INTERIM MD&A TRULIEVE CANNABIS CORP.

This management discussion and analysis (“MD&A”) of the financial condition and results of operations of Trulieve Cannabis Corp. (“Trulieve” or, the “Corporation”) is for the three and nine month periods ended September 30, 2018. It is supplemental to, and should be read in conjunction with, the Corporation’s unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 as well as the audited financial statements and the accompanying notes for the year ended December 31, 2017. The Corporation’s financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). Financial information presented in this MD&A is presented in United States dollars (“$” or “US$”), unless otherwise indicated.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators.

This MD&A contains certain “forward-looking statements” and certain “forward-looking information” as defined under applicable United States securities laws and Canadian securities laws. Please refer to the discussion of forward-looking statements and information set out under the heading “Cautionary Note Regarding Forward-Looking Information”, located at the beginning of this Listing Statement. As a result of many factors, the Corporation’s actual results may differ materially from those anticipated in these forward-looking statements and information.

All references to “$” are to United States dollars unless otherwise specified.

OVERVIEW OF THE COMPANY

Business of Trulieve

Trulieve is the first fully licensed medical cannabis company in Florida and the first company to reach scale. Trulieve has capitalized on its first mover advantage by capturing on average 67% market share as reported by the Department of Health in milligrams dispensed since January 1, 2018. Trulieve has 17 of the 55 open dispensary locations throughout the state and also services patients via home delivery service. Since opening, Trulieve has served over 91,000 unique patients.

As a vertically integrated company with a patient-first mantra, Trulieve has developed a suite of Trulieve branded products with over 120 skus including flower pods for vaporizing, concentrates, topicals, capsules, tinctures, and vape cartridges. Trulieve branded products are distributed across the Trulieve store platform as well as via home delivery.

Headquartered in Quincy, Florida Trulieve is focused on being the brand leader for quality medical cannabis products and service in Florida and beyond. Trulieve employs over 1000 people and is committed to providing patients a consistent and welcoming retail experience across Trulieve branded stores. The ability to quickly scale and penetrate in all necessary business segments (cultivation, production, sales and distribution) gives Trulieve the unique ability to secure and maintain the position of market leader in Florida and to inject that expertise effectively into other regulated market opportunities.

SUMMARY OF OPERATING BUSINESS

Trulieve is a vertically-integrated company in a highly-regulated market with cultivation, processing, and distribution activities. Trulieve has developed proficiencies in each of these functions and is committed to utilizing predictive analytics which inform Trulieve in the areas of sales trends, patient demographics, new product launch criteria and capacity requirements and create the foundation upon which Trulieve has built sustainable, profitable growth.

Ownership of the entire supply chain mitigates potential third-party risks and allows Trulieve to completely
control the quality of the product and the brand experience resulting in high patient retention and repeat customers. Trulieve successfully operates at scale the core business functions of cultivation, production and distribution. The Trulieve brand philosophy of patients first permeates the Trulieve culture from the cultivation and production operations to the call center and into the stores.

Data Utilization to create Predictive Analytics

Trulieve collects and analyzes data throughout the entire seed to sale process of the enterprise. All strategic and tactical business decisions are driven by historical data coupled with predictive analytics to ensure the best possible solution is formulated and executed. Data collection systems are cloud based and backed up to ensure the utmost security and integrity of data repositories.

In our cultivation activities, Trulieve uses data analytics to record, monitor, communicate and optimize the yield potential of each harvest by strain. Daily logs are recorded on the cloud database and capture such metrics as nutrient application, temperature, humidity, CO2 levels, light intensity, light duration, grow medium pH, grow medium Electro-Conductivity (EC) at various locations within each growing room. Trulieve considers these data sets as the harvest vitals that are continuously monitored to ensure peak performance of each strain maintained. At harvest, the cultivation log is paired with the room’s daily log and analyzed against previous harvests of the same strain.

All strain weights and potencies are recorded by batch and stored in the database. Trulieve uses this data to predict future yields and planning of future crop rotations to meet patient demands. The predictive analysis ensures Trulieve operates in an efficient manner to maximize the harvest output to cost ratio.

Trulieve also uses data analytics throughout the entire manufacturing process to monitor progress real-time, ensure quality is maintained at the highest level and analyzed to maximize lean flow efficiency. Consistency is paramount to Trulieve and tracking of the recorded data guarantees uniformity for all products shipped.

