Minnesota Medical Solutions, LLC

FINANCIAL STATEMENTS

For the Years Ended
December 31, 2017 and 2016

MINNESOTA MEDICAL SOLUTIONS, LLC
Table of Contents
For the Years Ended December 31, 2017 and 2016

Independent Auditors' Report

To the Members
Minnesota Medical Solutions, LLC
207 South 9th Street
Minneapolis, MN 55402

We have audited the accompanying financial statements of Minnesota Medical Solutions, LLC (a limited liability company), which comprise the balance sheets as of December 31, 2017 and 2016 and the related statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minnesota Medical Solutions, LLC as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Cannabis Laws
As discussed in Note 1 to the financial statements, the Organization operates in the medical cannabis industry which is legal in the State of Minnesota but illegal under United States federal law. Our opinion is not modified with respect to this matter.

Bridge West CPAs
and Consultants LLC

BRIDGE WEST, LLC
CPAs and Consultants

Longmont, Colorado
April 25, 2018

MINNESOTA MEDICAL SOLUTIONS, LLC
Balance Sheets
December 31, 2017 and 2016

ASSETS	**2017**	**2016**
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,713,845	$ 199,219
Prepaid Expenses - Current	197,119	17,359
Inventory	2,322,751	1,813,486
Total Current Assets	$ 4,233,715	$ 2,030,064
PROPERTY AND EQUIPMENT		
Greenhouses	$ -	$ 2,248,608
Dispensaries	1,298,182	1,281,596
Equipment	1,264,900	1,896,266
Furniture and Fixtures	81,091	81,091
Software	87,243	87,243
Capital Lease Asset	3,000,100	-
Total Property and Equipment	$ 5,731,516	$ 5,594,804
Less Accumulated Depreciation and Amortization	(712,011)	(612,886)
Net Property and Equipment	$ 5,019,505	$ 4,981,918
OTHER ASSETS		
Deposits - Long-Term	$ 324,845	$ 24,845
Total Other Assets	$ 324,845	$ 24,845
TOTAL ASSETS	$ 9,578,065	$ 7,036,827

See Independent Auditors' Report and the Notes to Financial Statements

LIABILITIES AND MEMBERS' EQUITY	2017	2016
CURRENT LIABILITIES		
Accounts Payable	$ 117,252	$ 57,274
Accrued Interest	29,707	-
Accrued Expenses	72,233	44,207
Current Portion of Long-Term Debt	-	19,000
Total Current Liabilities	$ 219,192	$ 120,481
LONG-TERM LIABILITIES		
Long-Term Debt, Net of Current Portion	$ -	$ 10,165
Capital Lease, Net of Current Portion	2,973,658	-
Deferred Rent	19,476	14,958
Total Long-Term Liabilities	$ 2,993,134	$ 25,123
Total Liabilities	$ 3,212,326	$ 145,604
MEMBERS' EQUITY		
Capital Contribution	$ 100	$ 100
Class A Membership Units, $10.00 Par Value, 400,000 Authorized, 361,000 Issued and Outstanding	3,610,000	3,610,000
Class B Membership Units, $0.01 Par Value, 400,000 Authorized; 342,000 Issued and Outstanding	3,420	3,420
Class B Membership Unit Subscription Receivable	(1,780)	(1,780)
Class C Membership Units, No Par Value, 610,000 Authorized; 260,000 Issued and Outstanding, Net of Issuance Costs	12,977,051	12,977,051
Distributions to Member	(5,532,536)	(4,939,640)
Retained Deficit	(4,690,516)	(4,757,928)
Total Members' Equity	$ 6,365,739	$ 6,891,223
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 9,578,065	$ 7,036,827

MINNESOTA MEDICAL SOLUTIONS, LLC
Statements of Operations
For the Years Ended December 31, 2017 and 2016

