193,938 |
| Shares Issued to Settle Debt and Accrued Interest | - | - | *6,801,790* | - | 5,255,172 | - | 5,255,172 | - | 5,255,172 |
| Shares Issued to Settle Accounts Payable and Liabilities | - | - | *24,116,461* | - | 7,477,045 | - | 7,477,045 | - | 7,477,045 |
| Shares Issued to Settle Contingent Consideration | - | - | *13,737,444* | - | 11,559,875 | - | 11,559,875 | - | 11,559,875 |
| Asset Acquisitions | - | - | *7,373,034* | - | 4,904,381 | - | 4,904,381 | - | 4,904,381 |
| Equity Component of Debt - New and Amended | - | - | - | - | 23,781,053 | - | 23,781,053 | - | 23,781,053 |
| Redemption of MedMen Corp Redeemable Shares | - | - | *83,119,182* | - | 44,878,551 | (12,685,751) | 32,192,800 | (32,192,800) | - |
| Shares Issued for Vested Restricted Stock Units | - | - | *329,548* | - | - | - | - | - | - |
| Shares Issued for Other Assets | - | - | *13,479,589* | - | 7,802,182 | - | 7,802,182 | - | 7,802,182 |
| Shares Issued for Acquisition Costs | - | - | *765,876* | - | 564,464 | - | 564,464 | - | 564,464 |
| Shares Issued for Business Acquisition | - | - | *5,112,263* | - | 9,833,000 | - | 9,833,000 | - | 9,833,000 |
| Stock Grants for Compensation | - | - | *4,675,017* | - | 3,621,769 | - | 3,621,769 | 35,157 | 3,656,926 |
| Deferred Tax Impact On Conversion Feature | - | - | - | - | (10,452,700) | (557,289) | (11,009,989) | - | (11,009,989) |
| Share-Based Compensation | - | - | - | - | 5,916,125 | - | 5,916,125 | - | 5,916,125 |
| Repurchase and Cancellation of Super Voting Shares | *(815,295)* | (82,500) | - | - | 82,500 | (475,650) | (475,650) | - | (475,650) |
| Non-Controlling Interest Equity Transactions | - | - | - | - | - | - | - | - | - |
| Distributions | - | - | - | - | - | - | - | (310,633) | (310,633) |
| Equity Component on Debt and Debt Modification | - | - | - | - | - | - | - | 5,331,969 | 5,331,969 |
| Share-Based Compensation | - | - | - | - | - | - | - | 1,492,073 | 1,492,073 |
| **BALANCE AS OF JUNE 27, 2020** | ***815,295*** | **$ 82,500** | ***403,907,218*** | **$ -** | **$ 791,172,613** | **$ (631,365,865)** | **$ 159,889,247** | **$ (336,777,697)** | **$ (176,888,450)** |

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

# MEDMEN ENTERPRISES INC.
## Consolidated Statements of Changes in Shareholders' Equity
## Fiscal Year Ended June 29, 2019
*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

| | Mezzanine Equity | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Units* | $ Amount | *Units* | $ Amount | | | TOTAL EQUITY | | |
| | *Super Voting Shares* | Super Voting Shares | *Subordinate Voting Shares* | Subordinate Voting Shares | Additional Paid-In Capital | Accumulated Deficit | ATTRIBUTABLE TO SHAREHOLDERS OF MEDMEN | Non-Controlling Interest | TOTAL SHAREHOLDERS' EQUITY |
| **BALANCE AS OF JULY 1, 2018** | ***1,630,590*** | **$ 164,999** | ***45,215,976*** | **$ -** | **$ 172,441,570** | **$ (63,757,867)** | **$ 108,848,702** | **$ 85,728,414** | **$ 194,577,116** |
| Net Loss | - | - | - | - | - | (69,079,888) | (69,079,888) | (188,840,766) | (257,920,654) |
| Controlling Interest Equity Transactions | | | | | | | | | |
| Bought Deal Equity Financing, net | - | - | *29,321,818* | - | 115,289,679 | - | 115,289,679 | - | 115,289,679 |
| Derivative Liability Incurred on Issuance of Equity | - | - | - | - | (13,252,207) | - | (13,252,207) | - | (13,252,207) |
| At-the-Market Equity Financing Program, net | - | - | *5,168,500* | - | 13,306,096 | - | 13,306,096 | - | 13,306,096 |
| Shares Issued to Settle Debt | - | - | *632,130* | - | 2,170,163 | - | 2,170,163 | - | 2,170,163 |
| Shares Issued for Debt Issuance Costs | - | - | *2,691,141* | - | 5,836,550 | - | 5,836,550 | - | 5,836,550 |
| Equity Component of Debt | - | - | - | - | 7,548,720 | - | 7,548,720 | - | 7,548,720 |
| Redemption of MedMen Corp Redeemable Shares | - | - | *58,095,821* | - | 204,400,820 | (212,084,052) | (7,683,232) | 7,683,232 | - |
| Redemption of LLC Redeemable Units | - | - | *5,566,993* | - | 16,768,120 | 7,671,349 | 24,439,469 | (24,439,469) | - |
| Other Assets | - | - | *919,711* | - | 2,986,501 | - | 2,986,501 | - | 2,986,501 |
| Acquisition Costs | - | - | *159,435* | - | 515,500 | - | 515,500 | - | 515,500 |
| Acquisition of Non-Controlling Interest | - | - | *9,736,870* | - | 33,035,817 | (33,132,366) | (96,549) | 96,549 | - |
| Business Acquisitions | - | - | *10,875,929* | - | 34,402,179 | - | 34,402,179 | - | 34,402,179 |
| Asset Acquisitions | - | - | *1,658,884* | - | 5,097,436 | - | 5,097,436 | - | 5,097,436 |
| Vested Restricted Stock Units | - | - | *333,479* | - | - | - | - | - | - |
| Stock Grants for Compensation | - | - | *2,634,235* | - | 5,712,872 | - | 5,712,872 | - | 5,712,872 |
| Share-Based Compensation Expense | - | - | - | - | 13,935,569 | - | 13,935,569 | - | 13,935,569 |
| Options Issued - Other Assets | - | - | - | - | 633,837 | - | 633,837 | - | 633,837 |
| Deferred Tax Impact on Conversion Feature | - | - | - | - | (7,473,216) | - | (7,473,216) | - | (7,473,216) |
| Non-Controlling Interest Equity Transactions | - | - | - | - | - | - | - | - | - |
| Cash Contributions | - | - | - | - | - | - | - | 290,000 | 290,000 |
| Conversion of Convertible Debentures | - | - | - | - | - | - | - | 3,802,381 | 3,802,381 |
| Asset Acquisitions | - | - | - | - | - | - | - | 41,154,986 | 41,154,986 |
| Equity Component of Debt | - | - | - | - | - | - | - | 13,590,104 | 13,590,104 |
| Shares Issued to Settle Debt | - | - | - | - | - | - | - | 6,759,125 | 6,759,125 |
| Exercise of Warrants | - | - | - | - | - | - | - | 8,521,268 | 8,521,268 |
| Other Assets | - | - | - | - | - | - | - | 343,678 | 343,678 |
| Acquisition Costs | - | - | - | - | - | - | - | 597,320 | 597,320 |
| Share-Based Compensation | - | - | - | - | - | - | - | 12,845,773 | 12,845,773 |
| **BALANCE AS OF JUNE 29, 2019** | ***1,630,590*** | **$ 164,999** | ***173,010,922*** | **$ -** | **$ 613,356,006** | **$ (370,382,824)** | **$ 243,138,181** | **$ (31,867,405)** | **$ 211,270,776** |

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

# MEDMEN ENTERPRISES INC.
## Consolidated Statements of Cash Flows
## Fiscal Years Ended June 27, 2020 and June 29, 2019
*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

| | 2020 | 2019 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net Loss from Continuing Operations | $ (475,749,370) | $ (256,656,458) |
| Adjustments to Reconcile Net Loss | | |
| to Net Cash Used in Operating Activities: | | |
| Deferred Tax (Recovery) Expense | (58,422,755) | (26,144,449) |
| Depreciation and Amortization | 42,943,366 | 23,679,315 |
| Non-Cash Operating Lease Costs | 30,661,411 | - |
| Accretion of Debt Discount and Loan Origination Fees | 9,061,967 | 8,308,751 |
| Loss on Disposals of Asset | - | 9,315,073 |
| Accretion of Deferred Gain on Sale of Property | (566,625) | (368,309) |
| Impairment of Assets | 239,509,415 | - |
| Realized and Unrealized Gain on Investments, Assets Held For Sale and Other Assets | (16,373,788) | (4,259,000) |
| Unrealized Gain on Changes in Fair Value of Contingent Consideration | 8,951,801 | - |
| Change in Fair Value of Derivative Liabilities | (8,797,409) | (3,908,722) |
| Loss on Extinguishment of Debt and | | |
| Settlement of Accounts Payables and Accrued Liabilities | 44,355,401 | 1,164,054 |
| Share-Based Compensation | 11,065,124 | 32,494,214 |
| Shares Issued for Acquisition Costs | 564,464 | 1,112,820 |
| Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | (342,052) | (303,786) |
| Prepaid Rent - Related Party | 2,712,237 | (1,356,270) |
| Prepaid Expenses | 9,227,342 | (4,511,307) |
| Inventory | 3,265,309 | (18,394,457) |
| Other Current Assets | 6,846,673 | 923,471 |
| Due from Related Party | 1,524,738 | (1,412,420) |
| Other Assets | (10,833,928) | (19,896,170) |
| Accounts Payable and Accrued Liabilities | 49,815,754 | 30,555,656 |
| Interest Payments on Finance Leases | (6,262,019) | - |
| Cash Payments - Operating Lease Liabilities | (27,304,389) | - |
| Income Taxes Payable | 20,015,975 | 9,705,252 |
| Other Current Liabilities | 16,308,233 | (17,507,245) |
| Due to Related Party | (1,084,003) | (6,752,861) |
| Other Non-Current Liabilities | 787,492 | (774,000) |
| **NET CASH USED IN CONTINUED OPERATING ACTIVITIES** | **(108,119,636)** | **(244,986,848)** |
| Net Cash (Used in) Provided by Discontinued Operating Activities | (2,007,112) | 1,986,260 |
| **NET CASH USED IN OPERATING ACTIVITIES** | **(110,126,749)** | **(243,000,588)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchases of Property and Equipment | (56,687,761) | (116,897,412) |
| Additions to Intangible Assets | (4,140,786) | (3,084,097) |
| Proceeds from the Sale of Investments | 12,500,000 | - |
| Purchase of Investments | - | (8,759,791) |
| Proceeds from Sale of Assets Held for Sale and Other Assets | 21,947,797 | - |
| Proceeds from Sale of Property | 9,300,000 | 24,073,319 |
| Cash Payments for Asset Acquisitions | - | (19,780,494) |
| Acquisition of Businesses, Net of Cash Acquired | (1,000,000) | (26,661,541) |
| Restricted Cash | 45,745 | 6,107,981 |
| **NET CASH USED IN CONTINUED INVESTING ACTIVITIES** | **(18,035,005)** | **(145,002,035)** |
| Net Cash Used in Discontinued Investing Activities | (1,356,211) | (1,458,866) |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(19,391,216)** | **(146,460,901)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Issuance of Subordinate Voting Shares for Cash | 62,593,190 | 128,595,775 |
| Exercise of Warrants for MedMen Corp Redeemable Shares | - | 8,521,268 |
| Payment of Loan Amendment Fee | (500,000) | - |
| Proceeds from Issuance of Senior Secured Convertible Credit Facility | 50,000,000 | 100,000,000 |
| Proceeds from Issuance of Notes Payable | 13,850,000 | 166,243,539 |
| Principal Repayments of Notes Payable | (14,779,090) | (55,007,057) |
| Principal Repayments of Finance Lease Liability | (1,785,282) | (492,030) |
| Debt and Equity Issuance Costs | (1,939,394) | (4,096,229) |
| (Distributions) Contributions - Non-Controlling Interest | (310,633) | 290,000 |
| **NET CASH PROVIDED BY FINANCING ACTIVITIES** | **107,128,791** | **344,055,266** |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(22,389,174)** | **(45,406,223)** |
| Cash Included in Assets Held for Sale | (743,271) | (527,377) |
| Cash and Cash Equivalents, Beginning of Period | 33,226,370 | 79,159,970 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | **$ 10,093,925** | **$ 33,226,370** |

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

# MEDMEN ENTERPRISES INC.
## Consolidated Statements of Cash Flows
## Fiscal Years Ended June 27, 2020 and June 29, 2019
*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

| | | 2020 | | 2019 |
|---|---|---|---|---|
| **SUPPLEMENTAL DISCLOSURE FOR CASH FLOW INFORMATION** | | | | |
| Cash Paid for Interest | $ | 38,608,975 | $ | 13,471,532 |
| | | | | |
| Non-Cash Investing and Financing Activities: | | | | |
| Net Assets Transferred to Held for Sale | $ | 23,890,069 | $ | 49,785,079 |
| Adoption of ASC 842 - Leases | $ | 152,141,639 | $ | - |
| Recognition of Right-of-Use Assets for Finance Leases | $ | 45,614,041 | $ | - |
| Settlement of Contingent Consideration with Shares | $ | 11,559,875 | $ | - |
| Increase in Fair Value of Contingent Consideration Related to Asset Acquisition | $ | 9,374,487 | $ | 8,438,690 |
| Derivative Liability Incurred on Issuance of Equity | $ | - | $ | 13,252,207 |
| Issuance of Subordinate Voting Shares for Intangible Assets and Other Assets | $ | 12,706,563 | $ | 2,986,501 |
| Issuance of MedMen Corp Redeemable Shares for Other Assets | $ | - | $ | 343,678 |
| Redemption of MedMen Corp Redeemable Shares | $ | 32,192,800 | $ | 7,683,232 |
| Redemption of MedMen LLC Redeemable Shares | $ | - | $ | 24,439,469 |
| Acquisition of Non-Controlling Interests | $ | - | $ | 96,549 |
| Options Issued for Other Assets | $ | - | $ | 633,837 |
| Equity Component of Debt Modification - Non-Controlling Interest | $ | 5,331,969 | $ | 21,138,824 |
| Shares Issued for Debt Issuance Costs | $ | - | $ | 5,836,550 |
| Conversion of Convertible Debentures | $ | - | $ | 3,802,381 |
| Shares Issued to Settle Debt and Accrued Interest | $ | 6,908,194 | $ | - |
| Shares Issued to Settle Accounts Payable and Liabilities | $ | 4,798,343 | $ | 8,929,288 |
| Equity Component of Debt - New and Amended | $ | 23,781,053 | $ | - |
| Accrued Interest Added to Senior Secured Convertible Debt | $ | 10,247,255 | $ | - |
| Finance Lease Assets Acquired Under Sale and Leaseback Transactions | $ | - | $ | 16,876,813 |
| Deferred Tax Impact on Property Purchases | $ | 15,948,592 | $ | 26,230,572 |
| Deferred Tax Impact on Intangible Purchases | $ | (362,125) | $ | 36,154,740 |
| Deferred Tax Impact on Conversion Feature | $ | 11,009,989 | $ | 7,473,216 |
| Accrual for the Repurchase of Class A Super Voting Shares | $ | 475,650 | $ | - |
| Deferred Gain on Sale and Leaseback Transactions | $ | - | $ | 5,666,274 |

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

## 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 principal whole-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").

MM CAN was converted into a California corporation (from a Delaware corporation) on May 16, 2018 and is based in Culver City, California. The head office and principal address of MM CAN is 10115 Jefferson Boulevard, Culver City, California 90232.

MM Enterprises USA was formed on January 9, 2018 and is based in Culver City, California. The head office and principal address of MM Enterprises USA is 10115 Jefferson Boulevard, Culver City, California 90232. MM Enterprises USA was formed as a joint venture whose contributors were MMMG, LLC ("MMMG"); MedMen Opportunity Fund, LP ("Fund I"); MedMen Opportunity Fund II, LP ("Fund II"), The MedMen of Nevada 2, LLC ("MMNV2"); DHSM Investors, LLC ("DHS Owner"); and Bloomfield Partners Utica, LLC ("Utica Owner") (collectively, the "MedMen Group of Companies").

On January 24, 2018, pursuant to a Formation and Contribution Agreement (the "Agreement"), a roll-up transaction was consummated whereby the assets and liabilities of The MedMen Group of Companies were transferred into MM Enterprises USA. In return, the MedMen Group of Companies received 217,184,382 MM Enterprises USA Class B Units. The Agreement was entered into by and among MM Enterprises Manager, LLC, the sole manager of MM Enterprises USA; MMMG; Fund I; Fund II; MMNV2; DHS Owner; and Utica Owner.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Preparation***

The accompanying consolidated financial statements have been prepared on a going concern basis in accordance with accounting principles generally accepted in the United States of America ("GAAP") and reflect the accounts and operations of the Company and those of the Company's subsidiaries in which the Company has a controlling financial interest.

All intercompany transactions and balances have been eliminated in consolidation. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of the consolidated financial position of the Company as of June 27, 2020 and June 29, 2019, the consolidated results of operations and cash flows for the years ended June 27, 2020 and June 29, 2019 have been included. In accordance with the provisions of FASB ASC 810, "*Consolidation*" ("ASC 810"), the Company consolidates any variable interest entity ("VIE"), of which the Company is the primary beneficiary.

***Fiscal Year-End***

The Company's fiscal year is a 52/53 week year ending on the last Saturday in June. In a 52-week fiscal year, each of the Company's quarterly periods will comprise 13 weeks. The additional week in a 53-week fiscal year is added to the fourth quarter, making such quarter consist of 14 weeks. The Company's first 53-week fiscal year will occur in fiscal year 2024. The Company's fiscal years ended June 27, 2020 and June 29, 2019 included 52 weeks.

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

***Going Concern***

As reflected in the consolidated financial statements, the Company had an accumulated deficit and a negative net working capital (current liabilities greater than current assets) as of June 27, 2020, as well as a net loss and negative cash flow from operating activities for the reporting period then ended. These factors raise substantial doubt about the Company's ability to continue as a going concern for at least one year from the issuance of these financial statements.

Management believes that substantial doubt of our ability to meet our obligations for the next twelve months from the date these financial statements were first made available has been alleviated due to, but not limited to, (i) capital raised between July 2020 and July 2021, (ii) restructuring plans that have already been put in place to reduce corporate-level expenses, (iii) debt amendments that have been agreed to with lenders and landlords to defer cash interest and rent payments, (iv) reduction in capital expenditures through a slow-down in new store buildouts, (v) plans to divest non-core assets to raise non-dilutive capital, (vi) enhancements to its digital offering, including direct-to-consumer delivery and curbside pick-up in light of COVID-19 and (vii) a change in retail strategy to pass certain local taxes and payment processing fees to customers.

However, management cannot provide any assurances that we will be successful in accomplishing any of our plans. Management also cannot provide any assurance as to unforeseen circumstances that could occur at any time within the next twelve months or thereafter which could increase our need to raise additional capital on an immediate basis.

The Company will continually monitor its capital requirements based on its capital and operational needs and the economic environment and may raise new capital as necessary. The Company's ability to continue as a going concern will depend on its ability to raise additional equity or debt in the private or public markets, reducing operating expenses, divesting of certain non-core assets, achieving cash flow profitability. While the Company has been successful in raising equity and debt to date, there can be no assurances that the Company will be successful in completing a financing in the future. If the Company is unable to raise additional capital whenever necessary, it may be forced to divest additional assets to raise capital and/or pay down its debt, amend its debt agreements which could potentially have a dilutive effect on the Company's shareholders, further reduce operating expenses and temporarily pause the opening of new store locations. Furthermore, COVID-19 and the impact the global pandemic has had and will continue to have on the broader retail environment could also have a significant impact on the Company's financial operations.

***Emerging Growth Company***

The Company is an emerging growth company as defined in the Jumpstart Our Business Startups Act (the "JOBS Act") under which emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies.

***Functional Currency***

The Company and its subsidiaries' functional currency, as determined by management, is the United States ("U.S.") dollar. These consolidated financial statements are presented in U.S. dollars as this is the primary economic environment of the group. All references to "C$" refer to Canadian dollars.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

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

### *Consolidation of Variable Interest Entities ("VIE")*

ASC 810 requires a variable interest holder to consolidate a VIE if that party has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. To determine whether or not a variable interest the Company holds could potentially be significant to the VIE, the Company considers both qualitative and quantitative factors regarding the nature, size and form of the Company's involvement with the VIE. The equity method of accounting is applied to entities in which the Company is not the primary beneficiary or the entity is not a VIE and the Company does not have effective control, but can exercise influence over the entity with respect to its operations and major decisions. The Company does not consolidate a VIE in which it is not considered the primary beneficiary. The Company evaluates its relationships with all the VIE's on an ongoing basis to reassess if it continues to be the primary beneficiary.

The following are the Company's VIE that are included in these consolidated financial statements as of and for the fiscal years ended June 27, 2020 and June 29, 2019:

*Retail Entities*

| Entity | | Location | Purpose | Ownership 2020 | Ownership 2019 |
|---|---|---|---|---|---|
| Nature's Cure, Inc. | *(1) (3)* | Los Angeles - LAX Airport | Dispensary | 0% | 0% |
| LAX Fund II Group, LLC | *(1) (4)* | | | 0% | 0% |
| Venice Caregiver Foundation, Inc. | *(2) (3)* | Venice Beach - Abbot Kinney | Dispensary | 0% | 0% |

*(1) Nature's Cure, Inc. is wholly-owned by MedMen Opportunity Fund II, LP, a related party, and under control of the Company through a management agreement. The Company does not hold any ownership interests in the entity.*
*(2) Venice Caregivers Foundation, Inc. is wholly-owned by MedMen Opportunity Fund II, LP, a related party, and under control of the Company through a management agreement. The Company does not hold any ownership interests in the entity.*
*(3) California Corporation*
*(4) California Limited Liability Company*

### *Basis of Consolidation*

These consolidated financial statements as of and for the year ended June 27, 2020 and June 29, 2019 include the accounts of the Company, its wholly-owned subsidiaries and entities over which the Company has control as defined in ASC 810. 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 has ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity. In assessing control, potential voting rights that are currently exercisable are taken into account.