Once products are in the stores, each sales transaction is collected with patient demographics and product selection. The reports from the recorded information allows Trulieve to track and analyze by retail location sales trends, grams dispensed, products sold by subcategory, patient demographics and purchasing habits. Trulieve uses this data for regression and predictive analysis, for cultivation crop planning, final derivative product production planning, and patient marketing. The data is also key in planning future cultivation, processing and retail expansion projects through the analysis of sales trends, and patient purchasing habits coupled with other outside data collection activities.

High-Yield Cultivation Facilities and Techniques

Trulieve transforms raw cannabis flower into the Trulieve portfolio of products sold in Trulieve stores. With a focus on scalable operations, Trulieve has detailed Standard Operating Procedures as well as robust training protocols across its cultivation facilities to grow a consistent, quality product.

Trulieve has quickly scaled and currently operates 500,000 square feet of cultivation facilities across 3 sites. Per Florida law, Trulieve grows in enclosed structures operating both indoor and greenhouse style grows. Trulieve currently has the ability to grow 19,429 kg of cannabis annually. Trulieve has an additional 127,400 square feet of cultivation capacity under construction which will be completed by year end 2018. Upon completion, Trulieve will have an additional 10,215 kg per year of capacity for a total cultivation capacity of 29,644 kg per year. In addition, Trulieve is working to rapidly and substantially increase its greenhouse capacity. The ability to quickly execute and operate high-yield, scaled cultivation operations is critical in Florida as well as other vertical markets. Trulieve grows a variety of 45 cannabis flower strains and is poised for expansion if the state allows flower products for smoking. Continuing the Trulieve philosophy of standing behind the products we sell, Trulieve utilizes a third-party company to certify the genetic composition of each strain and provides the reports to patients and physicians.

Scaled, Quality Production
As a vertically-integrated company, Trulieve produces 100% of all products sold in Trulieve stores. Currently, Trulieve extracts 33,000 mg of active THC or CBD per week (depending on the product requirements) and manufactures on average 51,130 products for sale each week. Trulieve has successfully obtained Good Manufacturing Practices ("GMP") certification for its production facilities and has detailed Standard Operating Procedures and Quality Control measures in place to ensure quality products are delivered to Trulieve’s patients.

Trulieve primarily utilizes super critical ethanol extraction systems and techniques for the majority of its products. Trulieve recently installed a carbon dioxide system and will be launching new products utilizing this technology over the next 30 days. Trulieve has purchased and is renovating a 55,000 square foot building to relocate its production and shipping activities as well as to house a state of the art kitchen and hydrocarbon extraction facility in anticipation of edibles and hydrocarbon products being allowable by state regulators. It is anticipated this building will be complete in 2018.

Currently, Trulieve manufactures, assembles, packages and ships products in a variety of market segments with over 120 stock keeping units “SKUs”. These product segments are as follows:

- **Inhalation** – 250mg and 600 mg vape cartridges; 1:1:1 375 mg vape cartridge with Delta 8 THC and Trulieve engineered flower containers for vaporization
- **Oral** – 10 mg and 50 mg capsules
- **Sublingual** – 500 mg CBD and 1:1 ratio tinctures
- **Topical** – 250 mg Lotion, Sunscreen and Muscle Rub
- **Internasal** – licensed internasal spray product
- **Concentrates** – 800 mg TruPods and 850 mg TruClear and TruShatter concentrate products

Quality is paramount to Trulieve and its patients. Trulieve has a robust quality control department with dedicated quality trained specialists to perform in-line and end product inspections. All quality issues are reported, logged and investigated to inform process improvements. In addition, Trulieve has on-site testing capabilities via its state of the art laboratory. Trulieve tests all final batches of products to ensure compliance with state and internal quality standards. Trulieve also utilizes an independent third-party lab to test every batch of products. Although not a state requirement, Trulieve’s goal is to ensure a safe product and transparency with patients regarding Trulieve products. Trulieve has third party testing completed for the following items: potency, terpene profile, pesticides, microbials, mycotoxins, heavy metals and residual solvents. These reports are available on the Trulieve website for patients or physicians to access. With a product return rate of less than 2% Trulieve has worked to achieve high patient satisfaction with Trulieve products.