	2017	2016
Net Sales	$ 4,733,701	$ 2,217,470
Cost of Sales	2,193,231	1,515,190
Gross Profit	$ 2,540,470	$ 702,280
Operating Expenses		
Dispensary Operating Expenses	$ 1,322,259	$ 964,175
General and Administrative Expenses	1,096,301	886,755
Total Operating Expenses	$ 2,418,560	$ 1,850,930
Operating Income (Loss)	$ 121,910	$ (1,148,650)
Other Income (Expense)		
Interest Income	$ -	$ 8
Interest Expense	(70,813)	(2,201)
Other Income (Expense), Net	(3,395)	-
Gain (Loss) on Disposal of Asset	19,710	-
Total Other Income (Expenses)	$ (54,498)	$ (2,193)
Net Income (Loss)	$ 67,412	$ (1,150,843)

MINNESOTA MEDICAL SOLUTIONS, LLC
Statements of Changes in Members' Equity
For the Years Ended December 31, 2017 and 2016

	Class A Units Amount	Class B Units Amount	Class C Units Amount	Class B Subscription Receivable	Capital Contribution	Distributions to Member	Retained Deficit	Members' Equity
Balance, December 31, 2015	$ 3,610,000	$ 3,420	$ 12,977,051	$ (3,420)	$ 100	$ (6,288,260)	$ (3,607,085)	$ 6,691,806
Class B Membership Unit Subscription Receivable Collected	-	-	-	1,640	-	-	-	1,640
Contributions from Vireo Health, LLC	-	-	-	-	-	1,348,620	-	1,348,620
Net Income (Loss)	-	-	-	-	-	-	(1,150,843)	(1,150,843)
Balance, December 31, 2016	$ 3,610,000	$ 3,420	$ 12,977,051	$ (1,780)	$ 100	$ (4,939,640)	$ (4,757,928)	$ 6,891,223
Distribution to Vireo Health, LLC					-	(592,896)		(592,896)
Net Income (Loss)	-	-	-	-	-	-	67,412	67,412
Balance, December 31, 2017	$ 3,610,000	$ 3,420	$ 12,977,051	$ (1,780)	$ 100	$ (5,532,536)	$ (4,690,516)	$ 6,365,739

MINNESOTA MEDICAL SOLUTIONS, LLC
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Net income (Loss)	$ 67,412	$ (1,150,843)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Depreciation and Amortization	442,368	414,593
Gain on Disposal of Asset	(19,710)	-
Operating Expenses Withheld from Sale of Asset Proceeds	39,071	-
Changes in Operating Assets and Liabilities		
Inventory	(509,265)	(760,243)
Prepaid Expenses and Deposits	(179,760)	16,405
Accounts Payable	59,978	21,068
Deferred Rent	4,518	9,772
Accrued Interest	29,707	-
Accrued Expenses	28,026	(70,611)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (37,655)	$ (1,519,859)
CASH FLOWS FROM INVESTING ACTIVITIES		
Advance to Related Party	$ -	$ 21,577
Proceeds on Sale of Property	2,264,986	-
Purchase of Property and Equipment	(64,202)	(249,488)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	$ 2,200,784	$ (227,911)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on Class B Membership Unit Subscription Receivable	$ -	$ 1,640
Contributions from Member	-	1,348,620
Distributions to Member	(592,896)	-
Payment (Repayment) of Advance to Member	-	(268)
Payments on Capital Lease	(26,442)	-
Payment of Long-Term Debt	(29,165)	(18,114)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	$ (648,503)	$ 1,331,878
NET INCREASE (DECREASE) IN CASH	$ 1,514,626	$ (415,892)
CASH AND CASH EQUIVALENTS - Beginning of Year	199,219	615,111
CASH AND CASH EQUIVALENTS - End of Year	$ 1,713,845	$ 199,219

See Independent Auditors' Report and the Notes to Financial Statements

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business
Minnesota Medical Solutions, LLC ("MMS"), a Minnesota limited liability company, was organized on November 2, 2012. MMS is a wholly owned subsidiary of Vireo Health, Inc. MMS was granted a license to operate medical cannabis cultivation, production, and dispensary facilities by the Minnesota Department of Health in December of 2014, and began operations of its dispensary facilities on July 1, 2015. The Minnesota Department of Health renewed the license of MMS on December 1, 2017 for two years through November 30, 2019.