The following are the Company's principal whole-owned subsidiaries that are included in these consolidated financial statements as of and for the year ended June 27, 2020 and June 29, 2019:

*Corporate Entities*

| Entity | | Location | Purpose | Ownership 2020 | Ownership 2019 |
|---|---|---|---|---|---|
| MM CAN USA, Inc. | *(5)* | California | Manager of MM Enterprises USA, LLC | 100% | 100% |
| MM Enterprises USA, LLC | *(8)* | Delaware | Operating Entity | 100% | 100% |
| Convergence Management Service | *(17)* | Canada | Public Relations Entity | 100% | 0% |

*Management Entities*

| Subsidiaries | | Location | Purpose | Ownership 2020 | Ownership 2019 |
|---|---|---|---|---|---|
| LCR SLP, LLC | *(8)* | Delaware | Holding Company | 100% | 100% |
| LCR Manager, LLC | *(16)* | Delaware | Manager of the Real Estate Investment Trust | 0% | 70% |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

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

The following are MM Enterprises USA's wholly-owned subsidiaries and entities over which the Company has control that are included in these consolidated financial statements as of and for the fiscal years ended June 27, 2020 and June 29, 2019:

*Real Estate Entities*

| Subsidiaries | | Location | Purpose | Ownership 2020 | Ownership 2019 |
|---|---|---|---|---|---|
| MMOF Venice Parking, LLC | *(6)* | Venice Beach - Lincoln Blvd. | Parking Lot | 100% | 100% |
| MME RE AK, LLC | *(6)* | Venice Beach - Abbot Kinney | Building | 100% | 100% |
| MMOF RE SD, LLC | *(6)* | San Diego - Kearny Mesa | Building | 100% | 100% |
| MMOF RE Vegas 2, LLC | *(10)* | Las Vegas - The Strip | Building | 100% | 100% |
| MMOF RE Fremont, LLC | *(10)* | Las Vegas - Downtown Arts District | Building | 100% | 100% |
| MME RE BH, LLC | *(6)* | Los Angeles - Beverly Hills | Building | 100% | 100% |
| NVGN RE Holdings, LLC | *(10)* | Nevada | Genetics R&D Facility | 100% | 100% |

*Retail Entities*

| Subsidiaries | | Location | Purpose | Ownership 2020 | Ownership 2019 |
|---|---|---|---|---|---|
| Manlin LLC | *(1) (2) (6)* | Los Angeles - West Hollywood | Dispensary | 100% | 100% |
| Farmacy Collective | *(1) (3) (7)* | Los Angeles - West Hollywood | Dispensary | 100% | 100% |
| The Source Santa Ana | *(1) (4) (5)* | Orange County - Santa Ana | Dispensary | 100% | 100% |
| SA Fund Group RT | | | | 100% | 100% |
| CYON Corporation, Inc. | *(5)* | Los Angeles - Beverly Hills | Dispensary | 100% | 100% |
| BH Fund II Group, LLC | *(6)* | | | 100% | 100% |
| MMOF Downtown Collective, LLC | *(6)* | Los Angeles - Downtown | Dispensary | 100% | 100% |
| Advanced Patients' Collectiv | *(5)* | | | 100% | 100% |
| DT Fund II Group, LLC | *(5)* | | | 100% | 100% |
| MMOF San Diego Retail, Inc. | *(6)* | San Diego - Kearny Mesa | Dispensary | 100% | 100% |
| San Diego Retail Group II, LL | *(5)* | | | 100% | 100% |
| MMOF Venice, LLC | *(6)* | Venice Beach - Lincoln Blvd. | Dispensary | 100% | 100% |
| The Compassion Network, LL | *(5)* | | | 100% | 100% |
| MMOF PD, LLC | *(6)* | Palm Desert | Dispensary | 100% | 100% |
| MMOF Palm Desert, Inc. | *(5)* | | | 100% | 100% |
| MMOF SM, LLC | *(6)* | Santa Monica | Dispensary | 100% | 100% |
| MMOF Santa Monica, Inc. | *(5)* | | | 100% | 100% |
| MMOF Fremont, LLC | *(10)* | Las Vegas - Downtown Arts District | Dispensary | 100% | 100% |
| MMOF Fremont Retail, Inc. | *(9)* | | | 100% | 100% |
| MME SF Retail, Inc. | *(5)* | San Francisco | Dispensary | 100% | 100% |
| MMOF Vegas, LLC | *(10)* | Las Vegas - North Las Vegas | Dispensary | 100% | 100% |
| MMOF Vegas Retail, Inc. | *(9)* | | | 100% | 100% |
| MMOF Vegas 2, LLC | *(10)* | Las Vegas - Cannacopia | Dispensary | 100% | 100% |
| MMOF Vegas Retail 2, Inc. | *(9)* | | | 100% | 100% |
| MME VMS, LLC | *(7)* | San Jose | Dispensary | 100% | 100% |
| Viktoriya's Medical Supplies, | *(7)* | | | 100% | 100% |
| Project Compassion Venture, LLC | *(9)* | | | 100% | 100% |
| Project Compassion Capital, L | *(9)* | | | 100% | 100% |
| Project Compassion NY, | *(9)* | | | 100% | 100% |
| MedMen NY, Inc. | *(11)* | New York (Manhattan / Syracuse / Lake Success / Buffalo) | Dispensaries | 100% | 100% |
| MME IL Group LLC | *(15)* | Oak Park, Illinois | Dispensary | 100% | 100% |
| Future Transactions Holdings | *(15)* | | | 100% | 100% |
| MME Seaside, LLC | *(6)* | Seaside, California | Dispensary | 100% | 100% |
| PHSL, LLC | *(6)* | | | 100% | 100% |
| MME Sorrento Valley, LLC | *(6)* | San Diego – Sorrento Valley | Dispensary | 100% | 100% |
| Sure Felt, LLC | *(6)* | | | 100% | 100% |
| Rochambeau, Inc. | *(5)* | Emeryville, California | Dispensary | 100% | 100% |
| Kannaboost Technology, Inc. | *(14)* | Scottsdale and Tempe, Arizona | Dispensaries | 100% | 100% |
| CSI Solutions, LLC | *(13)* | | | 100% | 100% |
| MME AZ Group, LLC | *(13)* | Mesa, Arizona | Dispensary | 100% | 100% |
| EBA Holdings, Inc. | *(14)* | | | 100% | 100% |
| MattnJeremy, Inc. | *(5)* | Long Beach, California | Dispensary | 100% | 0% |
| Milkman, LLC | *(6)* | Grover Beach, California | Dispensary | 100% | 0% |
| MME 1001 North Retail, LLC | *(15)* | Chicago, Illinois | Dispensary | 100% | 0% |
| MME Evanston Retail, LLC | *(15)* | Evanston, Illinois | Dispensary | 100% | 0% |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

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

*Cultivation Entities*

| Subsidiaries | | Location | Purpose | Ownership 2020 | Ownership 2019 |
|---|---|---|---|---|---|
| Project Mustang Development, LL( | *(10)* | Northern Nevada | Cultivation and Production Facility | 100% | 100% |
| The MedMen of Nevada 2, LLC | *(10)* | | | 100% | 100% |
| MMNV2 Holdings I, LLC | *(10)* | | | 100% | 100% |
| MMNV2 Holdings II, LLC | *(10)* | | | 100% | 100% |
| MMNV2 Holdings III, LLC | *(10)* | | | 100% | 100% |
| MMNV2 Holdings IV, LLC | *(10)* | | | 100% | 100% |
| MMNV2 Holdings V, LLC | *(10)* | | | 100% | 100% |
| Manlin DHS Development, LLC | *(10)* | Desert Hot Springs, California | Cultivation and Production Facility | 100% | 100% |
| Desert Hot Springs Green Horizon, | *(7)* | | | 100% | 100% |
| Project Compassion Venture, LLC | *(8)* | Utica, New York | Cultivation and Production Facility | 100% | 100% |
| EBA Holdings, Inc. | *(14)* | Mesa, Arizona | Cultivation and Production Facility | 100% | 100% |
| Kannaboost Technology, Inc. | *(14)* | Mesa, Arizona | Cultivation and Production Facility | 100% | 100% |
| CSI Solutions, LLC | *(13)* | | | 100% | 100% |
| MME Florida, LLC | *(12)* | Eustis, Florida | Cultivation and Production Facility | 100% | 100% |

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(1) *Subsidiary over which the Company previously controlled under a management agreement. See "Note 2 – Consolidation of Variable Interest Entities" for further information. All intercompany balances and transactions are eliminated on consolidation.*

(2) *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 wholly-owned by i5, an entity controlled or owned by Captor Capital. Prior to January 25, 2019, the Company consolidated the entity as a VIE. On January 25, 2019, the Company acquired all non-controlling interest from i5. See "Note 19 – Shareholders' Equity" for further information.*

(3) *Farmacy Collective contains the operations of WeHo. The Company had a management agreement with i5 to manage WeHo, which was wholly-owned by i5, an entity controlled or owned by Captor Capital. Prior to January 25, 2019, the Company consolidated the entity as a VIE. On January 25, 2019, the Company acquired all non-controlling interest from i5. See "Note 19 – Shareholders' Equity" for further information.*

(4) *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 wholly-owned by i5, an entity controlled or owned by Captor Capital. Prior to January 25, 2019, the Company consolidated the entity as a VIE. On January 25, 2019, the Company acquired all non-controlling interest from i5. See "Note 19 – Shareholders' Equity" for further information.*

(5) *California Corporation*

(6) *California Limited Liability Company*

(7) *California Non-Profit Corporation*

(8) *Delaware Limited Liability Company*

(9) *Nevada Corporation*

(10) *Nevada Limited Liability Company*

(11) *New York Corporation*

(12) *Florida Limited Liability Company*

(13) *Arizona Limited Liability Company*

(14) *Arizona Corporation*

(15) *Illinois Limited Liability Company*

(16) *Delaware Limited Liability Company*

(17) *British Columbia, Canada Limited Company*

### *Non-Controlling Interest*

Non-controlling interest represents equity interests owned by parties that are not shareholders of the ultimate parent. The share of net assets attributable to non-controlling interests is presented as a component of equity. Their share of net income or loss is recognized directly in equity. Changes in the parent company's ownership interest that do not result in a loss of control are accounted for as equity transactions.

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

***Use of Estimates***

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the consolidated financial statements and the reported amounts of total net revenue and expenses during the reporting period. The Company regularly evaluates significant estimates and assumptions related to the consolidation or non-consolidation of variable interest entities, estimated useful lives, depreciation of property and equipment, amortization of intangible assets, inventory valuation, stock-based compensation, business combinations, goodwill impairment, long-lived asset impairment, purchased asset valuations, fair value of financial instruments, compound financial instruments, derivative liabilities, deferred income tax asset valuation allowances, incremental borrowing rates, lease terms applicable to lease contracts and going concern. These estimates and assumptions are based on current facts, historical experience and various other factors that the Company believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenue, costs and expenses that are not readily apparent from other sources. The actual results the Company experiences may differ materially and adversely from these estimates. To the extent there are material differences between the estimates and actual results, the Company's future results of operations.

***Cash and Cash Equivalents***

Cash and cash equivalents comprised of cash and highly liquid investments that are readily convertible into known amounts of cash with original maturities of three months or less.

***Restricted Cash***

Restricted cash balances are those which meet the definition of cash and cash equivalents but are not available for use by the Company. As of June 27, 2020 and June 29, 2019, restricted cash was $9,873 and $55,618, respectively, which is used to pay for lease costs and costs incurred related to building construction in Reno, Nevada. This account is managed by a contractor and the Company is required to maintain a certain minimum balance.

***Inventory***

Inventory is comprised of raw materials, finished goods and work-in-process such as pre-harvested cannabis plants and by-products to be extracted. The costs of growing cannabis, including but not limited to labor, utilities, nutrition and supplies, are capitalized into inventory until the time of harvest. All direct and indirect costs related to inventory are capitalized when incurred, and subsequently classified to cost of goods sold in the Consolidated Statement of Operations. Raw materials and work-in-process is stated at the lower of cost or net realizable value, determined using the weighted average cost. Finished goods inventory is stated at the lower of cost or net realizable value, with cost being determined on the first-in, first-out ("FIFO") method of accounting. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. The Company periodically reviews physical inventory for excess, obsolete, and potentially impaired items and reserves. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory is written down to net realizable value. Packaging and supplies are initially valued at cost. The reserve estimate for excess and obsolete inventory is based on expected future use. The reserve estimates have historically been consistent with actual experience as evidenced by actual sale or disposal of the goods. As of June 27, 2020 and June 29, 2019, the Company determined that no reserve was necessary.

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

***Investments***

Investments in unconsolidated affiliates are accounted as follows:

*Equity Method and Joint Venture Investments*

The Company accounts for investments in which it can exert significant influence but does not control as equity method investments in accordance with ASC 323, "*Investments—Equity Method and Joint Ventures*". In accordance with ASC 825, the fair value option ("FVO") to measure eligible items at fair value on an instrument by instrument basis can be applied. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for under the equity method. These investments are recorded at the amount of the Company's investment and adjusted each period for the Company's share of the investee's income or loss, and dividends paid.

*Investments at Fair Value*

Equity investments not accounted for using the equity method are carried at fair value, with changes recognized in profit or loss ("FVTPL") in accordance with ASC 321, "*Investments—Equity Securities*".

*Investments in Equity without Readily Determinable Fair Value*

Investments without readily determinable fair values (which are classified as Level 3 investments in the fair value hierarchy) use a determinable available measurement alternative in accordance with ASC 321, "*Investments—Equity Securities*". The measurement alternative requires the investments to be held at cost and adjusted for impairment and observable price changes, if any.

***Property and Equipment***

Property and equipment is stated at cost, net of accumulated depreciation and impairment losses, if any. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset using the following terms and methods:

| | |
|---|---|
| Land | Not Depreciated |
| Buildings and Improvements | 39 Years |
| Finance Lease Asset | Shorter of Lease Term or Economic Life |
| Right of Use Assets | 10 – 20 Years |
| Furniture and Fixtures | 3 – 7 Years |
| Leasehold Improvements | Shorter of Lease Term or Economic Life |
| Equipment and Software | 3 – 7 Years |
| Construction in Progress | Not Depreciated |

The assets' residual values, useful lives and methods of depreciation are reviewed at each reporting period and adjusted prospectively if appropriate. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the Consolidated Statements of Operations in the period the asset is derecognized.

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

***Intangible Assets***

Intangible assets are recorded at cost, less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite life intangibles is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. The estimated useful lives, residual values and amortization methods are reviewed at each reporting period, and any changes in estimates are accounted for prospectively. Intangible assets with an indefinite life or not yet available for use are not subject to amortization. Amortization is calculated on a straight-line basis over the estimated useful life of the asset using the following terms and methods:

| | |
|---|---|
| Dispensary Licenses | 15 Years |
| Customer Relationships | 5 Years |
| Management Agreement | 30 Years |
| Intellectual Property | 10 Years |
| Capitalized Software | 3 Years |

In accordance with ASC 350, "*Intangibles—Goodwill and Other*", costs of internally developing, maintaining or restoring intangible assets are expensed as incurred. Inversely, costs are capitalized when certain criteria is met through the point at which the intangible asset is substantially complete and ready for its intended use.

***Goodwill***

Goodwill is measured as the excess of consideration transferred and the net of the acquisition date fair value of assets acquired, and liabilities assumed in a business acquisition. In accordance with ASC 350, "*Intangibles—Goodwill and Other"*, goodwill and other intangible assets with indefinite lives are no longer subject to amortization. The Company reviews the goodwill and other intangible assets allocated to each of the Company's reporting units for impairment on an annual basis as of year-end or whenever events or changes in circumstances indicate carrying amount it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The carrying amount of each reporting unit is determined based upon the assignment of the Company's assets and liabilities, including existing goodwill, to the identified reporting units. Where an acquisition benefits only one reporting unit, the Company allocates, as of the acquisition date, all goodwill for that acquisition to the reporting unit that will benefit. In order to determine if goodwill is impaired, the Company measures the impairment of goodwill by comparing a reporting unit's carrying amount to the estimated fair value of the reporting unit. If the carrying amount of a reporting unit is in excess of its fair value, the Company recognizes an impairment charge equal to the amount in excess. A goodwill impairment loss associated with a discontinued operation is included within the results of discontinued operations.

***Impairment of Long-Lived Assets***

For purposes of the impairment test, long-lived assets such as property, plant and equipment and definite-lived intangible assets are grouped with other assets and liabilities at the lowest level for which identifiable independent cash flows are available ("asset group"). The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In order to determine if assets have been impaired, the impairment test is a two-step approach wherein the recoverability test is performed first to determine whether the long-lived asset is recoverable. The recoverability test (Step 1) compares the carrying amount of the asset to the sum of its future undiscounted cash flows using entity-specific assumptions generated through the asset's use and eventual disposition. If the carrying amount of the asset is less than the cash flows, the asset is recoverable and an impairment is not recorded. If the carrying amount of the asset is greater than the cash flows, the asset is not recoverable and an impairment loss calculation (Step 2) is required. The measurement of the impairment loss to be recognized is based on the difference between the fair value and the carrying value of the asset group. Fair value can be determined using a market approach, income approach or cost approach. The cash flow projection and fair value represents management's best estimate, using appropriate and customary assumptions, projections and methodologies, at the date of evaluation. The reversal of impairment losses is prohibited.

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

***Leased Assets***

On June 30, 2019, the Company adopted ASU 2016-02, "*Leases (Topic 842)"* ("ASC 842") using the modified retrospective approach, which provides a method for recording existing leases at adoption using the effective date as its date of initial application. In adoption of ASC 842, the Company applied the practical expedient which provides an additional transition method which allows entities to elect not to recast comparative periods presented. The Company elected the package of practical expedients provided by ASC 842, which forgoes reassessment of the following upon adoption of the new standard: (1) whether contracts contain leases for any expired or existing contracts, (2) the lease classification for any expired or existing leases, and (3) initial direct costs for any existing or expired leases. In addition, the Company elected an accounting policy to exclude from the balance sheet the right-of-use assets and lease liabilities related to short-term leases, which are those leases with a lease term of twelve months or less that do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise.

The Company applies judgment in determining whether a contract contains a lease and if a lease is classified as an operating lease or a finance lease. The Company applies judgement in determining the lease term as the non-cancellable term of the lease, which may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. All relevant factors that create an economic incentive for it to exercise either the renewal or termination are considered. The Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate. In adoption of ASC 842, the Company applied the practical expedient which applies hindsight in determining the lease term and assessing impairment of right-of-use assets by using its actual knowledge or current expectation as of the effective date. The Company also applies judgment in allocating the consideration in a contract between lease and non-lease components. It considers whether the Company can benefit from the right-of-use asset either on its own or together with other resources and whether the asset is highly dependent on or highly interrelated with another right of-use asset. Lessees are required to record a right of use asset and a lease liability for all leases with a term greater than twelve months. Lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected remaining lease term. The incremental borrowing rate is determined using estimates which are based on the information available at commencement date and determines the present value of lease payments if the implicit rate is unavailable.

If a previous sale and leaseback transaction was accounted for as a sale and capital leaseback under ASC 840, then the entity continues recognizing any deferred gain or loss under ASC 842. Sale and leaseback transactions are assessed to determine whether a sale has occurred under ASC 606. If a sale is determined not to have occurred, the underlying "sold" assets are not derecognized and a financing liability is established in the amount of cash received. At such time that the lease expires, the assets are then derecognized along with the financing liability, with a gain recognized on disposal for the difference between the two amounts, if any. On the date of adoption, the Company recognized right of use assets and lease liabilities on its Consolidated Balance Sheets, which reflect the present value of the Company's current minimum lease payments over the lease terms, which include options that are reasonably certain to be exercised, discounted using the Company's incremental borrowing rate. Refer to *"Note 16 – Leases*" for further discussion.

***Income Taxes***

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

*Current Tax*

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

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

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

*Deferred Tax*

Income taxes are accounted for under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax basis of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Deferred tax assets are recognized to the extent that the Company believe that these assets are more likely than not to be realized. In making such a determination, all available positive and negative evidence are considered, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If it is determined that the Company would be able to realize deferred tax assets in the future in excess of their net recorded amount, an adjustment to the deferred tax asset valuation allowance is recorded, which would reduce the provision for income taxes.

Uncertain tax positions are recorded in accordance with ASC 740 on the basis of a two-step process in which (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

**Change in Tax Policy**

During the year ended June 27, 2020, the Company elected to change its policy on how it treats deferred taxes on its lease transactions. The Company elected to treat deferred taxes related to lease transactions as permanent differences. Prior to this election, lease transactions were treated as temporary differences. Accordingly, the Company retrospectively applied this change to the prior year. As of June 29, 2019, the effect of the retrospective adjustments consists of the following:

| | | Increase (Decrease) |
|---|---|---|
| **Consolidated Balance Sheet** | | |
| Property and Equipment, Net | $ | (6,105,588) |
| Deferred Tax Liabilities | $ | (9,540,007) |
| Accumulated Deficit | $ | 3,434,419 |
| **Consolidated Statement of Operations** | | |
| Provision for Income Taxes | $ | 3,355,935 |
| Net Loss and Comprehensive Loss Attributable to Shareholders of MedMen Enterprises Inc. | $ | 3,355,935 |
| Loss Per Share - Basic and Diluted Attributable to Shareholders of MedMen Enterprises Inc. | $ | 0.03 |
| **Consolidated Statement of Cash Flows** | | |
| Deferred Tax (Recovery) Expense | $ | (3,355,935) |
| Depreciation and Amortization | $ | (78,484) |
| Non - Cash Deferred Tax Impact on Property Purchases | $ | (6,184,072) |

***Convertible Instruments***

The Company evaluates and accounts for conversion options embedded in its convertible instruments in accordance with ASC 815, *"Accounting for Derivative Instruments and Hedging Activities"*. Professional standards generally provide three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not remeasured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. Professional standards also provide an exception to this rule when the host instrument is deemed to be conventional as defined under professional standards as "The Meaning of Conventional Convertible Debt Instrument".

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

The Company accounts for convertible instruments (when it has determined that the embedded conversion options should not be bifurcated from their host instruments) in accordance ASC 470, *"Accounting for Convertible Securities with Beneficial Conversion Features",* as those professional standards pertain to "Certain Convertible Instruments". Accordingly, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption. The Company also records when necessary deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. ASC 815-40 provides that generally, if an event is not within the entity's control could or require net cash settlement, then the contract shall be classified as an asset or a liability.

***Derivative Liabilities***

The Company evaluates all of its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the Consolidated Statements of Operations. In calculating the fair value of derivative liabilities, the Company uses a valuation model when Level 1 inputs are not available to estimate fair value at each reporting date. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the Consolidated Balance Sheets as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within twelve months of the Consolidated Balance Sheets date. Critical estimates and assumptions used in the model are discussed in *"Note 15 – Derivative Liabilities*".

***Business Combinations***

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition. Acquisition related transaction costs are expensed as incurred and included in the Consolidated Statements of Operations. Identifiable assets and liabilities, including intangible assets, of acquired businesses are recorded at their fair value at the date of acquisition. When the Company acquires control of a business, any previously held equity interest also is remeasured to fair value. The excess of the purchase consideration and any previously held equity interest over the fair value of identifiable net assets acquired is goodwill. If the fair value of identifiable net assets acquired exceeds the purchase consideration and any previously held equity interest, the difference is recognized in the Consolidated Statements of Operations immediately as a gain on acquisition. See *"Note 9 – Business Acquisitions"* for further details on business combinations.

Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. The Company allocates the total cost of the acquisition to the underlying net assets based on their respective estimated fair values. As part of this allocation process, the Company identifies and attributes values and estimated lives to the intangible assets acquired. These determinations involve significant estimates and assumptions regarding multiple, highly subjective variables, including those with respect to future cash flows, discount rates, asset lives, and the use of different valuation models, and therefore require considerable judgment. The Company's estimates and assumptions are based, in part, on the availability of listed market prices or other transparent market data. These determinations affect the amount of amortization expense recognized in future periods. The Company bases its fair value estimates on assumptions it believes to be reasonable but are inherently uncertain. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with ASC 450, *"Contingencies"*, as appropriate, with the corresponding gain or loss being recognized in earnings in accordance with ASC 805.