**Marketing and Community Outreach**

Trulieve’s marketing strategies center around education and outreach to three main customer categories: Physicians, patients and potential patients.

Physicians are a critical component in our success and we provide industry leading education, outreach and support to all registered Florida medical cannabis Physicians. Our educational materials are designed to help Physicians understand the science behind cannabis, how our plants are cultivated with the highest standards and products are created to provide relief to their patients. We create educational tools in both print and digital form to allow for quick implementation of new information and ease of access to busy physicians. Trulieve’s dedicated Physician education team delivers in-person outreach on a consistent basis as well as immediate phone support through a Physician education team member in our call center.

Patients learn about Trulieve through the success of our Physician education program as well as many patient-centric community activities. We participate in dozens of patient outreach and community events on a monthly basis. An engaged patient audience is captured through our digital content marketing which includes email, website, app, social media and mainstream industry websites.
Potential patients are not forgotten through our marketing strategies. Trulieve also attends many events focused on educating non-patients who may benefit such as veterans, seniors, condition specific organizations and general health and wellness events. The media is a great asset to our marketing plan and have helped us organically teach the state of Florida about Trulieve. We utilize press releases to cover important information and reach a large audience. Search engine optimization of our website also captures potential patients in the research phase of their journey. Our easy to use “Find a Doctor’ tool and question and answer section of our website helps patients find the process of becoming a patient achievable.

Patient Focused Experiences

It is Trulieve’s goal to create raving fans who are loyal to the Trulieve brand and in return to provide these patients a superior level of customer service and product selection. Trulieve accomplishes this goal thru several key strategies:

1. Training our employees to focus on the patient experience and deliver exceptional service
2. Measurement of customer service success
3. Creating positive patient experiences through the consistent design of Trulieve dispensaries
4. Giving patient multiple methods by which to order products that is the most convenient for their circumstances including home delivery
5. Successful creation and execution of the Trulievers loyalty program with high adoption and engagement with patients via various channels
6. Continuous product innovation thru research and development activities

TRAINING

The Trulieve patient experience is an area of high-focus for the Corporation. Trulieve employs a number of training protocols and systems to ensure that the patient experience is a positive one across all Trulieve branded locations and with each interaction with a Trulieve employee. Trulieve utilizes technology with online based training modules to effectively communicate updates to any company policy as well as regulatory changes and new product launches so every employee receives a consistent message and effective messaging can occur simultaneously throughout the company. With a robust and consistently updated catalogue of training modules, newly hired employees are assigned a training platform based on the employee’s position. Managers track completion and competency within the system and also have the ability to re-assign modules or require additional training in areas needed. In addition to online training, managers employ on-the-job training sessions with employees centered around relevant topics determined by managers and regional managers weekly.

MEASURING SUCCESS

Training must be followed up with measured success protocols. In the Call Center, technology allows us to monitor our service level activity percentage (80%+) to ensure all calls are being answered and serviced in an efficient manner. We calculate patient’s time spent in store to cut down on wait times to maintain a high level of capacity. To assess our success in providing a positive experience we monitor and respond to patient reviews on multiple platforms, receive secret shopper surveys monthly and send out direct patient and Physician satisfaction surveys.

BRANDED STORE EXPERIENCES

The patient experience continues through Trulieve dispensaries with a consistent atmosphere in every store. Brand and development guidelines have been implemented to ensure that each store utilizes the same design, color scheme and layout to provide a comfortable, welcoming environment across each location. Light, bright lobbies are outfitted with comfortable seating in the waiting areas. Each dispensary features a private patient consultation area where private education sessions regarding Trulieve products or general medical cannabis questions can occur. The products are dispensed thru a secure door which opens into open display areas where Trulieve products are displayed and product menu boards list products and pricing. Patient consultants are available to answer questions about the products and pull products for
patients for sale. Point of Sale systems tie into the state registry to seamlessly complete transactions. Each store is designed for high throughput. On the highest single sales day to date approximately 4,180 patients were served in 17 open locations. On average, approximately 2,084 patients are served in Trulieve stores daily. In 2018, to date, Trulieve has served 91,928 unique patients both in-store and via home delivery.
MULTIPLE CHANNELS OF DISTRIBUTION