The Regulatory Environment
The manufacture, distribution or dispensing of cannabis remains prohibited under the Controlled Substances Act of 1970 (the "CSA"). Under the CSA, cannabis is classified as a Schedule-I controlled substance. The United States Supreme Court has ruled that it is the United States federal government that has the right to regulate and criminalize cannabis, even for medical purposes, and thus federal law criminalizing the use of cannabis preempts state laws that legalize its use. Many states impose and enforce similar prohibitions. Notwithstanding the CSA, twenty-nine states and the District of Columbia have legalized certain cannabis-related activity.

MMS operates in a volatile and rapidly evolving industry whereby regulations may vary significantly from state to state.

The Rohrabacher–Farr amendment prohibits the Justice Department from spending funds to interfere with the implementation of state medical marijuana laws. The amendment does not change the legal status of marijuana however, and must be renewed each fiscal year in order to remain in effect. Currently the amendment expires September 30, 2018. The amendment has been extended every year since 2014.

The Financial Crimes Enforcement Network
The Financial Crimes Enforcement Network ("FinCEN") provided guidance on February 14, 2014 about how financial institutions can provide services to cannabis-related businesses consistent with their Bank Secrecy Act ("BSA") obligations. MMS may have difficulty accessing the services of a bank, which may make it difficult for MMS to conduct its business. While the Company currently has access to banking, there is risk that banks may terminate their relationship due to the threat of criminal penalties that may be imposed upon these financial institutions or regulatory violations that may lead to significant fines or revocation of deposit insurance. Many banks will not make loans to, accept for deposit funds from, or facilitate credit card payments for businesses involved with cannabis for these reasons.

Basis of Accounting
The financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP).

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

Fair Value Measurement
The estimated fair values of the Company's short-term financial instruments, including receivables and payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

Revenue Recognition
The Company recognizes revenue in accordance with Accounting Standards Codification No. 605, "Revenue Recognition" ("ASC-605"), ASC-605 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company will defer any revenue for which the product or servicers has not been delivered or provided or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required.

Cash and Cash Equivalents
The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At times cash and cash equivalents may be in excess of FDIC insurance limits.

Inventory
Inventories are stated at the weighted average method for valuing inventories at the lower of cost or net realizable value. The Company manufactures a majority of its finished goods sold through its dispensaries. The Company captures into inventory all costs of materials plus direct labor overhead costs of the following departments: cultivation, laboratory, quality assurance, security, and product production.

Work in progress represents plants in various stages of grow cycles, harvested plant material and whole plant extracts in various stages of the production cycle.

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment
Purchase of property and equipment are recorded at cost. Improvements and replacements of property and equipment are capitalized. All direct labor costs that have been identified in the installation or modification of specific equipment are capitalized. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain, or loss is reported in the statements of operations. Total depreciation and amortization expense was $442,368 and $414,593 for the years ended December 31, 2017 and 2016, respectively.

Estimated economic useful lives of property and equipment range from 3 to 39 years.

Impairment of Long-Lived Assets
The carrying value of long-lived assets are reviewed when facts and circumstances suggest that the assets may be impaired or that the amortization period may need to be changed. The Company considers internal and external factors relating to each asset, including cash flows, local market developments, industry trends and other publicly available information. If these factors and the projected undiscounted cash flows of the Company over the remaining amortization period indicate that the asset will not be recoverable, the carrying value will be adjusted to the fair market value. No adjustments were considered necessary for the years ended December 31, 2017 and 2016.

Security Deposits
The security deposits are held by landlords for facilities as related to long-term leases.

Advertising
The Company's policy regarding advertising is to expense advertising when incurred. Advertising expense is included in general and administrative expense. The Company incurred advertising expense of $6,124 and $2,628 for the years ended December 31, 2017 and 2016, respectively.

Research and Development
Research and development costs are expensed as incurred.

Income Taxes
The Company is a Limited Liability Company ("LLC") for income tax purposes. In lieu of corporate income taxes, the owners are taxed on their proportionate shares of the Company's taxable income. Accordingly, no liability for federal or state income taxes and no provision for federal or state income taxes have been included in the financial statements.

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (*Continued*)
In accordance with Financial Accounting Standards Board ASC Topic 740, Income Taxes, management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Company is subject to income tax examinations by the U.S. federal, state, or local tax authorities since inception. Interest and penalties are classified as expense as incurred.