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

***Assets Held for Sale***

The Company classifies assets held for sale in accordance with ASC 360, *"Property, Plant, and Equipment"*. 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) management, having the authority to approve the action, commits to a plan to sell the asset, ii) the asset is available for immediate sale in its present condition subject to certain customary terms, iii) an active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated, iv) the sale of the asset is probable, the transfer of the asset is expected to qualify for recognition as a completed sale, within one year, subject to certain exceptions, v) the asset is being actively marketed for sale at a price that is reasonable in relation to its current value, 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"). 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. For long-lived assets or disposals groups that are classified as held for sale but do not meet the criteria for discontinued operations, the assets and liabilities are presented separately on the balance sheet of the initial period in which it is classified as held for sale. The major classes of assets and liabilities classified as held for sale are disclosed in the notes to the consolidated financial statements. See *"Note 7 – Assets Held for Sale"* and *"Note 26 – Discontinued Operations"*.

***Discontinued Operations***

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. Under ASC 205-20, *"Discontinued Operations"*, a discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale and represents a strategic shift that has or will have a major effect on the entity's operations and financial results, or a newly acquired business or nonprofit activity that upon acquisition is classified as held for sale. Discontinued operations are presented separately from continuing operations in the Consolidated Statements of Operations and the Consolidated Statements of Cash Flows. See *"Note 26 – Discontinued Operations"*.

***Revenue Recognition***

Revenue is recognized by the Company in accordance with ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)"*. Through application of the standard, the Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. In order to recognize revenue under ASU 2014-09, the Company applies the following five (5) steps:

- Identify a customer along with a corresponding contract;
- Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to a customer;
- Determine the transaction price the Company expects to be entitled to in exchange for transferring promised goods or services to a customer;
- Allocate the transaction price to the performance obligation(s) in the contract;
- Recognize revenue when or as the Company satisfies the performance obligation(s).

Revenues consist of wholesale and retail sales of cannabis, which are generally recognized at a point in time when control over the goods have been transferred to the customer and is recorded net of sales discounts. Payment is typically due upon transferring the goods to the customer or within a specified time period permitted under the Company's credit policy. Sales discounts were not material during the years ended June 27, 2020 and June 29, 2019.

Revenue is recognized upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control upon delivery and acceptance by the customer. Based on the Company's assessment, the adoption of this new standard had no impact on the amounts recognized in its consolidated financial statements.

*Dispensary Revenue*

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

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

*Cultivation and Wholesale*

The Company recognizes revenue from the sale of cannabis for a fixed price upon the shipment of cannabis goods as the Company has transferred to the buyer the significant risks and rewards of ownership of the goods and the Company does not retain either continuing material involvement to the degree usually associated with ownership nor effective control over the goods sold and the amount of revenue can be measured reliably and collectible and the costs incurred in respect of the transaction is reliably measured.

*Delivery Revenue*

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

***Stock-Based Compensation***

The Company has a stock-based compensation plan comprised of stock options, stock grants, deferred share units ("DSU"), restricted stock units ("RSU") and three classes of member units: 1) Common Units; 2) Appreciation Only Long-Term Incentive Performance Units ("AO LTIP Units"); and 3) Fair Value Long-Term Incentive Performance Units ("FV LTIP Units"). AO LTIP Units and FV LTIP Units are convertible into Long-Term Incentive Performance Units ("LTIP Units"). LTIP Units are convertible into Common Units on a one-for-one basis.

The Company accounts for its stock-based awards in accordance with ASC Subtopic 718-10, *"Compensation – Stock Compensation"*, which requires fair value measurement on the grant date and recognition of compensation expense for all stock-based payment awards made to employees and directors, including restricted stock awards. For stock options, the Company estimates the fair value using a closed option valuation (Black-Scholes) model. When there are market-related vesting conditions to the vesting term of the share-based compensation, the Company uses a valuation model to estimate the probability of the market-related vesting conditions being met and will record the expense. The fair value of restricted stock awards is based upon the quoted market price of the common shares on the date of grant. The fair value is then expensed over the requisite service periods of the awards, net of estimated forfeitures, which is generally the performance period and the related amount is recognized in the Consolidated Statements of Operations.

The fair value models require the input of certain assumptions that require the Company's judgment, including the expected term and the expected stock price volatility of the underlying stock. The assumptions used in calculating the fair value of stock-based compensation represent management's best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change resulting in the use of different assumptions, stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If the actual forfeiture rate is materially different from management's estimates, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period.

***Loss per Share***

The Company calculates basic loss per share by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting profit or loss attributable to common shareholders and the weighted-average number of common shares outstanding, for the effects of all dilutive potential common shares, which comprise convertible debentures, DSU, RSU, warrants and stock options issued.

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

***Financial Instruments***

*Classification*

The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value through profit or loss ("FVTPL"); (ii) those to be measured subsequently at fair value through other comprehensive income ("FVOCI"); and (iii) those to be measured subsequently at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains or losses are either recorded in profit or loss or other comprehensive income. The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

*Measurement*

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered separately when determining whether their cash flows are solely payment of principal and interest. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

*Fair Value*

The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities that are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

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

In accordance with the fair value accounting requirements, companies may choose to measure eligible financial instruments and certain other items at fair value. The Company has not elected the fair value option for any eligible financial instruments. There have been no transfers between fair value levels during the year.

Financial instruments are measured at amortized cost or at fair value. Financial instruments measured at amortized cost consist of accounts receivable, due from and due to related party, other liabilities, and accounts payable and accrued liabilities wherein the carrying value approximates fair value due to its short-term nature. Other financial instruments measured at amortized cost include notes payable and senior secured convertible credit facility wherein the carrying value at the effective interest rate approximates fair value as the interest rate for notes payable and the interest rate used to discount the host debt contract for senior secured convertible credit facility approximate a market rate for similar instruments offered to the Company.

Cash and cash equivalents and restricted cash are measured at Level 1 inputs. Acquisition related liabilities resulting from business combinations are measured at fair value using Level 1 or Level 3 inputs. Investments that are measured at fair value use Level 3 inputs. Refer to *"Note 6 – Other Current Assets"* for assumptions used to value investments. Refer to "*Note 14 – Contingent Consideration*" for assumptions used to value the contingent consideration related to business combinations. Derivative liabilities are measured on quoted market prices in active markets at Level 1 inputs. Refer to "*Note 15 – Derivative Liabilities*" for assumptions used to value the derivative liabilities.

The individual fair values attributed to the different components of a financing transaction, notably derivative financial instruments, convertible debentures and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and derive estimates. Significant judgment is also used when attributing fair values to each component of a transaction upon initial recognition, measuring fair values for certain instruments on a recurring basis and disclosing the fair values of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of instruments that are not quoted or observable in an active market.

The following table summarizes the Company's financial instruments as of June 27, 2020:

| | Amortized Cost | FVTPL | TOTAL |
|---|---|---|---|
| Financial Assets: | | | |
| Cash and Cash Equivalents | $ - | $ 10,093,925 | $ 10,093,925 |
| Restricted Cash | $ - | $ 9,873 | $ 9,873 |
| Accounts Receivable | $ 963,997 | $ - | $ 963,997 |
| Due from Related Party | $ 3,109,717 | $ - | $ 3,109,717 |
| Investments | $ - | $ 3,786,791 | $ 3,786,791 |
| Financial Liabilities: | | | |
| Accounts Payable and Accrued Liabilities | $ 79,530,930 | $ - | $ 79,530,930 |
| Other Liabilities | $ 10,780,504 | $ - | $ 10,780,504 |
| Acquisition Consideration Related Liabilities | $ - | $ 8,951,801 | $ 8,951,801 |
| Notes Payable | $ 168,998,605 | $ - | $ 168,998,605 |
| Due to Related Party | $ 4,556,814 | $ - | $ 4,556,814 |
| Derivative Liabilities | $ - | $ 546,076 | $ 546,076 |
| Senior Secured Convertible Credit Facility | $ 166,368,463 | $ - | $ 166,368,463 |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

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

The following table summarizes the Company's financial instruments as of June 29, 2019:

| | Amortized Cost | FVTPL | TOTAL |
|---|---|---|---|
| Financial Assets: | | | |
| Cash and Cash Equivalents | $ - | $ 33,226,370 | $ 33,226,370 |
| Restricted Cash | $ - | $ 55,618 | $ 55,618 |
| Accounts Receivable | $ 621,945 | $ - | $ 621,945 |
| Due from Related Party | $ 4,921,455 | $ - | $ 4,921,455 |
| Investments | $ - | $ 13,018,791 | $ 13,018,791 |
| Financial Liabilities: | | | |
| Accounts Payable and Accrued Liabilities | $ 47,610,197 | $ - | $ 47,610,197 |
| Other Liabilities | $ 2,872,380 | $ - | $ 2,872,380 |
| Acquisition Consideration Related Liabilities | $ - | $ 774,000 | $ 774,000 |
| Notes Payable | $ 172,747,559 | $ - | $ 172,747,559 |
| Due to Related Party | $ 5,640,817 | $ - | $ 5,640,817 |
| Derivative Liabilities | $ - | $ 9,343,485 | $ 9,343,485 |
| Senior Secured Convertible Credit Facility | $ 86,855,415 | $ - | $ 86,855,415 |

*Impairment*

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset at the reporting date with the risk of default at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For accounts receivable only, the Company applies the simplified approach as permitted by ASU 2016-13, *"Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"*. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

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

***Recently Issued Accounting Standards***

In December 2019, the FASB issued ASU 2019-12, *"Simplifying the Accounting for Income Taxes"* which eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. It also clarifies and simplifies other aspects of the accounting for income taxes. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company is currently evaluating the adoption date and impact, if any, adoption will have on its financial position and results of operations.

In January 2020, the FASB issued ASU 2020-01, *"Investments—Equity Securities (Topic 321)"*, *"Investments—Equity Method and Joint Ventures (Topic 323)"*, and *"Derivatives and Hedging (Topic 815)"*, which is intended to clarify the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. ASU 2020-01 is effective for the Company beginning January 1, 2021. The Company is currently evaluating the adoption date and impact, if any, adoption will have on its financial position and results of operations.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

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

In August 2020, the FASB issued ASU 2020-06, "*Debt — Debt With Conversion and Other Options (Subtopic 470-20)*" and "*Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity",* which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. ASU 2020-06 is effective for the Company for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Adoption is applied on a modified or full retrospective transition approach. The Company is currently evaluating the adoption date and impact, if any, adoption will have on its financial position and results of operations.

## 3. CONCENTRATIONS OF BUSINESS AND CREDIT RISK

The Company maintains cash with various U.S. banks and credit unions with balances in excess of the Federal Deposit Insurance Corporation and National Credit Union Share Insurance Fund limits, respectively. The failure of a bank or credit union where the Company has significant deposits could result in a loss of a portion of such cash balances in excess of the insured limit, which could materially and adversely affect the Company's business, financial condition and results of operations.

The Company provides credit in the normal course of business to customers located throughout the U.S. The Company performs ongoing credit evaluations of its customers and maintains allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends, and other information. There were no customers that comprised more than 10% of the Company's revenue for the years ended June 27, 2020 and June 29, 2019.

## 4. PREPAID EXPENSES

As of June 27, 2020 and June 29, 2019, prepaid expenses consist of the following:

| | 2020 | 2019 |
|---|---|---|
| Prepaid Expenses | $ 3,962,686 | $ 9,471,692 |
| Prepaid Rent | - | 2,077,771 |
| Prepaid Insurance | 700,078 | 2,348,441 |
| **Total Prepaid Expenses** | **$ 4,662,764** | **$ 13,897,904** |

## 5. INVENTORIES

As of June 27, 2020 and June 29, 2019, inventory consists of the following:

| | 2020 | 2019 |
|---|---|---|
| Raw Materials | $ 2,055,500 | $ 3,696,177 |
| Work-in-Process | 8,807,137 | 6,527,407 |
| Finished Goods | 11,775,483 | 15,257,538 |
| **Total Inventory** | **$ 22,638,120** | **$ 25,481,122** |

## 6. OTHER CURRENT ASSETS

As of June 27, 2020 and June 29, 2019, other current assets consist of the following:

| | 2020 | 2019 |
|---|---|---|
| Investments | $ 3,786,791 | $ 13,018,791 |
| Excise Tax Receivable | 5,254,595 | 5,721,945 |
| Other Current Assets | 64,071 | 172,303 |
| **Total Other Current Assets** | **$ 9,105,457** | **$ 18,913,039** |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 6. OTHER CURRENT ASSETS *(Continued)*

As of June 27, 2020 and June 29, 2019, investments included in other current assets consist of the following:

| | ToroVerde Inc. (1) | The Hacienda Company, LLC (2) | Old Pal (3) | Other Investments | TOTAL |
|---|---|---|---|---|---|
| **Fair Value as of July 1, 2018** | $ - | $ - | $ - | $ - | $ - |
| Additions | 5,000,000 | 1,500,000 | 2,000,000 | 259,791 | 8,759,791 |
| Unrealized Gain on Changes in Fair Value of Investments | 600,000 | 709,000 | 2,430,000 | 520,000 | 4,259,000 |
| **Fair Value as of June 29, 2019** | **5,600,000** | **2,209,000** | **4,430,000** | **779,791** | **13,018,791** |
| Non-Cash Additions | - | - | - | 287,000 | 287,000 |
| Unrealized Gain on Changes in Fair Value of Investments | - | 1,294,843 | 2,492,822 | - | 3,787,665 |
| Unrealized Loss on Changes in Fair Value of Investments | (5,600,000) | (2,753,843) | - | - | (8,353,843) |
| Transfer to Assets Held For Sale | - | (3,503,843) | (4,952,822) | - | (8,456,665) |
| Transferred Back from Assets Held for Sale | - | 3,503,843 | - | - | 3,503,843 |
| **Fair Value as of June 27, 2020** | **$ -** | **$ 750,000** | **$ 1,970,000** | **$ 1,066,791** | **$ 3,786,791** |

*(1) In July 2018, the Company purchased 9,000,000 common shares of ToroVerde Inc., an investment company focused on emerging international cannabis markets, for an aggregate purchase price of $5,000,000, or $0.56 per common share, amounting to 14.3% of the outstanding common shares. As the Company was not deemed to exert any significant influence, the investment was recorded at FVTPL as of June 27, 2020 and June 29, 2019. As of June 27, 2020, the Company holds 14.3% of the equity ownership and voting interests in this investment.*

*(2) In July 2018, the Company purchased units of The Hacienda Company, LLC, a California limited liability company, which owns Lowell Herb Co., a California-based cannabis brand known for its pack of pre-rolls called Lowell Smokes, for an aggregate purchase price of $1,500,000, amounting to 3.2% of the outstanding units. Pursuant to SEC guidance under ASC 323, the application of equity method to investments applies to limited liability companies and are required unless the investor holds less than 3-5%. Accordingly, the Company was deemed to have significant influence resulting in equity method accounting. The Company has elected the fair value option under ASC 825 and the investment was recorded at FVTPL as of June 27, 2020 and June 29, 2019. As of June 27, 2020, the Company holds 3.2% of the equity ownership and voting interests in this investment.*

*(3) In October 2018 and March 2019, the Company purchased an aggregate of 125.3 units of Old Pal, a California-based brand that provides high-quality cannabis flower for its customers, for an aggregate purchase price of $2,000,000, amounting to approximately 10.0% of the outstanding units with 8.7% voting interests. Pursuant to SEC guidance under ASC 323, the application of equity method to investments applies to limited liability companies and are required unless the investor holds less than 3-5%. Accordingly, the Company was deemed to have significant influence resulting in equity method accounting. During the year ended June 27, 2020, the Company decreased their level of ownership in which Old Pal no longer qualified under equity method accounting. The Company has elected the fair value option under ASC 825 and the investment was recorded at FVTPL as of June 29, 2019 and continues to measure Old Pal at the previously elected FVTPL under ASC 323 as of June 27, 2020. As of June 27, 2020, the Company holds 2.6% of the equity ownership and 1.4% of the voting interests in this investment.*

During the year ended June 27, 2020, the Company recorded a net loss on changes in fair value of investments of $4,566,178. As of June 27, 2020, the Company's investment balance in ToroVerde Inc. and The Hacienda Company, LLC was nil and $750,000, respectively. The Company determined that the fair value of its investment in Old Pal LLC was $1,970,000 as of June 27, 2020.

The fair value of investments included in other current assets is considered a Level 3 categorization in the fair value hierarchy. Investments are measured at fair value using a market approach that is based on unobservable inputs.

*(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 year ended June 27, 2020 is as follows:

| | PharmaCann Assets (1) | Available for Sale Subsidiaries (2) | Discontinued Operations (3) | Investments | TOTAL |
|---|---|---|---|---|---|
| Balance at Beginning of Period | $ - | $ - | $ 64,365,544 | $ - | $ 64,365,544 |
| Transferred In | 6,870,833 | 12,066,428 | - | 8,456,665 | 27,393,926 |
| Transferred Out | - | - | - | (3,503,843) | (3,503,843) |
| Changes in Fair Value of Assets Held for Sale | (1,050,833) | - | - | - | (1,050,833) |
| Proceeds from Sale | - | - | - | (4,952,822) | (4,952,822) |
| Ongoing Activity from Discontinued Operations | - | - | (43,184,493) | - | (43,184,493) |
| Impairment of Assets | (5,607,600) | - | - | - | (5,607,600) |
| **Balance at End of Period** | **$ 212,400** | **$ 12,066,428** | **$ 21,181,051** | **$ -** | **$ 33,459,879** |

*(1) See "Note 10 – Termination of Previously Announced Acquisition" for further information.*
*(2) Long-lived assets classified as held for sale that do not qualify as discontinued operation and classified as held for sale. Significant classes of assets and liabilities are presented in the notes to the consolidated financial in accordance with ASC 360-10.*
*(3) See "Note 26 – 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 $2,492,822 during the year ended June 27, 2020. 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 June 27, 2020, the Company holds 38.50 Class B Units, or 2.6% of the outstanding units, in Old Pal LLC as an investment. See *"Note 6 – Other Current Assets"* for further information.

On November 13, 2019, the Company entered into an agreement to sell its investment in The Hacienda Company, LLC 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 net loss on fair value of $1,459,000 during the fiscal year ended June 27, 2020. 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 June 27, 2020. See *"Note 6 – Other Current Assets"* for discussion on the change in fair value of the Company's investment. See "*Note 27 – Subsequent Events"* for further discussion.

During the year ended June 27, 2020, the Company decided to divest two cannabis licenses and entered into separate agreements to sell 100% of its membership interests in these two locations, located in California and Illinois, for an aggregate sale price of $21,500,000 of which $10,000,000 was paid upon the signing of the definitive agreement subsequent to June 27, 2020, and an additional $10,000,000 due within six months following the signing of the definitive agreement. See "*Note 27 – Subsequent Events"* for further discussion. A non-binding term sheet was entered on June 26, 2020 in which $750,000 is to be paid upon the date of close and $750,000 paid in equal monthly installments over twelve months through a promissory note. The contemplated sale of these locations are pending customary closing conditions and are expected to be completed within a one year period. The assets and liabilities related to these subsidiaries were classified as held for sale in accordance with ASC 360-10 and are measured at the lower of its carrying amount or FVLCTS. The California assets and Illinois assets received from PharmaCann do not qualify as discontinued operations under ASC 205, *"Discontinued Operations"*.

In accordance of ASC 360-10, the company performed an analysis of any impairments prior to reclassifying certain assets as held for sale and recorded an impairment charge of $53,389,260 of which $46,702,660 is included as a component of loss from discontinued operations, $1,050,833 which is included as a component of realized and unrealized gain on investments and assets held for sale in the Consolidated Statements of Operations and $5,635,767 is included as a component of impairment expense in the accompanying Consolidated Statements of Operations.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 7. ASSETS HELD FOR SALE *(Continued)*

Subsidiaries classified as assets held for sale that do not qualify as discontinued operations as of June 27, 2020 consists of the following:

| | | 2020 |
|---|---|---|
| Carrying Amounts of the Assets Included in Assets Held for Sale: | | |
| Cash and Cash Equivalents | $ | 743,271 |
| Prepaid Expenses | | 7,798 |
| Inventory | | 520,464 |
| Other Current Assets | | 81,427 |
| **TOTAL CURRENT ASSETS** (1) | | |
| Property and Equipment, Net | | 717,952 |
| Operating Lease Right-of-Use Assets | | 190,986 |
| Intangible Assets, Net | | 5,227,288 |
| Goodwill | | 4,577,242 |
| **TOTAL NON-CURRENT ASSETS** (1) | | |
| **TOTAL ASSETS OF SUBSIDIARIES CLASSIFIED AS HELD FOR SALE** | **$** | **12,066,428** |
| Carrying Amounts of the Liabilities Included in Assets Held for Sale: | | |
| Accounts Payable and Accrued Liabilities | $ | 963,255 |
| Income Taxes Payable | | 159,053 |
| Other Current Liabilities | | 27,854 |
| **TOTAL CURRENT LIABILITIES** (1) | | |
| Operating Lease Liabilities, Net of Current Portion | | 296,694 |
| Deferred Tax Liabilities | | 2,151,879 |
| **TOTAL NON-CURRENT LIABILITIES** (1) | | |
| **TOTAL LIABILITIES OF SUBSIDIARIES CLASSIFIED AS HELD FOR SALE** | **$** | **3,598,735** |

*(1) The assets and liabilities of subsidiaries classified as held for sale are classified as current on the Consolidated Balance Sheets as of June 27, 2020 because it is probable that the sale will occur and proceeds will be collected within one year.*

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 8. PROPERTY AND EQUIPMENT

As of June 27, 2020 and June 29, 2019, property and equipment consists of the following:

| | 2020 | 2019 |
|---|---|---|
| Land and Buildings | $ 37,400,378 | $ 68,005,575 |
| Finance Lease Right-of-Use Assets | 26,194,566 | 17,081,955 |
| Furniture and Fixtures | 13,970,449 | 14,273,678 |
| Leasehold Improvements | 63,976,372 | 36,186,686 |
| Equipment and Software | 29,277,120 | 36,175,978 |
| Construction in Progress | 38,470,016 | 75,997,268 |
| **Total Property and Equipment** | 209,288,901 | 247,721,140 |
| Less Accumulated Depreciation | (34,741,034) | (14,825,859) |
| **Property and Equipment, Net** | **$ 174,547,867** | **$ 232,895,281** |

Depreciation expense related to continuing operations of $23,621,713 and $11,040,843 was recorded for the year ended June 27, 2020 and June 29, 2019, respectively, of which $2,989,561 and $1,424,358, respectively, is included in cost of goods sold. The amount of depreciation recognized for the right of use assets for capital leases during the years ended June 27, 2020 and June 29, 2019 was $2,752,022 and $896,176, respectively, see *"Note 16 – Leases"* for further information.

During the year ended June 27, 2020 and June 29, 2019, borrowing costs totaling $1,749,467 and $2,724,118, respectively, were capitalized using an average capitalization rate of 10.2% and 10.5%, respectively. In addition, during the year ended June 27, 2020 and June 29, 2019, total labor related costs of $448,086 and $2,183,419, respectively, were capitalized to Construction in Progress, of which $207,664 and $320,917, respectively, was share-based compensation.