As a medical cannabis provider in Florida, it is important to meet patients where they are whether it be home-bound due to a specific illness, limited in time due to a busy schedule or a new patient who wants to have a personal face to face consultation. To meet patient needs, Trulieve provides patients with several different purchase options. Patients can order products for delivery on-line or by calling our call-center. Our fully-staffed call center fields on average 2,000 calls per day answering patient questions and facilitating patient orders. Trulieve offers next day delivery service in most areas of Florida. In addition to delivery, patients can also place orders for in-store pick-up either online or via the call center. Patients simply select the products they want to purchase and the store receives and processes the order and has it bagged and waiting for the patient when they arrive to pick it up. Finally, patients are able to walk-in to any Trulieve dispensary location and place an order in person. Trulieve has patient consultants available in-stores to answer any questions and to offer in-depth consultations for new or returning patients.

LOYALTY PROGRAM AND COMMUNICATION PLATFORMS

The Truliever program was created as a patient-based loyalty program whereby patients can earn points for dollars spent with a discount at pre-determined point values. Trulievers also are notified first with special discounts or limited release product offerings and also have access to Truliever-only promotions and events. Trulieve communicates with patients and physicians through a variety of methods including email,
text, social media and online chat. 70% of Trulieve customers opt-in for email contact and have an average of 40% open rate and approximately 25% of Trulieve patients opted-in to the Trulieve texting feature. Trulieve’s Facebook page has over 55,000 followers and patients also engage with the Trulieve brand via Instagram and Twitter platforms.

RESEARCH AND DEVELOPMENT

Trulieve’s commitment to patients extends to the variety and quality of our products. Trulieve has a dedicated research and development team focused on technology innovations and product development. The R&D team evaluates new technologies and performs rigorous testing prior to recommending introduction into production. The team is charged with product development and works to keep Trulieve products current and relevant in the fast-paced cannabis industry while setting the pace for cutting-edge products.

Trulieve’s patient-centric approach has led to a highly loyal and repeat patient base. Trulieve dispenses on average 67% of all milligrams of cannabis dispensed in Florida per the Department of Health. By comparison, the next closest competitor dispenses on average 9.7% of dispensed cannabis milligrams.

NON-IFRS FINANCIAL AND PERFORMANCE MEASURES

In addition to providing financial measurements based on IFRS, the Corporation provides additional financial metrics that are not prepared in accordance with IFRS. Management uses non-IFRS financial measures, in addition to IFRS financial measures, to understand and compare operating results across accounting periods, for financial and operational decision making, for planning and forecasting purposes and to evaluate the Corporation’s financial performance. These non-IFRS financial measures are adjusted EBITDA and working capital.

Management believes that these non-IFRS financial measures reflect the Corporation’s ongoing business in a manner that allows for meaningful comparisons and analysis of trends in the business, as they facilitate comparing financial results across accounting periods and to those of peer companies. These non-IFRS financial measures may also exclude expenses and gains that may be unusual in nature, infrequent or not reflective of the Corporation’s ongoing operating results.

As there are no standardized methods of calculating these non-IFRS measures, the Corporation’s methods may differ from those used by others, and accordingly, the use of these measures may not be directly comparable to similarly titled measures used by others. Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

ADJUSTED EBITDA

Adjusted EBITDA is a financial measure that is not defined under IFRS. We use this non-IFRS financial measure, and believe it enhances an investor’s understanding of our financial and operating performance from period to period, because it excludes certain material non-cash items and certain other adjustments we believe are not reflective of our ongoing operations and our performance. The adjusted EBITDA excludes from net income as reported interest, tax, depreciation, non-cash expenses, unusual items, and the non-cash effects of accounting for biological assets and inventories. We report adjusted EBITDA to help the investors assess the operating performance of our business.

Other companies in our industry may calculate these measures differently than we do, limiting their usefulness as comparative measures.
WORKING CAPITAL

The calculation of working capital provides additional information and is not defined under IFRS. We define working capital as current assets less current liabilities. This measure should not be considered in isolation or as a substitute for any standardized measure under IFRS. This information is intended to provide investors with information about the Corporation's liquidity.

Other companies in our industry may calculate this measure differently than we do, limiting its usefulness as a comparative measure.