Pursuant to Section 280E of the Internal Revenue Code of 1986, as amended ("Section 280E") the Company may not be permitted to take tax deductions for certain operating expenses. According to Section 280E, cost of goods sold are considered the only deductible expenses under Federal case law. Cost of goods sold determined under U.S. GAAP may differ from that calculated under Section 280E.

Subsequent Events
The Company evaluated for the occurrence of subsequent events through April 25, 2018, the date which the financial statements were available for issue. No subsequent events occurred except as noted in NOTE 10.

Reclassifications
Certain reclassifications have been made in the 2016 financial statements to conform to classifications used in 2017.

New Accounting Pronouncements
In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each performance obligation. ASU 2014-09, as deferred one year by ASU 2015-14, will be effective for annual reporting periods beginning after December 15, 2018 using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. The Company has not yet selected a transition method and is currently evaluating the impact of the pending adoption of ASU 2014-09 on the consolidated financial statements.

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (*Continued*)
In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The FASB issued ASU 2016-02 to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Certain qualitative and quantitative disclosures are required, as well as a retrospective recognition and measurement of impacted leases. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2018, with early adoption permitted. Management is currently evaluating the standard.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments in the ASU require entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation. This ASU will be effective for the Company for fiscal years beginning after December 15, 2016. The Company has adopted ASU 2015-11 and it did not have a material effect on its financial statements.

NOTE 2: INVENTORIES

Inventory consisted of the following at December 31, 2017 and 2016:

	2017	2016
Work in Process	$ 1,837,210	$ 1,502,008
Finished Goods	463,762	311,478
Retail Inventory	21,779	-
Total Inventory	$ 2,322,751	$ 1,813,486

NOTE 3: DEBT

Long-term
Promissory note payable to a bank with a principal balance as of December 31, 2017 and 2016 of $0 and $29,165, respectively, with principal and interest payments fully amortized over 36 months at a fixed rate of 5.49% due monthly. The note was secured by a Company vehicle and was paid in full on November 14, 2017.

NOTE 4: LEASES

Operating Leases

On December 1, 2014, the Company entered into an agreement with a member of the Company to lease land for the Company's Minnesota cultivation and manufacturing activities. The lease was amended on July 1, 2015 and had an initial term of 10 years expiring on December 31, 2024, with options to renew the lease upon expiration for three additional 10 year terms. The lease amendment required monthly lease payments of $3,500. The Company was responsible for the property taxes, insurance and other operating expenses related to the property. In November 2017, the Company sold the cultivation and manufacturing facility and the land was purchased and included in the sale. See capital lease note section below and NOTE 9 for additional information.

On January 30, 2015, the Company entered into an agreement to lease space in Minneapolis, MN to dispense medical cannabis. The lease commenced on July 1, 2015 and is for an original term of 60 months expiring on June 30, 2020, with an option to renew the lease upon expiration for two additional 36 month terms. The Company is responsible for the property taxes, insurance and other operating expenses related to the property.

On February 24, 2015, the Company entered into an agreement to lease space in Rochester, MN to dispense medical cannabis. The lease commenced on August 1, 2015 and is for an original term of 60 months expiring on July 31, 2020. The Company is responsible for the property taxes, insurance, other operating expenses related to the property and amortized tenant improvement allowance.

On May 7, 2015, the Company entered into an agreement to lease space in Moorhead, MN to dispense medical cannabis. The lease commenced on August 1, 2015 and is for an original term of 60 months expiring on July 31, 2020, with an option to renew the lease for an additional five years upon expiration. The Company is responsible for the property taxes, insurance and other operating expenses related to the property.

On May 13, 2016, the Company entered into an agreement to lease space in Bloomington, MN to dispense medical cannabis. The lease commenced on July 1, 2016 and is for an original term of 60 months expiring on July 30, 2021, with an option to renew the lease for an additional five years upon expiration. The Company is responsible for the property taxes, insurance and other operating expenses related to the property.

