CURALEAF HOLDINGS, INC.

Unaudited Condensed Interim Consolidated Financial Statements
As of and for the Three and Six Months Ended
June 30, 2019 and 2018

(Expressed in United States Dollars Unless Otherwise Stated)

Curaleaf Holdings, Inc.
Condensed Interim Consolidated Statements of Financial Position
Unaudited
(in thousands)

	Note	June 30, 2019	December 31, 2018
Assets			
Current assets:			
Cash and cash equivalents		$ 107,346	$ 266,616
Accounts receivable		14,414	9,402
Inventory, net	*5*	42,154	27,976
Biological assets	*6*	9,010	4,491
Prepaid expenses and other current assets		6,784	4,975
Total current assets		179,708	313,460
Deferred tax asset		2,556	2,556
Notes receivable	*7*	47,568	33,811
Property, plant and equipment, net	*8*	103,788	66,969
Right-of-use assets	*3,16*	56,165	—
Intangible assets, net	*9*	99,449	52,925
Goodwill	*9*	90,593	47,267
Investments	*4*	68,164	45,408
Other assets		7,069	7,440
Total assets		$ 655,060	$ 569,836
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable		$ 10,376	$ 3,974
Accrued expenses		16,906	15,721
Income tax payable		3,839	2,730
Current portion of lease liabilities	*3,16*	7,374	—
Current portion of notes payable	*10*	8,000	—
Current portion of notes payable – related parties	*10,17*	2,570	2,403
Total current liabilities		49,065	24,828
Deferred tax liability		2,895	6,508
Notes payable	*10*	84,928	81,901
Lease liabilities	*3,16*	51,512	—
Non-controlling interest redemption liability	*4*	2,957	2,957
Contingent consideration liability	*4*	14,475	—
Contingent consideration liability – related party	*4,17*	18,000	18,000
Total liabilities		223,832	134,194
Shareholders' equity:			
Share capital		680,986	657,525
Treasury shares		(4,663)	(4,325)
Reserves		(141,190)	(146,761)
Accumulated deficit		(100,417)	(65,666)
Total Curaleaf Holdings, Inc. shareholders' equity	*11*	434,716	440,773
Redeemable non-controlling interest	*4*	(2,957)	(2,957)
Non-controlling interest	*4*	(531)	(2,174)
Total shareholders' equity		431,228	435,642
Total liabilities and shareholders' equity		$ 655,060	$ 569,836

Operations of the Company (*Note 1*)
Commitments and Contingencies (*Note 16*)
Subsequent Events (*Note 19*)

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

Curaleaf Holdings, Inc.
Condensed Interim Consolidated Statements of Profits and Losses
Unaudited
(in thousands, except for share and per share amounts)

	Note	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Revenues:					
Retail and wholesale revenues		$ 37,726	$ 11,466	$ 65,494	$ 17,176
Management fee income		10,763	3,178	18,246	6,550
Total revenues		48,489	14,644	83,740	23,726
Cost of goods sold		22,469	6,835	39,614	11,691
Gross profit before impact of biological assets		26,020	7,809	44,126	12,035
Realized fair value amounts included in inventory sold		(15,478)	(2,871)	(25,833)	(4,336)
Unrealized fair value gain on growth of biological assets	*6*	16,870	3,991	29,471	5,957
Gross profit		27,412	8,929	47,764	13,656
Operating expenses:					
Selling, general and administrative	*13*	28,029	12,535	51,298	19,834
Share-based compensation	*12*	4,489	649	6,270	1,161
Depreciation and amortization	*8,9*	7,195	1,428	12,091	2,544
Total operating expenses		39,713	14,612	69,659	23,539
Loss from operations		(12,301)	(5,683)	(21,895)	(9,883)
Other income (expense)					
Interest income		2,436	1,702	4,919	3,157
Interest expense		(3,983)	(1,214)	(8,147)	(2,026)
Interest expense related to lease liabilities		(1,348)	—	(2,315)	—
Other income (expense):		(1,047)	—	(1,073)	—
Total other income (expense), net		(3,942)	488	(6,616)	1,131
Loss before provision for income taxes		(16,243)	(5,195)	(28,511)	(8,752)
Income tax benefit (expense)		(8,192)	(1,235)	(6,753)	(1,012)
Net loss and comprehensive loss		(24,435)	(6,430)	(35,264)	(9,764)
Less: Net income (loss) attributable to non-controlling interest		106	(1,497)	(513)	(2,604)
Net loss attributable to Curaleaf Holdings, Inc.		$ (24,541)	$ (4,933)	$ (34,751)	$ (7,160)
Loss per share attributable to Curaleaf Holdings, Inc. – basic and diluted	*14*	$ (0.05)	$ (0.01)	$ (0.08)	$ (0.02)
Weighted average common shares outstanding – basic and diluted	*14*	461,313,741	382,618,764	459,499,816	381,856,676

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

Curaleaf Holdings, Inc.
Condensed Interim Consolidated Statements of Changes in Equity
Unaudited
(in thousands, except for share amounts)

	Share Capital (Note 11)														
	# of Shares				Treasury Shares	Share-Based Reserves	Warrant Reserves	Other Reserves	Total	Accumulated	Total Curaleaf Holdings, Inc. Shareholders'	Redeemable Non - Controlling Interest	Non-Controlling Interest	Non-Controlling Interest	Total Shareholders'
	Common	SVS	MVS	Amount	(Note 11)	(Note 12)		(Note 4)	Reserves	Deficit	Equity	(Note 4)	(Note 4)	(Note 4)	Equity
Balances as of December 31, 2017	350,945,408	—	—	$ 109,855	$ (966)	$ 5,035	$ 369	$ —	$ 5,404	$ (8,899)	$ 105,394	$ (28,346)	$ 1,335	$ 26,382	$ 104,765
Issuance of shares, net of issuance costs	37,641,131	—	—	28,500	—	—	—	—	—	—	28,500	—	—	—	28,500
Exercise of stock options	2,289,700	—	—	291	—	—	—	—	—	—	291	—	—	—	291
Repurchase of shares	(4,151,488)	—	—	—	(2,500)	—	—	—	—	—	(2,500)	—	—	—	(2,500)
Minority buyouts	—	—	—	(1,545)	—	—	—	—	—	—	(1,545)	—	—	—	(1,545)
Share-based compensation	—	—	—	—	—	1,161	—	—	1,161	—	1,161	—	—	—	1,161
Net loss	—	—	—	—	—	—	—	—	—	(7,160)	(7,160)	—	—	(2,604)	(9,764)
Balances as of June 30, 2018	386,724,751	—	—	$ 137,101	$ (3,466)	$ 6,196	$ 369	$ —	$ 6,565	(16,059)	$ 124,141	$ (28,346)	$ 1,335	$ 23,778	$ 120,908
Balances as of December 31, 2018	—	335,292,331	122,170,705	$ 657,525	$ (4,325)	$ 6,698	$ —	$ (153,459)	$ (146,761)	(65,666)	$ 440,773	$ (2,957)	$ —	$ (2,174)	$ 435,642
Repurchase of shares	—	(70,100)	—	—	(338)	—	—	—	—	—	(338)	—	—	—	(338)
Exercise of stock options	—	3,478,196	—	7,268	—	(699)		—	(699)	—	6,569	—	—	—	6,569
Share-based compensation	—	—	—	—	—	6,270	—	—	6,270	—	6,270	—	—	—	6,270
Issuance of shares in connection with acquisitions	—	2,351,860	—	16,193	—	—	—	—	—	—	16,193	—	—	—	16,193
Non-controlling interest in connection with acquisitions	—	—	—	—	—	—	—	—	—	—	—	—	2,156	—	2,156
Conversion of MVS to SVS	—	10,000,000	(10,000,000)	—	—	—	—	—	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	—	—	(34,751)	(34,751)	—	—	(513)	(35,264)
Balances as of June 30, 2019	—	351,052,287	112,170,705	$ 680,986	$ (4,663)	$ 12,269	$ —	$ (153,459)	$ (141,190)	$ (100,417)	$ 434,716	$ (2,957)	$ 2,156	$ (2,687)	$ 431,228