RECONCILIATIONS OF NON-IFRS FINANCIAL AND PERFORMANCE MEASURES

The table below reconciles net income to adjusted EBITDA for the periods indicated.

<table>
<thead>
<tr>
<th></th>
<th>Three months ended September 30, 2018</th>
<th>Three months ended September 30, 2017</th>
<th>Nine months ended September 30, 2018</th>
<th>Nine months ended September 30, 2017</th>
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</thead>
<tbody>
<tr>
<td>Net Income (IFRS)</td>
<td>$17,501,692</td>
<td>$462,234</td>
<td>$32,248,119</td>
<td>$3,234,589</td>
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<tr>
<td>Add (Deduct) Impact of:</td>
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<tr>
<td>Net Effect of Change in Fair Value of Biological Assets</td>
<td>$(15,769,753)</td>
<td>$(2,304,960)</td>
<td>$(24,002,387)</td>
<td>$(8,597,317)</td>
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<td>Interest Expense, Net</td>
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<td>$190,420</td>
<td>$1,254,433</td>
<td>$190,420</td>
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<td>Provision For Income Taxes</td>
<td>$8,153,553</td>
<td>$610,814</td>
<td>$17,317,750</td>
<td>$2,278,289</td>
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<tr>
<td>RTO Expense</td>
<td>$1,387,423</td>
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<td>$1,387,423</td>
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<td>Loss on Debt Settled with Equity</td>
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<td>$-</td>
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<td>Other Income, Net</td>
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<td>$(210)</td>
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<td>$(715,024)</td>
<td>$30,324,465</td>
<td>$(1,467,438)</td>
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SELECTED FINANCIAL INFORMATION

The following is selected financial data derived from the unaudited condensed consolidated interim financial statements of the Corporation for the three and nine months ended September 30, 2018 and September 30, 2017.

The selected combined financial information set out below may not be indicative of the Corporation’s future performance:
Three and Nine Months Ended September 30, 2018

Revenue

Revenue for the three months ended September 30, 2018 was $28.3 million, up $25.0 million or 739%, from $3.4 million for the three months ended September 30, 2017 due to increased retail sales. The state registry which approves and maintains the status of our customer base reached approximately 131,000 active patients during the third quarter of 2018. Trulieve’s statewide retail and home delivery presence along with its over 120 sku’s were the main reasons for its continued market growth.

Revenue for the nine months ended September 30, 2018 was $66.9 million, up $60.3 million or 923%, from $6.5 million for the nine months ended September 30, 2017 due to increased retail sales. Trulieve opened ten additional dispensary locations between September 30, 2017 and September 30, 2018.

Cost of Goods Sold & Biological Assets

Cost of goods sold are derived from cost related to the internal cultivation and production of cannabis.

Cost of goods sold, excluding any adjustments to the fair value of biological assets, for the three months ended September 30, 2018 was $8.3 million, up $6.3 million or 304%, from $2.1 million for the three months ended September 30, 2017, driven by continued market growth as stated above. Cost of goods sold as a percentage of revenue was 29% for the three months ended September 30, 2018 as compared to 61% for the three months ended September 30, 2017.

Cost of goods sold, excluding any adjustments to the fair value of biological assets, for the nine months ended September 30, 2018 was $19.1 million, up $15.1 million or 377%, from $4.0 million for the nine months ended September 30, 2017, driven by continued market growth as stated above. This increase is caused by higher volume of sales in 2018. Cost of goods sold as a percentage of revenue was 28% for the nine months ended September 30, 2018 as compared to 61% for the nine months ended September 30, 2017. The primary reason attributable to the decline is a significant amount of fixed cost in cost of goods sold which when spread over a larger revenue base provided a better cost of goods sold percentage. The same is true for the three months ended September 30, 2018.

Inventory of plants under production is considered a biological asset. Under IFRS, biological assets are to be recorded at fair value at the time of harvest, less costs to sell, which are transferred to inventory and the transfer becomes the deemed cost on a go-forward basis.

When the product is sold, the fair value is relieved from inventory and the transfer is booked to cost of sales. In addition, the cost of sales also includes products and costs related to other products acquired from other producers and sold by the Corporation.