During the year ended June 27, 2020, management noted indicators of impairment of its long-lived assets of certain cultivation assets in California and Nevada as well as certain long-lived assets relating to operations in Florida which was due to the change in use of these asset groups and the impacts of COVID-19. Accordingly, the Company recorded an impairment of $143,005,028 of its property which are included as a component of impairment expense in the accompanying Consolidated Statement of Operations. The Company used various Level 3 inputs and a discounted cash flow model to determine the fair value of these asset groups.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 9. BUSINESS ACQUISITIONS

A summary of business acquisitions completed during the years ended June 27, 2020 and June 29, 2019 is as follows:

| | 2019 Acquisitions | | | | | | | 2020 Acquisitions | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | LVMC, LLC | Monarch | Viktoriya's Medical Supplies LLC | Future Transactions Holdings LLC | Kannaboost Technology Inc. and CSI Solutions LLC | PHSL, LLC | 2019 TOTAL | MattnJeremy, Inc. | MME Evanston Retail, LLC | 2020 TOTAL |
| *Closing Date:* | *October 9, 2018* | *December 3, 2018* | *January 15, 2019* | *February 4, 2019* | *February 13, 2019* | *March 29, 2019* | | *September 3, 2019* | *December 2, 2019* | |
| **Total Consideration** | | | | | | | | | | |
| Cash | $ 10,075,000 | $ 6,986,541 | $ 3,800,000 | $ 3,050,000 | $ 2,000,000 | $ 750,000 | $ 26,661,541 | $ 1,000,000 | $ - | $ 1,000,000 |
| Note Payable | - | - | 6,500,000 | 3,000,000 | 15,000,000 | 2,250,000 | 26,750,000 | - | - | - |
| Relief of Credit | - | - | - | - | - | - | - | - | 6,930,557 | 6,930,557 |
| Stock Issued: | | | | | | | | | | |
| Subordinate Voting Shares | - | 13,337,471 | - | 6,895,270 | 14,169,438 | - | 34,402,179 | - | - | - |
| Present Value of Deferred Paymen | - | - | - | - | - | - | - | 1,875,000 | - | 1,875,000 |
| Contingent Consideration | - | 774,000 | - | - | - | - | 774,000 | 9,833,000 | - | 9,833,000 |
| **Total Consideration** | **$ 10,075,000** | **$ 21,098,012** | **$ 10,300,000** | **$ 12,945,270** | **$ 31,169,438** | **$ 3,000,000** | **$ 88,587,720** | **$ 12,708,000** | **$ 6,930,557** | **$ 19,638,557** |
| *Number of Shares Issued:* | | | | | | | | | | |
| *Subordinate Voting Shares* | - | *4,019,065* | - | *2,117,238* | *4,739,626* | - | *10,875,929* | *5,112,263* | - | *5,112,263* |
| **Preliminary Accounting Estimate of Net Assets Acquired** | | | | | | | | | | |
| Current Assets | $ - | $ 1,670,296 | $ 200,000 | $ 88,142 | $ 1,857,589 | $ 114,645 | $ 3,930,672 | $ 405,000 | $ 537,771 | $ 942,771 |
| Fixed Assets | - | 162,560 | - | 436,499 | 3,220,955 | - | 3,820,014 | - | 430,621 | 430,621 |
| Non-Current Assets | - | - | 3,328 | - | - | - | 3,328 | - | - | - |
| Liabilities Assumed | - | (647,800) | - | (24,481) | - | (67,989) | (740,270) | - | - | - |
| Deferred Tax Liabilities | (1,028,307) | (1,229,995) | (1,539,744) | (1,444,940) | (6,059,814) | (474,158) | (11,776,958) | (1,844,465) | (1,583,745) | (3,428,210) |
| Intangible Assets: | | | | | | | | | | - |
| Customer Relationships | 770,000 | 1,820,000 | 1,650,000 | 1,550,000 | 3,390,000 | 659,000 | 9,839,000 | 830,000 | 300,000 | 1,130,000 |
| Dispensary License | 4,889,000 | 2,410,000 | 3,510,000 | 2,530,000 | 13,900,000 | 930,000 | 28,169,000 | 5,100,000 | 4,500,000 | 9,600,000 |
| Total Intangible Assets | 5,659,000 | 4,230,000 | 5,160,000 | 4,080,000 | 17,290,000 | 1,589,000 | 38,008,000 | 5,930,000 | 4,800,000 | 10,730,000 |
| Total Identifiable Net Assets | 4,630,693 | 4,185,061 | 3,823,584 | 3,135,220 | 16,308,730 | 1,161,498 | 33,244,786 | 4,490,535 | 4,184,647 | 8,675,182 |
| Goodwill [(1)] | 5,444,307 | 16,912,951 | 6,476,416 | 9,810,050 | 14,860,708 | 1,838,502 | 55,342,934 | 8,217,465 | 2,745,910 | 10,963,375 |
| **Total Preliminary Accounting Estimate of Net Assets Acquired** | **$ 10,075,000** | **$ 21,098,012** | **$ 10,300,000** | **$ 12,945,270** | **$ 31,169,438** | **$ 3,000,000** | **$ 88,587,720** | **$ 12,708,000** | **$ 6,930,557** | **$ 19,638,557** |
| *Acquisition Costs Expensed [(3)]* | *$ 650,000* | *$ 1,147,320* | *$ 528,888* | *$ 252,492* | *$ -* | *$ -* | *$ 2,578,700* | *$ 421,497* | *$ -* | *$ 421,497* |
| *Net Income (Loss)* | *$ (2,108,596)* | *$ (1,369,842)* | *$ (1,462,801)* | *$ (455,441)* | *$ (1,143,117)* | *$ 91,646* | *$ (6,448,151)* | *$ (11,293,305)* | *$ 870,289* | *$ (10,423,016)* |
| *Revenues* | *$ 1,914,479* | *$ 3,905,002* | *$ 2,960,376* | *$ 1,665,602* | *$ 6,139,233* | *$ 331,535* | *$ 16,916,227* | *$ 3,199,684* | *$ 6,283,249* | *$ 9,482,933* |
| *Pro Forma Net Income (Loss) [(2)]* | *$ (140,000)* | *$ (219,000)* | *$ (755,000)* | *$ (250,000)* | *$ 2,511,000* | *$ (235,000)* | *$ 912,000* | *$ 10,000* | *$ (132,726)* | *$ (122,726)* |
| *Pro Forma Revenues [(2)]* | *$ -* | *$ 5,770,000* | *$ 5,334,000* | *$ 1,664,000* | *$ 11,044,000* | *$ 1,232,000* | *$ 25,044,000* | *$ 50,000* | *$ 4,488,035* | *$ 4,538,035* |

(1) *Goodwill arising from acquisitions represent expected synergies, future income and growth, and other intangibles that do not qualify for separate recognition. Generally speaking, goodwill related to dispensaries acquired within a state adds to the footprint of the MedMen dispensaries within the state, giving the Company's customers more access to the Company's branded stores. Goodwill related to cultivation and wholesale acquisitions provide for lower costs and synergies of the Company's growing and wholesale distribution methods which allow for overall lower costs.*

(2) *If the acquisition had been completed on July 1, 2018 or July 1, 2019 for the 2019 Acquisitions and 2020 Acquisitions, respectively, the Company estimates it would have recorded increases in revenues and net income (loss) shown in the pro forma amounts above.*

(3) *Acquisition costs include amounts paid in cash and equity. Of the acquisition costs paid in equity during 2019, the Company issued 159,435 Subordinate Voting Shares valued at the trading price of the Subordinate Voting Shares upon grant ($515,500) and 169,487 MedMen Corp Redeemable Shares valued at the trading price of the Subordinate Voting Shares upon grant ($597,320). Of the acquisition costs paid in equity during 2020, the Company issued 214,716 Subordinate Voting Shares valued at the trading price of the Subordinate Voting Shares upon grant ($421,497).*

The purchase price allocations for the acquisitions, as set forth in the table above, reflect 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 allocations 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. All the acquisitions noted below were accounted for in accordance with ASC 805, "*Business Combinations*".

**9. BUSINESS ACQUISITIONS** *(Continued)*

Business acquisitions completed during the year ended June 27, 2020 is as follows:

***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, of which $958,500 remain as of June 27, 2020 and were included in other current liabilities in the Consolidated Balance Sheets. During the fiscal year ended June 27, 2020, the Company settled the first deferred payment of $1,000,000 by cash payment and by the issuance of 3,045,989 Subordinate Voting Shares valued at $748,658 based on the closing trading price on the issuance date. The Company recorded a loss on extinguishment of debt of $248,656. The loss was recorded as a component of other expense in the Consolidated Statement of Operations for the fiscal year ended June 27, 2020. In no case will the Company be required to pay additional consideration. However, if the working capital adjustment is negative, the Company will not be required to pay some deferred payments. There was no working capital adjustment based upon the closing inventory.

***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.

Business acquisitions completed during the year ended June 29, 2019 is as follows:

***LVMC, LLC, d/b/a Cannacopia***

On October 9, 2018, the Company completed the acquisition of LVMC, LLC, d/b/a Cannacopia, a Nevada limited liability company ("LVMC"). The assets consist primarily of the state of Nevada issued dispensary license and customer relationships. The Company began retail operations at its current location in November 2018 with the intention of moving operations to real property purchased at 3035 Highland Drive, Las Vegas, Nevada 89109 and 3025 South Highland Drive, Las Vegas, Nevada 89109. The Company acquired all of the issued and outstanding shares of LVMC for aggregate consideration of $10,075,000 in cash.

***Monarch***

On December 3, 2018, the Company completed the acquisition of Monarch, a Scottsdale, Arizona-based licensed medical cannabis license holder with dispensary, cultivation and processing operations, from WhiteStar Solutions LLC ("WhiteStar") through the acquisition of Omaha Management Services, LLC. In addition, the Company acquired from WhiteStar their exclusive co-manufacturing and licensing agreements with Kiva, Mirth Provisions and HUXTON for the state of Arizona. The Company acquired all of the issued and outstanding shares of Monarch for aggregate consideration of $21,098,012, composed of $6,986,541 in cash, the issuance of 4,019,065 Subordinate Voting Shares at the trading price of $3.32 per share on the acquisition date and an earn out payment. As part of the purchase price, the sellers are entitled up to $1,000,000, payable in Subordinate Voting Shares of the Company, if certain revenue targets are met within one year after the close of the acquisition. The Company determined the present value of the Company's estimates of future outcomes of revenue targets being met (revenue targets ranged from $7,000,000 to $10,000,000) and the likelihood of the earn out being paid which was valued at $774,000. The contingent consideration is no longer considered contingent and is a component of accounts payable and accrued liabilities in the Consolidated Balance Sheets.

## 9. BUSINESS ACQUISITIONS *(Continued)*

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

On January 15, 2019, the Company completed the acquisition of Viktoriya's Medical Supplies LLC ("VMS"), d/b/a Buddy's Cannabis. VMS owns a microbusiness license to retail, distribute, cultivate and manufacture cannabis onsite in San Jose, California. The Company acquired all of the issued and outstanding shares of VMS for aggregate consideration of $10,300,000, which included $3,800,000 in cash and $6,500,000 in note payable.

***Future Transactions Holdings LLC ("Future Transactions"), d/b/a Seven Point***

On February 4, 2019, the Company completed the acquisition of Future Transactions Holdings LLC ("Future Transactions"), d/b/a Seven Point, a licensed medical cannabis dispensary located in Oak Park, Illinois. The Company acquired all of the issued and outstanding shares of Future Transactions for aggregate consideration of $12,945,270, which is comprised of $3,050,000 in cash, $3,000,000 in note payable, and 2,117,238 Subordinate Voting Shares at the trading price of $3.26 per share on the acquisition date.

***Kannaboost Technology Inc. and CSI Solutions LLC***

On February 13, 2019, the Company completed the acquisition of Kannaboost Technology Inc. and CSI Solutions LLC (collectively referred to as "Level Up"). Level Up holds licenses for two vertically-integrated operations in Arizona, which include retail locations in Scottsdale and Tempe, as well as 25,000 square feet of cultivation and production capacity in Tempe and Phoenix. The Company acquired all of the issued and outstanding shares of Level Up for aggregate consideration of $31,169,438 which is comprised of $2,000,000 in cash, $15,000,000 in note payable, and 4,739,626 Subordinate Voting Shares at the trading price of $2.99 per share on the acquisition date. As part of the transaction, the Company also received a 40% stake in top-selling brand K.I.N.D. Concentrates, which is currently distributed in over 90% of the dispensaries in Arizona.

***PHSL, LLC, d/b/a SugarLeaf Trading Co.***

On March 29, 2019, the Company completed the acquisition of PHSL, LLC, d/b/a SugarLeaf Trading Co. ("SugarLeaf"), an adult and medical use cannabis license holder in Seaside, California. The Company acquired 100% of the equity interest for aggregate consideration of $3,000,000 which is comprised of $750,000 in cash and $2,250,000 in note payable.

## 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.

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 land and 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.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 10. TERMINATION OF PREVIOUSLY ANNOUNCED ACQUISITION *(Continued)*

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 June 27, 2020, the Company successfully received the membership interests in Evanston and Staunton, and transferred the rights to receive the equity interest in Hillcrest to a third party, and relieved the full amount due from PharmaCann.

The Evanston assets received were accounted for as a business combination in accordance with ASC 805, *"Business Combinations"* as the Evanston assets met the definition of a business. Pursuant to ASC 805, the fair value of the consideration paid, which is the portion of the line of credit relieved, approximates its carrying value. See *"Note 9 – Business 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 ASC 360, *"Long-Lived Assets Classified as Held for Sale"* and are measured at the lower of its carrying amount or FVLCTS. During the year ended June 27, 2020, the Company recorded $6,870,833 in assets held for sale related to Staunton and subsequently determined that the FVLCTS was less than its carrying amount and wrote down the asset by $1,050,833 which is included as a component of realized and unrealized gain on investments and assets held for sale in the accompanying Consolidated Statement of Operations. As of June 27, 2020, the Company determined the remaining balance, excluding the land value of approximately $212,000 was unrecoverable and wrote off the remaining balance of $5,607,600 which is included as a component of impairment expense in the accompanying Consolidated Statement of Operations. See *"Note 7 – Assets Held for Sale"* for further information.

The Company determined that the cost of the Hillcrest assets was equal to the fair value of the assets given up as consideration, being the portion of the line of credit relieved. The Company sold its rights to the Hillcrest assets for total gross proceeds of approximately $17,000,000 to an unrelated third party. Accordingly, the Company recorded a gain of $9,490,800 upon successful sale of the Hillcrest assets. The gain was recorded as a component of the realized and unrealized gain on changes in investments, assets held for sale, and other assets in the Consolidated Statements of Operations.

## 11. INTANGIBLE ASSETS

As of June 27, 2020 and June 29, 2019, intangible assets consist of the following:

| | 2020 | 2019 |
|---|---|---|
| Dispensary Licenses | $ 139,736,881 | $ 179,628,706 |
| Customer Relationships | 18,586,200 | 18,415,200 |
| Management Agreement | 7,594,937 | 7,594,937 |
| Capitalized Software | 9,255,026 | 4,010,454 |
| Intellectual Property | 8,520,121 | 8,212,764 |
| **Total Intangible Assets** | 183,693,165 | 217,862,061 |
| Less Accumulated Amortization | (35,612,135) | (16,760,646) |
| Intangible Assets, Net | **$ 148,081,030** | **$ 201,101,415** |

As of June 27, 2020, accumulated amortization for dispensary licenses, customer relationships, management agreement, capitalized software and intellectual property is $19,162,587, $8,113,913, $565,972, $2,273,432 and $5,496,231 respectively. As of June 29, 2019, accumulated amortization for dispensary licenses, customer relationships, management agreement, capitalized software and intellectual property is $9,330,150, $6,484,668, $366,667, $579,161 and nil, respectively.

The Company recorded amortization expense related to continuing operations of $16,880,094 and $12,439,105 for the year ended June 27, 2020 and June 29, 2019, respectively. During the year ended June 27, 2020 and June 29, 2019, $346,180 and $276,847, respectively, of share-based compensation was capitalized to capitalized software.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 11. INTANGIBLE ASSETS *(Continued)*

During the year ended June 27, 2020, management noted indicators of impairment of its long-lived assets of certain asset groups in California, Nevada and Florida. The Company used various Level 3 inputs and a discounted cash flow model to determine the fair value of these asset groups. Accordingly, the Company recorded an impairment of $38,959,000 which is included as a component of impairment expense in the accompanying Consolidated Statement of Operations.

## 12. GOODWILL

As of June 27, 2020 and June 29, 2019, goodwill was $32,009,514 and $53,786,872, respectively. See *"Note 9 – Business Acquisitions"* and *Note 26 – Discontinued Operations"* for further information. As of June 27, 2020 and June 29, 2019, the carrying amounts of goodwill were allocated to each group of reporting units as follows:

| | California | Illinois | Nevada | Arizona | New York | TOTAL |
|---|---|---|---|---|---|---|
| **Balance as of July 1, 2018** | $ 8,427,925 | $ - | $ 11,111,980 | $ - | $ 10,677,692 | $ 30,217,597 |
| Acquired Goodwill | 8,314,918 | 9,810,050 | 5,444,307 | 31,773,659 | - | 55,342,934 |
| Transferred to Assets Held for Sale | - | - | - | (31,773,659) | - | (31,773,659) |
| **Balance as of June 29, 2019** | **$16,742,843** | **$ 9,810,050** | **$16,556,287** | **$ -** | **$10,677,692** | **$53,786,872** |
| Acquired Goodwill | 8,217,465 | 2,745,910 | - | - | - | 10,963,375 |
| Transferred to Assets Held for Sale | (1,869,900) | (2,745,910) | - | - | - | (4,615,810) |
| Impairment Losses | - | - | (16,556,287) | - | (9,717,000) | (26,273,287) |
| **Balance as of June 27, 2020** | **$23,090,408** | **$ 9,810,050** | **$ -** | **$ -** | **$ 960,692** | **$33,861,150** |

Goodwill is assigned to the reporting unit, which is the operating segment level or one level below the operating segment. Goodwill arises from the purchase price for acquired businesses exceeding the fair value of tangible and intangible assets acquired less assumed liabilities. Goodwill is reviewed annually for impairment or more frequently if impairment indicators arise. The Company adopted ASU 2017-04 which eliminates Step 2 from the quantitative assessment of the goodwill impairment test wherein the goodwill impairment loss was measured by comparing the implied fair value of a reporting unit's goodwill with its carrying amount. As amendment, the goodwill impairment test consists of one step comparing the fair value of a reporting unit with its carrying amount. The amount by which the carrying amount exceeds the reporting unit's fair value is recognized as a goodwill impairment loss.

The Company conducts its annual goodwill impairment assessment as of the last day of the year. For the purpose of the goodwill impairment test, the Company performed a quantitative assessment wherein the fair value of each reporting unit is determined using a discounted cash flow method (income approach). The earnings forecast for the reporting unit impaired was revised based on a decrease in anticipated operating profits and cash flows for the next five years as it relates to the current economic environment related to COVID-19. The fair value of that reporting unit was estimated using the expected present value of future cash flows. As of June 27, 2020, the Company recorded a goodwill impairment loss in the amount of $26,273,287 as a result of its assessment which is included as a component of impairment expense in the Consolidated Statement of Operations.

## 13. OTHER ASSETS

As of June 27, 2020 and June 29, 2019, other assets consist of the following:

| | 2020 | 2019 |
|---|---|---|
| Long-Term Security Deposits for Leases | $ 9,752,611 | $ 10,451,381 |
| Loans and Other Long-Term Deposits | 7,568,738 | 20,501,166 |
| Other Assets | 53,648 | 1,350,000 |
| **Total Other Assets** | **$ 17,374,997** | **$ 32,302,547** |

During the year ended June 27, 2020, management noted indicators of realizability for certain loans and assets. Accordingly, the Company recorded an impairment of $5,944,143 which is included as a component of impairment expense in the Consolidated Statement of Operations.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 14. OTHER CURRENT LIABILITIES AND OTHER NON-CURRENT LIABILITIES

As of June 27, 2020 and June 29, 2019, other current liabilities consist of the following:

| | 2020 | 2019 |
|---|---|---|
| Accrued Interest Payable | $ 9,051,650 | $ 2,819,594 |
| Contingent Consideration | 8,951,801 | 774,000 |
| Other Current Liabilities | 1,728,854 | 52,786 |
| **Total Other Current Liabilities** | **$ 19,732,305** | **$ 3,646,380** |

As of June 27, 2020 and June 29, 2019, other non-current liabilities, net of current portion, consist of the following:

| | 2020 | 2019 |
|---|---|---|
| Deferred Gain on Sale of Assets (1)(2) | $ 4,164,713 | $ 4,731,338 |
| Contingent Consideration | - | 20,197,690 |
| Other Long Term Liabilities | 50,820 | - |
| **Total Other Non-Current Liabilities** | **$ 4,215,533** | **$ 24,929,028** |

(1) *See "Note 16 – Leases" for further information.*

(2) *The current portion of Deferred Gain on Sale of Assets of $566,627 is recorded in Accounts Payable and Accrued Liabilities.*

### *Contingent Consideration*

Contingent consideration recorded relates to a business acquisition (see *"Note 9 – Business Acquisitions"*). The contingent consideration related to the acquisition of One Love Beach Club 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 fair value hierarchy. Contingent consideration classified as a liability and measured at fair value in accordance with ASC 480, *"Distinguishing Liabilities from Equity"*. The contingent consideration is remeasured at fair value at each reporting period with changes recorded in profit and loss in the Consolidated Statement of Operations.

As of June 29, 2019, the Company evaluated the contingent consideration related to an asset acquisition and remeasured the liability at fair value of $20,197,689. The increase in the contingent consideration of $8,438,690 was capitalized to the assets acquired, which was a dispensary license. Refer to "*Note 11 – Intangible Assets"*. On November 12, 2019, the Company entered into an agreement to amend the cash earn out due in December 2020 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 valued at $10,811,219. The value of the acquired assets was adjusted for the change in fair value of the liability upon settlement of $9,386,471. As of June 27, 2020, there is no contingent consideration resulting from asset acquisitions on the Consolidated Balance Sheet. Remeasurement of the contingent liability after the date of acquisition is capitalized as part of the cost of the assets acquired and is allocated to increase the eligible assets on a relative fair value basis. The value of amortizable or depreciable identifiable assets are adjusted when contingent consideration is recognized at a later date in accordance with ASC 450 wherein the change in amortization or depreciation expense is recognized on a prospective basis.

## 15. DERIVATIVE LIABILITIES

During the year ended June 29, 2019, the Company issued the following warrants related to bought deals. The exercise price of the warrants are denominated in Canadian dollars. Upon the analysis of the warrants issued under ASC 815, the Company determined that the warrants are to be accounted as derivative liabilities. The warrants are traded on the Canadian stock exchange. The following are the warrants issued related to the bought deals that were accounted for as derivative liabilities:

| | Number of Warrants | |
|---|---|---|
| September Bought Deal Equity Financing | 7,840,909 | *(1) (2) (3)* |
| December Bought Deal Equity Financing | 13,640,000 | *(1) (2) (4)* |
| | 21,480,909 | |

*(1) The exercise price of the warrants was denominated in a price other than the Company's functional currency. In accordance with ASC 815-40, a share warrant denominated in a price other than the functional currency of the Company fails to meet the definition of equity. Accordingly, such a contract or instrument would be accounted for as a derivative liability and measured at fair value with changes in fair value recognized in the Consolidated Statement of Operations at each period-end.*

*(2) 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 fair value of the derivative liability at issuance and at each reporting date.*

*(3) See "Note 19 - Shareholders' Equity - September Bought Deal Equity Financing" for further information.*

*(4) See "Note 19 - Shareholders' Equity – December Bought Deal Equity Financing" for further information.*

A reconciliation of the beginning and ending balance of derivative liabilities and change in fair value of derivative liabilities for the years ended June 27, 2020 and June 29, 2019 is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance as of Beginning of Year** | $ 9,343,485 | $ - |
| Initial Recognition of Derivative Liabilities | - | 13,252,207 |
| Change in Fair Value of Derivative Liabilities | (8,797,409) | (3,908,722) |
| **Balance as of End of Year** | **$ 546,076** | **$ 9,343,485** |

## 16. LEASES

As a result of the adoption of ASC 842 on June 30, 2019, the Company has changed its accounting policy for leases. The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets and accrued obligations under operating lease (current and non-current) liabilities in the Consolidated Balance Sheets. Finance lease ROU assets are included in property and equipment, net and accrued obligations under finance lease (current and noncurrent) liabilities in the Consolidated Balance Sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets are classified as a finance lease or an operating lease. A finance lease is a lease in which 1) ownership of the property transfers to the lessee by the end of the lease term; 2) the lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise; 3) the lease is for a major part of the remaining economic life of the underlying asset; 4) The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already included in the lease payments equals or exceeds substantially all of the fair value; or 5) the underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term. The Company classifies a lease as an operating lease when it does not meet any one of these criteria.

ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Most operating leases contain renewal options that provide for rent increases based on prevailing market conditions. The Company has lease extension terms at its properties that have either been extended or are likely to be extended. The terms used to calculate the ROU assets for these properties include the renewal options that the Company is reasonably certain to exercise.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 16. LEASES *(Continued)*

As of the adoption date, the Company capitalized operating and finance right-of-use assets totaling $153,851,114 and $24,852,891, respectively. The Company leases land, buildings, equipment and other capital assets which it plans to use for corporate purposes and the production and sale of cannabis products. Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets and are expensed in the Consolidated Statements of Operations on the straight-line basis over the lease term.

During the year ended June 27, 2020, management noted indicators of impairment of its long-lived assets of certain asset groups in California, Nevada and Florida which included right-of-use assets related to operating leases. The Company used various Level 3 inputs and a discounted cash flow model to determine the fair value of these asset groups. Accordingly, the Company recorded an impairment of $19,785,621 on its right-of-use assets related to operating leases, which is included as a component of impairment expense in the accompanying Consolidated Statement of Operations.

The below are the details of the lease cost and other disclosures regarding the Company's leases as of June 27, 2020:

| | | 2020 |
|---|---|---|
| Finance Lease Cost: | | |
| Amortization of Finance Lease Right-of-Use Assets | $ | 2,752,022 |
| Interest on Lease Liabilities | | 6,262,019 |
| Operating Lease Cost | | 30,661,411 |
| **Total Lease Expenses** | **$** | **39,675,453** |

| | | 2020 |
|---|---|---|
| (Gain) and Loss on Sale and Leaseback Transactions, Net | $ | (704,207) |
| Cash Paid for Amounts Included in the Measurement of Lease Liabilities: | | |
| Financing Cash Flows from Finance Leases | $ | 1,785,282 |
| Operating Cash Flows from Operating Leases | $ | 27,304,389 |
| Non-Cash Additions to Right-of-Use Assets and Lease Liabilities: | | |
| Recognition of Right-of-Use Assets for Finance Leases | $ | 45,614,041 |
| Recognition of Right-of-Use Assets for Operating Leases | $ | 152,141,639 |

| | 2020 |
|---|---|
| Weighted-Average Remaining Lease Term (Years) - Finance Leases | 48 |
| Weighted-Average Remaining Lease Term (Years) - Operating Leases | 9 |
| Weighted-Average Discount Rate - Finance Leases | 10.68% |
| Weighted-Average Discount Rate - Operating Leases | 12.15% |

The discount rate used to determine the commencement date present value of lease payments is the interest rate implicit in the lease, or when that is not readily determinable, the Company utilizes its secured borrowing rate. ROU assets include any lease payments required to be made prior to commencement and exclude lease incentives. Both ROU assets and lease liabilities exclude variable payments not based on an index or rate, which are treated as period costs. The Company's lease agreements do not contain significant residual value guarantees, restrictions or covenants. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

**16. LEASES** *(Continued)*

***Finance Leases***

Certain lease monthly payments may escalate up to 3.0% each year, other lease monthly payments will increase to the greater of 3.0% or the consumer price index from the United States Department of Labor in which variability is included within the current and noncurrent finance lease liabilities.

Future minimum principal payments under finance leases are as follows:

| Fiscal Year Ending | Finance Leases |
|---|---|
| June 26, 2021 | $ 1,439,200 |
| June 25, 2022 | 1,579,608 |
| June 24, 2023 | 1,790,448 |
| June 29, 2024 | 2,021,743 |
| June 28, 2025 | 2,279,010 |
| June 27, 2026 and Thereafter | 51,103,533 |
| **Total Future Minimum Lease Payments** | **$ 60,213,542** |

Finance leases noted above contain required security deposits, refer to *"Note 13 – Other Assets"*.

***Sale and Leaseback Transactions***

During the years ended June 27, 2020 and June 29, 2019, the Company sold and subsequently leased back several of its properties in transactions with the Treehouse Real Estate Investment Trust (the "REIT") and other third parties for total proceeds of $20,400,000 and $96,373,000, respectively. The Company determined that certain transactions of these sales did not qualify for sale-leaseback treatment under ASC 840 due to prohibited forms of continuing involvement in the assets sold by the Company. Following the adoption of ASC 842 on June 30, 2019, the previously unqualified transactions under ASC 840 were reassessed under criteria provided in the adopted guidance, resulting in no changes in classification of previously unqualified transactions because the lease classification would be a finance lease under ASC 842. Accordingly, the "sold" assets remain within land, building and leasehold improvements, as appropriate, for the duration of the lease and a finance liability equal to the amount of proceeds received was recorded within notes payable. Refer to *"Note 17 – Notes Payable"*. Upon lease termination, the sale will be recognized by removing the remaining carrying values of the assets and financing liability with any difference recognized as a gain.

During the year ended June 27, 2020, the Company sold two properties and subsequently leased them back. One of the transactions did not qualify for sale leaseback accounting as the resulting lease was a finance lease under ASC 842 and thus did not meet the criteria for transfer of control under ASC 606. Accordingly, the asset remained on the Company's Consolidated Balance Sheet as of June 27, 2020 at its cost basis and the Company recorded a financing liability for the amount of consideration received. The financing liability is included in notes payable on the Consolidated Balance Sheets. Refer to "*Note 17 – Notes Payable*" for further information. The other transaction qualified for sale leaseback accounting and the Company recognized a gain immediately upon sale. During the year ended June 29, 2019, of the sale and leaseback transactions, two of the sold properties qualified as a finance lease in which any gains are recognized over the term of the new lease while losses are recognized immediately recognized under ASC 840. Gains recognized upon the sale and leaseback transactions were deferred under ASC 840 as noted below.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

**16. LEASES** *(Continued)*

As of June 27, 2020 and June 29, 2019, the total deferred gain recorded for the sale and leaseback transactions was as follows:

| | 2020 | 2019 |
|---|---|---|
| **Balance at Beginning of Year** | $ 5,297,965 | $ - |
| Additions | - | 5,666,274 |
| Amortization | (566,625) | (368,309) |
| **Balance at End of Year** | **4,731,340** | **5,297,965** |
| Less Current Portion of Deferred Gain | (566,627) | (566,627) |
| **Deferred Gain on Sale of Assets, Net of Current Portion** | **$ 4,164,713** | **$ 4,731,338** |

The current portion and non-current portion of deferred gains are included as a component of accounts payable and other non-current liabilities in the Consolidated Balance Sheets.

***Operating Lease Liabilities***

The Company leases certain business facilities from third parties under operating lease agreements that specify minimum rentals. The leases expire through 2038 and contain certain renewal provisions with implied interest rates ranging from 19.2% through 11.7%. The operating leases require monthly payments ranging from $446 to $195,780. Certain lease monthly payments may escalate up to 3.0% each year, other lease monthly payments will increase to the greater of 3.0% or the consumer price index from the United States Department of Labor in which variability is included within the current and noncurrent operating lease liabilities.

Future minimum operating lease payments under non-cancelable operating leases is as follows:

| Fiscal Year Ending | Operating Leases |
|---|---|
| June 26, 2021 | $ 34,049,366 |
| June 25, 2022 | 34,040,450 |
| June 24, 2023 | 34,224,191 |
| June 29, 2024 | 31,289,161 |
| June 28, 2025 | 30,837,827 |
| June 27, 2026 and Thereafter | 134,553,668 |
| **Total Future Minimum Lease Payments** | **$ 298,994,663** |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 17. NOTES PAYABLE

As of June 27, 2020 and June 29, 2019, notes payable consist of the following:

| | 2020 | 2019 |
|---|---|---|
| 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 9.0% per annum. | $ 16,173,250 | $ 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. | - | 6,050,000 |
| Finance liabilities incurred on various dates between January 2019 through September 2019 with implied interest rates ranging from 0.7% to 17.0% per annum. | 83,576,661 | 71,538,352 |
| Non-revolving, senior secured term note dated October 1, 2018, issued to accredited investors, which matures on January 31, 2022, and bears interest at a fixed rate of 15.5% per annum and requires monthly interest payments of 12.0% and 3.5% will accrue monthly as payment-in-kind. | 77,675,000 | 77,675,000 |
| Promissory notes dated November 7, 2018, issued to Lessor for tenant improvements as part of sales and leaseback transactions, which mature on November 7, 2028, bear interest at a rate of 10.0% per annum and require minimum monthly payments of $15,660 and $18,471. | 2,339,564 | 2,484,357 |
| Other | 15,418 | 21,120 |
| Total Notes Payable | 179,779,893 | 184,518,829 |
| Less Unamortized Debt Issuance Costs and Loan Origination Fees | (10,781,288) | (11,771,270) |
| Net Amount | $ 168,998,605 | $ 172,747,559 |
| Less Current Portion of Notes Payable | (16,188,668) | (21,998,522) |
| **Notes Payable, Net of Current Portion** | **$ 152,809,937** | **$ 150,749,037** |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 17. NOTES PAYABLE *(Continued)*

A reconciliation of the beginning and ending balances of notes payable for the years ended June 27, 2020 and June 29, 2019 is as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance at Beginning of Period | $ 172,747,559 | $ 55,946,959 |
| Cash Additions | 13,850,000 | 166,243,539 |
| Non-Cash Additions - Business Acquisition | - | 26,750,000 |
| Non-Cash Addition - Debt Modification | 1,000,000 | - |
| Debt Discount Recognized on Modification | (1,000,000) | - |
| Payment of Amendment Fee | (500,000) | - |
| Cash Payments | (14,779,091) | (55,007,057) |
| Equity Component of Debt | (5,331,969) | (13,590,104) |
| Shares Issued for Debt Issuance Costs | - | (1,857,431) |
| Conversion of Convertible Debentures | - | (3,802,381) |
| Shares Issued to Settle Debt | (4,393,342) | (8,929,288) |
| Cash Paid for Debt Issuance Costs | (61,500) | (2,019,472) |
| Accretion of Debt Discount | 6,895,051 | 7,848,740 |
| Non-Cash Loss on Extinguishment of Debt | 571,897 | 1,164,054 |
| **Balance at End of Period** | **$ 168,998,605** | **$ 172,747,559** |
| Less Current Portion of Notes Payable | (16,188,668) | (21,998,522) |
| **Notes Payable, Net of Current Portion** | **$ 152,809,937** | **$ 150,749,037** |

Scheduled maturities of debt are as follows:

| Fiscal Year Ending | Scheduled Maturity |
|---|---|
| June 26, 2021 | $ 16,188,668 |
| June 25, 2022 | 77,675,000 |
| June 24, 2023 | - |
| June 29, 2024 | - |
| June 28, 2025 | - |
| June 27, 2026 and Thereafter | 85,916,225 |
| **Total Notes Payable** | **$ 179,779,893** |

***Senior Secured Term Loan Facility***

On October 1, 2018, the Company closed a $73,275,000 senior secured term loan facility (the "Facility") with funds managed by Hankey Capital and with an affiliate of Stable Road Capital (the "Lenders"). On October 3, 2018, the Company closed an additional tranche of the Facility, which increased the principal amount of the loan to $77,675,000. The principal amount under the Facility will accrue interest at a rate of 7.5% per annum, paid monthly, with a maturity date of 24 months following the date of closing on October 1, 2018. The Company may repay the balance of the Facility at any time and from time to time, in whole or in part, with a prepayment penalty of 1% of the outstanding principal amount repaid if repaid before December 31, 2019. In connection with the Facility, the Company's equity interests in MMOF SD LLC, MMOF VENICE LLC, MMOF DOWNTOWN COLLECTIVE LLC, MMOF BH LLC, and MMOF VEGAS 2 LLC were pledged as security.

Additionally, MM CAN issued to the Lenders 8,105,642 warrants, each being exercisable for one Class B Common Share of such company at a purchase price per share of $4.97 for 30 months. Such Class B Common Shares are redeemable in accordance with their terms for Class B Subordinate Voting Shares of the Company. In connection with the increased principal under the Facility, MM CAN issued to the Lenders an additional 511,628 warrants, each being exercisable for one Class B Common Share of such affiliate at a purchase price per share of $4.73 for a period of 30 months. Such Class B Common Shares are redeemable in accordance with their terms for Class B Subordinate Voting Shares of the Company.

**17. NOTES PAYABLE** *(Continued)*

In addition to providing a portion of the Facility, Stable Road Capital provided advisory services to the Company. Advisory services included introducing the Company to brands and various service providers, advice on the Facility and providing advice with respect to the Company's planned structured sale of real estate assets. For its advisory services, MM CAN issued to Stable Road Capital 8,105,642 warrants at a purchase price per share of $4.97 and 511,628 warrants at a purchase price per share of $4.73, each being exercisable for one Class B Common Share of such company for a period of 30 months. Such Class B Common Shares are redeemable in accordance with their terms for Class B Subordinate Voting Shares of the Company.

***Amendment to Senior Secured Term Loan Facility***

On January 13, 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. The amendment secured the Facility by a pledge of 100% of the equity interest in Project Compassion NY, LLC, which includes MedMen NY, Inc. and MMOF NY Retail, LLC. The amendment to the term loan facility was not deemed to be a substantial modification under ASC 470-50, *"Modifications and Extinguishments"*.

Further, the Company cancelled 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 issued new warrants to the lenders totaling 40,455,729 warrants exercisable at $0.60 per share until December 31, 2022. The new warrants may be exercised at the election of their holders on a cashless basis. The warrants issued in connection with the term loan facility met the scope exception under ASC 815, *"Derivatives and Hedging"* and are classified as equity instruments. The warrants are measured at fair value and recorded as a debt discount in connection with the term loan facility. See *"Note 20 – Share-Based Compensation"* for further information regarding the valuation method and assumptions used in determining the fair value of these equity instruments. As a result of the modification, the Company recorded an additional debt discount of $5,331,969 related to the change in terms of the warrants.

The existing loan facility is subject to certain covenant clauses whereby the Company is required to meet certain key financial ratios. As of June 27, 2020, the lenders waived certain covenant clauses. Refer to "*Note 27 – Subsequent Events*" for amendments to the existing loan facility subsequent to June 27, 2020.

***Amendment to Secured Promissory Note***

On January 30, 2020, the Company amended the secured promissory note issued in connection with the acquisition of Kannaboost Technology Inc. and CSI Solutions LLC (collectively referred to as "Level Up") wherein the principal amount was amended from $12,000,000 to $13,000,000 and the maturity date was extended to April 8, 2020. On February 10, 2020, the secured promissory note was amended in which the Company was required to pay a $500,000 extension fee wherein the amendment was deemed to be a substantial modification under ASC 470-50, *"Modifications and Extinguishment"*. Accordingly, the Company recorded a loss on extinguishment of debt of $571,897. The loss was recorded as a component of other expense in the Consolidated Statements of Operations for the fiscal year ended June 27, 2020.

On April 8, 2020, the Company entered into a third amendment of the Level Up secured promissory note wherein the maturity date was extended to the earlier of December 31, 2020 or in the event of default. No payments shall be due prior to the maturity date unless certain events occur. The balance of the secured promissory note will bear interest at a rate of 9.0% per annum until paid in full. The effectiveness of the amendment on April 8, 2020 is currently in dispute with the counterparty. The Company disputes the claims filed by the counterparty. The Company also disputes any default of the promissory note, has entered into a counterclaim and continues to seek resolution of the undisputed portion of the promissory note.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 17. NOTES PAYABLE *(Continued)*

***Settlement of Debt***

During the fiscal year ended June 27, 2020, the Company entered into agreements with various noteholders to settle debt and accrued interest by the issuance of 6,801,790 Subordinate Voting Shares valued at $5,255,172 based on the closing trading prices on the agreement dates. The remaining principal and interest of the promissory notes at the settlement dates were $4,393,342 and $405,000, respectively. The Company recorded a loss on extinguishment of debt of $456,830. The loss was recorded as a component of other expense in the Consolidated Statement of Operations for the fiscal year ended June 27, 2020.

***Financing Liability***

In connection with the Company's failed sale and leaseback transactions described in *"Note 16 – Leases"*, a financing liability was recognized equal to the cash proceeds received. The cash payments made on the lease less the portion considered to be interest expense, will decrease the financing liability.

## 18. SENIOR SECURED CONVERTIBLE CREDIT FACILITY

As of June 27, 2020 and June 29, 2019, senior secured convertible credit facility consists of the following:

| | Tranche | 2020 | 2019 |
|---|---|---|---|
| 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. | 1A | $ 21,660,583 | $ 20,000,000 |
| Senior secured convertible notes dated May 22, 2019, issued to accredited investors, which mature on April 23, 2022 and bear interest at LIBOR plus 6.0% per annum. | 1B | 86,053,316 | 80,000,000 |
| Senior secured convertible notes dated July 12, 2019, issued to accredited investors, which mature on April 23, 2022 and bear interest at LIBOR plus 6.0% per annum. | 2 | 26,570,948 | - |
| Senior secured convertible notes dated November 27, 2019, issued to accredited investors, which mature on April 23, 2022 and bear interest at LIBOR plus 6.0% per annum. | 3 | 10,288,815 | - |
| Senior secured convertible notes dated March 27, 2020, issued to accredited investors, which mature on April 23, 2022 and bear interest at LIBOR plus 6.0% per annum. | 4 | 12,500,000 | - |
| Amendment fee converted to senior secured convertible notes dated October 29, 2019, which mature on April 23, 2022 and bear interest at LIBOR plus 6.0% per annum. | - | 19,423,593 | - |
| Senior secured convertible notes dated April 24, 2020, issued to accredited investors, which mature on April 23, 2022 and bear interest at LIBOR plus 6.0% per annum. | IA-1 | 2,734,282 | - |
| Restatement fee issued in senior secured convertible notes dated March 27, 2020, which mature on April 23, 2022 and bear interest at LIBOR plus 6.0% per annum. | - | 8,199,863 | - |
| Total Drawn on Senior Secured Convertible Credit Facility | | 187,431,400 | 100,000,000 |
| Less Unamortized Debt Discount | | (21,062,937) | (13,144,585) |
| **Senior Secured Convertible Credit Facility, Net** | | **$ 166,368,463** | **$ 86,855,415** |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 18. SENIOR SECURED CONVERTIBLE CREDIT FACILITY *(Continued)*

A reconciliation of the beginning and ending balances of senior secured convertible credit facility for the years ended June 27, 2020 and June 29, 2019 is as follows:

| | Tranche 1 | Tranche 2 | Tranche 3 | Tranche 4 | Amendment Fee Notes | Restatement Fee Notes | TOTAL |
|---|---|---|---|---|---|---|---|
| **Balance as of July 1, 2018** | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Cash Additions | 100,000,000 | - | - | - | - | - | 100,000,000 |
| Net Effect on Equity Component of New and Amended Debt | (7,548,720) | - | - | - | - | - | (7,548,720) |
| Shares Issued for Debt Issuance Costs | (3,979,119) | - | - | - | - | - | (3,979,119) |
| Cash Paid for Debt Issuance Costs | (2,076,757) | - | - | - | - | - | (2,076,757) |
| Amortization of Debt Discounts | 460,011 | - | - | - | - | - | 460,011 |
| **Balance as of June 29, 2019** | **$ 86,855,415** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ 86,855,415** |
| Cash Additions | - | 25,000,000 | 10,000,000 | 15,000,000 | - | - | 50,000,000 |
| Fees Capitalized to Debt Related to Debt Modifications | - | - | - | 234,282 | 18,750,000 | 8,199,863 | 27,184,145 |
| Paid-In-Kind Interest Capitalized | 7,713,899 | 1,570,948 | 288,815 | - | 673,593 | - | 10,247,255 |
| Net Effect on Equity Component of New and Amended Debt | 6,942,719 | (1,137,637) | (172,786) | (12,161,866) | (511,900) | (1,245,676) | (8,287,146) |
| Cash Paid for Debt Issuance Costs | - | (482,998) | (641,689) | (673,435) | | | (1,798,122) |
| Amortization of Debt Discounts | 1,321,414 | 402,374 | 206,093 | 56,250 | 52,907 | 127,878 | 2,166,916 |
| **Balance as of June 27, 2020** | **$ 102,833,447** | **$ 25,352,687** | **$ 9,680,433** | **$ 2,455,231** | **$ 18,964,600** | **$ 7,082,065** | **$ 166,368,463** |

On March 22, 2019, the Company signed a binding term sheet for a senior secured convertible credit facility (the "Convertible Facility") of up to $250,000,000 from funds managed by Gotham Green Partners ("GGP"), an investor in the global cannabis industry. The Company subsequently entered into definitive documentation on April 23, 2019 and closed on a portion of the initial funding tranche.

The Convertible Facility will be accessed through issuances to the lenders of convertible senior secured notes ("Notes") co-issued by the Company and MM CAN, in an aggregate amount of up to $250,000,000. Under the definitive terms, Notes will be issuable in up to five tranches, with each tranche being issuable at the option of the Company, subject to certain conditions and, in certain cases, price thresholds for the Class B Subordinate Voting Shares of the Company. The initial tranche, which the Company and MM CAN have drawn down on April 23, 2019 and May 22, 2019, was for gross proceeds of $100,000,000 ("Tranche 1"). The balance of the Convertible Facility will be funded through additional tranches.

All Notes will have a maturity date of 36 months from the Closing Date (the "Maturity Date"), with a 12-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 Notes. All Notes will bear interest from their date of issue at LIBOR plus 6.0% per annum. During the first 12 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 Notes. The Company shall have the right after the first year, to prepay the outstanding principal amount of the Notes 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 Notes (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 Notes is determined based upon a predefined formula as defined in the agreement immediately prior to funding of each tranche.

The Company may force the conversion of up to 75% of the then outstanding Notes if the volume weighted average price ("VWAP") of the Subordinate Voting Shares (converted to U.S. dollars) is at least $8.00 for any 20 consecutive trading day period, at a conversion price per Subordinate Voting Share equal to $8.00. If 75% of the then outstanding Notes are converted by the Company, the term of the remaining 25% of the then outstanding Notes will be extended by 12 months (if such extended period is longer than the maturity date of such Notes), subject to an outside date of 48 months from the Closing Date.

## 18. SENIOR SECURED CONVERTIBLE CREDIT FACILITY *(Continued)*

Upon issuance of Notes 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 issue. 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 are determined based upon a predefined formula as defined in the agreement immediately prior to funding of each tranche.

In connection with Tranche 1, the Company issued to the lenders 10,086,066 Warrants with an exercise price per share equal to $3.72 and 42,913,752 Warrants with an exercise price per share equal to $4.29. Under ASC 815, the conversion option and warrants were recorded as an equity instrument. As of June 29, 2019, the relative fair value of the warrants with a value of $7,548,720 has been recorded to equity. In addition, the Company paid cash financing fees of $2,276,757 and issued 1,748,251 Subordinate Voting Shares valued at an aggregate price of $3,979,119 using the trading share price of the Company at the issuance date. The cash consideration and Subordinate Voting Shares issued were allocated between debt and equity.

As additional consideration for the purchase of the Notes, at the time of each Tranche closing, the lenders will be paid an advance fee of 1.5% of the principal amount of the Notes purchased in such Tranche. While the Notes are outstanding, the lenders will be entitled to the collective rights (a) to nominate an individual to the board of directors of the Company, and (b) to appoint a representative to attend all meetings of the board of directors in a non-voting observer capacity. 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.

As of June 29, 2019, the Company has drawn down $20,000,000 from Tranche 1A, $80,000,000 from Tranche 1B. As of June 27, 2020, the Company has drawn down $100,000,000 from Tranche 1A and 1B, $25,000,000 from Tranche 2, $10,000,000 from Tranche 3, $12,500,000 from Tranche 4 and $2,500,000 from an incremental advance (see below).

On August 12, 2019, the Company amended certain provisions of the Convertible Facility led by GGP (the "First Amendment"). 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 Notes 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. Tranche 1 and Tranche 2 had been fully drawn down as of May 22, 2019 and July 12, 2019, respectively. 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 aggregate amount available to be borrowed remained the same. The new terms of the First Amendment were deemed to be substantial modifications under ASC 470-50, *"Modifications and Extinguishments"*. Accordingly, the Company recorded a loss on extinguishment of debt of $31,816,659. The loss was recorded as a component of other expense in the Consolidated Statements of Operations for the fiscal year ended June 27, 2020.

On October 29, 2019, the Company completed the second amendment of the Convertible Facility with GGP (the "Second 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 Second 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, of which the full amount of Tranche 3 was funded on November 27, 2019. The aggregate amount available to be borrowed remained the same. Further, the Second 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 Second Amendment do not qualify as a substantial modification under ASC 470-50, *"Modifications and Extinguishments"*.

**18. SENIOR SECURED CONVERTIBLE CREDIT FACILITY** *(Continued)*

On March 27, 2020, the Company amended and restated the securities purchase agreement with GGP (the "Third Amendment") wherein GGP committed to fund up to $150,000,000 through Tranche 4 and subsequent tranches (each such subsequent tranche, an "Incremental Advance") subject to the funding requirements of the Company and certain other conditions. The maximum funding capacity under the Convertible Facility, as amended on March 27, 2020 is $285,000,000 of which $135,000,000 had been drawn down in prior tranches. The final $25,000,000 is subject to acceptance by the Company. Certain financial covenants were also modified which include a reduction in the required go-forward minimum cash balance and the removal of the fixed charge coverage ratio requirement that was to become effective in calendar 2021. The Third Amendment removed the accelerated and forced conversion rights previously held by GGP under the agreement as amended on August 12, 2019.

The Company agreed to pay GGP 10% of the existing Notes outstanding prior to Tranche 4, including paid-in-kind interest accrued on such Notes (the "Existing Notes"), or $163,997,255, as a restatement fee (the "Restatement Fee"), of which the first 50% of the Restatement Fee was paid through the issuance of additional Notes in an aggregate principal amount equal to $8,199,863 at a conversion price of $0.26 (the "Restatement Fee Notes"). The remaining 50% of the Restatement Fee, or $8,199,863, will be due upon each Incremental Advance on a pro-rata basis of $87,500,000. As additional consideration for the purchase of the Tranche 4 Notes, the lenders participating in Tranche 4 Advance were paid an advance fee of 1.5% (the "Advance Fee") of the aggregate principal amount, or $187,500, which was withheld from the Tranche 4 funding amount. The 1.5% Advance Fee will also be paid in respect of any Incremental Advances.

Under the Amended and Restated SPA, each Incremental Advance will be issued at a conversion price per Subordinate Voting Share equal to the five (5) day VWAP of the Subordinate Voting Shares as of the trading day immediately preceding the date of completion of such Incremental Advance, subject to a minimum price of $0.20 and maximum price of $0.40 (in respect of each Incremental Advance, a "Restatement Conversion Price"), provided that the first Incremental Advance (the "Tranche 4 Advance") will have a Restatement Conversion Price of $0.26. In addition, as any Incremental Advances are funded, the conversion price of the relative portion of the Existing Notes will be amended to the Restatement Conversion Price.

In connection with each Incremental Advance, the Company will also share purchase warrants of the Company ("Incremental Warrants") representing 100% coverage on the aggregate principal amount of such Incremental Advance, each of which will be exercisable to purchase one Subordinate Voting Share for a period of five (5) years from the date of issuance, at an exercise price per Subordinate Voting Share equal to the Restatement Conversion Price for such Incremental Advance. In addition, as any Incremental Advances are funded, the relative portion of the existing share purchase warrants issued under the Convertible Facility and outstanding prior to Tranche 4 (the "Existing Warrants") will be cancelled and replaced by new share purchase warrants of the Company (the " Replacement Warrants"), each of which will be exercisable to purchase one Subordinate Voting Share for a period of five (5) years from the date of issuance at an exercise price equal to the Restatement Conversion Price for such Incremental Advance. The Incremental Warrants, including the Tranche 4 Warrants, and the Replacement Warrants will be exercisable on a cashless (net exercise) basis. In addition, if the Company's retail operations achieve two (2) consecutive three-month periods of positive after-tax free cash flow during any time prior to the expiry date for the Replacement Warrants, then all outstanding Replacement Warrants will be automatically cancelled upon achieving the milestone.

The principal amount of the Existing Notes that will be repriced and the number of Existing Warrants that will be cancelled and replaced upon an Incremental Advance will be based on the percentage that the amount of such Incremental Advance is of a total funding target of $100,000,000 (the "Funding Target Percentage"). The applicable Existing Notes will be repriced to the Restatement Conversion Price for such Incremental Advance. The Incremental Replacement Warrants issued as a part of such Incremental Advance will represent 50% coverage on the amount determined by multiplying the Funding Target Percentage by $135,000,000. The Third Amendment was a substantial modification in accordance ASC 470-50, *"Modifications and Extinguishments"*. As a result of the Third Amendment, the Company recorded a loss on extinguishment of debt in the amount of $10,706,883. The loss was recorded as a component of other expense in the Consolidated Statements of Operations for the fiscal year ended June 27, 2020.

**18. SENIOR SECURED CONVERTIBLE CREDIT FACILITY** *(Continued)*

As a result of the amendments during fiscal year ended June 27, 2020, all convertible notes will have a maturity date of 36 months from April 23, 2019 (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, provided that if the Tranche 4 Notes and Funding Commitments reach at least $100,000,000 in the aggregate, GGP will have certain options to extend the Maturity Date up to April 23, 2027. 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 Notes (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 Convertible Facility is subject to certain covenant clauses, whereby the Company is required to meet certain key financial ratios. As of June 27, 2020, the Company did not fulfill certain minimum liquidity debt covenants for the Convertible Facility as required in the agreement. However, subsequent to year-end, in addition to amendments to the Facility, the Company obtained a waiver of the violations as well as amendments to the covenants. The Company believes it will meet the amended covenants for the following 12-month period and has classified the balance of the Convertible Facility as non-current in the Consolidated Balance Sheets. Refer to *"Note 2 – Summary of Significant Accounting Policies, Going Concern"* for discussion of the Company's plans for the 12-month period after the issuance of the consolidated financial statements and *"Note 27 – Subsequent Events"* for further details of the amendment subsequent to June 27, 2020.

Upon funding of Tranche 2 in the amount of $25,000,000 on July 12, 2019, the Company issued 2,967,708 and 857,336 warrants to the lenders at an exercise price of $3.16 and $3.65 per share, respectively. Upon funding of Tranche 3 in the amount of $10,000,000 on November 27, 2019, the Company issued 3,708,772 and 1,071,421 warrants to the lenders at an exercise price of $1.01 and $1.17 per share, respectively.

Upon funding of the Tranche 4 Advance in the amount of $12,500,000 on March 27, 2020, the Company issued 48,076,923 Warrants with an exercise price of $0.26, representing 100% coverage of the Tranche 4 Advance. Additionally, in accordance with the Third Amendment, the Company cancelled 2,700,628 of the 21,605,061 Existing Warrants issued under Tranche 1, Tranche 2 and Tranche 3 and reissued 32,451,923 Replacement Warrants with an exercise price per share equal to $0.26. Upon funding of the Tranche 4 Advance on March 27, 2020, the conversion price for $20,499,657 of the convertible notes, representing 12.5% of each under Tranche 1, Tranche 2 and Tranche 3 was amended to $0.26 per Subordinate Voting Share. Upon funding of the incremental advance in the amount of $2,500,000 on April 24, 2020, the Company issued 9,615,385 warrants with an exercise price of $0.26. In addition, 540,128 Existing Warrants were cancelled and replaced with 6,490,385 warrants with an exercise price of $0.26 in accordance with the Third Amendment.

Warrants issued pursuant to the Third Amendment may be exercised at the election of their holders on a cashless basis. All Existing and Replacement Warrants issued in connection with the Convertible Facility met the scope exception under ASC 815, *"Derivatives and Hedging"* and classified as equity instruments. The warrants are measured at fair value and recorded as a debt discount in connection with the Convertible Facility. See *"Note 20 – Share-Based Compensation"* for further information regarding the valuation method and assumptions used in determining the fair value of these equity instruments.

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 are secured by substantially all assets of the Company.

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.

## 19. SHAREHOLDERS' EQUITY

***Authorized***

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

*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. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders, the holders of Class B Subordinate Voting Shares shall, subject to the prior rights of the holders of any shares of the Company ranking in priority rights of the holders of any shares of the Company ranking in priority to the Class B Shares (including without restriction the Class A Super Voting Shares) be entitled to participate ratably along with all other holders of Class B Shares.

*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. Provided that the founders hold more than 50% of the issued and outstanding non-voting common shares of MM Corp and Common Units of LLC, otherwise each holders of Super Voting Shares are entitled to 50 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. The Super Voting Shares are redeemable by the Company at a fixed rate of $0.10119 per share at the option of the current holder (the founders) in certain circumstances. In all other circumstances, the Company has the option to redeem the Super Voting Shares at the aforementioned fixed rate. The total amount due if redeemed, is approximately $82,500. The Company determined that the Super Voting are temporary equity in accordance with ASC 480, "*Distinguishing Liabilities from Equity*" and has reflected the amount as mezzanine equity in the Consolidated Balance Sheets.

In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders, the Company will distribute its assets firstly and in priority to the rights of holders of any other class of shares of the Company (including the holders of preferred shares of any series and Class B Subordinate Voting Shares) to return the issue price of the Class A Super Voting Shares. If there are insufficient assets to fully return the issue price, such holders will receive an amount equal to the holders of the Class A Super Voting Shares such holders will receive an amount equal to their pro rata share in proportion to the issue price of their Class A Super Voting Shares along with all other holders of Class A Super Voting Shares.

On January 31, 2020, the Company announced that Adam Bierman and Andrew Modlin agreed to surrender all of their Class A Super Voting Shares to the Company. The value of the Super Voting Shares will be determined by a special committee of the Board (the "Special Committee") through a process that includes hiring a third-party supervised by the Special Committee. As of June 27, 2020, the third-party valuation has not been completed. Accordingly, 815,295 Super Voting Shares previously held by Mr. Bierman were cancelled during the fiscal year ended June 27, 2020. On July 12, 2020, the valuation of the Super Voting Shares was completed. As of June 27, 2020, $475,650 was accrued in current liabilities for the amount owed to Adam Bierman related to the Super Voting Shares cancelled. This liability is to be settled in Class B Subordinate Voting Shares and RSUs. Mr. Modlin's surrender will occur in December 2020 upon the expiration of the limited proxy granted to Benjamin Rose, Executive Chairman of the Board. As a result, the Company expects to have no outstanding Class A Super Voting Shares by the end of calendar year 2020.

**19. SHAREHOLDERS' EQUITY** *(Continued)*

*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. Preferred shares shall be entitled to preference over other classes of shares, dividends when declared and any distribution of assets in event of liquidation, dissolution or winding up the Company, whether voluntary or involuntary.

*2,000,000,000 Units of MM CAN USA. Redeemable Shares*

The Company's subsidiary, MM CAN USA, Inc. has two authorized classes of units, Class A and Class B Redeemable Stock with a $0.001 USD par value, having an authorized limit of 1,000,000,000 units each. Class A Units are not redeemable, while Class B Redeemable Units are redeemable into shares of the Company's Class B Subordinate Voting Shares. Holders of Class B Redeemable Units can redeem at their election. There are no mandatory redemption features. Class A Units are entitled to vote per unit held while Class B Redeemable Units are non-voting. Each Class share on a pro-rata basis dividends when declared. Upon the dissolution or liquidation of the Corporation, whether voluntary or involuntary, holders of Class B Redeemable Units, together with holders of Class A Units on a pro-rata basis, will be entitled to receive all assets of the Corporation available for distribution to its stockholders.

*Unlimited Number of MM Enterprises USA Common Units*

The Company's subsidiary, MM Enterprises USA, LLC has one authorized class of units being Common Units. Common Units contain no voting rights and are redeemable into Class B Redeemable Units of MedMen Corp or of the Company's Class B Subordinate Voting Shares. Distributions to members, upon the dissolution or liquidation of the Company, whether voluntary or involuntary may be declared by out of distributable cash or other funds or property legally available therefor in such amounts and on such terms as the Company shall determine using such record date as the Company may designate on a pro-rata basis in accordance with each members percentage interest in the Company.

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

## 19. SHAREHOLDERS' EQUITY *(Continued)*

### Issued and Outstanding

A reconciliation of the beginning and ending issued and outstanding shares is as follows:

| | Subordinate Voting Shares | Super Voting Shares | MM CAN USA Class B Redeemable Units | MM Enterprises USA Common Units |
|---|---|---|---|---|
| **Balance as of July 1, 2018** | **45,215,976** | **1,630,590** | **365,961,334** | **1,570,064** |
| Bought Deal Equity Financing | 29,321,818 | - | - | - |
| At-the-Market Equity Financing Program | 5,168,500 | - | - | - |
| Shares Issued to Settle Debt | 632,130 | - | 3,932,415 | - |
| Debt Issuance Costs | 2,691,141 | - | - | - |
| Redemption of MedMen Corp Redeemable Shares | 58,095,821 | - | (58,095,821) | - |
| Redemption of LLC Redeemable Units | 5,566,993 | - | 4,274,566 | (9,841,559) |
| Other Assets | 919,711 | - | 72,464 | - |
| Acquisition Costs | 159,435 | - | 169,487 | - |
| Acquisition of Non-Controlling Interest | 9,736,870 | - | - | - |
| Business Acquisitions | 10,875,929 | - | - | - |
| Asset Acquisitions | 1,658,884 | - | - | 8,996,511 |
| Vested Restricted Stock Units | 333,479 | - | - | - |
| Exercise of Warrants | - | - | 2,878,770 | - |
| Stock Grants for Compensation | 2,634,235 | - | - | - |
| **Balance as of June 29, 2019** | **173,010,922** | **1,630,590** | **319,193,215** | **725,016** |
| Cancellation of Super Voting Shares | - | (815,295) | - | - |
| At-the-Market Equity Financing Program, Net | 9,789,300 | - | - | - |
| Shares Issued for Cash | 61,596,792 | - | - | - |
| Shares Issued to Settle Debt and Accrued Interest | 6,801,790 | - | - | - |
| Shares Issued to Settle Accounts Payable and Liabilities | 24,116,461 | - | - | - |
| Shares Issued to Settle Contingent Consideration | 13,737,444 | - | - | - |
| Asset Acquisitions | 7,373,034 | - | - | - |
| Redemption of MedMen Corp Redeemable Shares | 83,119,182 | - | (83,119,182) | - |
| Shares Issued for Vested Restricted Stock Units | 329,548 | - | - | - |
| Shares Issued for Other Assets | 13,479,589 | - | - | - |
| Shares Issued for Acquisition Costs | 765,876 | - | - | - |
| Shares Issued for Business Acquisition | 5,112,263 | - | - | - |
| Stock Grants for Compensation | 4,675,017 | - | 49,818 | - |
| **Balance as of June 27, 2020** | **403,907,218** | **815,295** | **236,123,851** | **725,016** |

### *September Bought Deal Equity Financing*

On September 27, 2018, MedMen Corp completed a bought deal financing (the "September Offering") of 15,681,818 units (the "September Units") at a price of C$5.50 per September Unit (the "September Issue Price"), which included the exercise in full by the Underwriters of their over-allotment option, for aggregate gross proceeds of approximately C$86,250,000 (or $65,935,325 U.S. dollars). Each September Unit consisted of one Subordinate Voting Share and one-half of one share purchase warrant of the Company (each whole share purchase warrant, a "September Warrant"). Each September Warrant entitles the holder thereof to acquire, subject to adjustment in certain circumstances, one Subordinate Voting Share at an exercise price of C$6.87 for a period of 36 months following the closing of the September Offering. On September 27, 2018, the September Warrants commenced trading under the ticker symbol "MMEN.WT". See *"Note 15 - Derivative Liabilities"* for further information.

**19. SHAREHOLDERS' EQUITY** *(Continued)*

***December Bought Deal Equity Financing***

On December 5, 2018, MedMen Corp completed a bought deal financing (the "December Offering") of 13,640,000 units (the "December Units") at a price of C$5.50 per December Unit (the "December Issue Price") for aggregate gross proceeds of approximately C$75,020,000 (or $55,976,720 U.S. dollars). Each December Unit consisted of one Subordinate Voting Share and one share purchase warrant of the Company ("December Warrant"). Each December Warrant entitles the holder thereof to acquire, subject to adjustment in certain circumstances, one Subordinate Voting Share at an exercise price of C$6.87 ($5.28) until September 27, 2021. The December Warrants are traded under the ticker symbol "MMEN.WT" with the September Warrants. See *"Note 15 - Derivative Liabilities"* for further information.

***At-the-Market Equity Financing Program***

On April 10, 2019, the Company entered into an equity distribution agreement (the "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. As of June 27, 2020 and June 29, 2019, the Company had issued 9,789,300 and 5,168,500, respectively for net proceeds of US$12,399,252 and US$13,306,096, respectively.

***Non-Controlling Interests***

Non-controlling interest represents the net assets of the subsidiaries that 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 MM CAN USA Redeemable Shares and the holders of MM Enterprises USA Common Units. 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 June 27, 2020 and June 29, 2019, the holders of the MM CAN USA Redeemable Shares represent approximately 36.89% and 64.85%, respectively, of the Company and holders of the MM Enterprises USA Common Units represent approximately 0.11% and 0.15%, respectively, of the Company.

***Variable Interest Entities***

The below information are entities the Company has concluded to be variable interest entities ("VIEs") as the Company possesses the power to direct activities through management services agreements ("MSAs"). Through these MSAs, the Company can significantly impact the VIEs and thus holds a controlling financial interest.

The following table represents the summarized financial information about the Company's consolidated VIEs. VIEs include the balances of LAX Fund II Group, LLC, Natures Cure, Inc. and Venice Caregiver Foundation, Inc. This information represents amounts before intercompany eliminations.

***Acquisition of Previously Consolidated VIE***

Prior to January 25, 2019, the Company VIE's also included The Source Santa Ana and The Farmacy Collective. On January 25, 2019, the Company completed the acquisition of The Source Santa Ana and The Farmacy Collective from Captor Capital Corp. ("Captor"), a related party for $33,035,817 pursuant to a stock purchase agreement entered into on January 9, 2019 (the "SPA"). Under the terms of the SPA, the Company acquired all of the shares of ICH California Holdings, Ltd., a wholly-owned subsidiary of Captor that held assets including the ownership interests in its MedMen branded retail cannabis dispensaries located in Santa Ana and West Hollywood. The purchase price was paid with 9,736,870 Subordinate Voting Shares at an aggregate value of $33,035,817. Additionally 1,051,902 Subordinate Voting Shares issued as part of the purchase price are contractually restricted from trading for six months from the closing date. Accordingly, The Source Santa Ana is now consolidated as a wholly owned subsidiary of the Company.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

**19. SHAREHOLDERS' EQUITY** *(Continued)*

As of and for the year ended June 27, 2020, the balances of the VIEs consists of the following:

| | Venice Caregivers Foundation, Inc. | LAX Fund II Group, LLC | Natures Cure, Inc. | TOTAL |
|---|---|---|---|---|
| Current Assets | $ 1,233,188 | $ 811,025 | $ 6,639,231 | $ 8,683,444 |
| Non-Current Assets | 16,867,824 | 3,259,563 | 5,032,428 | 25,159,815 |
| **Total Assets** | **18,101,012** | **4,070,588** | **11,671,659** | **33,843,259** |
| Current Liabilities | $ 12,831,161 | $ 7,481,953 | $ 3,745,710 | $ 24,058,824 |
| Non-Current Liabilities | 11,196,585 | 2,662,078 | 1,146,322 | 15,004,985 |
| **Total Liabilities** | **24,027,746** | **10,144,031** | **4,892,032** | **39,063,809** |
| **Non-Controlling Interest** | **$ (5,926,734)** | **$ (6,073,443)** | **$ 6,779,627** | **$ (5,220,550)** |
| **Revenues** | **$ 10,949,458** | **$ -** | **$ 13,976,810** | **$ 24,926,268** |
| **Net (Loss) Income Attributable to Non-Controlling Interest** | **$ (6,132,528)** | **$ (3,777,079)** | **$ 3,143,437** | **$ (6,766,170)** |

As of and for the year ended June 29, 2019, the balances of the VIEs consists of the following:

| | Venice Caregivers Foundation, Inc. | LAX Fund II Group, LLC | Natures Cure, Inc. | TOTAL |
|---|---|---|---|---|
| Current Assets | $ 1,793,174 | $ 1,156,113 | $ 1,437,604 | $ 4,386,891 |
| Non-Current Assets | 6,133,804 | 1,753,897 | 4,000,000 | 11,887,701 |
| **Total Assets** | **7,926,978** | **2,910,010** | **5,437,604** | **16,274,592** |
| Current Liabilities | $ 6,375,156 | $ 5,203,258 | $ 1,801,414 | $ 13,379,828 |
| Non-Current Liabilities | 1,344,479 | - | - | 1,344,479 |
| **Total Liabilities** | **7,719,635** | **5,203,258** | **1,801,414** | **14,724,307** |
| **Non-Controlling Interest** | **$ 207,343** | **$ (2,293,248)** | **$ 3,636,190** | **$ 1,550,285** |
| **Revenues** | **$ 9,767,302** | **$ -** | **$ 11,630,475** | **$ 21,397,777** |
| **Net (Loss) Income Attributable to Non-Controlling Interest** | **$ (5,563,148)** | **$ (5,264,296)** | **$ 3,345,828** | **$ (7,481,616)** |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 19. SHAREHOLDERS' EQUITY *(Continued)*

The net change in the consolidated VIEs and other non-controlling interest are as follows for the year ended June 27, 2020:

| | Venice Caregivers Foundation, Inc. | LAX Fund II Group, LLC | Natures Cure, Inc. | Other Non-Controlling Interests | TOTAL |
|---|---|---|---|---|---|
| Balance as of June 29, 2019 | $ 207,343 | $ (2,293,248) | $ 3,636,190 | $ (33,417,690) | $ (31,867,405) |
| Net Income (Loss) | (6,132,528) | (3,777,079) | 3,143,437 | (272,499,888) | (279,266,058) |
| Cash Distributions from Non-Controlling Members | - | - | - | (310,633) | (310,633) |
| Stock Grants for Compensation | - | - | - | 35,157 | 35,157 |
| Equity Component on Debt and Debt Modification | - | - | - | 5,331,969 | 5,331,969 |
| Redemption of MedMen Corp Redeemable Shares | - | - | - | (32,192,800) | (32,192,800) |
| Share-Based Compensation | - | - | - | 1,492,073 | 1,492,073 |
| **Balance as of June 27, 2020** | **$ (5,925,185)** | **$ (6,070,327)** | **$ 6,779,627** | **$ (331,561,812)** | **$ (336,777,697)** |

The net change in the consolidated VIEs and other non-controlling interest are as follows for the year ended June 29, 2019:

| | Venice Caregivers Foundation, Inc. | LAX Fund II Group, LLC | Natures Cure, Inc. | Farmacy Collective and The Source Santa Ana | Other Non-Controlling Interests | TOTAL |
|---|---|---|---|---|---|---|
| Balance as of June 30, 2018 | $ 5,770,491 | $ 2,971,048 | $ 290,362 | $ (692,837) | $ 77,389,350 | $ 85,728,414 |
| Net Income (Loss) | (5,563,148) | (5,264,296) | 3,345,828 | 596,288 | (181,955,438) | (188,840,766) |
| Cash Contributions from Non-Controlling Members | - | - | - | - | 290,000 | 290,000 |
| Conversion of Convertible Debentures | - | - | - | - | 3,802,381 | 3,802,381 |
| Asset Acquisitions | - | - | - | - | 41,154,986 | 41,154,986 |
| Fair Value of Warrants Issued for Debt | - | - | - | - | 13,590,104 | 13,590,104 |
| Issuance of Equity for the Repayment of Notes Payable | - | - | - | - | 6,759,125 | 6,759,125 |
| Exercise of Warrants | - | - | - | - | 8,521,268 | 8,521,268 |
| Other Assets | - | - | - | - | 343,678 | 343,678 |
| Acquisition Costs | - | - | - | - | 597,320 | 597,320 |
| Share-Based Compensation | - | - | - | - | 12,845,773 | 12,845,773 |
| Acquisition of Non-Controlling Interest | - | - | - | 96,549 | - | 96,549 |
| Redemption of MedMen Corp Redeemable Shares | - | - | - | - | 7,683,232 | 7,683,232 |
| Redemption of LLC Redeemable Units | - | - | - | - | (24,439,469) | (24,439,469) |
| **Balance as of June 29, 2019** | **$ 207,343** | **$ (2,293,248)** | **$ 3,636,190** | **$ -** | **$ (33,417,690)** | **$ (31,867,405)** |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 19. SHAREHOLDERS' EQUITY *(Continued)*

The consolidated financial statements for the fiscal year ended June 29, 2019 presented herein include LCR Manager, LLC (the "Manager") as described in *"Note 2 - Basis of Consolidation"*. The Manager holds less than 0.01% of the total outstanding units in Le Cirque Rouge, LP (the "Operating Partnership," or the "OP") in which the investment was accounted for under the equity method due to the Company's significant influence as a result of LCR Manager, LLC being the manager of the OP and owning equity interests in the OP. In addition, certain members of management of the Company were also members of management to the REIT (see below). The amount of initial investment in the OP was nominal, and thus the equity interests in the OP, and accordingly, the amount of investment, was determined to be insignificant and therefore has not been recorded in these financial statements. Accordingly, the Company's maximum exposure to loss as a result of its involvement with the OP is not significant. During the fiscal year ended June 27, 2020, the Company sold its interests in LCR Manager, LLC for gross proceeds of $12,500,000.

Le Cirque Rouge, LP is a Delaware limited partnership that holds substantially all of the real estate assets owned by the REIT, conducts the REIT's operations, and is financed by the REIT. Under ASC 810, *"Consolidation"*, the OP was determined to be a variable interest entity in which the Company has a variable interest. The Company was determined to have an implicit variable interest in the OP based on the leasing relationship and arrangement with the REIT. The Company was not determined to be the primary beneficiary of the VIE as the Company does not have the power to direct the activities of the VIE that most significantly affect its economic performance. As of September 2019, the Company and the REIT no longer had members of common management and in November 2019, the Company sold its interests in the Manager. However, the Company continues to have a variable interest in the OP as of June 27, 2020. During the fiscal years ended June 27, 2020 and June 29, 2019, the Company did not provide any financial or other support to the REIT other than the completion of the sale and leaseback transactions and the REIT being a lessor on various leases as described in *"Note 16 – Leases"*. Accordingly, Le Cirque Rouge, LP is not consolidated as a variable interest entity within the consolidated financial statements.

## 20. 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, deferred stock units, restricted stock grants, LTIP, P units and warrants (together, "Awards"). Stock based compensation expenses are recorded as a component of general and administrative 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. 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 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 years ended June 27, 2020 and June 29, 2019 is as follows:

| | 2020 | 2019 |
|---|---|---|
| Stock Options | $ 1,876,225 | $ 11,699,796 |
| Deferred Stock Units | 484,932 | - |
| LTIP Units | 1,492,073 | 12,845,773 |
| Stock Grants for Services | 3,656,926 | 5,712,872 |
| Restricted Stock Grants | 3,554,968 | 2,235,773 |
| Warrants | - | 227,244 |
| **Total Share-Based Compensation** | **$ 11,065,124** | **$ 32,721,458** |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

**20. SHARE-BASED COMPENSATION** *(Continued)*

On February 1, 2020, Adam Bierman resigned as Chief Executive Officer of the Company and surrendered all Class A Super Voting Shares to the Company. See "*Note 19 – Shareholders' Equity*" for further information on Mr. Bierman's Super Voting Shares. As payment of severance to Mr. Bierman, the Company will compensate Mr. Bierman in the form of securities of which the number of issued securities and the aggregate amount is approximately 3,700,000 of which half are in Class B Subordinate Voting Shares and half are in RSUs. The RSUs have a term of 10 years and vest when the Company's Class B Subordinate Voting Shares have a daily VWAP of at least $2.05 for 25 consecutive days. As of June 27, 2020, $475,650 was accrued in current liabilities for the amount owed to Adam Bierman related to the Super Voting Shares cancelled. This liability is to be settled in Class B Subordinate Voting Shares and RSUs. In addition, the Company amended the terms of the 9,661,939 LTIP Units held by Mr. Bierman wherein the vesting period was extended to ten years from February 1, 2020. The Company analyzed the impact of the modification on its consolidated financial statements and determined the modification did not have a significant impact on its Consolidated Statements of Operations and its Consolidated Balance Sheets as of and for the year ended June 27, 2020.

***Stock Options***

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

| | Number of Stock Options | Weighted-Average Exercise Price |
|---|---|---|
| **Balance as of July 1, 2018** | 5,793,374 | $ 4.14 |
| Granted | 10,374,075 | $ 3.45 |
| Forfeited | (2,629,347) | $ (4.32) |
| **Balance as of June 29, 2019** | **13,538,102** | **$ 4.31** |
| Granted | 6,812,552 | $ 1.34 |
| Forfeited | (11,732,450) | $ (2.81) |
| **Balance as of June 27, 2020** | **8,618,204** | **$ 2.78** |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 20. SHARE-BASED COMPENSATION *(Continued)*

The following table summarizes the stock options that remain outstanding as of June 27, 2020:

| Security Issuable | Exercise Price | Expiration Date | Stock Options Outstanding | | Stock Options Exercisable |
|---|---|---|---|---|---|
| Subordinate Voting Shares | $3.26 | February 2029 | 316,085 | *(3)* | 316,085 |
| Subordinate Voting Shares | $3.41 | August 2021 | 32,974 | *(4)* | 32,974 |
| Subordinate Voting Shares | $3.84 | July 2023 | 200,000 | *(6)* | 200,000 |
| Subordinate Voting Shares | $4.03 | May 2028 | 1,916,739 | *(5)* | 1,426,900 |
| Subordinate Voting Shares | $4.05 | August 2028 | 61,950 | *(7)* | 61,950 |
| Subordinate Voting Shares | $4.05 | August 2028 | 376,746 | *(7)* | - |
| Subordinate Voting Shares | $4.03 | October 2028 | 35,000 | *(5)* | 16,041 |
| Subordinate Voting Shares | $5.71 | October 2028 | 466,075 | *(5)* | 251,968 |
| Subordinate Voting Shares | $3.42 | January 2029 | 394,980 | *(5)* | 298,046 |
| Subordinate Voting Shares | $2.64 | None | - | *(1)* | - |
| Subordinate Voting Shares | $3.36 | February 2029 | 207,842 | *(2)* | 207,842 |
| Subordinate Voting Shares | $3.06 | April 2029 | 238,064 | *(5)* | 132,262 |
| Subordinate Voting Shares | $2.79 | April 2029 | 225,106 | *(5)* | 71,847 |
| Subordinate Voting Shares | $2.36 | May 2029 | 35,895 | *(5)* | 14,014 |
| Subordinate Voting Shares | $2.66 | June 2029 | 63,250 | *(5)* | 16,291 |
| Subordinate Voting Shares | $2.17 | June 2029 | 724,645 | *(8)* | 724,645 |
| Subordinate Voting Shares | $2.02 | July 2029 | 578,623 | *(5)* | - |
| Subordinate Voting Shares | $1.99 | August 2029 | 467,660 | *(5)* | - |
| Subordinate Voting Shares | $1.55 | September 2029 | 269,655 | *(5)* | - |
| Subordinate Voting Shares | $2.02 | None | 645,705 | *(5)* | - |
| Subordinate Voting Shares | $1.38 | October 2029 | 144,260 | *(5)* | - |
| Subordinate Voting Shares | $0.44 | December 2029 | 249,908 | *(5)* | - |
| Subordinate Voting Shares | $0.53 | January 2030 | 161,395 | *(5)* | - |
| Subordinate Voting Shares | $0.53 | January 2030 | 231,630 | *(5)* | 231,630 |
| Subordinate Voting Shares | $0.47 | January 2030 | 289,119 | *(5)* | - |
| Subordinate Voting Shares | $0.27 | February 2030 | 32,000 | *(5)* | - |
| Subordinate Voting Shares | $0.11 | March 2030 | 46,608 | *(5)* | 46,608 |
| Subordinate Voting Shares | $0.38 | March 2030 | 7,000 | *(5)* | - |
| Subordinate Voting Shares | $0.18 | May 2030 | 199,290 | *(5)* | 199,290 |
| | | | **8,618,204** | | **4,248,393** |

*(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. 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.*

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 20. SHARE-BASED COMPENSATION *(Continued)*

For the years ended June 27, 2020 and 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:

| | 2020 | 2019 |
|---|---|---|
| Weighted-Average Risk-Free Annual Interest Rate | 1.60% | 1.95% |
| Weighted-Average Expected Annual Dividend Yield | 0.0% | 0.0% |
| Weighted-Average Expected Stock Price Volatility | 91.0% | 87.8% |
| Weighted-Average Expected Life in Years | 7.50 | 6.15 |
| 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 year ended June 27, 2020, 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:

| | 2020 | 2019 |
|---|---|---|
| Weighted-Average Stock Price | C$2.65 | C$4.10 |
| Weighted-Average Probability | 6.0% | 6.0% |
| Weighted-Average Term in Years | 3.0 | 3.0 |
| Weighted-Average Volatility | 83.3% | 72.0% |

During the years ended June 27, 2020 and June 29, 2019, the weighted-average fair value of stock options granted was $0.98 and $2.67, respectively, per option. As of June 27, 2020 and June 29, 2019, stock options outstanding have a weighted-average remaining contractual life of 7.5 years and 9.1 years, respectively. In the fourth quarter of the year ended June 29, 2019, the Company modified the Company's stock option plan for all outstanding employee options, allowing the vesting period to begin on the date of hire. 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 Consolidated Statements of Operations for the years ended June 27, 2020 and June 29, 2019.

(Amounts Expressed in United States Dollars Unless Otherwise Stated)

## 20. SHARE-BASED COMPENSATION *(Continued)*

### *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 outstanding is as follows:

| | LTIP Units Issued and Outstanding | LLC Redeemable Units | | Weighted Average Grant Date Fair Value |
|---|---|---|---|---|
| **Balance as of July 1, 2018** | 30,314,333 | 1,570,064 | $ | 1.56 |
| Redemptions | - | (845,048) | $ | (3.38) |
| Forfeiture of LTIP Units (2) | (3,962,422) | - | $ | (3.38) |
| Cancellation of LTIP Units (2) | (724,645) | - | $ | (3.38) |
| Vesting and Converted (1)(3) | (4,744,911) | - | $ | (3.38) |
| **Balance as of June 29, 2019** | **20,882,355** | **725,016** | **$** | **0.74** |
| Vesting and Converted (1)(3) | (1,558,477) | - | $ | (3.38) |
| **Balance as of June 27, 2020** | **19,323,878** | **725,016** | **$** | **0.74** |

(1) *LTIP Units and LLC Redeemable Units will vest as follows:*

- *19,323,878 of the LTIP Units will vest contingent upon achievement of certain price targets in respect of the Subordinate Voting Shares, whereby one third of such aggregate LTIP Units will vest when the price of the Subordinate Voting Shares reaches C$10 in the open market, another third will vest when such share price reaches C$15 in the open market and the final third will vest when such share price reaches C$20 in the open market. 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. 9,661,939 of the LTIPs were modified to extend the vesting periods to 10 years from the modification date of February 1, 2020.*
- *6,038,712 of the LTIP Units will vest as follows: (a) 25% vested immediately on issuance; and (b) the remaining 75% vest ratably, on a monthly basis, beginning on May 17, 2018 and concluding with all LTIP Units being fully vested on March 15, 2020.*
- *4,227,098 of the FV LTIP Units will vest as follows: (a) 14.3% vested immediately on issuance; and (b) the remaining 85.7% vest ratably, on a monthly basis, beginning on May 17, 2018 and concluding with all FV LTIP Units being fully vested on March 15, 2022.*
- *724,645 of the LTIP Units will vest ratably, on a monthly basis, beginning on May 17, 2018 and concluding with all LTIP Units being fully vested on March 15, 2021.*

(2) *3,237,778 of the LTIP Units were forfeited upon the resignation of an employee. In addition, 724,645 of the LTIP Units and the vested amounts were cancelled/forfeited by the employee.*

(3) *For the year ended June 27, 2020 and June 29, 2019, 1,558,477 and 4,744,991, respectively, of the LTIP Units were vested and converted to zero LLC Redeemable Units pursuant to the formula determined by the Third Amended and Restated LLC Agreement of MM Enterprises USA, LLC.*

### *Deferred Stock Units*

Effective December 10, 2019, the Company's board of directors approved a Deferred Share Unit ("DSU") award under the Company's Incentive Plan. The DSU award was for units to the Company's non-management directors. Each director will be provided the Company's Subordinate Voting Shares based on the duration of their term as a director up to $250,000 for a year of service ending August 2020. At June 27, 2020 and June 29, 2019, there was 1,276,169 units and nil units, respectively, issued and outstanding. For the years ended June 27, 2020 and June 29, 2019, compensation expense related to the DSU award was $484,932 and nil, respectively, was included in accounts payable and stock based compensation expense on the Company's Consolidated Balance Sheets. As of June 27, 2020, the corresponding Subordinate Voting Share have not yet been issued to the directors. A reconciliation of the beginning and ending balance of DSUs outstanding is as follows:

| | Issued and Outstanding | | Weighted-Average Fair Value |
|---|---|---|---|
| **Balance as of July 1, 2018** | **-** | **$** | **-** |
| **Balance as of June 29, 2019** | **-** | **$** | **-** |
| Granted | 1,283,567 | $ | 0.38 |
| **Balance as of June 27, 2020** | **1,283,567** | **$** | **0.38** |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 20. SHARE-BASED COMPENSATION *(Continued)*

### *Restricted Stock Grants*

During the years ended June 27, 2020 and June 29, 2019, the Company granted an entitlement to 7,443,954 and 4,352,340, respectively, of restricted Subordinate Voting Shares to certain officers and directors. A reconciliation of the beginning and ending balance of restricted stock grants outstanding is as follows:

| | Issued and Outstanding | Vested (1) | | Weighted-Average Fair Value |
|---|---|---|---|---|
| **Balance as of July 1, 2018** | **-** | **-** | **$** | **-** |
| Granted | 4,352,340 | 336,441 | $ | 3.89 |
| Forfeiture of Restricted Stock (2) | (3,000,000) | - | $ | (4.25) |
| Redemption of Vested Shares | (333,479) | (333,479) | $ | (3.07) |
| **Balance as of June 29, 2019** | **1,018,861** | **2,962** | **$** | **3.89** |
| Granted | 7,443,954 | - | $ | 0.73 |
| Forfeiture of Restricted Stock (2) | (974,103) | - | $ | 2.69 |
| Redemption of Vested Stock | (329,548) | (329,548) | $ | 3.14 |
| Vesting of Restricted Stock | - | 519,045 | $ | 2.28 |
| **Balance as of June 27, 2020** | **7,159,164** | **192,459** | **$** | **0.68** |

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

- *3,000,000 of the restricted stock grants will vest as follows: one-fourth upon the 12-month employment anniversary, with the remaining three-fourths vesting in amounts of one third each when the trading price of the Subordinate Voting Shares on the then current stock exchange at any time during the term of employment reaches a minimum of C$10, C$15 and C$20, respectively.*
- *46,331 of the restricted stock grants on July 11, 2018 will vest in four (4) equal quarterly installments on each three-month anniversary of the Date of Grant.*
- *131,859 of the restricted stock grants on August 29, 2018 will vest in four (4) equal quarterly installments on each three-month anniversary of the Date of Grant.*
- *918,785 of the restricted stock grants will vest ratably as follows: one-fourth within 30-days of the grant date, with the remaining three-fourths in three equal installments on every anniversary of the grant date, beginning on December 18, 2018 and concluding with all restricted stock grants being fully vested on December 18, 2021.*
- *23,082 of the restricted stock grants will vest on a straight-line basis, beginning on January 3, 2019, and concluding with all restricted stock grants being fully vested on August 28, 2019.*
- *162,455 of the restricted stock units will vest as follows: one-fourth of the total number of restricted stock shall vest on March 26, 2019. Thereafter, 1/36 of the remainder shall vest on the first day of each month over a period of three years until all restricted stock shall have vested.*
- *72,202 of the restricted stock units will vest as follows: one-fourth of the total number of restricted stock shall vest on May 7, 2019. Thereafter, 1/36 of the remainder shall vest on the first day of each month over a period of three years until all restricted stock shall have vested.*
- *5,458,749 of the restricted stock units will vest as follows on the first anniversary of the grant date, December 10, 2020.*
- *1,885,408 of the restricted stock units will vest as follows: on the second anniversary of the grant date, July 30, 2021.*
- *50,181 of the restricted stock units will vest as follows: on the first anniversary of the grant date, August 26, 2020.*
- *49,616 of the restricted stock units will vest as follows: on August 1, 2021.*

(2) *3,000,000 and 974,103 of the restricted stock grants were forfeited upon resignation of certain employees prior to their vesting for the fiscal years ended June 29, 2019 and June 27, 2020, respectively.*

Certain restricted stock granted has vesting which is based on market conditions. For restricted stock that have 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 have 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.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 20. SHARE-BASED COMPENSATION *(Continued)*

For the years ended June 27, 2020 and June 29, 2019, the Company had nil and one restricted stock grant that was forfeited, respectively, with a market vesting condition. The fair value at grant was based on a Monte Carlo simulation model using the following assumptions at the time of grant:

| | 2020 | 2019 |
|---|---|---|
| Weighted-Average Stock Price | Nil | C$5.07 |
| Weighted-Average CDN to USD Conversion Rate | Nil | 0.76 |
| Weighted-Average Volatility | Nil | 72.0% |
| Weighted-Average Months | Nil | 28.72 |

For the years ended June 27, 2020 and June 29, 2019, the market vesting restricted stock grant was forfeited and the expense recorded as reversed as no vesting conditions were met.

***Warrants***

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

| | Number of Warrants Outstanding | | | |
|---|---|---|---|---|
| | Subordinate Voting Shares | MedMen Corp Redeemable Shares | Total | Weighted-Average Exercise Price |
| **Balance as of July 1, 2018** | 2,415,485 | 8,797,019 | 11,212,504 | $ 3.53 |
| Issued | 12,999,815 | 17,234,540 | 30,234,355 | $ 4.48 |
| Exercised | (897,863) | (3,701,040) | (4,598,903) | $ (3.50) |
| Expired | (1,517,622) | (5,095,979) | (6,613,601) | $ (3.54) |
| **Balance as of June 29, 2019** | **12,999,815** | **17,234,540** | **30,234,355** | **$ 4.48** |
| Issued | 105,239,862 | 40,455,729 | 145,695,591 | $ 0.58 |
| Cancelled | (3,240,762) | (17,234,540) | (20,475,302) | $ 4.66 |
| **Balance as of June 27, 2020** | **114,998,915** | **40,455,729** | **155,454,644** | **$ 0.71** |

The following table summarizes the warrants that remain outstanding as of June 27, 2020:

| Security Issuable | Exercise Price | Number of Warrants | Expiration Date |
|---|---|---|---|
| MedMen Corp Redeemable Shares | $0.60 | 40,455,729 | December 31, 2022 |
| **Total MedMen Corp Redeemable Shares** | | **40,455,729** | |
| Subordinate Voting Shares | $3.72 | 1,647,391 | April 23, 2022 |
| Subordinate Voting Shares | $4.29 | 562,578 | April 23, 2022 |
| Subordinate Voting Shares | $3.72 | 6,589,559 | May 22, 2022 |
| Subordinate Voting Shares | $4.29 | 2,250,314 | May 22, 2022 |
| Subordinate Voting Shares | $3.16 | 2,522,554 | July 12, 2022 |
| Subordinate Voting Shares | $3.65 | 728,737 | July 12, 2022 |
| Subordinate Voting Shares | $1.01 | 3,152,457 | November 27, 2022 |
| Subordinate Voting Shares | $1.17 | 910,709 | November 27, 2022 |
| Subordinate Voting Shares | $0.26 | 80,528,846 | March 27, 2025 |
| Subordinate Voting Shares | $0.26 | 16,105,770 | April 24, 2025 |
| **Total Subordinate Voting Shares** | | **114,998,915** | |
| **Total Warrants Outstanding** | | **155,454,644** | |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

**20. SHARE-BASED COMPENSATION** *(Continued)*

The fair value of warrants exercisable for MedMen Corp Redeemable Shares was determined using the Black-Scholes option-pricing model with the following assumptions on the date of issuance:

| | 2020 | 2019 |
|---|---|---|
| Weighted-Average Risk-Free Annual Interest Rate | 2.20% | 2.82% |
| Weighted-Average Expected Annual Dividend Yield | 0% | 0% |
| Weighted-Average Expected Stock Price Volatility | 88.19% | 82.93% |
| Weighted-Average Expected Life of Warrants | 1 year | 1 year |

Stock price volatility was estimated by using the historical volatility of the Company's Subordinate Voting Shares and the average historical volatility of comparable companies from a representative peer group of publicly-traded cannabis companies. The expected life in years represents the period of time that warrants issued are expected to be outstanding. The risk-free rate was based on U.S. Treasury bills with a remaining term equal to the expected life of the warrants.

The fair value of warrants exercisable for the Company's Subordinate Voting Shares was determined using the Black-Scholes option-pricing model with the following assumptions on the latest modification of April, 24, 2020:

| | 2020 | 2019 |
|---|---|---|
| Weighted-Average Risk-Free Annual Interest Rate | 0.16% | 2.20% |
| Weighted-Average Expected Annual Dividend Yield | 0% | 0% |
| Weighted-Average Expected Stock Price Volatility | 111.76% | 88.19% |
| Weighted-Average Expected Life of Warrants | 0.8 year | 1 year |

Stock price volatility was estimated by using the historical volatility of the Company's Subordinate Voting Shares and the average historical volatility of comparable companies from a representative peer group of publicly-traded cannabis companies. The expected life in years represents the period of time that warrants issued are expected to be outstanding. The risk-free rate was based on U.S. Treasury bills with a remaining term equal to the expected life of the warrants. 77,884,615 of warrants are cancelable if the Company meets certain cash flow metrics for two consecutive quarters. The effects of contingent cancellation feature were included in determining the fair value of the related warrants.

As of June 27, 2020 and June 29, 2019, warrants outstanding have a weighted-average remaining contractual life of 46.2 and 26.9 months, respectively.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 21. LOSS PER SHARE

The following is a reconciliation for the calculation of basic and diluted loss per share for the years ended June 27, 2020 and June 29, 2019:

| | 2020 | 2019 |
|---|---|---|
| Net Loss from Continuing Operations Attributable to Shareholders of MedMen Enterprises, Inc. | $ (196,483,312) | $ (67,815,692) |
| Net Loss from Discontinued Operations | (50,781,039) | (1,264,196) |
| Total Net Loss and Comprehensive Loss | $ (247,264,351) | $ (69,079,888) |
| Weighted-Average Number of Shares Outstanding | 270,418,842 | 105,915,105 |
| **Earnings (Loss) Per Share - Basic and Diluted:** | | |
| **From Continuing Operations Attributable to Shareholders of MedMen Enterprises, Inc.** | **$ (0.73)** | **$ (0.64)** |
| **From Discontinued Operations** | **$ (0.19)** | **$ (0.01)** |

Diluted loss per share is the same as basic loss per share as the issuance of shares on the exercise of convertible debentures, LTIP share units, warrants and share options is anti-dilutive.

## 22. PROVISION FOR INCOME TAXES AND DEFERRED INCOME TAXES

As the Company operates in the legal cannabis industry, the Company is subject to the limits of IRC Section 280E for U.S. federal, Illinois state, Florida state and New York state income tax purposes under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E. However, the State of California does not conform to IRC Section 280E and, accordingly, the Company deducts all operating expenses on its California Franchise Tax Returns.

The Company intends to be treated as a United States corporation for United States federal income tax purposes under Section 7874 of the U.S. Tax Code and is expected to be subject to United States federal income tax. However, for Canadian tax purposes, the Company is expected, regardless of any application of Section 7874 of the U.S. Tax Code, to be treated as a Canadian resident company (as defined in the Income Tax Act (Canada) (the "ITA") for Canadian income tax purposes. As a result, the Corporation will be subject to taxation both in Canada and the United States.

The Company has approximately gross $6,720,000 (tax effected $1,780,000) of Canadian non-capital losses and $6,915,000 (tax effected $1,833,000) of share issuance cost balance. The loss tax attribute has been determined to be more likely than not that the tax attribute would not yield any tax benefit. As such, the Company has recorded a full valuation allowance against the benefit. Since IRC Section 280E was not applied in the California Franchise Tax returns, the Company has approximately $76,700,000 of gross California net operating losses which begin expiring in 2038 as of June 27, 2020. The Company has evaluated the realization of its California net operating loss tax attribute and has determined under the more likely than not standard that $2,500,000 will not be realized.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 22. PROVISION FOR INCOME TAXES AND DEFERRED INCOME TAXES *(Continued)*

Provision for income taxes consists of the following for the years ended June 27, 2020 and June 29, 2019:

| | 2020 | 2019 |
|---|---|---|
| Current: | | |
| Federal | $ 21,675,826 | $ 17,380,191 |
| State | 2,471,663 | 2,401,365 |
| Total Current | 24,147,489 | 19,781,556 |
| Deferred: | | |
| Federal | (52,822,427) | (17,388,695) |
| State | (12,153,888) | (7,977,922) |
| Total Deferred | (64,976,315) | (25,366,617) |
| **Total Provision for Income Taxes** | **$ (40,828,826)** | **$ (5,585,061)** |

As of June 27, 2020 and June 29, 2019, the components of deferred tax assets and liabilities were as follows:

| | 2020 | 2019 |
|---|---|---|
| **Deferred Tax Assets:** | | |
| Sale and Leaseback | $ 1,378,229 | $ 1,563,839 |
| Net Operating Loss | 14,773,963 | 2,960,466 |
| Fair Value of Investments | 1,019,919 | - |
| Lease Liability | 30,545,899 | - |
| Held For Sale | 16,580,885 | - |
| Notes Payable | 16,156,489 | 11,368,955 |
| Total Deferred Tax Assets | 80,455,384 | 15,893,260 |
| Deferred Tax Assets Not Recognized | (49,939,139) | (2,465,506) |
| **Net Deferred Tax Assets** | **$ 30,516,245** | **$ 13,427,754** |

| | 2020 | 2019 |
|---|---|---|
| **Deferred Tax Liabilities:** | | |
| Leases | $ (14,974,482) | $ - |
| Property, Plant & Equipment | (25,286,947) | (42,916,321) |
| Intangible Assets | (37,731,096) | (54,108,705) |
| Senior Secured Convertible Credit Facility | (9,420,472) | (6,880,066) |
| Fair Value of Investments | - | (1,270,885) |
| Total Deferred Tax Liabilities | (87,412,997) | (105,175,977) |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 22. PROVISION FOR INCOME TAXES AND DEFERRED INCOME TAXES *(Continued)*

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

| | 2020 | 2019 |
|---|---|---|
| Expected Income Tax Benefit at Statutory Tax Rate | $ (113,915,623) | $ (55,276,377) |
| Section 280E Permanent and Other Non-Deductible Items | 89,883,278 | 54,421,363 |
| State Rate | 2,471,663 | 2,401,365 |
| Tax Gain on Sale Leaseback | 8,377,927 | 4,732,502 |
| Benefit on Failed Sale Leaseback | - | (11,368,955) |
| Effect of GAAP Impairment | (37,651,440) | - |
| Effect of Held for Sale | (16,580,885) | - |
| Effect of ASC 842 Implementation | (15,571,417) | - |
| Benefit on Recognized California Net Operating Loss | (2,935,116) | (2,960,466) |
| Valuation Allowance | 45,092,787 | 2,465,507 |
| **Reported Income Tax Expense** | **$ (40,828,826)** | **$ (5,585,061)** |
| **Effective Tax Rate** | 7.09% | 1.03% |

During the years ended June 27, 2020 and June 29, 2019, the movement in net deferred tax liabilities was as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance at Beginning of Period | $ (91,748,223) | $ (11,160,195) |
| Recognized in Profit or Loss | 64,976,314 | 26,183,289 |
| Recognized in Property, Plant & Equipment and Intangible Assets | (15,586,467) | (88,625,236) |
| Recognized in Goodwill | (3,428,210) | (11,776,956) |
| Recognized in Equity | (11,110,166) | (7,407,693) |
| Recognized in Retained Earnings | - | 1,038,568 |
| **Balance at End of Period** | **$ (56,896,752)** | **$ (91,748,223)** |

## 23. COMMITMENTS AND CONTINGENCIES

***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 June 27, 2020 and June 29, 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.

***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 June 27, 2020, there were no pending or threatening lawsuits that could be reasonably assessed to have resulted in a probable loss to the Company in an amount that can be reasonably estimated. As such, no accrual has been made in the Consolidated Financial Statements relating to claims and litigations. As of June 27, 2020, 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.

## 23. COMMITMENTS AND CONTINGENCIES *(Continued)*

In July 2018, a legal claim was filed against the Company related to alleged misrepresentations in respect of a financing transaction completed in May 2018. The claimant is seeking damages of approximately $2,200,000. 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 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.

In March 2020, litigation was filed against the Company related to a purchase agreement for a previous acquisition. The Company is currently defending against this lawsuit, which seeks damages for fraudulent inducement and breach of contract. The Company believes the likelihood of a loss contingency is neither probable nor remote and the amount cannot be estimated reliably. As such, no amount has been accrued in these financial statements.

In May 2020, litigation was filed against the Company related to a purchase agreement and secured promissory note for a previous acquisition. The Company is currently defending against this lawsuit, which seeks damages for breach of contract, breach of implied covenant of good faith and fair dealing, common law fraud and securities fraud. The Company disputes the claims set forth in this lawsuit. 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. See "*Note 17 – Notes Payable*" for further discussion on the secured promissory note and related amendments.

In September 2020, a legal dispute was filed against the Company related to the separation of a former officer in which the severance issued is currently being disputed. The Company believes the likelihood of loss is remote. As a result, no amount has been set up for potential damages in these financial statements.

A legal dispute has been filed against the Company and is currently in arbitration. The dispute is at an early stage and the Company believes that a loss contingency as a result of the settlement is reasonably possible; however the amount is not estimable. Accordingly, no amount has been accrued in relation to the dispute.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 24. RELATED PARTY TRANSACTIONS

All related party balances due from or due to the Company as of June 27, 2020 and June 29, 2019 did not have any formal contractual agreements regarding payment terms or interest.

As of June 27, 2020 and June 29, 2019, amounts due from related parties were as follows:

| Name and Relationship to Company | Transaction | 2020 | 2019 |
|---|---|---|---|
| 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. (1) | Management Fees | $ 1,820,204 | $ 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. (1) | Management Fees | 1,289,513 | 1,228,259 |
| MedMen Canada Inc., a 50/50 joint venture partnership between the Company and Cronos Group Inc. | Advance | - | 1,153,200 |
| Other | | - | 719,092 |
| **Total Amounts Due from Related Parties** | | **$ 3,109,717** | **$ 4,921,455** |

*(1) As of February 2020 and May 2020, Mr. Adam Bierman and Mr. Andrew Modlin, respectively,no longer held board or management positions and therefore as of June 27, 2020 are not related parties, however they were during the fiscal years ended June 27, 2020 and June 29, 2019.*

As of June 27, 2020 and June 29, 2019, amounts due to related parties were as follows:

| Name and Relationship to Company | Transaction | 2020 | 2019 |
|---|---|---|---|
| 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. (1) | 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. (1) | Working Capital, Management Fees and Cash Used for Acquisitions | (1,986,697) | (2,862,647) |
| Other | | (1,476,221) | (1,684,274) |
| **Total Amounts Due to Related Parties** | | **$ (4,556,814)** | **$ (5,640,817)** |

*(1) As of February 2020 and May 2020, Mr. Adam Bierman and Mr. Andrew Modlin, respectively,no longer held board or management positions and therefore as of June 27, 2020 are not related parties, however they were during the fiscal years ended June 27, 2020 and June 29, 2019.*

## 24. RELATED PARTY TRANSACTIONS *(Continued)*

The Company sells and subsequently leases back several of its properties in transactions with the REIT wherein the properties are leased to the Company at market rates under long-term leases. Refer to "*Note 16 – Leases*" for information on the sale and leaseback transactions during the years ended June 27, 2020 and June 29, 2019. The REIT was determined to be a related party under ASC 850, "*Related Party Disclosures*" as a result of certain members of common management between the Company and the REIT. Due to a reorganization of the REIT during September 2019, common management is no longer shared between the Company and the REIT. In addition, the REIT conducted its business through the Operating Partnership managed by LCR Manager, LLC, a subsidiary of the Company. In November 2019, the Company sold all of its interest, which is 70% of the total outstanding units, in LCR Manager, LLC and terminated the management agreement with LCR Manager, LLC. Accordingly, as of June 27, 2020, the REIT was no longer determined to be a related party. Refer to "*Note 19 – Shareholders' Equity*" for discussion of the REIT as a variable interest entity.

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 ASC 850, *"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. In April 2020, the Company granted 5,458,749 restricted stock units to Mr. Rose. The units will vest on December 10, 2020 or upon a change in control 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 at a price equal to $2.18 per share. As of June 27, 2020, the Company determined GGP to be a related party as a result of GGP having significant influence over the Company. See *"Note 18 – Senior Secured Convertible Credit Facility"* for a full disclosure of transactions and balances related to GGP.

On December 10, 2019, the Company executed a term sheet for a non-brokered private placement wherein Wicklow Capital participated in the offering and the Company issued 46,962,645 Subordinate Voting Shares at a price of $0.43 per share for gross proceeds of approximately $20,190,000 in connection with the equity investment.

In March 2020, the Company entered into restructuring plan and retained interim management and advisory firm, Sierra Constellation Partners ("SCP"). As part of the engagement, Tom Lynch was appointed as Interim Chief Executive Officer and Chief Restructuring Officer, and Tim Bossidy was appointed as Interim Chief Operating Officer. Mr. Lynch is a Partner and Senior Managing Director at SCP. Mr. Bossidy is a Director at SCP. As of June 27, 2020, the Company had paid $699,322 in fees to SCP for interim management and restructuring support.

## 25. SEGMENTED INFORMATION

The Company currently operates in one segment, the production and sale of cannabis products, which is how the Company's Chief Operating Decision Maker managers the business and makes operating decisions. The Company's cultivation operations are not considered significant to the overall operations of the Company. Intercompany sales and transactions are eliminated in consolidation.

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 26. DISCONTINUED OPERATIONS

On December 3, 2018, the Company acquired EBA Holdings, Inc. d/b/a Monarch Wellness Center, an Arizona-based medical cannabis license holder with dispensary, cultivation and processing operations, through the acquisition of Omaha Management Services, LLC (collectively, "Monarch"). 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, as further discussed in *"Note 9 – Business Acquisitions"*.

On February 13, 2019, the Company acquired 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, as further discussed in *"Note 9 – Business Acquisitions"*.

During the fiscal second quarter of 2020, the Company contemplated the divesture of non-core assets and management entered into a plan to sell its operations in the state of Arizona. During the fiscal year ended June 27, 2020, the Company entered into binding and non-binding term sheets and began separate negotiations to sell its operations in the state of Arizona, including the related management entities, for total gross proceeds of approximately $25,500,000. The contemplated transactions are subject to customary closing conditions and is expected to close within the next twelve months. After the close of the transaction, there will be no continued involvement with the sellers.

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 Consolidated Statements of Operations. The assets associated with the Arizona disposal group have been measured at the lower of its carrying amount or FVLCTS.

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 re-measurement of assets and liabilities classified as held for sale are summarized as follows:

| | 2020 | 2019 |
|---|---|---|
| Revenue | $ 15,164,131 | $ 10,044,235 |
| Cost of Goods Sold | 11,947,208 | 4,010,987 |
| Gross Profit | 3,216,923 | 6,033,248 |
| Expenses: | | |
| General and Administrative | 6,905,155 | 4,702,461 |
| Sales and Marketing | 81,489 | - |
| Depreciation and Amortization | 1,532,792 | 1,280,090 |
| Total Expenses | 8,519,436 | 5,982,551 |
| Loss from Operations | (5,302,513) | 50,697 |
| Other Expense (Income): | | |
| Impairment of Assets | 46,702,660 | - |
| Other Expense | 5,385 | 167,550 |
| Total Other Expense | 46,708,045 | 167,550 |
| Loss on Discontinued Operations Before Provision for Income Taxes | (52,010,559) | (116,853) |
| Provision for Income Tax (Expense) Benefit | 1,229,520 | (1,147,343) |
| **Loss on Discontinued Operations** | **$ (50,781,039)** | **$ (1,264,196)** |

*(Amounts Expressed in United States Dollars Unless Otherwise Stated)*

## 26. DISCONTINUED OPERATIONS *(Continued)*

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

| | 2020 | 2019 |
|---|---|---|
| Carrying Amounts of the Assets Included in Discontinued Operations: | | |
| Cash and Cash Equivalents | $ 522,966 | $ 527,377 |
| Accounts Receivable | 274,886 | 865,485 |
| Prepaid Expenses | 74,622 | 249,309 |
| Inventory | 3,323,978 | 5,752,847 |
| Other Current Assets | 64,600 | - |
| **TOTAL CURRENT ASSETS** [(1)] | | 7,395,018 |
| Property and Equipment, Net | 4,288,808 | 4,633,289 |
| Operating Lease Right-of-Use Assets | 5,257,327 | - |
| Intangible Assets, Net | 7,260,288 | 20,449,002 |
| Goodwill | - | 31,773,659 |
| Other Assets | 113,576 | 114,576 |
| **TOTAL NON-CURRENT ASSETS** [(1)] | | 56,970,526 |
| **TOTAL ASSETS OF THE DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE** | **$ 21,181,051** | **$ 64,365,544** |
| Carrying Amounts of the Liabilities Included in Discontinued Operations: | | |
| Accounts Payable and Accrued Liabilities | $ 2,126,162 | $ 1,742,133 |
| Income Taxes Payable | 946,679 | 1,899,487 |
| Other Current Liabilities | 22,747 | - |
| Current Portion of Operating Lease Liabilities | 385,699 | - |
| **TOTAL CURRENT LIABILITIES** [(1)] | | 3,641,620 |
| Operating Lease Liabilities, Net of Current Portion | 5,300,936 | - |
| Deferred Tax Liabilities | 6,278,079 | 7,185,447 |
| **TOTAL NON-CURRENT LIABILITIES** [(1)] | | 7,185,447 |
| **TOTAL LIABILITIES OF THE DISPOSAL GROUP CLASSIFIED AS HELD FOR SALI** | **$ 15,060,302** | **$ 10,827,067** |

*(1) The assets and liabilities of the disposal group classified as held for sale are classified as current on the Consolidated Balance Sheets as of June 27, 2020 because it is probable that the sale will occur and proceeds will be collected within one year.*

## 27. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through October 15, 2020, which is the date these consolidated financial statements were issued, and has concluded that the following subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

***Senior Secured Convertible Credit Facility***

On July 2, 2020, the Company amended and restated the securities purchase agreement with GGP (the "Fourth Amendment") wherein the minimum liquidity covenant was waived until September 30, 2020 and resetting at $5,000,000 thereafter with incremental increases on March 31, 2021 and December 31, 2021. The payment-in-kind feature on the Convertible Facility was also extended, such that 100% of the cash interest due prior to June 2021 will be paid-in-kind and 50% of the cash interest due thereafter will be paid-in-kind. The Fourth Amendment released certain assets from its collateral to allow greater flexibility to generate proceeds through the sale of non-core assets. As consideration for the amendment, the conversion price for a portion of the existing notes outstanding under the Convertible Facility was amended to $0.34 per share. An amendment fee of $2,000,000 was also paid through the issuance of additional notes at a conversion price of $0.28 per share.

On September 14, 2020, the Company closed on an incremental advance in the amount of $5,000,000 under its existing Convertible Facility with GGP at a conversion price of $0.20 per share. In connection with the incremental advance, the Company issued 25,000,000 warrants with an exercise price of $0.20 per share. In addition, 1,080,255 Existing warrants were cancelled and replaced with 16,875,001 warrants with an exercise price of $0.20 per share. Pursuant to the terms of the GGP Facility, the conversion price for 5.0% of the existing Notes outstanding prior to Tranche 4 and Incremental Advance (including paid-in-kind interest accrued on such Notes), being 5.0% of an aggregate principal amount of $170,729,923, was amended to $0.20 per share. As consideration for the additional advance, the Company issued convertible notes as consideration for a $468,564 fee with a conversion price of $0.20 per share.

***Senior Secured Term Loan Facility***

On July 2, 2020, the Company amended the term loan facility wherein the minimum liquidity covenant was waived until September 30, 2020 and resetting at $5,000,000 thereafter with incremental increases on March 31, 2021 and December 31, 2021. Effective March 1, 2020 through July, the entirety of the interest (15.5%) shall accrue monthly to the outstanding principal as payment-in-kind. In addition, 100% of the total interest payable prior to June 2021 will be paid-in-kind and 50% of the cash interest due thereafter will be paid-in-kind. As consideration for the amendment, the Company issued approximately 20,227,863 warrants, each exercisable at $0.34 per share. The Company also cancelled 20,227,863 warrants of the total issued warrants held by the lenders which were each exercisable at $0.60 per share. An amendment fee of $834,000 was also paid-in-kind.

On September 16, 2020, the Company entered into further amendments wherein the potential size of the Senior Secured Term Loan Facility was increased by $12,000,000, of which $5,700,000 is fully committed by the lenders. On September 16, 2020, the Company closed on $3,000,000 of the incremental notes which bears interest at a rate of 18.0% per annum wherein 12.0% shall be paid in cash monthly in arrears and 6.0% shall accrue monthly as payment-in-kind. As consideration for the increase in available funding, the Company issued 20,227,863 warrants with an exercise price of $0.34 and 30,000,000 warrants with an exercise price of $0.20 per share each exercisable at the greater of (a) $0.20 per share and (b) 115% multiplied by the volume-weighted average trading price of the shares for the five consecutive trading days ending on the trading day immediately prior to the applicable funding date of the second tranche. On September 30, 2020, the Company closed on the remaining $2,700,000 of the incremental notes.

***Unsecured Convertible Facility***

On September 16, 2020, the Company entered into an unsecured convertible debenture facility for total available proceeds of $10,000,000 wherein the convertible debentures shall have a conversion price equal to the closing price on the trading day immediately prior to the closing date, a maturity date of 24 months from the date of issuance and will bear interest at a rate of 7.5% per annum payable semi-annually in cash. The unsecured facility is callable in additional tranches in the amount of $1,000,000 each up to a maximum of $10,000,000 under all tranches. The timing of additional tranches can be accelerated based on certain conditions. The debentures provide for the automatic conversion into Subordinate Voting Shares in the event that the volume weighted average trading price is 50% above the conversion price on the CSE for 45 consecutive trading days.

**27. SUBSEQUENT EVENTS** *(Continued)*

On September 16, 2020, the Company closed on an initial $1,000,000 of the facility with a conversion price of $0.17 per Subordinate Voting Share. In connection with the initial tranche, the Company issued 3,293,413 warrants with an exercise price of $0.21 per share. On September 28, 2020, the Company closed on an additional $1,000,000 and issued 3,777,475 warrants with an exercise price of $0.17 per share.

***Treehouse Real Estate Investment Trust***

On July 2, 2020, the Company announced modifications to its existing lease arrangements with the REIT in which the REIT agreed to defer a portion of total current monthly base rent for the 36-month period between July 1, 2020 and July 1, 2023. The total amount of all deferred rent accrues interest at 8.6% per annum during the deferral period. As consideration for the rent deferral, the Company issued 3,500,000 warrants to the REIT, each exercisable at $0.34 per share for a period of five years.

***Sale of Assets***

Subsequent to June 27, 2020, the Company entered into definitive agreements for the sale of one of its retail licenses outside of California for a total purchase price of $20,000,000 wherein $10,000,000 was due at signing, $8,000,000 due at or around the four-month anniversary of signing, and the remaining $2,000,000 shall be due three months following the prior payment.

In August 2020, the Company entered into an agreement to exchange all of its investment in The Hacienda Company, LLC to settle outstanding balances totaling approximately $700,000.