NOTE 4: LEASES (Continued)

Operating Leases (Continued)

Future minimum rental payments on operating leases for the next five years are as follows:

2018	$ 238,117
2019	$ 245,021
2020	$ 147,421
2021	$ 14,755
2022	$ -
Thereafter	$ -

Capital Leases

On November 8, 2017, the Company sold its cultivation and manufacturing facility and some specific equipment for $3,000,100 and a gain of $19,710 was recognized. On November 8, 2017, the Company entered into an agreement to lease the property back with an initial lease term of 15 years with two options to extend for five years each. Also, the lease provides for Tenant Improvement ("TI") allowance not to exceed of $988,000. The TI may be applied to certain costs that must be submitted to the Landlord for approval. Upon approval the Landlord will reimburse for the approved TI. The Company has until November 8, 2030 to request disbursement for the final installment of the TI allowance.

The lease requires monthly payments of $50,000 for base rent for the first twelve months. Thereafter, the base rent will increase each year at an annual increase of 3.5 percent of the current base rent each year. Also, the Company shall pay the Landlord a Property Management Fee which is 1.5% of the base rental.

The Company will pay the Landlord all amounts related to operating expenses and taxes of the facility unless paid directly by the Company to third parties to whom such amounts are owed.

NOTE 4: LEASES (Continued)

Capital Leases (Continued)

Future Minimum Lease payments under the lease as of December 31, 2017 are as follows:

	Operating	Capital	Total
2018	$ 149,509	$ 453,991	$ 603,500
2019	154,742	469,881	624,623
2020	160,158	486,326	646,484
2021	165,764	503,347	669,111
2022	171,565	520,965	692,530
Thereafter	2,041,640	6,199,521	8,241,161
Total Future Minimum Lease Payments	$ 2,843,378	$ 8,634,031	$ 11,477,409
Less: Amount Representing Operating Lease Payments Related to Tenant Improvement	(2,843,378)	-	(2,843,379)
Net Minimum Capital Lease Payments	$ -	$ 8,634,031	$ 8,634,030
Less: Amount Representing Interest		(5,660,372)	(5,660,372)
Present Value of Net Minimum Lease Payments		$ 2,973,659	$ 2,973,658
Less Current Maturities		-	-
Long-Term Obligation under Capital Leases		$ 2,973,659	$ 2,973,658

	2017	2016
Capital Lease Asset	$ 3,000,100	$ -
Less Accumulated Amortization	(33,334)	-
Capital Lease Asset, Net of Amortization	$ 2,966,766	$ -

The Company and it's Parent Company are guarantors on the lease agreement dated November 8, 2017.

NOTE 5: MEMBERS' EQUITY

During the year ended December 31, 2014 the Company sold 361,000 Class A membership units at $10.00 per membership units to 28 investors for total cash consideration of $3,610,000.

The terms of the Class A membership units included a provision whereby, in the event that the Company was unable to attain a license to produce and distribute medical cannabis in the State of Minnesota, 93% of the contributed amount was redeemable by the members. In accordance with the provisions of U.S GAAP, the amount that was redeemable at the option of the members was initially classified as a current liability. In the event that the Company was successful in attaining a license to produce and distribute medical cannabis in the State of Minnesota, the Company would reclassify this balance as members' equity on its balance sheet. The 7% of the contributed amount that was not redeemable by the members was classified as members' equity at the date of the sale of the membership units. In accordance with the terms of its amended operating agreement dated July 31, 2014, the Company was required to hold 93% of Class A membership unit capital contributions in escrow, with significant restrictions on the use of these funds unless and until the Company obtains a license to produce and distribute medical cannabis in the State of Minnesota. Consequently, the Company initially classified these capital contributions as restricted cash.

The Company was granted a license to operate medical cannabis cultivation, production, and dispensary facilities by the Minnesota Department of Health in December 2014 at which time the 93% of the contributed amount which had been previously classified as current liability was reclassified to members' equity and the balance of restricted cash was transferred out of escrow for unrestricted corporate use and reclassified as unrestricted cash.

During the year ended December 31, 2014, the Company issued a net total of 342,000 Class B membership units for $0.01 per membership unit to members of the management team and individuals contributing to the application for the license to produce and distribute medical cannabis in the State of Minnesota as Founders' membership units, 53,600 of which the Company subsequently redeemed and subsequently reissued at the same price. The total net purchase price of $3,420 had not been received as of December 31, 2015 and this amount is presented on the balance sheet as Class B membership unit subscriptions receivable, a contra-equity account. The Company has collected $1,640 of the receivable and expects to receive the balance of funds by the end of 2017.