<table>
<thead>
<tr>
<th></th>
<th>Three months ended September 30, 2018</th>
<th></th>
<th>2017</th>
<th>Three months ended September 30, 2018</th>
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<tr>
<td>Revenues, Net of Discounts</td>
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<td>$19,056,835</td>
<td>$3,998,082</td>
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<td>Gross Profit before Biological Asset Adjustment</td>
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<td>$1,307,414</td>
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<td>$47,814,339</td>
<td>$2,539,458</td>
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<td>Gross Profit</td>
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<td>Operating Income</td>
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Gross Profit

Gross profit after net gains on biological asset transformation for the three months ended September 30, 2018 was $35.8 million, up $32.1 million or 890%, from $3.6 million for the three months ended September 30, 2017, driven by an increased gain on biological assets and increased retail sales.

Gross profit after net gains on biological asset transformation for the nine months ended September 30, 2018 was $71.8 million, up $60.7 million or 545%, from $11.1 million for the nine months ended September 30, 2017, driven by an increased gain on biological assets and increased retail sales.

Total Expenses

Total expenses for the three months ended September 30, 2018 was $8.3 million, up $6.0 million or 264%, from $2.3 million for the three months ended September 30, 2017, which is mainly due to scaling of the business. Total expenses as a percentage of revenue was 29% for the three months ended September 30, 2018 as compared to 68% for the three months ended September 30, 2017.

The increase in total expenses was primarily attributable to an increase of retail, sales and marketing expenses which for the three months ended September 30, 2018 was $6.5 million, up $4.6 million or 232%, from $2.0 million for the three months ended September 30, 2017. Retail, sales and marketing expenses as a percentage of revenue was 23% for the three months ended September 30, 2018 as compared to 58% for the three months ended September 30, 2017. The overall increase in sales and marketing expenses was primarily attributable to the opening of additional dispensary locations and the associated costs including payroll, insurance, and rent.

The increase in total expenses was also attributable to an increase of general and administrative expenses which for the three months ended September 30, 2018 was $1.5 million, up $1.3 million or 511%, from $0.2 million for the three months ended September 30, 2017. General and administrative expenses as a percentage of revenue was 5% for the three months ended September 30, 2018 as compared to 7% for the three months ended September 30, 2017. The overall increase in general and administrative expenses was primarily attributable to increased infrastructure expenses to support business growth.

Total expenses for the nine months ended September 30, 2018 was $19.4 million, up $15.1 million or 347%, from $4.3 million for the nine months ended September 30, 2017, which is mainly due to scaling of the business. Total expenses as a percentage of revenue was 29% for the nine months ended September 30, 2018 as compared to 66% for the nine months ended September 30, 2017.

The increase in total expenses was primarily attributable to an increase of retail, sales and marketing expenses which for the nine months ended September 30, 2018 was $15.4 million, up $11.7 million or 316%, from $3.7 million for the nine months ended September 30, 2017. Retail, sales and marketing expenses as a percentage of revenue was 23% for the nine months ended September 30, 2018 as compared to 57% for the nine months ended September 30, 2017. The overall increase in sales and marketing expenses was primarily attributable to the opening of additional dispensary locations and the associated costs including payroll, insurance, and rent as well as the marketing outreach spend.

The increase in total expenses was also attributable to an increase of general and administrative expenses which for the nine months ended September 30, 2018 was $3.4 million, up $2.9 million or 573%, from $0.5 million for the nine months ended September 30, 2017. General and administrative expenses as a percentage of revenue decreased to 5% for the nine months ended September 30, 2018 from 8% for the nine months ended September 30, 2017. The overall increase in general and administrative expenses was primarily attributable to increased infrastructure expenses to support business growth.

Total Other Expenses

Total other expenses for the three months ended September 30, 2018 was $1.8 million, up $1.5 million or
616%, from $0.2 million for the three months ended September 30, 2017. Total other expenses as a percentage of revenue decreased to 6% for the three months ended September 30, 2018 from 7% for the three months ended September 30, 2017. The overall increase in other expenses was primarily attributable to the $1.4 million purchase price of the reverse takeover (RTO) of Schyan.

Total other expenses for the nine months ended September 30, 2018 was $2.9 million, up $1.6 million or 122%, from $1.3 million for the nine months ended September 30, 2017. Total other expenses as a percentage of revenue decreased to 4% for the nine months ended September 30, 2018 from 20% for the nine months ended September 30, 2017. The overall increase in other expenses was primarily attributable to the $1.4 million purchase price of the RTO of Schyan.