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

Curaleaf Holdings, Inc.
Condensed Interim Consolidated Statements of Cash Flows
Unaudited
(in thousands)

	Note	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Cash flows from operating activities:			
Net loss and comprehensive loss		$ (35,264)	$ (9,764)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization		14,913	2,841
Share-based compensation		6,270	1,161
Non-cash interest expense		3,194	51
Unrealized fair value gain on growth of biological assets		(29,471)	(5,957)
Increase in biological asset due to capitalized costs		(11,974)	(3,639)
Loss on disposal of property and equipment		575	—
Deferred taxes		216	180
Write off of acquisition costs		1,135	—
Changes in operating assets and liabilities			
Accounts receivable		(3,998)	(1,361)
Biological assets		36,925	8,924
Inventory		(10,376)	(2,372)
Prepaid expenses and other current assets		(406)	(414)
Other assets		(205)	671
Accounts payable		1,706	4,380
Income tax payable		3,044	—
Accrued expenses		2,174	710
Other long term liabilities		—	244
Net cash used in operating activities		(21,542)	(4,345)
Cash flows from investing activities:			
Purchases of property, plant and equipment		(43,015)	(17,061)
Prepayment of acquisition consideration		(25,757)	—
Amount advanced for notes receivable		(13,757)	(5,869)
Purchase of licenses		—	(239)
Net assets acquired from acquisition, net of cash acquired		(53,384)	(22,404)
Net cash used in investing activities		(135,913)	(45,573)
Cash flows from financing activities:			
Minority buyouts		—	(1,500)
Proceeds from notes payable, net of issuance costs		—	306
Proceeds from unsecured related party debt		—	12,000
Lease liability payments		(2,282)	—
Repurchase of common stock		(338)	(2,500)
Exercise of stock options		805	291
Issuance of common shares, net of issuance costs		—	28,500
Net cash provided by (used in) financing activities		(1,815)	37,097
Net change in cash		(159,270)	(12,821)
Cash at beginning of period		266,616	20,975
Cash at end of period		$ 107,346	$ 8,154
Supplemental disclosure of cash flow information:			
Cash paid for interest		$ 4,549	$ 483
Cash paid for income tax		$ —	$ —
Supplemental disclosure of non-cash investing and financing activities:			
Convertible notes issued in connection with acquisition		$ —	$ 7,671
Conversion of non-profit entity		$ —	$ (3,284)
Settlement of debt on acquisition		$ —	$ 3,518
Purchase of additional interest in subsidiary		$ —	$ (45)
Recognition of right of use assets and lease liabilities		$ 61,168	$ —
Equity issued in connection with acquisition	*4*	$ 16,193	$ —
Contingent consideration incurred in connection with acquisitions	*4*	$ 14,475	$ —
Seller note incurred in connection with acquisitions		$ 8,000	$ —

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

Note 1 – Operations of the company

Curaleaf Holdings, Inc. (the "Company", "Curaleaf", or the "Group"), formerly known as Lead Ventures, Inc. ("LVI"), was incorporated under the laws of British Columbia, Canada on November 13, 2014. Curaleaf operates as a life science company developing full scale cannabis operations, with core competencies in cultivation, manufacturing, dispensing and medical cannabis research.

On October 24, 2018 the Company completed a reverse takeover transaction and private placement. Following the transaction, the Company's subordinate voting shares ("SVS") were listed on the Canadian Securities Exchange ("CSE") under the symbol "CURA" and on the OTCQX under the symbol "CURLF".

The head office and principal address of the Company is 301 Edgewater Place #405, Wakefield, MA 01880. The Company's registered and records office address is located at Suite 1700-666 Burrard Street, Vancouver, British Columbia, Canada.

For the purposes of these Unaudited Condensed Interim Consolidated Financial Statements, the terms "Company" and "Curaleaf" mean Curaleaf Holdings, Inc. and, unless the context otherwise requires, includes its subsidiaries.

Note 2 – Basis of presentation

The interim financial statements have been prepared in compliance with International Accounting Standard 34 - Interim Financial Reporting. The Company followed the same accounting policies and methods of application as those disclosed in the annual audited consolidated financial statements for the year ended December 31, 2018 except policies adopted on January 1, 2019 discussed in Note 3. The interim financial statements should be read in conjunction with the annual financial statements of the Company for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These interim financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on August 28, 2019.

Functional currency

The Company and its subsidiaries' functional currency, as determined by management, is the United States ("U.S.") dollar. The consolidated financial statements are presented in U.S. dollars unless otherwise stated.

Basis of consolidation

Affiliates are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and is exposed to the variable returns from its activities. The financial statements of affiliates are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Notes to Condensed Interim Consolidated Financial Statements
Unaudited
(in thousands, except for gram, share and per share amounts)

These consolidated financial statements include the accounts of the Company and its affiliates:

Business Name	State of Operations	June 30, 2019 Ownership %	December 31, 2018 Ownership %
CLF AZ, Inc.	AZ	100%	100%
CLF NY, Inc.	NY	100%	100%
Curaleaf CA, Inc.	CA	100%	100%
Curaleaf KY, Inc.	KY	100%	100%
Curaleaf Massachusetts, Inc.	MA	100%	100%
Curaleaf MD, LLC	MD	100%	100%
Curaleaf Ohio, Inc.	OH	100%	100%
Curaleaf PA, LLC	PA	100%	100%
Curaleaf, Inc.	MA	100%	100%
Focused Investment Partners, LLC	MA	100%	100%
PalliaTech Maine, Inc.	ME	100%	100%
PalliaTech RI, LLC	RI	100%	100%
PalliaTech CT, Inc.	CT	100%	100%
PalliaTech OR, LLC (formerly Groen)	OR	100%	100%
PalliaTech Florida, Inc.	FL	82.5%	82.5%
CLF MD Processing, LLC	MD	85%	85%
Las Vegas Natural Caregivers, LLC	NV	57%	57%
Naturex II LLC (Note 4)	NV	69.2%	—
HMS Health LLC (Note 4)	MD	—	—
HMS Processing LLC (Note 4)	MD	—	—
HMS Sales LLC (Note 4)	MD	—	—
MI Health LLC (Note 4)	MD	—	—

All significant intercompany balances and transactions were eliminated on consolidation.

Significant accounting judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Except as described below, the significant judgements, estimates and assumptions made by management in preparing the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2019 and 2018 were the same as those that applied to the annual audited consolidated financial statements.

Discount Rate for Leases

IFRS 16 - Leases requires the Company to discount lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate. The Company generally uses the incremental borrowing rate when initially recording real estate leases as the implicit rates are not readily available as information from the lessor regarding the fair value of underlying assets and initial direct costs incurred by the lessor related to the leased assets is not available. The Company determines the incremental borrowing rate as the interest rate the Company would pay to borrow over a similar term the funds necessary to obtain an asset of a similar value to the right-of-use-asset in a similar economic environment.

Note 3 – New, amended and future IFRS pronouncements

IFRS 16 - Leases

In January 2016, the IASB issued *IFRS 16*, which replace *IAS 17 – Leases*. The Company adopted *IFRS 16* on January 1, 2019 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17. Specifically, rent expense will be replaced by associated depreciation of the right-to-use asset and interest expense. Since the Company is not restating prior periods as part of adopting *IFRS 16*, current results will not be directly comparable to results for periods before 2019.

Under *IAS 17*, a lease of property and equipment was classified as an operating lease whenever the terms of the lease did not transfer substantially all of the risks and rewards of ownership to the lessee. Lease payments were recognized as rent expense on a straight-line basis over the lease term, except where another systematic basis was more representative of the time pattern in which the economic benefits are consumed.

Under *IFRS* 16, at inception of a contract, the Company assesses whether a contract conveys the right to control the use of an identified asset for a period in exchange for consideration, in which case it is classified as a lease. The Company recognizes a right-of-use asset (lease asset) and a lease liability at the lease commencement date. The asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received. The lease asset is subsequently amortized using the straight-line method from the commencement date to the end of the useful life of the right-of-use asset, considered to be indicated by the lease term. The lease asset is periodically assessed and adjusted for certain remeasurements of the lease liability and impairment losses, if any. The lease liability is initially measured at the present value of outstanding lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method and is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use asset with any excess over the carrying amount of the asset being recognized in profit or loss.

The Company has elected not to recognize lease assets and lease liabilities for short-term leases (leases with a term of 12 months or less) and leases of low-value assets such as small equipment. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

On transition to *IFRS 16*, the Company recognized a right-of-use asset of \$41,853, a corresponding lease liability of \$42,842 and derecognized \$989 of deferred rent. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate ranging from 9.16% to 9.42%.

Notes to Condensed Interim Consolidated Financial Statements
Unaudited
(in thousands, except for gram, share and per share amounts)

Note 4 – Acquisitions

A summary of acquisitions completed during the six months ended June 30, 2019 and 2018 and in 2018 subsequent to June 30, 2018 is provided below:

	Six months ended June 30, 2019					Year ended December 31, 2018		
Purchase price allocation	**Eureka**	**Emerald**	**Blackjack**	**HMS**	**Elevate**	**Swell**	**CLMA**	**MTR**
Assets acquired:								
Cash	$ 490	$ 747	$ 67	$ 501	$ 101	$ 436	$ 190	$ 50
Accounts receivable	82	188	—	1,052	—	—	23	—
Prepaid expenses and other current assets	871	294	—	231	7	69	232	—
Inventory	1,336	724	333	847	93	844	1,188	107
Biological assets	—	—	—	469	—	125	527	—
Property and equipment	357	103	679	—	68	1,724	1,087	247
Other assets	—	515	—	—	45	—	24	234
Intangible assets :								
Licenses	23,990	—	—	20,420	—	21,340	5,950	6,294
Trade name	770	—	—	730	—	640	150	100
Non-compete agreements	100	—	—	—	—	100	—	—
Goodwill	12,891	15,429	6,428	11,200	1,937	6,216	2,747	2,184
Liabilities assumed	(613)	—	(782)	(3,151)	(150)	(803)	(1,401)	(305)
Non-controlling interest	—	—	(2,156)	—			(7,169)	—
Consideration transferred	**$ 40,274**	**$ 18,000**	**$ 4,569**	**$ 32,299**	**$ 2,101**	**$ 30,691**	**$ 3,548**	**$ 8,911**

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods, not to exceed one year from the acquisition date.

Goodwill arising from acquisitions consists largely of the synergies and economies of scale expected from combining the operations of the businesses. These synergies include the elimination of redundant facilities and functions and the use of the Company's existing commercial infrastructure to expand sales.

2019 acquisitions

HMS Health LLC ("HMS"), HMS Processing LLC, MI Health LLC, and HMS Sales LLC HMS Health LLC, all Maryland limited liability companies (the "HMS Companies")

In January 2019, the Company completed the acquisition of the HMS Companies which concluded as a $30,000 convertible financing. Prior to funding, HMS spun off its cannabis processing license and cannabis dispensing license into separate entities, HMS Processing LLC and HMS Sales LLC, respectively. There was an additional adjustment of $447 upon closing as part of the agreement. The loans, together with accrued interest, are convertible into equity of each of the HMS Companies upon receipt of all required regulatory approvals. In addition, the owners of the HMS Companies will receive additional consideration of $2,000 in SVS at the then-current market price upon completed conversion of the loans. The Company recorded a liability of $1,852 for the additional consideration.

Revenue and net income from HMS included in the interim consolidated statement of profits and losses for the three months ended June 30, 2019 was $1,177 and $607, respectively. Revenue and net income from HMS included in the interim consolidated statement of profits and losses for the six months ended June 30, 2019 was $2,972 and $1,551, respectively.

Naturex II, LLC, dba Blackjack Collective, a Nevada limited liability company ("Blackjack")

In October 2017, the Company entered into an agreement to acquire 51.2% of Blackjack by purchasing a 64% interest in VSLV Management, a related party, which owned 80% of Blackjack. The purchase price in the form of 4,105,988 SVS valued at $3,001. The Company issued shares of Curaleaf, Inc. into escrow and transferred the shares to members of VSLV Management upon conversion of the shares to SVS. In January 2019, the Company entered into an agreement to acquire an additional 18% of Blackjack from minority owners for a cash consideration of $1,260.

The Company's total controlling ownership in Blackjack as of the date it took control over Blackjack was 69.2%. The Company recognized the residual 30.8% of unowned membership interest as a $2,156 non-controlling interest in equity. There was an additional $308 of payables due to the Company that were effectively forgiven as part of the purchase price.

Revenue and net loss from Blackjack included in the interim consolidated statement of profits and losses for the three and six months ended June 30, 2019 was $759 and $179.

Eureka Investment Partners, LLC, a Nevada limited liability company ("Eureka")

In April 2019, the Company acquired all of the membership interests of Eureka. Total consideration of $25,113 consisted of $5,608 in cash, settlement of $5,874 of debt owed to the Company, and $14,239 which was settled through the issuance of 1,663,511 SVS. In addition, the sellers may be entitled to additional consideration of 688,349 SVS if certain milestones are met and additional cash consideration if certain financial targets are exceeded. The Company recorded contingent consideration of $14,553 associated with the contingent consideration.

Revenue and net loss from Eureka included in the interim consolidated statement of profits and losses for the three and six months ended June 30, 2019 was $415 and $974.

Absolute Healthcare, Inc. dba Emerald Dispensary, an Arizona non-profit corporation ("Emerald")

In May 2019, the Company acquired exclusive rights to operate the Emerald dispensary in Gilbert, AZ, whose license is held by Absolute Healthcare, Inc. Total consideration for the transaction was $18,000, of which $10,000 in cash was paid upfront, $5,000 in cash is payable six months after the closing, and $3,000 in cash is payable 12 months after the closing. The note payable associated with the remaining amounts has an interest rate of 7% (see Note 10).

Revenue and net loss from Emerald included in the interim consolidated statement of profits and losses for the three and six months ended June 30, 2019 was $1,243 and $424.

Town Center Wellness, LLC, dba Elevate Takoma, a Maryland limited liability company ("Elevate")

During the six months ended June 30, 2019, the Company acquired Elevate, a dispensary located in Takoma Park, MD for consideration of $2,101 cash.

2018 acquisitions

Curaleaf Massachusetts, Inc., a Massachusetts corporation ("CLMA")

In March 2018, the Company acquired a 50% stake, plus one share, in CLMA. Total consideration consisted of $36 in cash and settlement of $3,512 of debt, in accordance with a plan of conversion of CLMA's predecessor, Massachusetts Organic Therapy, Inc. ("MOT") to a for-profit entity. At that time, the Company obtained control over CLMA. PT Mass

Holdings, LLC, of which Joseph F. Lusardi, the Company's President and Chief Executive Officer, is a member, acquired the remaining shares of CLMA at the time for consideration of $36.

In August 2018, the Company entered into an agreement with the minority owner to acquire all of PT Mass Holdings, LLC's stake in CLMA for $46,200, of which $28,200 was satisfied by the issuance of 3,212,337 SVS and $18,000 has been recorded as contingent consideration and is expected to be paid in cash upon the achievement of certain milestones. This transaction closed immediately following completion of the Company's reverse takeover transaction and private placement in October 2018.

Swell Management LLC, an Arizona limited liability company ("Swell")

In April 2018, the Company acquired all of the outstanding membership interests of Swell. Total consideration consisted of cash of $23,055, which included a settlement of Swell's third-party debt of $3,776 and the issuance of a convertible promissory note in the amount of $7,636 (the "Swell Note"). The Swell Note contained a variable rate to convert into shares of the Company which the Company considered a hybrid instrument. The Company elected to classify the entire Swell Note as a financial liability at fair value through profit or loss. In connection with the reverse takeover transaction and private placement in October 2018, the Swell Note was converted into 3,715,038 SVS. As a result the Company determined that the fair value of the Swell Note increased to $32,716 and recorded a loss on the change in the fair value of the Swell Note of $25,100.

Pending acquisitions

The following acquisitions have been signed but have not been completed. The results of the following entities are not included in the consolidated results of the Company:

Alternative Therapies Group, Inc., a Massachusetts corporation ("ATG")

In August 2018, the Company entered into an agreement to acquire ATG, a registered marijuana dispensary licensed by the Massachusetts Department of Health, operating a 53,600 square foot cultivation facility in Amesbury, Massachusetts and intends to enter into services agreements with up to three ATG dispensaries in Massachusetts. Consideration for ATG is $50,000, $42,500 of which was prepaid in cash in December 2018 in order to solidify the Company's intent to complete the purchase of ATG and was recorded as a non-current asset. The remaining $7,500 is due on the later of December 31, 2019 or the date on which certain milestones are met. The closing of the transaction is subject to certain milestones being met and regulatory approval.

Acres Cannabis, a Nevada limited liability company ("Acres")

In March 2019, the Company entered into an agreement to purchase Acres for $70,000, with $25,000 to be paid in cash and $45,000 to be paid in SVS. In addition, the sellers may be entitled to additional consideration if certain financial targets are exceeded. The closing of the transaction is currently pending regulatory approval.

Cura Partners, Inc., an Oregon corporation ("Cura" or "Select")

In May 2019, the Company entered into an agreement to acquire the state-regulated cannabis business of Cura, owners of the Select brand, in an all-stock transaction through the issuance of 95,555,556 SVS to shareholders of Cura valued at approximately $948,800, which is based on Curaleaf's closing price of C$13.30 per share on April 30, 2019, the last trading day prior to announcement of the transaction. Additionally, the shareholders of Cura will be eligible to receive an earn-out of up to $200,000 which will be settled through the issuance of SVS, contingent upon Curaleaf exceeding certain 2020 revenue targets. The acquisition includes Select's manufacturing, processing, distribution, marketing and retailing operations and all adult-use cannabis products marketed under the Select brand name, including all intellectual property, but excluding Cura’s CBD product line. The closing of this transaction is currently pending regulatory approval.

Ohio Grown Therapies, LLC, an Ohio limited liability company (“OGT”)

In May 2019, the Company entered into an agreement granting it an option to acquire OGT for $20,000. The Company paid $5,000 cash in May 2019 and the remaining consideration will be paid upon completion of milestones, culminating with regulatory approval of the transfer of the final licenses and OGT facility to Curaleaf. The closing of this transaction is currently pending regulatory approval.

Glendale Greenhouse (“Glendale”) and Phytotherapeutics Management Services, LLC (“Phyto”), Arizona non-profit corporations

In June 2019, the Company entered into an agreement to acquire Glendale, a vertically integrated cannabis business operating a cultivation and processing facility, as well as a prime retail location, with plans to rebrand after the transaction closes.

Additionally, the Company entered into a separate agreement to acquire Phyto, which operates under the license of Phytotherapeutics of Tucson, LLC. Upon close of the transaction, the license associated with the dispensary will be applied to a newly developed flagship dispensary located in Phoenix, AZ.

The combined consideration for Glendale and Phyto is $25,500 with $22,000 to be paid in cash and $3,500 to be paid in SVS. Both of these transactions closed in August 2019.

GR Companies, Inc., a Delaware company ("Grassroots")

In July 2019, the Company entered into an agreement to acquire Grassroots, a large private vertically-integrated multi-state operator, for total consideration of approximately $875,000, composed of $75,000 in cash, approximately 102,808,038 SVS and additional SVS equal to the quotient obtained by dividing $40,000 by the higher of (i) the 10-day volume-weighted average price per SVS, determined as of the close of business on the last business day prior to the closing date, on the CSE and (ii) eighty-five percent (85%) of the 1-day volume-weighted average price per SVS determined two trading days prior to the closing date of such SVS on the CSE. The closing of this transaction is currently pending regulatory approval.

Notes to Condensed Interim Consolidated Financial Statements
Unaudited
(in thousands, except for gram, share and per share amounts)

Note 5 – Inventory

Inventory consist of the following:

	June 30, 2019	December 31, 2018
Raw materials		
Harvested cannabis	$ 5,802	$ 15,979
Harvested trim	696	807
Total raw materials	6,498	16,786
Work-in-process		
Processing	13,980	3,653
Finished goods		
Consumables	11,077	4,420
Flower	1,108	332
Extracts	9,491	2,785
Total finished goods	21,676	7,537
	$ 42,154	$ 27,976

Note 6 – Biological assets

The following table is a reconciliation of carrying amount of the biological assets:

Balance at December 31, 2017	$ 1,439
Assets obtained in the acquisition of Curaleaf MA	527
Assets obtained in the acquisition of Swell Farmacy	125
Unrealized fair value gain on growth of biological assets	5,957
Increase in biological asset due to capitalized costs	3,639
Transferred to inventory upon harvest	(8,924)
Balance at June 30, 2018	$ 2,763
Balance at December 31, 2018	$ 4,491
Assets obtained in the acquisition of HMS	469
Unrealized fair value gain on growth of biological assets	29,471
Increase in biological asset due to capitalized costs	11,974
Transferred to inventory upon harvest	(37,395)
Balance at June 30, 2019	$ 9,010

Biological assets consisted of actively growing cannabis plants to be harvested as agricultural produce.

The average grow cycle of plants up to the point of harvest is approximately twelve weeks. Plants not in production are valued at the fair market value less costs to sell. Plants in production are plants that are in the flowering stage and are valued at fair value less cost to complete and cost to sell, where fair value represents the Company's selling price per gram of dried cannabis. As of June 30, 2019 and December 31, 2018, it was expected that the Company's biological assets would yield 4,435,659 and 1,526,418 grams of cannabis when harvested, respectively. See Note 18 for the inputs and sensitivity analysis for the fair value of the biological assets.

Notes to Condensed Interim Consolidated Financial Statements
Unaudited
(in thousands, except for gram, share and per share amounts)

Note 7 – Notes receivable

Notes receivable consist of the following:

	June 30, 2019	December 31, 2018
Notes receivable Curaleaf NJ, Inc.	$ 46,882	$ 32,536
Notes receivable Evio	—	533
Notes receivable RMC	686	722
Notes receivable from other third parties	—	20
	$ 47,568	$ 33,811

Note 8 – Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	June 30, 2019	December 31, 2018
Land	$ 210	$ 210
Building and improvements	66,314	48,060
Furniture and fixtures	19,481	13,486
Information technology	1,728	582
Construction in progress	28,260	10,119
Total property and equipment	115,993	72,457
Less: Accumulated depreciation	(12,205)	(5,488)
Property, plant and equipment, net	$ 103,788	$ 66,969

Note 9 – Goodwill and intangible assets

Identifiable intangible assets consist of the following:

	2018	2019			
	Balance at December 31,	2018 Acquisitions (1)	Acquisitions	Year-to-Date Amortization	Balance at June 30,
Licenses	$ 50,842	$ 4,485	$ 44,410	$ (3,817)	$ 95,920
Trade names	1,981	100	1,500	(247)	3,334
Non-compete agreements	102	—	100	(7)	195
Total	$ 52,925	$ 4,585	$ 46,010	$ (4,071)	$ 99,449

(in thousands, except for gram, share and per share amounts)

(1) During the six months ended June 30, 2019, the Company completed the purchase price allocation for MTR which resulted in a corresponding reallocation from goodwill to intangibles.

Amortization of intangible assets was $2,265 and $810 for the three months ended June 30, 2019 and 2018, respectively and $4,071 and $1,477 for the six months ended June 30, 2019 and 2018, respectively.

The Company has determined that the goodwill associated with all acquisitions belong to the cannabis operations segment. There was no goodwill associated with the non-cannabis operations segment for the six months ended June 30, 2019 and 2018. The changes in the carrying amount of goodwill for the cannabis operations segment were as follows:

	Balance at December 31, 2018	2018 Acquisitions (1)	2019 Acquisitions	Balance at June 30, 2019
2017 Acquisitions	$ 31,561	$ —	$ —	$ 31,561
Acquisition of CLMA	2,747	—	—	2,747
Acquisition of Swell	6,216	—	—	6,216
Acquisition of MTR	6,743	(4,559)	—	2,184
Acquisition of HMS	—	—	11,200	11,200
Acquisition of Eureka	—	—	12,891	12,891
Acquisition of Blackjack	—	—	6,428	6,428
Acquisition of Emerald	—	—	15,429	15,429
2019 Other Acquisitions	—	—	1,937	1,937
Total Goodwill	$ 47,267	$ (4,559)	$ 47,885	$ 90,593

(1) During the six months ended June 30, 2019, the Company completed the purchase price allocation for MTR which resulted in a corresponding reallocation from goodwill to intangibles in addition to a $26 reduction to goodwill.

There was no goodwill impairment at any CGUs as of June 30, 2019 or December 31, 2018.

(in thousands, except for gram, share and per share amounts)

Note 10 – Notes payable

Notes payable consist of the following:

	June 30, 2019	December 31, 2018
Senior Unsecured Notes – 2019		
Principal amount	$ 2,570	$ 2,570
Unamortized debt discount	—	(167)
Net carrying amount	2,570	2,403
Financing Agreement – 2021		
Principal amount	88,519	86,335
Unamortized debt discount	(7,072)	(8,023)
Net carrying amount	81,447	78,312
Secured Promissory Notes - 2029	2,551	2,654
Seller note payable (Note 4)	8,000	—
Other notes payable	930	935
Total notes payable	$ 95,498	$ 84,304
Current portion of notes payable	8,000	—
Current portion of notes payable - related parties	2,570	2,403
Long term notes payable	84,928	81,901
Total notes payable	$ 95,498	$ 84,304

Senior Unsecured Notes – 2019

In 2016, the Company entered into promissory notes (the "Senior Unsecured Notes – 2019") with various related parties (see Note 17) for an aggregate principal amount of $2,570.

The Senior Unsecured Notes – 2019 require interest-only payments at a rate of 14% per annum, payable quarterly, prior to maturity on December 30, 2019. Upon maturity, the Company shall pay all principal and accrued but unpaid interest. At its option, the Company may prepay the notes in full at any time before maturity

In connection with the Senior Unsecured Notes – 2019, the Company issued warrants to purchase 4,609,288 shares of common stock at an exercise price of $0.11 per share. The liability component of the notes was recorded at fair value of $2,201 and the equity component at the residual amount of $369. A debt discount is reflected as a reduction of the carrying value of the long-term debt on the Company's consolidated statement of financial position and is being amortized to interest expense over the term of the notes using the effective interest method.

The Senior Unsecured Notes – 2019 rank pari passu with respect to payment and are senior to all other indebtedness of the Company. The notes contain customary terms and conditions, representations and warranties, and events of default. In addition, all amounts outstanding may become immediately due upon the consummation of a change of control transaction or the sale of the business, as defined in the agreement.

The Company recognized interest expense under the Senior Unsecured Notes – 2019 of $90 for each of the three months ended June 30, 2019 and 2018

Financing Agreement – 2021

In August 2018, the Company issued $85,000 of senior secured debt (the "Financing Agreement – 2021"). In connection with this agreement, the Company paid a fee of $1,700 upon the initial funding.

The Financing Agreement – 2021 accrues interest at a rate of 15% per annum, of which 10% is payable in cash quarterly and 5% is payable in kind. Principal and interest are due in full on August 23, 2021. The Financing Agreement – 2021 is secured by a guarantee of each wholly-owned direct and indirect subsidiary of the Company, as well as a pledge of the Company's assets and each such guarantor and contains certain negative covenants, including restrictions on its ability to pay dividends, invest in non-wholly owned entities and to incur non-subordinated debt.

The Financing Agreement – 2021 may be pre-paid in tranches of up to $25,000 or $50,000 upon 90 or 180 days written notice. Any amount prepaid once the outstanding principal falls below $25,000 is subject to a prepayment premium.

In connection with the Financing Agreement – 2021, the Company issued warrants to purchase 3,598,492 shares of common stock for a nominal value. The liability component of the notes was recorded at fair value of $77,556 and the equity component at the residual amount of $7,444. A debt discount is reflected as a reduction of the carrying value of the long-term debt on the Company's consolidated statement of financial position and is being amortized to interest expense over the term of the notes using the effective interest method.

The Company recognized interest expense under the Financing Agreement – 2021 of $3,314 and $6,552 for the three and six months ended June 30, 2019.

Secured Promissory Notes – 2029

In January 2017, the Company entered into secured promissory notes (the "Secured Promissory Notes – 2029") with certain individuals for an aggregate principal amount of $2,500.

The Secured Promissory Notes – 2029 accrue interest at a rate of 12% per annum on the first $112 and 14% per annum on the remaining balance. Principal and interest are due in full on May 1, 2029.

The Company recognized interest expense under the Secured Promissory Notes – 2029 of $55 for the three and six months ended June 30, 2018.

Seller note

The Company issued certain notes payable in conjunction with the Emerald acquisition (See Note 4).

Future maturities

As of June 30, 2019, future principal payments due under notes payable were as follows:

(in thousands, except for gram, share and per share amounts)

Year Ending December 31,	Amount
2019 (remaining six months)	$ 7,570
2020	3,000
2021	88,519
2022	—
2023	—
2024 and thereafter	3,481
	$ 102,570

Note 11 – Shareholders' equity

The authorized and issued share capital of the Company is as follows:

Authorized

As of June 30, 2019 the authorized share capital consists of an unlimited number of multiple voting shares ("MVS") without par value and an unlimited number of SVS without par value.

Issued

Multiple voting shares – Holders of the MVS are entitled to 15 votes per share and are entitled to notice of and to attend at any meeting of the shareholders, except a meeting of which only holders of another particular class or series of shares of the Company will have the right to vote. The MVS represent approximately 24.2% of the total issued and outstanding shares and 77.6% of the voting power attached to such outstanding shares. The MVS are convertible into SVS on a one-for-one basis at any time at the option of the holder or upon termination of the MVS structure. The MVS structure will terminate automatically on October 25, 2021. It will also terminate automatically upon the occurrence of the following events: (i) transfer or disposition of the MVS by the Company's Executive Chairman, Boris Jordan, to one or more third parties which are not certain permitted holders as described in the Company's Articles, and (ii) Mr. Jordan or his permitted holders no longer beneficially owning, directly or indirectly and in the aggregate, at least 50% of the issued and outstanding SVS and MVS. In June 2019, holders of 10,000,000 MVS voluntarily converted 10,000,000 MVS into SVS. As of June 30, 2019, the Company had 112,170,705 MVS issued and outstanding.

Subordinate voting shares – Holders of the SVS are entitled to one vote per share. As of June 30, 2019 the Company had 351,052,287 SVS issued and outstanding.

As of June 30, 2019 and 2018, the Company had reserved 51,469,221 and 50,848,420 SVS, respectively, for the issuance of stock options under the Company's 2018 Long Term Incentive Plan (see Note 12).

Treasury shares

For the six months ended June 30, 2019, the Company repurchased an aggregate of 70,100 SVS for a total purchase price of $338. The amount is reflected as treasury shares in the consolidated statement of financial position.

(in thousands, except for gram, share and per share amounts)

Note 12 – Share-based payment arrangements

Stock option programs

The 2011 and 2015 Equity Incentive Plans provide for the grant of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock units, stock appreciation rights and other share-based awards. In connection with the Business Combination, all unexercised stock options of Curaleaf, Inc. issued and outstanding under the 2011 and 2015 Equity Incentive Plans were converted to the option to receive an equivalent substitute option under the 2018 Long Term Incentive Plan (the "LTIP"). The LTIP provides for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock and restricted stock units, performance awards, dividend equivalents, and other share-based awards. The number of SVS reserved for issuance under the LTIP is calculated as 10% of the aggregate number of SVS and MVS outstanding on an "as-converted" basis.

Stock option valuation

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes valuation model, where appropriate. In instances where stock options have performance or market conditions, the Company utilizes the Monte Carlo valuation model to simulate the various outcomes that affect the value of the option.

The weighted average inputs used in the measurement of the grant date fair values of the equity-settled share-based payment plans were as follows:

	June 30,	
	2019	**2018**
Fair value at grant date	$ 7.07	$ 0.60
Share price at grant date	$ 9.02	$ 0.80
Exercise price	$ 8.84	$ 0.80
Expected volatility	87.7 %	81.9 %
Expected life	7.2 years	7.2 years
Expected dividends	— %	— %
Risk-free interest rate (based on government bonds)	2.19 %	2.31 %

The expected volatility is estimated based on the historical volatility of a publicly traded set of peer companies. The expected life in years represents the period of time that options granted are expected to be outstanding. The expected term of stock options granted to non-employees is equal to the contractual term of the option award. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. Expected dividend yield is based on the fact that the Company has never paid cash dividends and does not expect to pay any cash dividends in the foreseeable future.

During the three months ended June 30, 2019 and 2018, the Company recorded share-based compensation in the amount of $4,489 and $649, respectively. During the six months ended June 30, 2019 and 2018, the Company recorded share-based compensation in the amount of $6,270 and $1,161, respectively.

(in thousands, except for gram, share and per share amounts)

Reconciliation of outstanding share options

The number and weighted-average exercise prices of share options under the share option program were as follows:

	Number of Options 2019	Weighted average exercise price 2019	Number of Options 2018	Weighted average exercise price 2018
Outstanding at January 1	31,269,448	$ 0.94	34,377,948	$ 0.25
Forfeited during the six month period	(163,550)	0.49	(2,044,375)	0.48
Exercised during the six month period	(3,478,196)	0.24	(2,289,700)	0.13
Granted during the six month period	1,512,075	8.84	1,962,600	0.80
Outstanding at June 30	29,139,777	$ 1.48	32,006,473	$ 0.25
Options exercisable at June 30	18,833,493	$ 0.24	18,681,204	$ 0.19

Restricted Stock Units ("RSUs")

The number of RSUs awarded under the LTIP were as follows:

	Number of RSUs 2019	Number of RSUs 2018
Outstanding at January 1	166,215	—
Forfeited during the six month period	—	—
Vested during the six month period	—	—
Granted during the six month period	920,791	—
Outstanding at June 30	1,087,006	—
RSUs vested at June 30	—	—

Note 13 – Selling, general and administrative expense

Selling, general and administrative expenses consist of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Selling, general and administrative expenses:				
Salaries and benefits	$ 12,637	$ 5,863	$ 23,501	$ 9,258
Sales and marketing	2,433	725	5,628	1,272
Rent and occupancy	341	1,451	2,015	2,043
Travel	1,739	711	2,703	1,296
Professional fees	7,554	2,458	10,899	3,808
Miscellaneous office supplies and services	1,933	915	3,656	1,492
Other	1,392	412	2,896	665
Total selling, general and administrative expense	$ 28,029	$ 12,535	$ 51,298	$ 19,834

Notes to Condensed Interim Consolidated Financial Statements
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Note 14 – Earnings per share

Basic and diluted loss per share attributable to Curaleaf Holdings, Inc. was calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Numerator:				
Net loss and comprehensive loss	$ (24,435)	$ (6,430)	$ (35,264)	$ (9,764)
Less: Net income (loss) attributable to redeemable non-controlling interest	106	(1,497)	(513)	(2,604)
Net loss attributable to Curaleaf, Inc. — basic and diluted	$ (24,541)	$ (4,933)	$ (34,751)	$ (7,160)
Denominator:				
Weighted average common shares outstanding — basic and diluted	461,313,741	382,618,764	459,499,816	381,856,676
Loss per share — basic and diluted	$ (0.05)	$ (0.01)	$ (0.08)	$ (0.02)

The Company's potentially dilutive securities, which include stock options and warrants to purchase shares of stock, have been excluded from the computation of diluted net loss per share as the effect would be to reduce the net loss per share. Therefore, the weighted average number of common shares outstanding used to calculate both basic and diluted net loss per share attributable to shareholders is the same. The Company excluded the following potential shares, presented based on amounts outstanding at each period end, from the computation of diluted loss per share attributable to Curaleaf, Inc. for the periods indicated because including them would have had an anti-dilutive effect:

	Six Months Ended June 30,	
	2019	2018
Options to purchase common stock	29,139,777	32,006,473
Warrants to purchase common stock	—	2,894,311
	29,139,777	34,900,784

In addition to the potentially dilutive securities noted above, as of June 30, 2018, the Company has 688,349 shares held in escrow in connection with the Eureka acquisition (See Note 4).

Note 15 – Segment reporting

The Company operates in two segments: the production and sale of cannabis via retail and wholesale channels ("Cannabis Operations"); and providing professional services including cultivation, processing and retail know-how and back office administration, intellectual property licensing, real estate leasing services and lending facilities to medical and adult-use cannabis licensees under management service agreements ("Non-Cannabis Operations").

(in thousands, except for gram, share and per share amounts)

	Cannabis	Non-Cannabis	Total
For the three months ended June 30, 2019:			
Revenues	$ 37,726	$ 10,763	$ 48,489
Gross profit	16,649	10,763	27,412
Loss from operations	(5,751)	(6,550)	(12,301)
Net loss	(7,540)	(16,895)	(24,435)

	Cannabis	Non-Cannabis	Total
For the six months ended June 30, 2019:			
Revenues	$ 65,494	$ 18,246	$ 83,740
Gross profit	29,518	18,246	47,764
Loss from operations	(11,335)	(10,560)	(21,895)
Net loss	(15,115)	(20,149)	(35,264)

	Cannabis	Non-Cannabis	Total
For the three months ended June 30, 2018:			
Revenues	$ 11,466	$ 3,178	$ 14,644
Gross profit	5,751	3,178	8,929
Income (Loss) from operations	(5,656)	(27)	(5,683)
Net income (loss)	(7,630)	1,200	(6,430)

	Cannabis	Non-Cannabis	Total
For the six months ended June 30, 2018:			
Revenues	$ 17,176	$ 6,550	$ 23,726
Gross profit	7,106	6,550	13,656
Income (Loss) from operations	(10,471)	588	(9,883)
Net income (loss)	(12,684)	2,920	(9,764)

	Cannabis	Non-Cannabis	Total
As of June 30, 2019:			
Total assets	$ 230,370	$ 424,691	$ 655,061
Total liabilities	88,021	135,812	223,833

	Cannabis	Non-Cannabis	Total
As of December 31, 2018:			
Total assets	$ 88,524	$ 481,312	$ 569,836
Total liabilities	12,307	121,887	134,194

Note 16 – Commitments and contingencies

Leases

The following table summarizes the Company’s future undiscounted lease payments as of June 30, 2019:

(in thousands, except for gram, share and per share amounts)

Period	Scheduled Payments
2019 (remaining six months)	$ 5,538
2020	11,607
2021	11,485
2022	10,974
2023	9,867
2024 and thereafter	33,442
Total undiscounted lease liability	82,913
Impact of discount	(24,027)
Lease liability at June 30, 2019	58,886
Less current portion of lease liability	(7,374)
Long-term portion of lease liability	$ 51,512

The following table provides a reconciliation of commitments at December 31, 2018 to the Company's lease liability as of January 1, 2019 and June 30, 2019:

Disclosed commitments as of December 31, 2018	$ 58,666
Impact of discount	(15,824)
Lease liability at January 1, 2019	42,842
Lease payments	(4,597)
Amortization of discount	2,315
New leases acquired	18,326
Lease liability at June 30, 2019	58,886

Real estate leases typically extend for a period of 1–10 years. Some leases for office space include extension options exercisable up to one year before the end of the cancellable lease term. Typically, the option to renew the lease is for an additional period of 5 years after the end of the initial contract term and are at the option of the Company as the lessee. Lease payments are in substance fixed, and certain real estate leases include annual escalation clauses with reference to an index or contractual rate.

The Company leases machinery and equipment but does not purchase or guarantee the value of leased assets. The Company considers these assets to be of low-value or short-term in nature and therefore no right-of use assets and lease liabilities are recognized for these leases. Expenses recognized relating to short-term leases and leases of low value during the three and six months ended June 30, 2019 were immaterial.

The Company leases space for its offices, cultivation centers, and retail dispensaries. Key movements relating to the right-of-use lease asset balances are presented below:

	Scheduled Payments
Carrying amount, January 1, 2019	**$ 41,853**
Additions to leased assets	18,326
Depreciation charges	(4,014)
Carrying amount, June 30, 2019	**$ 56,165**

The total interest expense on lease liabilities for the three and six months ended June 30, 2019 was $1,348 and $2,315, respectively.

The total cash outflow for the three and six months ended June 30, 2019 was $2,599 and $4,597, respectively.

Indemnification agreements

In the ordinary course of business, the Company may provide indemnification of varying scope and terms to vendors, lessors, business partners, and other parties with respect to certain matters including, but not limited to, losses arising out of breach of such agreements or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with members of its board of directors and senior management team that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is, in many cases, unlimited. To date, the Company has not incurred any material costs as a result of such indemnification agreements. The Company does not believe that the outcome of any claims under indemnification arrangements will have a material effect on its financial position, results of operations or cash flows, and it has not accrued any liabilities related to such obligations in its consolidated financial statements.

Legal

The Company is involved in claims or lawsuits that arise in the ordinary course of business. Accruals for claims or lawsuits are provided to the extent that losses are deemed both probable and estimable. Although the ultimate outcome of these claims or lawsuits cannot be ascertained, on the basis of present information and advice received from counsel, it is management's opinion that the disposition or ultimate determination of such claims or lawsuits will not have a material adverse effect on the Company.

Note 17 – Related party transactions

In 2016, the Company entered into a Senior Unsecured Notes – 2019 with minority shareholders. As of June 30, 2019 and 2018 amounts due to minority shareholders were $2,570 and $2,403, respectively (See Note 10).

As of June 30, 2019 and December 31, 2018, the Company had a contingent consideration liability of $18,000 for the purchase of CLMA payable upon the achievement of certain milestones. The liability is payable to PT Mass Holdings, LLC, of which Joseph F. Lusardi, the Company's President and Chief Executive Officer, is a member (See Note 4).

For the three months ended June 30, 2019 and 2018, the Company recognized general and administrative fees of $109 and $300, respectively, in the consolidated statement of profits and losses, as payment to a director for consulting, legal and business development related services. For the six months ended June 30, 2019 and 2018, the Company recognized general and administrative fees of $556 and $502, respectively, in the consolidated statement of profits and losses, as payment to a director for consulting, legal and business development related services. The Company also recorded $1,500 of offering costs associated with the issuance of shares that were paid to a director for consulting expenses for the six months ended June 30, 2018.

Note 18 – Fair value measurements

The Company's financial instruments consist of cash, restricted cash, notes receivable, accounts payable, accrued expenses, long-term debt, redeemable non-controlling contingency, and contingent consideration. The fair values of cash, restricted cash, notes receivable, accounts payable and accrued expenses approximate their carrying values due to the relatively short-term to maturity. The Company's long-term notes payable carrying value at the effective interest rate approximates fair value.

(in thousands, except for gram, share and per share amounts)

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

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

The Company's assets measured at fair value on a nonrecurring basis include investments, long-lived assets, indefinite-lived intangible assets and goodwill. The Company reviews the carrying amounts of such assets whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable or at least annually as of December 31, for indefinite-lived intangible assets and goodwill. Any resulting asset impairment would require that the asset be recorded at its fair value. The resulting fair value measurements of the assets are considered to be Level 3 measurements.

There have been no transfers between fair value levels during the six months.

	Fair Value Measurements as of June 30, 2019 Using:			
	Level 1	Level 2	Level 3	Total
Assets:				
Biological assets	$ —	$ —	$ 9,010	$ 9,010
	$ —	$ —	$ 9,010	$ 9,010
Liabilities:				
Non-controlling interest redemption and contingent consideration liabilities	$ —	$ —	$ 35,432	$ 35,432
	$ —	$ —	$ 35,432	$ 35,432

	Fair Value Measurements as of December 31, 2018 Using:			
	Level 1	Level 2	Level 3	Total
Assets:				
Biological assets	$ —	$ —	$ 4,491	$ 4,491
	$ —	$ —	$ 4,491	$ 4,491
Liabilities:				
Non-controlling interest redemption and contingent consideration liabilities	$ —	$ —	$ 20,957	$ 20,957
	$ —	$ —	$ 20,957	$ 20,957

Biological assets

The fair value of biological assets is categorized within Level 3 on the fair value hierarchy. The Company measures its biological assets at fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants that are actively growing, and then adjusts that amount for the expected selling price per gram in the market in which the biological asset is growing. The estimates used in determining the fair value of biological assets are subject to volatility and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods. The significant assumptions used in determining the fair value of biological assets include:

- Expected yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant;

- Wastage of plants – represents the weighted average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested;

- Duration of the production cycle – represents the weighted average number of weeks out of the 12 week growing cycle that biological assets have reached as of the measurement date;

- Percentage of costs incurred as of this date compared to the total costs expected to be incurred – this is calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post harvest, consisting of the cost of direct and indirect materials and labor related to further production, labeling, and packaging;

- Percentage of costs incurred for each stage of plant growth – represents the direct and indirect production costs incurred that are capitalized; and

- Market values – this is calculated as the current market price per gram in the market in which the biological asset is being produced. This is expected to approximate future selling price.

The Company accretes fair value on a straight line basis according to stage of growth. As a result, a cannabis plant that is 40% through its 12 week growing cycle would be ascribed approximately 40% of its harvest date expected fair value. All plants are to be harvested cannabis and as of June 30, 2019 and December 31, 2018, on average, were 37% and 59% complete, respectively. An increase or decrease in the estimated sale price would result in a significant change in the fair value of biological assets.

Non-controlling interest redemption liability and contingent consideration liability

During 2017, the Company completed various acquisitions where the non-controlling shareholders were granted an option to sell their shares to the parent entity (a "non-controlling interest put option") and the Company was granted an option to acquire the shares held by the non-controlling interest shareholders ("non-controlling interest purchased call option"). The redemption value in the various arrangements is a variable amount based on fair value or a formula. The Company recognized a non-controlling interest contingency liability as of June 30, 2019 and December 31, 2018 at fair value utilizing the purchase price allocation percentage of each acquisition.

As of June 30, 2019 and December 31, 2018, the Company recognized non-controlling interest redemption and contingent consideration liabilities in the amount of $2,957 and $30,599, respectively. An increase or decrease in the weighted average cost of capital ("WACC") would result in a significant change in the fair value of the non-controlling interest contingency.

(in thousands, except for gram, share and per share amounts)

Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at June 30, 2019 and December 31, 2018 is the carrying amount of cash and cash equivalents, accounts receivable and notes receivable. The Company does not have significant credit risk with respect to its customers. All cash and cash equivalents are placed with major U.S. financial institutions.

The Company provides credit to its customers, mostly wholesale and MSA customers, in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk.

As of June 30, 2019, future notes receivable receipts were as follows:

Year Ending December 31,	Amount
2019 (remaining six months)	$ 686
2020	—
2021	46,882
	$ 47,568

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

Interest Rate Risk

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

Capital management

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

The capital structure of the Company consists of items included in shareholders' equity and debt, net of cash and cash equivalents. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. The Company plans to use existing funds, as well as funds from the future sale of products to fund operations and expansion activities. As of June 30, 2019 and December 31, 2018, the Company was not subject to externally imposed capital requirements.

Note 19 – Subsequent events

The Company has evaluated subsequent events through August 28, 2019, the date the consolidated financial statements were available to be issued.

In August 2019, the Company entered into a sale-leaseback agreement with a specialty real estate company for the sale of six of the Company’s properties for $28,300.

See Note 4 for a list of acquisitions that were signed after June 30, 2019.