During the year ended December 31, 2015, MMS sold 260,000 Class C membership units at $50.00 per membership unit to 83 investors for total cash of $13,000,000. During the year ended December 31, 2015, the Company incurred costs of $22,949 in efforts to raise capital. These costs are properly reported as members' equity netted against capital proceeds received of $13,000,000 which resulted in net proceeds of $12,977,051.

NOTE 5: MEMBERS' EQUITY (Continued)

Effective April 8, 2015, MMS was involved in a reverse triangle merger transaction whereby Vireo Health LLC ("VH"), acquired 99.5% of the issued and outstanding membership units of MMS in exchange for 361,000 Class A membership units, 342,000 Class B units and 260,000 Class C units which represented 100% of VH's total member units outstanding immediately following the closing of the transaction. As a result of the reverse triangle merger, MMS became a wholly-owned subsidiary and the former members of MMS became owners of VH. VH was organized on February 2, 2015 under the laws of the State of Minnesota, is based out of Minneapolis, Minnesota and manages its majority owned subsidiaries.

NOTE 6: MEMBER UNIT GRANT PLAN

MMS has a 2015 Employee Unit Grant Plan (" MMS Grant Plan") in order to recruit and retain certain employees and consultants, whereby 100,000 of MMS' Employee Units were reserved for grant to eligible individuals. Based on the individual employee plan, vesting criteria may range from immediate vesting at the time of grant, to vesting at the time of the sale of the Company.

The Company has elected to measure the value of the Member Units awarded at the fair value. The value of the member units is initially determined as of the grant date and an estimated expense is established for the service period using the Income approach method. Thereafter and until the obligation is settled or retired, the liability is adjusted (marked to market") reflecting any change in value, forfeitures or certain modifications.

Member Units issued under the aforementioned plans are intended to be treated as "profit interest" under IRS Revenue Procedure 93-27 and IRS Revenue Procedure 2001-43 and the provisions of the Member Control Agreement shall be interpreted and applied consistently. The Board establishes a "Distribution Threshold." The Board may make appropriate adjustments to the terms of such Member Units in order for the Member Units to be treated as "profit interests", including establishing a "Distribution Threshold" for federal income tax purposes.

There were no member units granted under this plan in 2017 or 2016.

NOTE 7: LABOR SOURCE CONCENTRATION

MMS entered into a collective bargaining agreement with the United Food and Commercial Workers Union Local 1189 ("UFCW") on February 19, 2015 whereby MMS's eligible employees as defined in the agreement may participate and become members of the UFCW. The initial agreement began on January 1, 2015, and continued through December 31, 2016. The agreement was renewed on January 1, 2017 and is effective through December 31, 2019. Under the terms of the agreement, MMS agrees to make contributions to the UFCW's Health Care Plan on behalf of eligible employees. As of December 31, 2017, twenty-four of MMS's fifty-eight (nine of thirty-eight at December 31, 2016) employees were members of the UFCW.

NOTE 8: RETIREMENT PLAN

Effective January 1, 2015, MMS's union employees became eligible to participate in a 401(k) plan and automatically enrolled in the 401(a) plan that is offered under a collective bargaining agreement. Union employees under this plan are eligible to participate after they have met certain service requirements. The Company makes contributions to the 401(a) defined contribution plan at a dollar per hour basis per employee. Company contributions to the 401(a) defined contribution plan totaled $27,836 and $14,400 for the years ended December 31, 2017 and 2016, respectively.

NOTE 9: SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest was $41,106 and $2,201 during the years ended December 31, 2017 and 2016, respectively.

On November 8, 2017, the Company entered into a capital lease agreement for the cultivation and manufacturing facility for $3,000,100.

The sale of the Company's cultivation and manufacturing facility consisted of the following transactions:

Gross Sales Proceeds	$ 3,000,100
Less Noncash Transactions:	
Security Deposit	(300,000)
Closing Costs Paid by Seller	(16,043)
Ground Lease Option	(380,000)
2017 Tax Proration	(163)
November Rent Proration	(38,908)
Net Cash Proceeds	$ 2,264,986

NOTE 10: SUBSEQUENT EVENT

Distributions were made to Vireo Health, Inc. totaling $800,000 through April 25, 2018.