Provision for Income Taxes

Income tax expense is recognized based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end. For three months ended September 30, 2018, provisions for Federal and State income tax totaled $8.2 million, up $7.5 million, from $0.6 million for the three months ended September 30, 2017.

Income tax expense for the nine months ended September 30, 2018 was $17.3 million, up $15.0 million, from $2.3 million for the nine months ended September 30, 2017.

Net Income

Net income for the three months ended September 30, 2018 was $17.5 million, up $17.0 million or 3686%, from $0.5 million for the three months ended September 30, 2017. The increase in net income was driven by the factors described above, namely business expansion.

Net income for the nine months ended September 30, 2018 was $32.2 million, up $29.0 million or 897%, from $3.2 million for the nine months ended September 30, 2017. The increase in net operating income was driven by the factors described above, namely business expansion.

Drivers of our Results of Operations

Revenue

The Corporation derives its revenue from cannabis products which it manufactures, sells and distributes to its customers by home delivery and in its retail stores.

Gross Profit

Gross profit is revenue less cost of goods sold. Cost of goods sold includes the costs directly attributable to product sales and includes amounts paid for finished goods, such as flower, and concentrates, as well as packaging and other supplies, fees for services and processing, allocated overhead which includes allocations of rent, administrative salaries, utilities, and related costs. Cannabis costs are affected by various state regulations that limits the sourcing and procurement of cannabis product, which may create fluctuations in gross profit over comparative periods as the regulatory environment changes. Gross margin measures our gross profit as a percentage of revenue.

Over the three and nine months ended September 30, 2018, the Corporation continues to be focused on executing sustainable profitable growth of the Corporation’s base business while investigating expansion. Trulieve continues to expand within Florida with an additional 7 locations opening in 2018.

Total Expenses

Total expenses other than the cost of goods sold consist of selling costs to support our customer relationships and to deliver product to our retail stores. It also includes a significant investment in marketing
and brand activities and the corporate infrastructure required to support ongoing business.

Selling costs generally correlate to revenue. As a percentage of sales, we expect selling costs to remain relatively flat in our currently operational market.

General and administrative expenses represent costs incurred at our corporate offices, primarily related to personnel costs, including salaries, incentive compensation, benefits, and other professional service costs, including legal and accounting. We expect to continue to invest considerably in this area to support our aggressive expansion plans and to support the increasing complexity of the cannabis business. Furthermore, we expect to continue to incur acquisition and transaction costs related to our expansion plans, and we anticipate a significant increase in compensation expenses related to recruiting and hiring talent, accounting, legal and professional fees associated with being a publicly traded company.

Provision for Income Taxes

We are subject to income taxes in the jurisdictions in which we operate and, consequently, income tax expense is a function of the allocation of taxable income by jurisdiction and the various activities that impact the timing of taxable events. As the Corporation operates in the legal cannabis industry, the Corporation is subject to the limits of IRC Section 280E under which the Corporation is only allowed to deduct expenses directly related to cost of sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E and a higher effective tax rate than most industries.

Liquidity, Financing Activities During the Period, and Capital Resources

As at September 30, 2018, the Corporation had total current liabilities of $23.1 million and cash of $42.1 million compared to December 31, 2017 which had current liabilities of $7.6 million and cash equivalents of $1.4 million to meet its current obligations. As at September 30, 2018, the Corporation had working capital of $63.0 million an increase of $56.9 million compared to working capital of $6.0 million at December 31, 2017.

The Corporation is an early-stage growth company. It is generating cash from sales and is deploying its capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and near term. Capital reserves are being utilized for acquisitions in the medical and adult use cannabis markets, for capital expenditures and improvements in existing facilities, product development and marketing, as well as customer, supplier and investor and industry relations.

Cash Flows

Cash Provided by or Used in Operating Activities

Net cash generated from operating activities was $17.2 million for the nine months ended September 30, 2018, an increase of $19.6 million compared to the $2.4 million net cash used in operating activities for the nine months ended September 30, 2017. The increase in net cash generated from operating activities was primarily related to our increase in net income of $29.0 million and income tax payable and deferred tax liabilities of $12.2 million partially offset by an increase in biological assets of $15.4 million, increase in inventories of $4.1 million and various other items netting to $2.1 million.

Cash Flow from Investing Activities

Net cash used in investing activities was $27.4 million for the nine months ended September 30, 2018, an increase of $22.8 million compared to the $4.6 million net cash used in investing activities for the nine months ended September 30, 2017. The increase was used for the addition of dispensary locations and expansions of our cultivation and processing facilities.

Cash Flow from Financing Activities
Net cash provided by financing activities was $50.9 million for the nine months ended September 30, 2018, an increase of $44.0 million compared to the $6.9 million net cash provided by financing activities for the nine months ended September 30, 2017. The increase in net cash provided by financing activities was primarily due to the $47.5 million net proceeds raised with the subscription offering and $2.5 million net reductions on notes payable.

Off-Balance Sheet Arrangements

As of the date of this filing, the Corporation does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Corporation, including, and without limitation, such considerations as liquidity and capital resources.

Transactions with Related Parties

As at September 30, 2018, the Corporation had related party notes payable of $14.0 million compared to December 31, 2017 which had related party notes payable of $8.7 million.

Additionally, several of the Corporation’s dispensaries are leased from various real estate holding companies that are managed, controlled by a Director and shareholder.

Proposed Transactions

N/A

Changes in or Adoption of Accounting Practices

The IASB’s new revenue recognition standard IFRS 15 – Revenue from Contracts with Customers (IFRS 15) was adopted by the Company on January 1, 2018. The new standard replaces IAS 18 – Revenue and provides for a single model that applies to all contracts with customers with two types of recognition: at a point in time or over time. The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of adoption.

The following IFRS standards have been recently issued by the IASB. The Corporation is assessing the impact of these new standards on future unaudited condensed consolidated interim financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Corporation have been excluded herein.

IFRS 16, Leases

IFRS 16 was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Corporation is assessing the impact of the new or revised IFRS standards in issue but not yet effective on its financial position and financial performance.

CRITICAL ACCOUNTING ESTIMATES

The Corporation makes judgements, estimates and assumptions about the future that affect the reported amounts of assets and liabilities, and revenues 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.

The preparation of the Corporation’s consolidated financial statements in conformity with IFRS requires
management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the combined financial statements are described below.

Estimated Useful Lives and Depreciation of Property and Equipment

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

Estimated Useful Lives and Amortization of Intangible Assets

Amortization of intangible assets is recorded on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Deferred Tax Asset and Valuation Allowance

Deferred tax assets, including those arising from tax loss carry-forwards, requires management to assess the likelihood that the Corporation will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management’s estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Corporation to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Corporation to realize the net deferred tax assets recorded at the reporting date could be impacted.

Financial Instruments and Financial Risk Management

The Corporation’s financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities; short-term note payable; and long-term debt. The carrying values of these financial instruments approximate their fair values. 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:

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
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<tbody>
<tr>
<td>Level 1:</td>
<td>Unadjusted quoted prices in active markets for identical assets or liabilities;</td>
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<tr>
<td>Level 2:</td>
<td>Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and</td>
</tr>
<tr>
<td>Level 3:</td>
<td>Inputs for the asset or liability that are not based on observable market data.</td>
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Financial Risk Management

The Corporation is exposed in varying degrees to a variety of financial instrument related risks. The board of directors of the Corporation mitigates these risks by assessing, monitoring and approving the Corporation’s risk management processes:

Credit Risk

Credit risk is the risk of a potential loss to the Corporation if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure is the carrying amount of cash and cash equivalents. The Corporation does not have significant credit risk with respect to customers. All cash and cash equivalents are placed with major U.S. financial institutions.

The Corporation provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk but has limited risk as the majority of sales are transacted with cash.

Liquidity Risk

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

Market Risk

Currency Risk

The operating results and financial position of the Corporation are reported in U.S. dollars. Some of the Corporation’s financial transactions are denominated in currencies other than the U.S. dollar. The results of the Corporation’s operations are subject to currency transaction and translation risks.

The Corporation has no hedging agreements in place with respect to foreign exchange rates. The Corporation has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

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 Corporation’s financial debts have fixed rates of interest and therefore expose the Corporation to a limited interest rate fair value risk.

Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices.