

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-54258

**TERRA TECH CORP.**

(Exact Name of Registrant as Specified in its Charter)

NEVADA

(State or Other Jurisdiction of Incorporation or Organization)

26-3062661

(I.R.S. Employer Identification No.)

2040 Main Street, Suite 225  
Irvine, California

(Address of Principal Executive Offices)

92614

(Zip Code)

(Registrant's Telephone Number, Including Area Code) (855) 447-6967

Securities Registered Pursuant to Section 12(b) of the Act:

None

(Title of Each Class)

None

(Name of Each Exchange on Which Registered)

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, \$0.001 Par Value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check One):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 in the Exchange Act). Yes  No

At June 30, 2017, the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's voting stock held by non-affiliates (based on the closing sale price of the registrant's Common Stock on the OTC Market Group Inc.'s OTCQX tier, and for the purpose of this computation only, on the assumption that all of the Registrant's directors and officers are affiliates, was approximately \$116,891,921.

As of March 8, 2018, there were 65,319,183 shares of common stock outstanding, 8 shares of Series A Preferred Stock, convertible at any time into 8 shares of common stock, 0 shares of Series B Preferred Stock, 948,189 shares of common stock issuable upon the exercise of all of our outstanding warrants and 659,774 shares of common stock issuable upon the exercise of all vested options.

**EXPLANATORY NOTE**

This Amendment No. 1 on Form 10-K/A (this "Amendment") to Terra Tech Corp.'s (the "Company") Annual Report on Form 10-K for the fiscal year ended December 31, 2017, originally filed with the Securities and Exchange Commission on March 16, 2018 (the "Original Filing"), is being filed solely for the purpose of including 1) Exhibits 23.1 and 23.2 and 2) a new eleventh paragraph to Note 23 - Subsequent Events to the Financial Statements, in connection with the Company's planned filing of a prospectus supplement related to Registration Statement No. 333-210673.

For purposes of this Amendment, and in accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended, Item 15 and the financial statements of the Original Filing have been amended and restated in their entirety. Except as described above, no other changes have been made to the Original Filing, and this Amendment does not modify, amend, or update in any way any of the financial or other information contained in the Original Filing. This Amendment does not reflect events that may have occurred subsequent to the filing date of the Original Filing. Readers are encouraged to read the Amendment in its entirety.

Pursuant to Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, this Amendment also contains new certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, which are attached hereto.

Capitalized terms used but not otherwise defined in this Amendment have the meanings given in the Original Filing.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as part of this Annual Report:

(1) Financial Statements – See Index on page F-1

Report of Independent Registered Public Accounting Firm - Macias Gini & O'Connell LLP

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting – Macias Gini & O'Connell LLP

Report of Independent Registered Public Accounting Firm - Benjamin & Young, LLP

Consolidated Financial Statements:

Consolidated Balance Sheets as of December 31, 2017 and 2016

Consolidated Statements of Operations for the Years Ended December 31, 2017, 2016 and 2015

(b) The following exhibits are filed herewith as a part of this report:

<b>Exhibit</b>	<b>Description</b>
<a href="#"><u>2.1</u></a>	<a href="#"><u>Agreement and Plan of Merger dated February 9, 2012, by and among Terra Tech Corp., a Nevada corporation, TT Acquisitions, Inc., a Nevada corporation, and GrowOp Technology Ltd., a Nevada corporation (1)</u></a>
<a href="#"><u>2.2</u></a>	<a href="#"><u>Articles of Merger (1)</u></a>
<a href="#"><u>2.3</u></a>	<a href="#"><u>Share Exchange Agreement, dated April 24, 2013, by and among the Terra Tech Corp., a Nevada corporation, Edible Garden Corp., a Nevada corporation, and the holders of common stock of Edible Garden Corp. (2)</u></a>
<a href="#"><u>2.4</u></a>	<a href="#"><u>Form of Articles of Share Exchange (2)</u></a>
<a href="#"><u>2.5</u></a>	<a href="#"><u>Agreement and Plan of Merger, dated December 23, 2015, by and among Terra Tech Corp., a Nevada corporation, Generic Merger Sub, Inc., a California corporation, and Black Oak Gallery, a California corporation (3)</u></a>
<a href="#"><u>2.6</u></a>	<a href="#"><u>First Amendment to Agreement and Plan of Merger, dated February 29, 2016, by and among Terra Tech Corp., a Nevada corporation, Generic Merger Sub, Inc., a California corporation, and Black Oak Gallery, a California corporation (3)</u></a>
<a href="#"><u>2.7</u></a>	<a href="#"><u>Form of Agreement of Merger, dated March 31, 2016, by and among Generic Merger Sub, Inc., a California corporation and Black Oak Gallery, a California corporation (3)</u></a>
<a href="#"><u>3.1</u></a>	<a href="#"><u>Articles of Incorporation dated July 22, 2008 (4)</u></a>
<a href="#"><u>3.2</u></a>	<a href="#"><u>Certificate of Amendment dated July 8, 2011 (5)</u></a>
<a href="#"><u>3.3</u></a>	<a href="#"><u>Certificate of Change dated July 8, 2011 (5)</u></a>
<a href="#"><u>3.4</u></a>	<a href="#"><u>Certificate of Amendment dated January 27, 2012 (1)</u></a>
<a href="#"><u>3.5</u></a>	<a href="#"><u>Bylaws (4)</u></a>
<a href="#"><u>3.6</u></a>	<a href="#"><u>Form of Amended and Restated Articles of Incorporation of Black Oak Gallery, a California corporation (3)</u></a>
<a href="#"><u>3.7</u></a>	<a href="#"><u>Certificate of Amendment to Certificate of Designation of Series B Preferred Stock, dated September 27, 2016 (6)</u></a>
<a href="#"><u>3.8</u></a>	<a href="#"><u>Certificate of Amendment to Articles of Incorporation, Dated September 26, 2016 (28)</u></a>
<a href="#"><u>3.9</u></a>	<a href="#"><u>Certificate of Amendment to Certificate of Designation of Series B Preferred Stock, dated October 3, 2016 (7)</u></a>
<a href="#"><u>3.10</u></a>	<a href="#"><u>Certificate of Amendment to Certificate of Designation of Series B Preferred Stock, dated July 26, 2017 (21)</u></a>
<a href="#"><u>4.1</u></a>	<a href="#"><u>Certificate of Designation for Series A Preferred Stock (8)</u></a>
<a href="#"><u>4.2</u></a>	<a href="#"><u>Amended and Restated Certificate of Designation for Series B Preferred Stock (3)</u></a>

<a href="#">4.3</a>	<a href="#">Form of Common Stock Purchase Warrant (9)</a>
<a href="#">4.4</a>	<a href="#">Form of Common Stock Purchase Warrant (11)</a>
<a href="#">4.5</a>	<a href="#">Form of 12% Senior Convertible Promissory Note (16)</a>
<a href="#">4.6</a>	<a href="#">Form of 12% Senior Convertible Promissory Note (17)</a>
<a href="#">4.7</a>	<a href="#">Form of 12% Senior Convertible Promissory Note (18)</a>
<a href="#">4.8</a>	<a href="#">Form of 12% Senior Convertible Promissory Note (19)</a>
<a href="#">4.9</a>	<a href="#">Form of 12% Senior Convertible Promissory Note (20)</a>
<a href="#">4.10</a>	<a href="#">NuLeaf Sparks Cultivation, LLC Convertible Promissory Note (23)</a>
<a href="#">4.11</a>	<a href="#">NuLeaf Reno Production, LLC Convertible Promissory Note (23)</a>
<a href="#">4.12</a>	<a href="#">Form of Secured Promissory Note (24)</a>
<a href="#">4.13</a>	<a href="#">Form of 12% Senior Convertible Promissory Note (25)</a>
<a href="#">10.1</a>	<a href="#">Letter agreement dated May 7, 2013, by and between Edible Garden Corp. and Gro-Rite Inc. (12)</a>
<a href="#">10.2</a>	<a href="#">Letter agreement dated May 7, 2013, by and between Edible Garden Corp. and NB Plants LLC (12)</a>
<a href="#">10.3</a>	<a href="#">Letter Agreement dated December 2, 2013, by and between Edible Garden Corp. and Heartland Growers Inc. (certain portions of this exhibit have been omitted based upon a request for confidential treatment) (27)</a>
<a href="#">10.4</a>	<a href="#">Form of Independent Director Agreement (13)</a>
<a href="#">10.5</a>	<a href="#">Form of Indemnification Agreement (13)</a>
<a href="#">10.6</a>	<a href="#">Form of Securities Purchase Agreement dated December 13, 2015, by and among Terra Tech Corp. and purchasers identified on the signature pages thereto (3)</a>
<a href="#">10.7</a>	<a href="#">2016 Equity Incentive Plan (3)</a>
<a href="#">10.8</a>	<a href="#">Form of Escrow Agreement dated March 31, 2016, by and among Terra Tech Corp., a Nevada corporation, Black Oak Gallery, a California corporation, and the “Shareholder Representative” (3)</a>
<a href="#">10.9</a>	<a href="#">Lease dated January 1, 2015, by and between Whitetown Realty, LLC and Edible Garden Corp. (3)</a>
<a href="#">10.10</a>	<a href="#">Guaranty dated January 1, 2015, by Terra Tech Corp. in favor of Whitetown Realty, LLC (3)</a>
<a href="#">10.11</a>	<a href="#">Sublease dated March 29, 2016, by and between Black Oak Gallery and CCIG Properties, LLC, dated March 29, 2016 (14)</a>
<a href="#">10.12</a>	<a href="#">Agreement of Merger dated March 31, 2016, by and between Generic Merger Sub, Inc. and Black Oak Gallery (10)</a>
<a href="#">10.13</a>	<a href="#">Operations and Asset Management Agreement dated March 31, 2016, by and among Platinum Standard, LLC, Black Oak Gallery, and Terra Tech Corp. (10)</a>
<a href="#">10.14</a>	<a href="#">Form of Investment Agreement, dated as of November 28, 2016 (15)</a>
<a href="#">10.15</a>	<a href="#">Form of Securities Purchase Agreement, dated as of February 22, 2017 (16)</a>
<a href="#">10.16</a>	<a href="#">Form of Securities Purchase Agreement, dated as of June 23, 2017 (17)</a>
<a href="#">10.17</a>	<a href="#">Form of Securities Purchase Agreement, dated as of August 21, 2017 (18)</a>
<a href="#">10.18</a>	<a href="#">Form of Securities Purchase Agreement, dated as of November 20, 2017 (19)</a>
<a href="#">10.19</a>	<a href="#">Form of Asset Purchase Agreement, dated as of September 13, 2017 (22)</a>

<a href="#">10.20</a>	<a href="#">Convertible Loan Agreement, dated as of October 30, 2017 (23)</a>
<a href="#">10.21</a>	<a href="#">Convertible Loan Agreement, dated as of October 30, 2017 (23)</a>
<a href="#">10.22</a>	<a href="#">Security Agreement, dated as of October 30, 2017 (23)</a>
<a href="#">10.23</a>	<a href="#">Security Agreement, dated as of October 30, 2017 (23)</a>
<a href="#">10.24</a>	<a href="#">Funding Agreement, dated as of October 30, 2017 (23)</a>
<a href="#">10.25</a>	<a href="#">Funding Agreement, dated as of October 30, 2017 (23)</a>
<a href="#">10.26</a>	<a href="#">Form of Assignment Escrow Instructions (24)</a>
<a href="#">10.27</a>	<a href="#">Form of Loan Agreement (24)</a>
<a href="#">10.28</a>	<a href="#">Form of Guaranty Agreement (24)</a>
<a href="#">10.29</a>	<a href="#">Form of Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing (24)</a>
<a href="#">14.1</a>	<a href="#">Code of Ethics (26)</a>
<a href="#">21.1</a>	<a href="#">List of Subsidiaries**</a>
<a href="#">23.1</a>	<a href="#">Consent of Macias Gini &amp; O'Connell LLP*</a>
<a href="#">23.2</a>	<a href="#">Consent of Benjamin &amp; Young, LLP*</a>
<a href="#">24</a>	<a href="#">Power of Attorney (set forth on the signature page of this Annual Report on Form 10-K)</a>
<a href="#">31.1</a>	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 *</a>
<a href="#">31.2</a>	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 *</a>
<a href="#">32.1</a>	<a href="#">Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 of Chapter 63 of Title 18 of the United States Code *</a>
<a href="#">32.2</a>	<a href="#">Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 of Chapter 63 of Title 18 of the United States Code *</a>

101.INS	XBRL Instance Document **
101.SCH	XBRL Taxonomy Extension Schema Document **
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document **
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document **
101.LAB	XBRL Taxonomy Extension Label Linkbase Document **
101.PRE	XBRL Taxonomy Presentation Linkbase Document **

- (1) Incorporated by reference to Current Report on Form 8-K (File No. 000-54258), filed with the SEC on February 10, 2012.
- (2) Incorporated by reference to Current Report on Form 8-K (File No. 000-54258), filed with the SEC on May 6, 2013.
- (3) Incorporated by reference to Annual Report on Form 10-K filed with the SEC on March 29, 2016
- (4) Incorporated by reference to Registration Statement on Form S-1 (File No. 333-156421), filed with the SEC on December 23, 2008.
- (5) Incorporated by reference to Registration Statement on Form S-1 (File No. 333-191954), filed with the SEC on October 28, 2013.
- (6) Incorporated by reference to Current Report on Form 8-K filed with the SEC on September 28, 2016
- (7) Incorporated by reference to Current Report on Form 8-K filed with the SEC on October 7, 2016
- (8) Incorporated by reference to Amendment No. 3 to Current Report on Form 8-K (File No. 000-54258), filed with the SEC on April 19, 2012.
- (9) Incorporated by reference to Current Report on Form 8-K filed with the SEC on March 2, 2015.
- (10) Incorporated by reference to Quarterly Report on Form 10-Q filed with the SEC on May 12, 2016
- (11) Incorporated by reference to Current Report on Form 8-K filed with the SEC on June 1, 2016

- (12) *Incorporated by reference to Current Report on Form 8-K (File No. 000-54258), filed with the SEC on May 28, 2013.*
  - (13) *Incorporated by reference to Quarterly Report on Form 10-Q filed with the SEC on November 9, 2015.*
  - (14) *Incorporated by reference to Current Report on Form 8-K/A filed with the SEC on April 5, 2016*
  - (15) *Incorporated by reference to Current Report on Form 8-K filed with the SEC on November 28, 2016*
  - (16) *Incorporated by reference to Current Report on Form 8-K filed with the SEC on February 23, 2017*
  - (17) *Incorporated by reference to Current Report on Form 8-K filed with the SEC on June 23, 2017*
  - (18) *Incorporated by reference to Current Report on Form 8-K filed with the SEC on August 22, 2017*
  - (19) *Incorporated by reference to Current Report on Form 8-K filed with the SEC on November 24, 2017*
  - (20) *Incorporated by reference to Current Report on Form 8-K filed with the SEC on December 26, 2017*
  - (21) *Incorporated by reference to Current Report on Form 8-K filed with the SEC on July 27, 2017*
  - (22) *Incorporated by reference to Current Report on Form 8-K filed with the SEC on September 14, 2017*
  - (23) *Incorporated by reference to Current Report on Form 8-K filed with the SEC on November 1, 2017*
  - (24) *Incorporated by reference to Current Report on Form 8-K filed with the SEC on November 24, 2017*
  - (25) *Incorporated by reference to Current Report on Form 8-K filed with the SEC on December 26, 2017*
  - (26) *Incorporated by reference to Current Report on Form 8-K filed with the SEC on November 5, 2015*
  - (27) *Incorporated by reference to Amendment No. 1 to Registration Statement on Form S-1 (File No. 333-191954), filed with the SEC on December 5, 2013*
  - (28) *Incorporated by reference to Annual Report on Form 10-K filed with the SEC on March 16, 2018*
- \* filed herewith
- \*\* Previously filed as an exhibit to the Annual Report on Form 10-K for the fiscal year ended December 31, 2017



**TERRA TECH CORP. AND SUBSIDIARIES**  
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## Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors  
Terra Tech Corp.

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Terra Tech Corp. and subsidiaries (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of operations, stockholders’ equity, and cash flows for the years then ended December 31, 2017 and 2016, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended December 31, 2017 and 2016, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated March 16, 2018 expressed an adverse opinion thereon.

### Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

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

/s/ Macias Gini & O’Connell LLP

We have served as the Company’s auditor since 2016.

Sacramento, California

March 16, 2018 (except as to the 11<sup>th</sup> paragraph of Note 23 as to which the date is June 7, 2018)

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**Report of Independent Registered Public Accounting Firm**

Stockholders and Board of Directors  
Terra Tech Corp.

**Opinion on Internal Control over Financial Reporting**

We have audited Terra Tech Corp. and subsidiaries (the “Company”) internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the “COSO criteria”). In our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management’s statements referring to any corrective actions taken by the Company after the date of management’s assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2017 and 2016, the related consolidated statements of operations, stockholders’ equity, and cash flows for the years then ended December 31, 2017 and 2016, and the related notes (collectively referred to as “the financial statements”) and our report dated March 16, 2018 (except as to the 11<sup>th</sup> paragraph of Note 23 as to which the date is June 7, 2018) expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, “Management’s Report on Internal Control over Financial Reporting”. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and described in management’s assessment:

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Risk Assessment:

- an ineffective risk assessment, resulting from the lack of a formal process to identify, update and assess risks;

Control Environment:

- an ineffective control environment as evidence by a lack of majority independent board members and an insufficient number of personnel to adequately exercise appropriate oversight of accounting judgments and estimates.

Control Activities:

- control activities that were not designed or operated effectively to identify and address all likely sources of material misstatements; nor were there management review controls that were sufficient or in place to identify all potential accounting errors.

Information and Communications:

- Ineffective information technology controls related to access rights for certain financial spreadsheets and disaster recovery controls in place to ensure the completeness of financial information relating to revenues and inventory.

Monitoring:

- Ineffective monitoring controls related to the financial close and reporting process and ineffective review and mediation of control deficiencies.

These material weakness were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2017 financial statements, and this report does not affect our report dated March 16, 2018 (except as to the 11<sup>th</sup> paragraph of Note 23 as to which the date is June 7, 2018) on those financial statements.

**Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Macias Gini & O'Connell LLP

Sacramento, California  
March 16, 2018

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and  
Stockholders of Terra Tech Corp.:

We have audited the accompanying consolidated statements of operations, stockholders' equity, and cash flows (the "financial statements") of Terra Tech Corp. and Subsidiaries ("Terra Tech Corp.") for the year ended December 31, 2015. Terra Tech Corp.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Terra Tech Corp. for the year ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

/s/ Benjamin & Young, LLP  
Benjamin & Young, LLP

Irvine, California

March 16, 2018 (except as to the 11<sup>th</sup> paragraph of Note 23 as to which the date is June 7, 2018)

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**TERRA TECH CORP. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 5,445,582	\$ 9,749,572
Accounts Receivable	959,698	747,792
Notes Receivable	5,010,143	-
Inventory	5,760,019	1,909,330
Prepaid Expenses and Other Current Assets	<u>1,067,689</u>	<u>704,721</u>
<b>Total Current Assets</b>	<b>18,243,131</b>	<b>13,111,415</b>
Property, Equipment and Leasehold Improvements, Net	19,191,616	10,464,764
Intangible Assets, Net	27,773,110	23,627,098
Goodwill	28,921,260	28,921,260
Other Assets	<u>4,058,682</u>	<u>54,193</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 98,187,799</u></b>	<b><u>\$ 76,178,730</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 5,444,710	\$ 2,417,400
Derivative Liabilities	9,331,400	6,987,000
Short-Term Debt	-	564,324
Income Taxes Payable	-	615,830
Contingent Consideration	<u>-</u>	<u>12,085,859</u>
<b>Total Current Liabilities</b>	<b>14,776,110</b>	<b>22,670,413</b>
Long-Term Liabilities:		
Long-Term Debt	<u>6,609,398</u>	<u>1,354,352</u>
<b>Total Long-Term Liabilities</b>	<b>6,609,398</b>	<b>1,354,352</b>
<b>Total Liabilities</b>	<b>21,385,508</b>	<b>24,024,765</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred Stock, Convertible Series A, Par Value \$0.001: 100 Shares Authorized as of December 31, 2017 and 2016; 8 Shares Issued and Outstanding as of December 31, 2017 and 2016, respectively	-	-
Preferred Stock, Convertible Series B, Par Value \$0.001: 49,999,900 Shares Authorized as of December 31, 2017 and 2016; 0 and 2,455,064 Shares Issued and Outstanding as of December 31, 2017 and 2016, respectively	-	2,455
Common Stock, Par Value \$0.001: 990,000,000 Shares Authorized as of December 31, 2017 and 2016; 61,818,560 and 36,924,254 Shares Issued and Outstanding as of December 31, 2017 and 2016, respectively	61,819	36,924
Additional Paid-In Capital	181,357,715	125,466,493
Accumulated Deficit	<u>(105,548,602)</u>	<u>(72,870,999)</u>
<b>Total Terra Tech Corp. Stockholders' Equity</b>	<b>75,870,932</b>	<b>52,634,873</b>
Non-Controlling Interest	<u>931,359</u>	<u>(480,908)</u>
<b>Total Stockholders' Equity</b>	<b>76,802,291</b>	<b>52,153,965</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 98,187,799</u></b>	<b><u>\$ 76,178,730</u></b>

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







**TERRA TECH CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Total Revenues	\$ 35,800,844	\$ 25,327,763	\$ 9,975,346
Cost of Goods Sold	<u>30,323,771</u>	<u>22,755,080</u>	<u>8,958,475</u>
Gross Profit	5,477,073	2,572,683	1,016,871
Selling, General and Administrative Expenses	<u>25,357,091</u>	<u>20,720,534</u>	<u>9,833,646</u>
Loss from Operations	(19,880,018)	(18,147,851)	(8,816,775)
Other Income (Expense):			
Amortization of Debt Discount	(2,138,762)	(1,414,202)	(696,180)
Impairment of Property	(138,037)	-	-
Impairment of Intangible Assets	(757,467)	-	-
Loss on Extinguishment of Debt	(7,144,288)	(5,382,813)	(619,444)
Loss from Derivatives Issued with Debt Greater Than Debt Carrying Value	-	(1,487,500)	(561,000)
Gain (Loss) on Fair Market Valuation of Derivatives	(3,494,550)	(1,844,500)	1,800,100
Interest Expense, Net	(542,664)	(377,349)	(469,576)
Gain on Settlement of Contingent Consideration	4,991,571	-	-
Gain (Loss) on Fair Market Valuation of Contingent Consideration	<u>(4,426,047)</u>	<u>668,694</u>	<u>-</u>
Total Other Income (Expense)	<u>(13,650,244)</u>	<u>(9,837,670)</u>	<u>(546,100)</u>
Loss Before Provision for Income Taxes	(33,530,262)	(27,985,521)	(9,362,875)
Provision for Income Tax Benefit (Expense)	<u>347,455</u>	<u>-</u>	<u>(44,000)</u>
Net Loss	(33,182,807)	(27,985,521)	(9,406,875)
Net Loss Attributable to Non-Controlling Interest	<u>505,204</u>	<u>1,066,631</u>	<u>181,295</u>
<b>NET LOSS ATTRIBUTABLE TO TERRA TECH CORP.</b>	<u>\$ (32,677,603)</u>	<u>\$ (26,918,890)</u>	<u>\$ (9,225,580)</u>
Net Loss Per Common Share Attributable to Terra Tech Corp. Common Stockholders – Basic and Diluted	<u>\$ (0.71)</u>	<u>\$ (1.04)</u>	<u>\$ (0.58)</u>
Weighted-Average Number of Common Shares Outstanding – Basic and Diluted	<u>46,072,846</u>	<u>25,957,307</u>	<u>16,012,987</u>

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

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TERRA TECH CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	Preferred Stock												Additional Paid-In Capital	Accumulated Deficit	Non- Controlling Interest	Total
	Convertible Series A		Convertible Series B		Convertible Series Q		Convertible Series Z		Common Stock							
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount						
<b>BALANCE AT DECEMBER 31, 2014</b>	8	\$ -	1,033,334	\$ 1,033	-	\$ -	-	\$ -	13,168,859	\$ 13,169	\$ 38,280,615	\$ (36,726,529)	\$ (291,330)	\$ 1,276,958		
Sale of Common Stock	-	-	-	-	-	-	-	-	2,286,786	2,287	3,973,601	-	-	3,975,888		
Issuance of Warrants	-	-	-	-	-	-	-	-	-	-	1,148,069	-	-	1,148,069		
Issuance of Common Stock for Services	-	-	-	-	-	-	-	-	722,902	723	1,009,389	-	-	1,010,112		
Issuance of Common Stock for Debt and Interest Expense	-	-	-	-	-	-	-	-	3,776,369	3,776	7,049,102	-	-	7,052,878		
Issuance of Common Stock for Compensation	-	-	-	-	-	-	-	-	246,667	247	314,253	-	-	314,500		
Issuance of Preferred Stock for Compensation	-	-	53,333	53	-	-	-	-	-	-	366,078	-	-	366,131		
Net Loss Attributable to Non-Controlling Interest	-	-	-	-	-	-	-	-	-	-	-	-	(181,295)	(181,295)		
Cash Contribution from Non-Controlling Interest	-	-	-	-	-	-	-	-	-	-	-	-	603,156	603,156		
Net Loss Attributable to Terra Tech Corp.	-	-	-	-	-	-	-	-	-	-	-	(9,225,580)	-	(9,225,580)		
<b>BALANCE AT DECEMBER 31, 2015</b>	8	\$ -	1,086,667	\$ 1,086	-	\$ -	-	\$ -	20,201,583	\$ 20,202	\$ 52,141,107	\$ (45,952,109)	\$ 130,531	\$ 6,340,817		

Sale of Common Stock	-	-	-	-	-	-	-	-	1,927,948	1,928	4,056,206	-	-	4,058,134						
Issuance of Warrants	-	-	-	-	-	-	-	-	-	-	467,066	-	-	467,066						
Stock Option Compensation	-	-	-	-	-	-	-	-	-	-	190,355	-	-	190,355						
Issuance of Common Stock for Services	-	-	-	-	-	-	-	-	494,352	494	2,739,991	-	-	2,740,485						
Issuance of Common Stock for Debt and Interest Expense	-	-	-	-	-	-	-	-	3,778,581	3,779	20,720,887	-	-	20,724,666						
Issuance of Common Stock from the Exercise of Cashless Warrants	-	-	-	-	-	-	-	-	487,169	487	(487)	-	-	-						
Exercise of Warrants	-	-	-	-	-	-	-	-	1,136,364	1,136	3,148,864	-	-	3,150,000						
Issuance of Common Stock for Intangibles	-	-	-	-	-	-	-	-	11,494	11	99,989	-	-	100,000						
Issuance of Common Stock for Compensation	-	-	-	-	-	-	-	-	430,113	430	2,462,190	-	-	2,462,620						
Issuance of Preferred Stock for Compensation	-	-	26,667	27	-	-	-	-	-	-	715,012	-	-	715,039						
Purchase of Black Oak Gallery	-	-	577,913	578	1,425	1	544	1	-	-	38,612,507	-	-	38,613,087						
Preferred Stock Series Q Converted into Common Stock	-	-	-	-	(1,425)	(1)	-	-	7,126,000	7,126	99,744	-	-	106,869						
Preferred Stock Series Z Converted into Preferred Stock Series B	-	-	1,010,951	1,011	-	-	(544)	(1)	-	-	14,146	-	-	15,156						
Preferred Stock Series B Converted into Common Stock	-	-	(173,801)	(174)	-	-	-	-	935,799	936	(762)	-	-	-						
Preferred Stock Series B Converted into Common Stock	-	-	(73,333)	(73)	-	-	-	-	394,851	395	(322)	-	-	-						
Net Loss Attributable to Non-Controlling Interest	-	-	-	-	-	-	-	-	-	-	-	-	(1,066,631)	(1,066,631)						
Cash Contribution from Non-Controlling Interest	-	-	-	-	-	-	-	-	-	-	-	-	455,192	455,192						
Net Loss Attributable to Terra Tech Corp.	-	-	-	-	-	-	-	-	-	-	-	(26,918,890)	-	(26,918,890)						
<b>BALANCE AT DECEMBER 31, 2016</b>	<b>8</b>	<b>\$</b>	<b>-</b>	<b>2,455,064</b>	<b>\$</b>	<b>2,455</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>36,924,254</b>	<b>\$</b>	<b>36,924</b>	<b>\$</b>	<b>125,466,493</b>	<b>\$</b>	<b>(72,870,999)</b>	<b>\$</b>	<b>(480,908)</b>	<b>\$</b>	<b>52,153,965</b>

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Sale of Common Stock for Cash	-	-	-	-	-	-	-	-	2,983,137	2,983	9,447,017	-	-	9,450,000
Issuance of Warrants	-	-	-	-	-	-	-	-	-	-	689,542	-	-	689,542
Stock Option Compensation	-	-	-	-	-	-	-	-	-	-	692,971	-	-	692,971
Issuance of Preferred Stock for Compensation	-	-	40,000	40	-	-	-	-	-	-	1,035,366	-	-	1,035,406
Issuance of Common Stock for Compensation	-	-	-	-	-	-	-	-	158,867	160	490,720	-	-	490,880
Issuance of Common Stock for Director Fees	-	-	-	-	-	-	-	-	81,061	81	221,892	-	-	221,973
Issuance of Common Stock for Services	-	-	-	-	-	-	-	-	389,374	389	1,284,173	-	-	1,284,562
Issuance of Common Stock for Prepaid Inventory	-	-	-	-	-	-	-	-	892,964	893	1,934,607	-	-	1,935,500
Issuance of Common Stock for Debt and Interest Expense	-	-	-	-	-	-	-	-	8,284,283	8,284	29,776,987	-	-	29,785,271
Preferred Stock Series B Converted into Common Stock	-	-	(2,209,741)	(2,210)	-	-	-	-	11,897,965	11,898	(9,688)	-	-	-
Purchase of Assets from Tech Center Drive	-	-	-	-	-	-	-	-	826,105	826	2,725,320	-	-	2,726,146
Settlement of Contingent Consideration	-	-	(285,323)	(285)	-	-	-	-	(619,450)	(619)	4,740,542	-	-	4,739,638
Settlement of Contingent Consideration Recorded Against Additional Paid-In Capital	-	-	-	-	-	-	-	-	-	-	4,692,697	-	-	4,692,697
Reclass of Non-Controlling Interest to Additional Paid-In Capital for the Acquisition	-	-	-	-	-	-	-	-	-	-	(1,830,924)	-	1,830,924	-
Additional Interest in Subsidiary Net Loss Attributable to Non-Controlling Interest	-	-	-	-	-	-	-	-	-	-	-	-	(505,204)	(505,204)
Cash Contribution from Non-Controlling Interest	-	-	-	-	-	-	-	-	-	-	-	-	86,547	86,547



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**TERRA TECH CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016, AND 2015**

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			



Net Loss	\$ (33,182,807)	\$ (27,985,521)	\$ (9,406,875)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:			
(Gain) Loss on Fair Market Valuation of Derivatives	3,494,550	1,844,500	(1,800,100)
(Gain) Loss on Fair Market Valuation of Contingent Consideration	4,426,047	(668,694)	-
Gain on Settlement of Contingent Consideration	(4,991,571)	-	-
Impairment of Property	138,037	-	-
Impairment of Intangibles	757,467	-	-
Loss on Extinguishment of Debt	7,144,288	5,382,813	619,444
Amortization of Debt Discount	2,138,762	1,414,202	696,180
Interest income capitalized to notes receivable	(49,911)	-	-
Deferred Tax Expense (Benefit)	-	(145,900)	44,000
Depreciation and Amortization	3,647,216	2,536,413	645,294
Warrants Issued with Common Stock and Debt	211,534	467,066	1,148,069
Stock Issued for Compensation	1,526,286	3,177,659	680,630
Stock Issued for Director Fees	221,973	334,424	-
Stock Issued for Services	1,284,562	2,406,061	1,010,112
Stock Option Compensation	692,971	190,355	-
Equity Instruments Issued with Debt Greater than Debt Carrying Value	-	1,487,500	561,000
Change in Allowance for Doubtful Accounts	-	(168,619)	153,660
Changes in Operating Assets and Liabilities:			
Accounts Receivable	(211,906)	162,671	(478,041)
Inventory	(3,736,910)	(797,596)	(279,268)
Prepaid Expenses and Other Current Assets	1,572,532	(32,274)	(65,030)
Other Assets	(3,999,489)	(133)	50
Accounts Payable and Accrued Expenses	3,662,710	65,530	1,164,308
Income Taxes Payable	(615,830)	(254,100)	-
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(15,869,489)</b>	<b>(10,583,643)</b>	<b>(5,306,567)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Cash Assumed in Black Oak Acquisition	-	163,566	-
Cash Paid for Acquisition, Net of Cash Acquired	(4,113,779)	-	-
Issuance of Note Receivable	(4,960,232)	-	-
Purchase of Property, Equipment and Leasehold Improvements	(6,194,438)	(4,316,094)	(1,851,045)
Purchase of Intangible Assets – Trade Names	-	(75,000)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(15,268,449)</b>	<b>(4,227,528)</b>	<b>(1,851,045)</b>

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

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<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from Issuance of Notes Payable	20,000,000	17,479,335	2,150,000
Payments on Notes Payable	-	(1,000,000)	-
Cash Paid for Debt Discount	(614,600)	-	-
Proceeds from Issuance of Common Stock, Warrants and Common Stock Subscribed	9,450,000	4,058,134	3,975,888
Proceeds from Exercise of Warrants	-	3,150,000	-
Payment of Contingent Consideration	(2,088,000)	-	-
Cash Contribution from Non-Controlling Interest	86,548	455,192	603,156
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>26,833,948</b>	<b>24,142,661</b>	<b>6,729,044</b>
<b>NET CHANGE IN CASH</b>	<b>(4,303,990)</b>	<b>9,331,490</b>	<b>(428,568)</b>
Cash at Beginning of Period	9,749,572	418,082	846,650
<b>CASH AT END OF PERIOD</b>	<b>\$ 5,445,582</b>	<b>\$ 9,749,572</b>	<b>\$ 418,082</b>
<b>SUPPLEMENTAL DISCLOSURE FOR OPERATING ACTIVITIES:</b>			
Cash Paid for Interest	\$ -	\$ 13,500	\$ 4,500
Cash Paid for Income Taxes	\$ 268,375	\$ 400,000	\$ -
<b>SUPPLEMENTAL DISCLOSURE FOR FINANCING ACTIVITIES:</b>			
Warrant Expense	\$ -	\$ 467,066	\$ 1,148,069
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			
Settlement of Contingent Consideration	\$ 4,739,638	\$ -	\$ -
Purchase of land and building with a mortgage	\$ 4,500,000	\$ -	\$ -
Gain on Settlement of Contingent Consideration Recorded Against Additional Paid-In Capital	\$ 4,692,697	\$ -	\$ -
Fair Value of Debt Discount Recorded	\$ 13,073,400	\$ -	\$ -
Issuance of Common Stock for Debt and Interest Expense	\$ 29,785,271	\$ 13,558,388	\$ 5,773,320
Fair Value of Shares Issued for Tech Center Drive Asset Acquisition	\$ 2,726,146	\$ -	\$ -
Issuance of Common Stock for Prepaid Inventory	\$ 1,935,500	\$ -	\$ -
Warrants Issued for Debt Discount	\$ 478,008	\$ -	\$ -
Conversion of Series B Preferred Stock to Common Stock	\$ 33,146	\$ -	\$ -
Reclass of Non-Controlling Interest to Additional Paid-In Capital for the Acquisition of Additional Interest in Subsidiary	\$ 1,830,924	\$ -	\$ -

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





**TERRA TECH CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – DESCRIPTION OF BUSINESS**

**Organization**

References in this document to “the Company”, “Terra Tech”, “we”, “us”, or “our” are intended to mean Terra Tech Corp., individually, or as the context requires, collectively with its subsidiaries on a consolidated basis.

Terra Tech is a holding company with the following subsidiaries:

- 620 Dyer LLC, a California corporation (“Dyer”);
- 1815 Carnegie LLC, a California limited liability company (“Carnegie”);
- Black Oak Gallery, a California corporation (“Black Oak”);
- Blüm San Leandro, a California corporation (“Blüm San Leandro”);
- Edible Garden Corp., a Nevada corporation (“Edible Garden”);
- EG Transportation, LLC, a Nevada limited liability company (“EG Transportation”);
- GrowOp Technology Ltd., a Nevada corporation (“GrowOp Technology”);
- IVXX, Inc., a California corporation (“IVXX Inc.”; together with IVXX LLC, “IVXX”);
- IVXX, LLC, a Nevada limited liability company (“IVXX LLC”);
- MediFarm, LLC, a Nevada limited liability company (“MediFarm”);
- MediFarm I, LLC, a Nevada limited liability company (“MediFarm I”);
- MediFarm I Real Estate, LLC, a Nevada limited liability company (“MediFarm I RE”);
- MediFarm II, LLC, a Nevada limited liability company (“MediFarm II”); and
- MediFarm So Cal, Inc., a California mutual benefit corporation (“MediFarm SoCal”)

The Company is a vertically integrated retail, production and cultivation company, with an emphasis on providing the highest quality of medical and adult use cannabis products. The Company also holds an exclusive patent on an organic antioxidant rich Superleaf rich lettuce and living herbs that are grown using classic Dutch hydroponic farming methods.

The Company has a presence in three states (California, Nevada and New Jersey), and currently has a concentrated cannabis interest in California and Nevada. All of the Company’s cannabis dispensaries operate under the name Blüm. The Company’s cannabis dispensaries in California operate as MediFarm SoCal in Santa Ana and Black Oak Gallery in Oakland and offer a broad selection of medical cannabis products including flowers, concentrates and edibles.

The Company is currently in various stages of construction in both states as the Company is rapidly expanding its commercial footprint focusing on building additional retail, cultivation and production locations for medical and adult use cannabis. The Hegenberger cultivation facility in Oakland under Black Oak is expected to be complete mid-2018, with additional medical and adult use locations under Dyer and Carnegie in which the Company owns the real property. The Company has received provisional permits to operate a dispensary and production facility in the city of San Leandro, California under Blüm San Leandro; and upon project completion and inspection, to receive final operating permits.

In Nevada, the Company has four dispensaries, three under MediFarm in Las Vegas and one under MediFarm I in Reno, which sell quality medical and adult use cannabis products. The Company owns real property in Reno under MediFarm I RE, on which MediFarm I operates its dispensary. Under MediFarm II, the Company is constructing a state of the art cultivation and production facility, which will produce the Company’s IVXX proprietary brand of cannabis flowers and cannabis extracted products available throughout Nevada.

The Company has access to wide consumer markets for cannabis in both Nevada and California for which the Company’s focus is on building a brand portfolio of a line of quality IVXX cannabis products. Within the Company’s highly advanced and custom designed extraction labs, the Company produces the purest concentrates and cannabis extracted products including cartridges and vape pens. The Company’s IVXX cannabis flowers are grown under meticulous standards ensuring exceptional quality and consistency.

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Founded on the importance of providing consumers with healthy and natural products, Edible Garden is a wholesale seller of organic and locally grown hydroponic produce and herb products. EG Transportation supports the distribution of Edible Garden products to major grocery stores such as ShopRite, Walmart, Ahold, Aldi, Meijer, Kroger, and others throughout New Jersey, New York, Delaware, Maine, Maryland, Connecticut, Pennsylvania and the Midwest.

On April 1, 2016, the Company acquired Black Oak. Black Oak operates a medical marijuana dispensary and cultivation in Oakland, California under the name Blüm, pursuant to that certain Agreement and Plan of Merger, dated December 23, 2015 (the “Merger Agreement”), with Generic Merger Sub, Inc., a California corporation and our wholly-owned subsidiary (the “Merger Sub”), and Black Oak. The Merger Agreement was amended by a First Amendment to the Agreement and Plan of Merger, dated February 29, 2016. Pursuant to the Merger Agreement, the Merger Sub merged with and into Black Oak, with Black Oak as the surviving corporation, and became our wholly-owned subsidiary (the “Merger”). The Merger was intended to qualify for Federal income tax purposes as a tax-free reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended.

Subject to the terms and conditions of the Merger Agreement, at the closing of the Merger, the outstanding shares of common stock of Black Oak were converted into the right to receive shares of the Company’s Series Z preferred stock, shares of our Series B preferred stock and shares of our Series Q preferred stock. Subsequent to the Merger, the Series Q Preferred Stock, were all converted to common stock, and all the series Z preferred stock were all converted to Series B Preferred Stock. The Series B Preferred Stock were ultimately converted to common stock during 2017.

Since the Merger was completed on April 1, 2016, Black Oak’s financial results are included in our consolidated financial statements subsequent to that date, see “*Note 5 – Acquisitions*” and “*Note 12 – Contingent Consideration*” for further information.

Due to changes in planned operations of the MediFarm dispensaries, the Company acquired an additional 38% ownership for no additional consideration during August 2017. Previously, the Company owned 60%. As of September 30, 2017, the Company has 98% ownership of MediFarm. In connection with the ownership change the Company recorded a \$1,830,925 adjustment to additional paid in capital representing the change in non-controlling interest.

On August 17, 2017, the Company formed a wholly owned legal entity, MediFarm SoCal, to acquire all assets of Tech Center Drive Management, LLC (“Tech Center Drive”) and 55 OC Collective, Inc. (“55 OC”). 55 OC owns and holds a cannabis dispensary license in the city of Santa Ana, California. Tech Center Drive manages and operates a dispensary under the license of 55 OC. On September 13, 2017, MediFarm SoCal acquired all of the assets of Tech Center Drive and 55 OC. The acquisition was accounted for in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 805-10, “*Business Combinations*”; see “*Note 5 – Acquisition*” for further information. MediFarm SoCal’s sole purpose is to operate a medical marijuana retail dispensary.

On March 12, 2018, the Company implemented 1-for-15 reverse stock split of the Company’s common stock (the “Reverse Stock Split”). The Reverse Stock Split became effective in the stock market upon commencement of trading on March 13, 2018. As a result of the Reverse Stock Split, every fifteen shares of the Company’s Pre-Reverse Stock Split common stock were combined and reclassified into one share of the Company’s common stock. No fractional shares were issued in connection with the Reverse Stock Split, and any fractional shares were rounded up to the nearest whole share. The number of shares of common stock subject to outstanding options, warrants and convertible securities were also reduced by a factor of fifteen as of March 13, 2018. All historical share and per share amounts reflected throughout consolidated financial statements have been adjusted to reflect the Reverse Stock Split. The authorized number of shares and the par value per share of the Company’s common stock were not affected by the Reverse Stock Split.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and with the instructions to Securities Exchange Commission (“SEC”) Form 10-K and Regulation S-X, and reflect the accounts and operations of the Company and those of our subsidiaries in which we have a controlling financial interest. In accordance with the provisions of FASB or ASC 810, “Consolidation”, we consolidate any variable interest entity (“VIE”), of which we are the primary beneficiary. The typical condition for a controlling financial interest ownership is holding a majority of the voting interests of an entity; however, a controlling financial interest may also exist in entities, such as VIEs, through arrangements that do not involve controlling voting interests. ASC 810 requires a variable interest holder to consolidate a VIE if that party has the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. We do not consolidate a VIE in which we have a majority ownership interest when we are not considered the primary beneficiary. We have determined that we are the primary beneficiary of a number of VIEs. We evaluate our relationships with all the VIEs on an ongoing basis to reassess if we continue to be the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of the consolidated financial position of the Company as of December 31, 2017 and 2016, the consolidated results of operations and cash flows for the years ended December 31, 2017, 2016 and 2015 have been included.

**Non-Controlling Interest**

Non-controlling interest is shown as a component of stockholders’ equity on the consolidated balance sheets and the share of income (loss) attributable to non-controlling interest is shown as a component of income (loss) in the consolidated statements of operations.

**Use of Estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of total net revenue and expenses in the reporting periods. The Company regularly evaluates estimates and assumptions related to revenue recognition, allowances for doubtful accounts, sales returns, inventory valuation, stock-based compensation expense, goodwill and purchased intangible asset valuations, derivative liabilities, deferred income tax asset valuation allowances, uncertain tax positions, tax contingencies, and litigation and other loss contingencies. These estimates and assumptions are based on current facts, historical experience and various other factors that the Company believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenue, costs and expenses that are not readily apparent from other sources. The actual results the Company experiences may differ materially and adversely from these estimates. To the extent there are material differences between the estimates and actual results, the Company’s future results of operations will be affected.

**Reclassifications**

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications did not affect net loss and stockholders’ equity.

**Revisions**

Certain immaterial revisions were made to the notes to the December 31, 2016 consolidated financial statements related to the treatment of certain deferred tax items. As presented in “*Note 14 - Tax Expense*”, approximately \$8,300,000 previously disclosed as temporary differences in the components of deferred income tax assets and liabilities table for the year ended December 31, 2016 have been revised to be treated as permanent differences in the reconciliation of the Company’s effective tax rate and statutory rate table. These revisions had no effect on financial position, operating results or cash flows.

**Accounts Receivable**

The Company reviews all outstanding accounts receivable for collectability on a quarterly basis. An allowance for doubtful accounts is recorded for any amounts deemed uncollectable. The Company does not accrue interest receivable on past due accounts receivable. There was no allowance at December 31, 2017 and 2016.

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**Notes Receivable**

The Company reviews all outstanding notes receivable for collectability as information becomes available pertaining to the Company's inability to collect. An allowance for notes receivable is recorded for the likelihood of non-collectability. The Company accrues interest on notes receivable based net realizable value. There was no allowance at December 31, 2017 and 2016.

**Inventory**

Inventory is stated at the lower of cost or net realizable value, with cost being determined on the first-in, first-out ("FIFO") method of accounting. The Company periodically reviews physical inventory for excess, obsolete, and potentially impaired items and reserves. The reserve estimate for excess and obsolete inventory is based on expected future use. The reserve estimates have historically been consistent with actual experience as evidenced by actual sale or disposal of the goods.

**Prepaid Expenses and Other Current Assets**

Prepaid expenses consist of various payments that the Company has made in advance for goods or services to be received in the future. These prepaid expenses include advertising, insurance, and service or other contracts requiring up-front payments.

**Property, Equipment and Leasehold Improvements, Net**

Property, equipment and leasehold improvements are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The approximate useful lives for depreciation of our property, equipment and leasehold improvements are as follows: thirty-two years for buildings; three to eight years for furniture and equipment; three to five years for computer and software; five years for vehicles and the shorter of the estimated useful life or the underlying lease term for leasehold improvements. Repairs and maintenance expenditures that do not extend the useful lives of related assets are expensed as incurred.

Expenditures for major renewals and improvements are capitalized, while minor replacements, maintenance and repairs, which do not extend the asset lives, are charged to operations as incurred. Upon sale or disposition, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations. The Company continually monitors events and changes in circumstances that could indicate that the carrying balances of its property, equipment and leasehold improvements may not be recoverable in accordance with the provisions of ASC 360, "*Property, Plant, and Equipment*." When such events or changes in circumstances are present, the Company assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future cash flows is less than the carrying amount of those assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets. See "*Note 8 – Property, Equipment and Leasehold Improvements, Net*" for further information.

**Goodwill**

Goodwill is measured as the excess of consideration transferred and the net of the acquisition date fair value of assets acquired and liabilities assumed in a business acquisition. In accordance with ASC 350, "*Intangibles—Goodwill and Other*," goodwill and other intangible assets with indefinite lives are no longer subject to amortization but are tested for impairment annually or whenever events or changes in circumstances indicate that the asset might be impaired.

The Company reviews the goodwill allocated to each of our reporting units for possible impairment annually as of August 1 and whenever events or changes in circumstances indicate its carrying amount may not be recoverable. When assessing goodwill for impairment, the Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the Company performs a two-step impairment test. If the Company concludes otherwise, then no further action is taken. The Company also has the option to bypass the qualitative assessment and only perform a quantitative assessment, which is the first step of the two-step impairment test. In the two-step impairment test, the Company measures the recoverability of goodwill by comparing a reporting unit's carrying amount, including goodwill, to the estimated fair value of the reporting unit. There were no events or changes in circumstances that indicated potential impairment of intangible assets during 2017, as such the Company determined that no adjustment to the carrying value of goodwill was required.



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In assessing the qualitative factors, the Company assesses relevant events and circumstances that may impact the fair value and the carrying amount of the reporting unit. The identification of relevant events and circumstances, and how these may impact a reporting unit's fair value or carrying amount involve significant judgments and assumptions. The judgment and assumptions include the identification of macroeconomic conditions, industry, and market considerations, cost factors, overall financial performance and share price trends, and making the assessment as to whether each relevant factor will impact the impairment test positively or negatively and the magnitude of any such impact.

The carrying amount of each reporting unit is determined based upon the assignment of our assets and liabilities, including existing goodwill and other intangible assets, to the identified reporting units. Where an acquisition benefits only one reporting unit, the Company allocates, as of the acquisition date, all goodwill for that acquisition to the reporting unit that will benefit. Where the Company has had an acquisition that benefited more than one reporting unit, the Company has assigned the goodwill to our reporting units as of the acquisition date such that the goodwill assigned to a reporting unit is the excess of the fair value of the acquired business, or portion thereof, to be included in that reporting unit over the fair value of the individual assets acquired and liabilities assumed that are assigned to the reporting unit.

The estimated fair value of the reporting units is determined using the income approach. The income approach focuses on the income-producing capability of an asset, measuring the current value of the asset by calculating the present value of its future economic benefits such as cash earnings, cost savings, tax deductions, and proceeds from disposition. Value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation, and risks associated with the particular investment. Cash flow projections are based on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the business's ability to execute on the projected cash flows.

If the carrying amount of a reporting unit is in excess of its fair value, an impairment may exist, and the Company must perform the second step of the impairment analysis to measure the amount of the impairment loss, by allocating the reporting unit's fair value to its assets and liabilities other than goodwill, comparing the carrying amount of the goodwill to the resulting implied fair value of the goodwill, and recording an impairment charge for any excess.

## **Intangibles**

Intangible assets continue to be subject to amortization, and any impairment is determined in accordance with ASC 360, "Property, Plant, and Equipment," intangible assets are stated at historical cost and amortized over their estimated useful lives. The Company uses a straight-line method of amortization, unless a method that better reflects the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up can be reliably determined. The approximate useful lives for amortization of our intangible assets are as follows:

Customer Relationships	5 to 12 Years
Trademarks	2 to 8 Years
Dispensary Licenses	14 Years
Patent	2 Years
Management Service Agreement	15 Years

The Company reviews intangible assets subject to amortization quarterly to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in the remaining useful life. Conditions that may indicate impairment include, but are not limited to, a significant adverse change in legal factors or business climate that could affect the value of an asset, a product recall, or an adverse action or assessment by a regulator. If an impairment indicator exists, we test the intangible asset for recoverability. For purposes of the recoverability test, we group our amortizable intangible assets with other assets and liabilities at the lowest level of identifiable cash flows if the intangible asset does not generate cash flows independent of other assets and liabilities. If the carrying value of the intangible asset (asset group) exceeds the undiscounted cash flows expected to result from the use and eventual disposition of the intangible asset (asset group), the Company will write the carrying value down to the fair value in the period identified.

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The Company calculates fair value of our intangible assets as the present value of estimated future cash flows the Company expects to generate from the asset using a risk-adjusted discount rate. In determining our estimated future cash flows associated with our intangible assets, The Company uses estimates and assumptions about future revenue contributions, cost structures and remaining useful lives of the asset (asset group).

Intangible assets that have indefinite useful lives are tested annually for impairment and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount of the asset group exceeds its fair value.

### **Long-Lived Assets**

Other long-lived assets are subject to amortization, and any impairment is determined in accordance with ASC 360, "*Property, Plant, and Equipment.*" Our long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The Company assesses the recoverability of its long-lived assets by comparing the projected undiscounted net cash flows associated with the related long-lived asset or group of assets over their remaining estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. Fair value is generally determined using the assets expected future discounted cash flows or market value, if readily determinable. If long-lived assets are determined to be recoverable, but the newly determined remaining estimated useful lives are shorter than originally estimated, the net book values of the long-lived assets are depreciated over the newly determined remaining estimated useful lives. See "*Note 8 – Property, Equipment and Leasehold Improvements, Net*" for further information.

The Company considers the following to be some examples of important indicators that may trigger an impairment review: (i) significant under-performance or losses of assets relative to expected historical or projected future operating results; (ii) significant changes in the manner or use of assets or in our overall strategy with respect to the manner of use of the acquired assets or changes in our overall business strategy; (iii) significant negative industry or economic trends; (iv) increased competitive pressures; (v) a significant decline in our stock price for a sustained period of time; and (vi) regulatory changes. The Company evaluates acquired assets for potential impairment indicators at least annually and more frequently upon the occurrence of such events. The impairment charges, if any, are included in operating expenses in the accompanying consolidated statements of operations. Based on the test results, no impairments have occurred.

### **Other Assets**

Other assets are comprised primarily of deposits for the purchase of real property in California and security deposits for leased properties in California, Nevada and New Jersey. The deposits for the purchase of real property in California will be allocated once the purchase is final and the deposit for leased properties will be returned at the end of the lease term.

### **Business Combinations**

The Company accounts for its business acquisitions in accordance with ASC 805-10, "*Business Combinations.*" The Company allocates the total cost of the acquisition to the underlying net assets based on their respective estimated fair values. As part of this allocation process, the Company identifies and attributes values and estimated lives to the intangible assets acquired. These determinations involve significant estimates and assumptions regarding multiple, highly subjective variables, including those with respect to future cash flows, discount rates, asset lives, and the use of different valuation models, and therefore require considerable judgment. The Company's estimates and assumptions are based, in part, on the availability of listed market prices or other transparent market data. These determinations affect the amount of amortization expense recognized in future periods. The Company bases its fair value estimates on assumptions it believes to be reasonable but are inherently uncertain.

### **Revenue Recognition**

The Company recognizes revenue in accordance with ASC 605, "*Revenue Recognition.*" Revenue is realized or realizable and earned when all of the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) the sales price is fixed or determinable, (3) collectability is reasonably assured, and (4) products have been shipped and the customer has taken ownership and assumed risk of loss.

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***Cannabis Dispensary, Cultivation and Production***

The Company recognizes revenue from manufacturing and distribution product sales, upon transfer of title and risk to the customer, which occurs either at shipping (F.O.B. terms), or upon sell through, depending on the arrangement.

Revenue from our retail dispensaries is recognized net of discounts, rebates, promotional adjustments, price adjustments and returns, and net of taxes collected from customers that are remitted to governmental authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority. Revenue is recorded upon transfer of title and risk to the customer, which occurs at the time customers take delivery of our products at our retail dispensaries. Upon purchase, the Company has no further performance obligations and collection is assured as sales are paid for at time of purchase.

Revenue related to the sale of consignment inventory is not recognized until the product is pulled from inventory and sold directly to end-customers. The Company recognizes revenue from the sale of consignment inventory on a gross basis, as the Company has determined that: 1) the Company is the primary obligor to the customer; 2) the Company has latitude in establishing the sales prices and profit margins of its products; 3) the Company has discretion in selecting its suppliers; 4) the Company is responsible for loss or damage to consigned inventory; and 5) the Company's customer validation process performs an important part of the process of providing such products to authorized customers. The Company believes that these factors outweigh the fact that the Company does not have title to the consigned inventory prior to its sale.

During the years ended December 31, 2017 and 2016, sales returns were not significant and, as such, no sales return allowance has been recorded as of December 31, 2017 and 2016.

***Herbs and Produce Products***

The Company recognizes revenue from products grown in its greenhouses and sold net of discounts, rebates, promotional adjustments, price adjustments, and estimated returns and upon transfer of title and risk to the customer, which occurs at delivery (F.O.B. terms). Upon delivery, the Company has no further performance obligations, selling price is fixed, and collection is reasonably assured.

For sales for which the Company uses an outside grower, the Company evaluates whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. Depending on the terms of the arrangements, the Company determines some or all of the following: product specifications, cultivation, and packaging, while disclosing trade and operational secrets, greenhouse technologies, and nutrients used to grow. The Company is the primary obligor in the transaction because it is our brand that is sold into the retail channel. The Company is subject to inventory risk until the product is accepted by the retailer. The Company bears credit risk for the amount billed to the retailer and, thus, must pay the grower in the event the selling price is not collected. This revenue is recorded at the gross sale price once the retailer has accepted delivery, selling price is fixed, and collection is reasonably assured.

For the years ended December 31, 2016, and 2015, the Company had one significant outside grower which had such sales of \$7,649,125 and \$6,166,927, respectively. There were no sales with this outside grower during the year ended December 31, 2017.

**Cost of Goods Sold**

***Cannabis Dispensary, Cultivation and Production***

Cost of goods sold includes the costs directly attributable to product sales and includes amounts paid for finished goods, such as flower, edibles, and concentrates, as well as packaging and other supplies, fees for services and processing, other expenses for services, and allocated overhead. It also includes the cost incurred in producing the oils, waxes, shatters, and clears sold by IVXX. Overhead expenses include allocations of rent, administrative salaries, utilities, and related costs.

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### **Herbs and Produce Products**

Cost of goods sold include cultivation costs, packaging, other supplies and purchased plants that are sold into the retail marketplace by Edible Garden. Other expenses included in cost of goods sold include freight, allocations of rent, repairs and maintenance, and utilities.

### **Advertising Expenses**

The Company expenses advertising costs as incurred in accordance with ASC 720-35, “*Other Expenses – Advertising Cost*.” Advertising expenses recognized totaled \$1,207,480, \$518,858 and \$304,787 for the years ended December 31, 2017, 2016 and 2015, respectively.

### **Loyalty Rewards Program**

The Company offers a customer loyalty rewards program that allows members to earn discounts on future purchases. Unused discounts earned by loyalty rewards program members are included in accrued liabilities and recorded as a reduction of revenue at the time a qualifying purchase is made. Revenue is recognized when points are redeemed by the loyalty rewards program member. The loyalty rewards program was part of the acquisition of Black Oak, who began offering customers the loyalty rewards program in April 2015. The value of points accrued as of December 31, 2017 and 2016 was \$22,783 and \$21,627, respectively.

### **Stock-Based Compensation**

The Company accounts for its stock-based awards in accordance with ASC Subtopic 718-10, “*Compensation – Stock Compensation*”, which requires fair value measurement on the grant date and recognition of compensation expense for all stock-based payment awards made to employees and directors, including restricted stock awards. For stock options, the Company estimates the fair value using a closed option valuation (Black-Scholes) model. The fair value of restricted stock awards is based upon the quoted market price of the common shares on the date of grant. The fair value is then expensed over the requisite service periods of the awards, net of estimated forfeitures, which is generally the performance period and the related amount is recognized in the consolidated statements of operations.

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

### **Derivative Financial Instruments.**

ASC 815-40, “*Contracts in Entity’s Own Equity*”, requires freestanding contracts that are settled in a company’s own stock, including common stock warrants, to be designated as an equity instrument, asset or a liability. Under the provisions of ASC 815-40, a contract designated as an asset or a liability must be carried at fair value on a company’s balance sheet, with any changes in fair value recorded in the company’s results of operations. A contract designated as an equity instrument must be included within equity, and no fair value adjustments are required from period to period.

ASC 815, “*Derivatives and Hedging*”, requires all derivatives to be recorded on the balance sheet at fair value. Furthermore, ASC 815 precludes contracts issued or held by a reporting entity that are both (1) indexed to its own stock and (2) classified as stockholders’ equity in its statement of financial position from being treated as derivative instruments.

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### **Income Taxes**

The provision for income taxes is determined in accordance with ASC 740, "Income Taxes". The Company files a consolidated United States federal income tax return. The Company provides for income taxes based on enacted tax law and statutory tax rates at which items of income and expense are expected to be settled in our income tax return. Certain items of revenue and expense are reported for Federal income tax purposes in different periods than for financial reporting purposes, thereby resulting in deferred income taxes. Deferred taxes are also recognized for operating losses that are available to offset future taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The Company has incurred net operating losses for financial-reporting and tax-reporting purposes. At December 31, 2017 and, 2016, such net operating losses were offset entirely by a valuation allowance.

The Company recognizes uncertain tax positions based on a benefit recognition model. Provided that the tax position is deemed more likely than not of being sustained, the Company recognizes the largest amount of tax benefit that is greater than 50% likely of being ultimately realized upon settlement. The tax position is derecognized when it is no longer more likely than not of being sustained. The Company classifies income tax related interest and penalties as interest expense and selling, general and administrative expense, respectively, on the consolidated statements of operations.

In December 2017, the Tax Cuts and Jobs Act (TJCA or the Act) was enacted, which significantly changes U.S. tax law. In accordance with ASC 740, "Income Taxes", the Company is required to account for the new requirements in the period that includes the date of enactment. The Act reduces the overall corporate income tax rate to 21%, creates a territorial tax system (with a one-time mandatory transition tax on previously deferred foreign earnings), broadens the tax base and allows for the immediate capital expensing of certain qualified property. Due to the complexities presented by the Act, particularly for those companies with multi-national operations, the Securities and Exchange Commission issued Staff Accounting Bulletin 118 (SAB 118) to provide guidance to companies who are not able to complete their accounting in the period of enactment prior to the reporting deadlines. Under the guidance in SAB 118, companies that have not completed their accounting for certain elements of the Act, but can determine a reasonable estimate of those effects, should include a provisional amount based on their reasonable estimate in their financial statements.

### **Loss Per Common Share**

In accordance with the provisions of ASC 260, "Earnings Per Share", net loss per share is computed by dividing net loss by the weighted-average shares of common stock outstanding during the period. During a loss period, the effect of the potential exercise of stock options, warrants, convertible preferred stock, and convertible debt are not considered in the diluted loss per share calculation since the effect would be anti-dilutive. The results of operations were a net loss for the years ended December 31, 2017, 2016 and 2015. Therefore, the basic and diluted weighted-average shares of common stock outstanding were the same for all years.

### **Fair Value of Financial Instruments**

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

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

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

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

In accordance with the fair value accounting requirements, companies may choose to measure eligible financial instruments and certain other items at fair value. The Company has not elected the fair value option for any eligible financial instruments.

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**Recently Issued Accounting Standards**

**FASB ASU 2017-12 (Topic 815), “Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities”** – Issued in August 2017, ASU 2017-12 eliminates the requirement to separately measure and report hedge ineffectiveness. For qualifying cash flow and net investment hedges, the change in the fair value of the hedging instrument will be recorded in Other Comprehensive Income (OCI), and amounts deferred in OCI will be reclassified to earnings in the same income statement line item that is used to present the earnings effect of the hedged item. This guidance will be effective for the Company in the annual periods beginning after December 15, 2018 on a prospective basis, and early adoption is permitted. The Company is currently evaluating the effect this will have on our financial position, results of operations and related disclosures. The Company does not expect the standard to have a material impact on our consolidated financial statements and related disclosures.

**FASB ASU 2017-04 (Topic 350), “Intangibles - Goodwill and Others”** – Issued in January 2017, ASU 2017-04 simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. ASU 2017-04 is effective for annual periods beginning after December 15, 2019 including interim periods within those periods. The Company is currently evaluating the effect that ASU 2017-04 will have on our consolidated financial statements and related disclosures.

**FASB ASU 2017-01 (Topic 805), “Business Combinations: Clarifying the Definition of a Business”** – Issued in January 2017, ASU 2017-01 revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. This guidance will be effective for the Company in the first fiscal quarter of 2018 on a prospective basis, and early adoption is permitted. The Company does not expect the standard to have a material impact on our consolidated financial statements and related disclosures.

**FASB ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)”** – Issued in August 2016, the amendments in ASU 2016-15 address eight specific cash flow issues and apply to all entities that are required to present a statement of cash flows under ASC Topic 230, “Statement of Cash Flows.” The amendments in ASU 2016-15 are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption during an interim period. The Company does not believe the adoption of this guidance will have a material effect on its consolidated financial statements and related disclosures.

**FASB ASU No. 2016-02 (Topic 842), “Leases”** – Issued in February 2016, ASU No. 2016-02 will require entities to recognize right-of-use assets and lease liabilities on the balance sheet for the rights and obligations created by all leases, including operating leases, with terms of more than 12 months. The new standard also requires additional disclosures on the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative information. The new standard will be effective for the Company on January 1, 2019. Early adoption is permitted. The Company is in the process of evaluating the impact the adoption of this standard will have on its consolidated financial statements and related disclosures.

**FASB ASU No. 2014-09 (Topic 606), “Revenue from Contracts with Customers”** – In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers.” The FASB also issued subsequent amendments to ASU 2014-09 to provide clarification on the guidance. ASU 2014-09 will be effective for annual periods beginning after December 15, 2017, which for us will be in the period beginning January 1, 2018. We have performed our detailed evaluation, using a five-step model specified in the guidance, to assess the impacts of the new standard.

- Under the new standard, revenue will be recognized when the Company satisfies its performance obligation by transferring promised products or services to its customer. The standard allows for application of the guidance to a portfolio of contracts or performance obligations with similar characteristics. The Company has identified three portfolios of contracts or obligations which consists of cannabis dispensary, cannabis cultivation and production and herbs and produce. Since the Company’s individual sales transactions in each portfolio are very similar in nature, the Company anticipates applying the guidance to all transactions in each portfolio. The Company expects that the effects of applying this guidance to the portfolios would not differ materially from applying the guidance to individual performance obligations within each portfolio.
- The Company’s revenue recognition will be achieved upon delivery of products for the cannabis dispensary and herbs and produce portfolio as there are no other promised services as part of the Company’s contracts with customers. For the Company’s cannabis cultivation and production portfolio the Company’s revenue recognition will be achieved upon definitive ability to collect on the sale, which usually occurs upon ultimate sale to the end-customer. Because shipping and handling activities are performed before the customer obtains control of the goods, the Company does not consider these activities to be a promised service to the customer. Rather, shipping and handling are activities to fulfill our promise to transfer the goods.

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- To determine the amount of consideration which the Company expects to be entitled in exchange for transferring promised goods, the Company has considered if variable consideration exists. The Company has reviewed its standard terms and conditions and its customary business practices to determine the transaction price. The Company has reviewed its pricing policies and strategies including marketing, loyalty and incentive programs for determining whether the Company has any variable or non-cash consideration. No material items were noted. In addition, the Company reviewed its current accounting policies related to returns, price concessions and volume discounts and concluded such items not to be significant. The Company will continue its accounting policy election to exclude from revenue all amounts we collect and remit to governmental authorities.
- The Company's sales transactions do not require any additional performance obligation after delivery with respect to the cannabis dispensary portfolio and herbs and produce portfolio, therefore the Company does not have multiple performance obligations for which the Company will have to allocate the transaction price. With respect to the cannabis cultivation and production transactions, the additional performance obligation after delivery requires the Company retain risk of loss until the ultimate sale of the product, therefore the Company waits to allocate the transaction price upon the ultimate sale of the product to the end-customer.
- The Company expects to recognize revenue upon delivery to the customer as its performance obligation will be satisfied at that point in time with regards to the cannabis dispensary and herbs and produce portfolio. With respect to the cannabis cultivation and production, the Company expects to recognize revenue upon the ultimate sale of the product to the end customer and when collectability is assured.

The Company expects to apply the guidance using the modified retrospective transition method. Based on the Company's analysis performed to date, the Company does not expect the adoption of ASU 2014-09 will have a material impact on its financial position or results of operations but will result in additional disclosures regarding its revenue recognition policies. The Company also does not expect the adoption will require material or significant changes to its internal controls over financial reporting. The Company has expanded its revenue recognition inquiries to additional departments and updated its questionnaires primarily to identify matters that would signal variable consideration implications and performance obligations under the new guidance.

**NOTE 3 – CONCENTRATIONS OF BUSINESS AND CREDIT RISK**

The Company maintains cash balances in several financial institutions that are insured by the Federal Deposit Insurance Corporation up to certain federal limitations. At times, the Company's cash balance exceeds these federal limitations and it maintains significant cash on hand at certain of its locations. The Company has not historically experienced any material loss from carrying cash on hand. The amount in excess of insured limitations was \$2,968,403 and \$9,022,253 as of December 31, 2017 and 2016, respectively.

The Company provides credit in the normal course of business to customers located throughout the U.S. The Company performs ongoing credit evaluations of its customers and maintains allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends, and other information.

One customer comprised 29% and 74% of the Company's revenues for the years ended December 31, 2016 and 2015, respectively. The relationship with this customer terminated on December 31, 2016. There were no customers that comprised more than 10% of the Company's revenue for the year ended December 31, 2017. The loss of this customer did not have a material adverse effect on the Company's business, financial condition, or results of operation.

The Company sources cannabis products for retail, cultivation and production from various vendors. However, as a result of the new regulations in the State of California, the Company's California retail, cultivation and production operations must use vendors licensed by the State effective January 1, 2018. As a result, we will be dependent upon the licensed vendors in California to supply products as of that date. If the Company is unable to enter into a relationship with sufficient members of properly licensed vendors, the Company's sales may be impacted. During the year ended December 31, 2017, 2016 and 2015, we did not have any concentration of vendors for inventory purchases. However, this may change depending on the number of vendors who receive appropriate licenses to operate in the State of California.

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**NOTE 4 – VARIABLE INTEREST ENTITY ARRANGEMENTS**

The Company has shared interest in the two entities, MediFarm I and MediFarm I RE, with another investor for the operation of a cultivation and dispensary in Nevada. The entities are considered to be VIE's and the Company is considered to be the primary beneficiary by reference to the power and benefits criterion under ASC 810, "Consolidation." The Company has reviewed the provisions within the operating agreements and other factors which would grant the Company the power to manage and make decisions that affect the operation of these VIEs.

As the primary beneficiary of MediFarm I and MediFarm I RE, the financial statements of the entities are consolidated. All intercompany transactions are eliminated in the consolidated financial statements.

The aggregate carrying values of the VIEs' assets and liabilities, after elimination of any intercompany transactions and balances, in the consolidated balance sheets were as follows (in thousands):

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Current Assets:		
Cash	\$ 409,029	\$ 30,057
Inventory	232,231	-
Prepaid Expenses and Other Current Assets	302,186	17,492
Total Current Assets	943,446	47,549
Property, Equipment and Leasehold Improvements, Net	1,965,103	1,798,784
<b>TOTAL ASSETS</b>	<b>\$ 2,908,549</b>	<b>\$ 1,846,333</b>
Current Liabilities:		
Accounts Payable and Accrued Expenses	319,853	5,337
<b>TOTAL LIABILITIES</b>	<b>\$ 319,853</b>	<b>\$ 5,337</b>

**NOTE 5 – ACQUISITIONS**

**Therapeutics Medical**

On March 10, 2016, we acquired finished goods inventory, trademarks, a patent, and a customer list along with vendor numbers from Therapeutics Medical, a company which had previously been engaged in the research, development, and marketing of nutraceutical supplements. The assets were acquired at auction and were selected from among a group of assets held for sale by Therapeutics Medical. The total consideration transferred in connection with the acquisition was \$1,250,000. The Company acquired the finished goods inventory, which was valued at replacement cost in the amount of \$58,622. The trademarks of certain brands were valued at \$300,000 based on an estimated royalty approach. The patent was valued at \$3,078. The customer list with vendor numbers was valued at \$888,300 based on an estimate of the cost to enter into such relationships. The Company complied with ASC 350, "Intangibles—Goodwill and Other," and accounted for the Therapeutics Medical transaction as an asset purchase. As consideration for the asset purchase, we issued a \$1,250,000 principal amount convertible promissory note due September 10, 2017, which accrues interest at the rate of one percent per annum; and is convertible into shares of the Company's common stock at a conversion price equal to 90% of the average of the lowest three volume-weighted average prices of one share of common stock for the five consecutive trading days prior to the conversion date. During October 2016, the convertible promissory note was converted into 189,193 shares of common stock at a weighted-average price of \$6.60 per share.



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The Company determined that the trademarks, patent, and customer list with vendor numbers have a definite useful life because of legal, regulatory, or contractual provisions that limit the useful life of the assets and therefore, the assets will be amortized over the estimated useful life as follows:

- **Customer Relationships** – Management has determined that the asset will be amortized over a five-year life based on its estimate of customer life of the relationship.
- **Trademarks of the Brands** – Management determined that the life of the brand can last on average from eight to twelve years. Management determined that the life of the brands shall be ten years from the date of the brand launch. The Company has classified the trademarks of the brands in three categories based on the estimated remaining lives from the date we acquired the trademark. Category I was the newest brand launched. Management determined that it has eight years remaining from the date we acquired the trademark. Therefore, they will be amortized over the remaining years from the date we acquired the trademark. Category II was the second newest brand launched. Management has determined that it has four years remaining from the date we acquired the trademark. Therefore, they will be amortized over the remaining years from the date we acquired the trademark. Category III was the oldest brand launched. Management has determined that it has two years remaining from the date we acquired the trademark.
- **Patent** – The process patent acquired is directly associated with the Category III brands and should have the same amortization life as the brand. Management determined that it has two years remaining. Therefore, it will be amortized over the remaining years.

The following table summarizes the allocation of the purchase price of \$1,250,000:

Finished Goods Inventory	\$ 58,622
Trademarks	300,000
Patent	3,078
Customer Relationships	888,300
<b>Total Assets Acquired</b>	<b><u>\$ 1,250,000</u></b>

Refer to “*Note 12 – Contingent Consideration (Therapeutics Medical)*” for further information.

**Black Oak Gallery**

On April 1, 2016, we acquired all of the assets of Black Oak. The acquisition of Black Oak was accounted for in accordance with ASC 805-10, “*Business Combinations*.” The assets consisted primarily of the intellectual property and established marketing associated with the brand name “Blüm,” including its website, www.blumoak.com, the medical marijuana dispensary license, and customer relationships.

The preliminary allocation of the purchase price was based upon a preliminary valuation, and the Company’s estimates and assumptions of the assets acquired and liabilities assumed were subject to change within the measurement period pending the finalization of a third-party valuation, which was obtained in December 2016.

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The table below represents the allocation of the preliminary purchase price to the assets acquired and liabilities assumed that were recognized at the closing date, the adjustments made as a result of purchase price adjustments during the second and third quarters of 2016, and the final purchase price amounts based on the final third-party valuations:

	Preliminary as of April 1, 2016	Adjustments	Final as of December 31, 2016
Current Assets (Inclusive of Cash of \$163,566)	\$ 792,447	\$ –	\$ 792,447
Property, Plant and Equipment	681,896	–	681,896
Customer Relationships	7,480,800	379,200	7,860,000*
Trade Name	4,280,000	1,040,000	5,320,000*
Dispensary License	8,214,700	2,055,300	10,270,000*
Liabilities	<u>(2,355,938)</u>	<u>–</u>	<u>(2,355,938)</u>
Total Identifiable Net Assets	19,093,905	3,474,500	22,568,405
Goodwill	<u>32,395,760</u>	<u>(3,474,500)</u>	<u>28,921,260</u>
<b>Net Assets</b>	<b><u>\$ 51,489,665</u></b>	<b><u>\$ –</u></b>	<b><u>\$ 51,489,665</u></b>

\* The Company received an independent third-party expert appraiser valuation report in valuing certain assets which included Customer Relationships, Trade Name and Dispensary License. Management is fully responsible for the valuation of the assets.

The estimated purchase price of Black Oak (for accounting purposes) was \$51,489,665. The purchase price was determined based on the value of the shares of our common stock issuable upon conversion of the various series of preferred stock issued in connection with the acquisition, or \$3.93 per share of common stock, which was the closing sales price of our common stock on April 1, 2016, as quoted on the OTC Market Group Inc.'s OTCQX tier.

The purchase price represents the sum of:

- (i) the issuance of approximately 78 shares of our Series Z Preferred Stock (or, upon conversion, 783,949 shares of our common stock), approximately 83,220 shares of our Series B Preferred Stock (or, upon conversion, 448,084 shares of our common stock), and approximately 246 shares of our Series Q Preferred Stock (or, upon conversion, 1,232,033 shares of our common stock), which collectively, were converted into 2,464,066 shares of our common stock (the "Closing Consideration"); and
- (ii) the issuance of approximately 281 shares of our Series Z Preferred Stock (or, upon conversion, 2,806,553 shares of our common stock), approximately 297,925 shares of our Series B Preferred Stock (or, upon conversion, 1,604,124 shares of our common stock), and approximately 596 shares of our Series Q Preferred Stock (or, upon conversion, 2,981,520 shares of our common stock), which collectively, were converted into approximately 7,392,197 shares of our common stock (the "Lockup Consideration"); and
- (iii) the issuance of approximately 185 shares of our Series Z Preferred Stock (or, upon conversion, 1,853,607 shares of our common stock), approximately 196,769 shares of our Series B Preferred Stock (or, upon conversion, 1,059,466 shares of our common stock), and approximately 583 shares of our Series Q Preferred Stock (or, upon conversion, 2,913,073 shares of our common stock), which collectively, were converted into approximately 5,826,147 shares of our common stock (the "Holdback Consideration"); and
- (iv) the contingent cash consideration of up to \$2,088,000 pursuant to certain earn-out provisions set forth in the Merger Agreement, payable to the Group B Shareholders (the "Performance-Based Cash Consideration").

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**Closing Consideration** – Pursuant to the Merger Agreement, the Closing Consideration was issued and paid on April 1, 2016, the closing date.

**Lockup Consideration** – Pursuant to the Merger Agreement, the Lockup Consideration was issued on April 1, 2016, the closing date; however, such shares were to be held in an escrow account for a period of one year.

**Holdback Consideration** – Pursuant to the Merger Agreement, Holdback Consideration was issued on April 1, 2016, the closing date; however, such shares were to be held in an escrow account for a period of one year as security for the satisfaction of any post-closing adjustments or indemnification claims as provided for in the Merger Agreement.

**Performance-Based Cash Consideration** – Pursuant to the Merger Agreement, the Performance-Based Cash Consideration is to be paid in cash on approximately the one-year anniversary date of the Merger Agreement, subject to certain holdback provisions. As of December 31, 2016, the Performance-Based Cash Consideration is unpaid and recorded as contingent consideration as security for the satisfaction of any post-closing adjustments or indemnification claims as provided for in the Merger Agreement.

The below chart outlines a summary of the purchase price:

<b>Purchase Price Detail</b>	<b>Series B Preferred Stock</b>	<b>Series Q Preferred Stock</b>	<b>Series Z Preferred Stock</b>	<b>Preferred Stock Converted into Common Stock</b>	<b>Total Consideration</b>
Closing Consideration	83,220	246	78	2,464,066	\$ 9,683,779
Lockup Consideration	297,925	596	281	7,392,197	29,051,334
Holdback Consideration	196,769	583	185	5,826,147	11,324,969
Performance-Based Cash Consideration	–	–	–	–	1,429,583
<b>Totals</b>	<b>577,914</b>	<b>1,425</b>	<b>544</b>	<b>15,682,410</b>	<b>\$ 51,489,665</b>

The Series Q Preferred Stock was converted into 7,126,000 shares of common stock in September 2016. The Series Z Preferred Stock was converted into 1,010,951 shares of Series B Preferred Stock in September 2016.

Refer to “*Note 12 – Contingent Consideration (Black Oak Gallery)*” for further information.

#### **Tech Center Drive**

On September 13, 2017, the Company acquired all assets of Tech Center Drive and majority control of 55 OC. The acquisition of Tech Center Drive and 55 OC was accounted for in accordance with ASC 805-10, “*Business Combinations*.” 55 OC is a mutual benefit corporation which holds a cannabis license with the City of Santa Ana in the State of California. Tech Center Drive manages the dispensary under the license of 55 OC. Control of 55 OC was obtained by the Company’s CEO and Treasurer holding two of the three Board seats of 55 OC and through the management contract held by Tech Center Drive.

The purchase price allocation for the acquisition, as set forth in the table below, reflects various preliminary fair value estimates and analyses, including preliminary work performed by third-party valuation specialists, which are subject to change within the measurement period as valuations are finalized. The primary areas of the preliminary purchase price allocation that are not yet finalized relate to the fair values of certain tangible assets, the valuation of intangible assets acquired, and residual goodwill. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that the Company determines to be material will be applied retrospectively to the period of acquisition in the Company’s consolidated financial statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could also be affected. The Company acquired inventory, property, equipment and leasehold improvements, a security deposit and a management service agreement which allows for Tech Center Drive to purchase the medical marijuana dispensary license of 55 OC.

As consideration for entering into the Asset Purchase Agreement, the Company paid \$4,120,791 in cash, issued 633,348 shares of the Company’s common stock with a value of \$2,090,046 on the closing date and issued 192,758 shares of the Company’s common stock with a value of \$636,100 into an escrow account. The shares held in escrow are to be paid six months after the acquisition date subject to any amounts to be withheld related to working capital type adjustments. The Company is also due \$316,363 from the sellers of Tech Center Drive for amounts paid in excess of the agreement, which will be settled six months after the closing date. The value of the shares issued were based on the closing value of the Company’s common stock on September 13, 2017, which was \$3.30 per share.

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The following table summarizes the acquisition with a purchase price of \$6,839,925:

<b>Assets Acquired</b>	
Inventory	\$ 113,779
Property, Equipment and Leasehold Improvements:	
Furniture and Equipment	52,829
Leasehold Improvements	46,737
Security Deposits	5,000
Management Service Agreement	6,621,580
<b>Total Assets Acquired</b>	<b>\$ 6,839,925</b>

The supplemental pro forma information, as if the acquisition had occurred on January 1, 2016, is as follows:

	<b>Pro Forma Results of Operations</b>	
	<b>For the Year Ended December 31, (Unaudited)</b>	
	<u>2017</u>	<u>2016</u>
Revenues	\$ 38,208,172	\$ 28,207,138
Net Loss Attributable to Terra Tech Corp.	\$(33,472,729)	\$(27,863,773)
Net Loss per Common Share Attributable to Terra Tech Corp. Common Stockholders - Basic and Diluted	\$ (0.73)	\$ (1.07)

The supplemental pro forma information above is based on estimates and assumptions that we believe are reasonable. The pro forma information presented is not necessarily indicative of the consolidated results of operations in future periods or the results that would have been realized had the acquisition occurred on January 1, 2016. The supplemental pro forma results above exclude any benefits that may result from the acquisition due to synergies that are expected to be derived from the elimination of any duplicative costs.

**NOTE 6 – NOTES RECEIVABLE**

On October 26, 2017, the Company entered into agreements with NuLeaf Sparks Cultivation, LLC and NuLeaf Reno Production, LLC (“NuLeaf”) to build and operate cultivation and production facilities for our IVXX brand of cannabis products in Nevada. The agreements are subject to approval by the State of Nevada. As part of the agreements the Company made convertible loans at the time of the agreement of \$4.5 million in aggregate to the NuLeaf entities bearing an interest rate of 6% per annum. If the agreements are not approved by May 2018, the notes receivable are due in equal quarterly payments beginning August 2018. Additional fundings subsequent to the initial loans are added to the principle balance due. The convertible loans will automatically convert into a 50% ownership in the NuLeaf entities upon approval by the State of Nevada which is expected to be in the second quarter of 2018. The notes receivable, including accrued interest, due to the Company as of December 31, 2017 is \$5,010,143.

**NOTE 7 – INVENTORY**

Raw materials consist of Edible Garden’s herb product lines and material for IVXX’s line of cannabis pure concentrates. Work-in-progress consists of live plants grown for Edible Garden’s herb product lines and deferred cultivation costs at Black Oak. Finished goods consists of IVXX’s line of cannabis packaged products to be sold into dispensaries and Black Oak cannabis products sold in retail, and Edible Garden’s products to be sold via food, drug, and mass channels.

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Inventory consists of the following:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Raw Materials	\$ 1,450,273	\$ 486,119
Work-in-Progress	1,016,596	570,145
Finished Goods	<u>3,293,150</u>	<u>853,066</u>
<b>Total Inventory</b>	<b><u>\$ 5,760,019</u></b>	<b><u>\$ 1,909,330</u></b>

**NOTE 8 – PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET**

Property, equipment, and leasehold improvements, net consists of the following:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Land and Building	\$ 9,047,201	\$ 1,454,124
Furniture and Equipment	3,553,587	3,141,244
Computer Hardware and Software	486,176	396,479
Leasehold Improvements	9,316,665	7,568,465
Construction in Progress	<u>1,204,547</u>	<u>459,327</u>
Subtotal	23,608,176	13,019,639
Less Accumulated Depreciation	<u>(4,416,560)</u>	<u>(2,554,875)</u>
<b>Property, Equipment and Leasehold Improvements, Net</b>	<b><u>\$ 19,191,616</u></b>	<b><u>\$ 10,464,764</u></b>

Depreciation expense related to property, equipment and leasehold improvements for the years ended December 31, 2017, 2016 and 2015 was \$1,929,115, \$969,185 and \$602,814, respectively.

During the third quarter of 2017, the Company recorded an impairment charge for land held in Nevada. In accordance with the guidance for the impairment of long-lived assets, the Company evaluated the property for recovery and recorded an impairment charge of \$138,037 to adjust the carrying value of the property to our estimate of fair value. The impairment charge was recorded in other expense in our consolidated statement of operations and we allocated that charge to our eliminations and other segment, see “*Note 20 – Segment Information*” for additional disclosure regarding segments.

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**NOTE 9 – INTANGIBLE ASSETS, NET**

Intangible assets, net consist of the following:

	Estimated Useful Life in Years	December 31, 2017			December 31, 2016		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortizing Intangible Assets:							
Customer Relationships	5 to 12	\$ 8,072,400	\$ (1,345,191)	\$ 6,727,209	\$ 8,960,700	\$ (780,960)	\$ 8,179,740
Trademarks and Patent	2 to 8	195,520	(77,448)	118,072	498,598	(91,061)	407,537
Dispensary Licenses	14	10,270,000	(1,283,751)	8,986,249	10,270,000	(550,179)	9,719,821
Management Service Agreement	15	6,621,580	-	6,621,580	-	-	-
<b>Total Amortizing Intangible Assets</b>		<b>25,159,500</b>	<b>(2,706,390)</b>	<b>22,453,110</b>	<b>19,729,298</b>	<b>(1,422,200)</b>	<b>18,307,098</b>
Non-Amortizing Intangible Assets:							
Trade Name	Indefinite	5,320,000	-	5,320,000	5,320,000	-	5,320,000
<b>Total Non-Amortizing Intangible Assets</b>		<b>5,320,000</b>	<b>-</b>	<b>5,320,000</b>	<b>5,320,000</b>	<b>-</b>	<b>5,320,000</b>
<b>Total Intangible Assets, Net</b>		<b>\$30,479,500</b>	<b>\$ (2,706,390)</b>	<b>\$27,773,110</b>	<b>\$25,049,298</b>	<b>\$ (1,422,200)</b>	<b>\$23,627,098</b>

During the fourth quarter of 2017, the Company recorded an impairment charge for intangible assets related to customer relationships and trademarks and patents held by Edible Garden Corp. In accordance with the guidance for the impairment of long-lived assets, the Company evaluated the assets for recovery and concluded an impairment of certain intangibles was more likely than not. Accordingly, the Company removed \$888,300 and \$310,905 of the gross carrying amount and accumulated amortization, respectively, of the customer relationships intangibles. The Company also removed \$303,078 and \$123,006 of gross carrying amount and accumulated amortization, respectively, of the trade name and patents. The Company recorded a net impairment charge of \$757,467. The impairment charge was recorded in other expense in our consolidated statement of operations.

The Company recorded amortization expense of \$1,718,101, \$1,308,212 and \$42,480 for the years ended December 31, 2017, 2016 and 2015, respectively.

Based solely on the amortizable intangible assets recorded at December 31, 2017, the Company estimates amortization expense for the next five years to be as follows:

	Year Ending December 31,					2022 and thereafter	Total
	2018	2019	2020	2021	2022		
Amortization expense	\$ 1,882,563	\$ 1,869,111	\$ 1,869,111	\$ 1,830,767	\$ 15,001,558	\$ 22,453,110	

Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible asset acquisitions, changes in useful lives or other relevant factors or changes.

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**NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consist of the following:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Accounts Payable	\$ 2,308,844	\$ 1,986,907
Sales Tax Payable	545,398	122,470
Accrued Interest Payable	21,742	96,633
Accrued Expenses	2,568,726	211,390
<b>Total Accounts Payable and Accrued Expenses</b>	<b><u>\$ 5,444,710</u></b>	<b><u>\$ 2,417,400</u></b>

**NOTE 11 – NOTES PAYABLE**

Notes payable consists of the following:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
Unsecured promissory demand notes issued to an accredited investor, which bear interest at a rate of 4% per annum. Holder may elect to convert into common stock at \$11.25 per share. The balance of the note and accrued interest was converted into common stock in April 2017.	\$ -	\$ 64,324
Convertible promissory note dated December 14, 2015, issued to accredited investors, which matured December 13, 2016 and bears interest at a rate of 12% per annum. The holder of the note extended the maturity to December 13, 2017. The conversion price is \$1.82, subject to adjustment. The balance of the note and accrued interest was converted into common stock in July 2017.	-	500,000
Senior convertible promissory note dated October 28, 2016, issued to accredited investors, which matures April 28, 2018 and bears interest at a rate of 1% per annum. The conversion price is 90% of the average of the lowest three (3) VWAPs for the five (5) consecutive trading days prior to the conversion date. The balance of the note and accrued interest was converted into common stock in January 2017.	-	102,582
Senior convertible promissory note dated November 1, 2016, issued to accredited investors, which matures May 1, 2018 and bears interest at a rate of 12% per annum. The conversion price is \$5.25, subject to adjustment. The balance of the note and accrued interest was converted into common stock in July 2017.	-	31,615
Senior convertible promissory note dated December 16, 2016, issued to accredited investors, which matures June 16, 2018 and bears interest at a rate of 12% per annum. The conversion price is \$4.05, subject to adjustment. The balance of the note and accrued interest was converted into common stock in May 2017.	-	1,220,155
Senior convertible promissory note dated August 21, 2017, issued to accredited investors, which matures February 21, 2019 and bears interest at a rate of 12% per annum. The conversion price is \$4.50, subject to adjustment.	640,010	-
Senior convertible promissory note dated December 26, 2017, issued to accredited investors, which matures June 26, 2019 and bears interest at a rate of 12% per annum. The conversion price is \$4.50, subject to adjustment.	1,469,388	-
Promissory note dated November 22, 2017, issued for the purchase of real property. Matures December 1, 2020, with an option to extend the maturity date 1 year. The promissory note bears interest at 12.0% for year one and escalates 0.5% per year thereafter up to 13.5%	4,500,000	-
<b>Total Debt</b>	<b><u>6,609,398</u></b>	<b><u>1,918,676</u></b>
<b>Less Short-Term Portion</b>	<b><u>-</u></b>	<b><u>564,324</u></b>
<b>Long-Term Portion</b>	<b><u>\$ 6,609,398</u></b>	<b><u>\$ 1,354,352</u></b>

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Total debt as of December 31, 2017 and 2016 was \$6,609,398 and \$1,918,676, respectively, which included unamortized debt discount of \$4,790,601 and \$4,295,648, respectively. All debt outstanding as of December 31, 2016 were converted into shares of the Company's common stock during 2017. The senior secured promissory notes are secured by shares of common stock. There was accrued interest payable of \$21,767 and \$96,633 as of December 31, 2017 and 2016, respectively. See "Note 23 – Subsequent Events" for additional disclosure regarding changes in notes payable subsequent to December 31, 2017.

#### **Scheduled Maturities of Long-Term Debt**

Scheduled maturities of long-term debt, including the amortization of debt discounts of approximately \$4,790,601, are as follows:

	Year Ended December 31,				
	2018	2019	2020	Thereafter	Total
Total Debt	\$ -	\$ 2,109,398	\$ 4,500,000	\$ -	\$ 6,609,398

#### **Promissory Note**

On November 22, 2017, the Company entered into a \$4,500,000 promissory note for the purchase of land and a building in California with a third-party creditor. The promissory note is collateralized by the land and building purchased and matures in December 1, 2020. The interest rate for the first year is 12.0% and increases 0.5% per year through 2020. Payments of interest only are due monthly. The full principle balance and accrued interest are due at maturity.

#### **Master Securities Purchase Agreement and Convertible Promissory Notes**

The Company has a Securities Purchase Agreement with an accredited investor pursuant to which the Company sells to the accredited investor Senior Convertible Promissory Notes. During the year ended December 31, 2017, the Company issued five 12% convertible notes for an aggregate value of \$20,000,000 due at various dates through June 2019. Of the \$20,000,000 convertible notes issued during 2017, the Company converted \$13,100,000 of the convertible notes into shares of the Company's common stock during the year ended December 31, 2017. As of December 31, 2017, \$6,900,000 gross of the unamortized debt discount of \$4,790,602 remains due. There were no fees or expenses deducted from the net proceeds received by the Company in the offerings. The Company paid \$614,600 in cash and issued approximately \$478,000 of warrants in connection with the notes. The cash fee and warrants issued were recorded as a debt discount.

For each note issued under the Master Securities Purchase Agreement, the principal and interest due and owed under the note is convertible into shares of Common Stock at any time at the election of the holder at a conversion price per share equal to the lower of (i) the original conversion price as defined in each note issuance or (ii) 85% of the lowest daily volume weighted average price of the Common Stock in the fifteen (15) trading days prior to the conversion date ("Conversion Price"), which Conversion Price is subject to adjustment for (i) stock splits, stock dividends, combinations, or similar events and (ii) full ratchet anti-dilution protection. Upon certain events of default, the conversion price will automatically become 70% of the average of the three (3) lowest volume weighted average prices of the Common Stock in the twenty (20) consecutive trading days prior to the conversion date for so long as such event of default remains in effect.

In addition, at any time that (i) the daily volume weighted average price of the Common Stock for the prior ten (10) consecutive trading days is \$10.50 or more and (ii) the average daily trading value of the Common Stock is greater than \$2,500,000 for the prior ten (10) consecutive trading days, then the Company may demand, upon one (1) day's notice, that the holder convert the notes at the Conversion Price.

The Company may prepay in cash any portion of the outstanding principal amount of the notes and any accrued and unpaid interest by, upon ten (10) days' written notice to the holder, paying an amount equal to (i) 110% of the sum of the then-outstanding principal amount of the notes plus accrued but unpaid interest, if the prepayment date is within 90 days of the issuance date of the notes; (ii) 115% of the sum of the then-outstanding principal amount of Note A plus accrued but unpaid interest, if the prepayment date is between 91 days and 180 days of the issuance date of the notes; or (iii) 125% of the sum of the then-outstanding principal amount of the notes plus accrued but unpaid interest, if the prepayment date is after 180 days of the issuance date of the notes.

#### **Conversion of Notes Payable and Related Loss on Extinguishment of Debt**

During the years ended December 31, 2017, 2016 and 2015, the Company converted debt and accrued interest into 8,284,283, 3,778,581 and 3,776,369, respectively, of the Company's common stock. The value of the common stock issued in conversion of debt are detailed below.



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The table below details the conversion of the notes payable into equity and the loss on extinguishment of debt for the years ended December 31, 2017, 2016, and 2015:

	Year Ended December 31,		
	2017	2016	2015
Fair market value of common stock issued upon conversion	\$ 29,785,271	\$ 18,887,399	\$ 1,493,659
Principal amount of debt converted	(19,314,324)	(13,324,973)	(900,000)
Accrued interest converted	(635,401)	(233,415)	(108,000)
Fair value of derivative at conversion date	(14,223,550)	(10,361,100)	(374,600)
Debt discount value at conversion date	11,532,292	10,414,902	508,385
Loss on extinguishment of debt	\$ 7,144,288	\$ 5,382,813	\$ 619,444

**NOTE 12 – CONTINGENT CONSIDERATION**

The Company accounts for “contingent consideration” according to FASB ASC 805, “*Business Combinations*” (“FASB ASC 805”). Contingent consideration typically represents the acquirer’s obligation to transfer additional assets or equity interests to the former owners of the acquiree if specified future events occur or conditions are met. FASB ASC 805 requires that contingent consideration be recognized at the acquisition-date fair value as part of the consideration transferred in the transaction. FASB ASC 805 uses the fair value definition in *Fair Value Measurements*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As defined in FASB ASC 805, contingent consideration is (i) an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree, if specified future events occur or conditions are met or (ii) the right of the acquirer to the return of previously transferred consideration, if specified conditions are met.

***Therapeutics Medical***

In the acquisition of assets from Therapeutics Medical, the Company may be required to issue an additional Convertible Promissory Note to the seller based on the following calculation (the “Therapeutics Contingent Consideration”):

- (i) if the total revenue (“Total Revenue”) generated by the assets for the period beginning on April 1, 2016 and ending on March 31, 2017 (the “Applicable Period”) is greater than \$1.6 million but less than \$3.2 million, the Company will issue to the Seller an additional Convertible Promissory Note in the principal amount equal to 50% of the Total Revenue in excess of \$1.6 million; or
- (ii) if the Total Revenue generated by the assets for the Applicable Period is greater than \$3.2 million, the Company will issue to the Seller an additional Convertible Promissory Note in the principal amount equal to the sum of: (a) \$800,000 (which equals 50% of the Total Revenue in excess of \$1.6 million up to \$3.2 million), plus (b) 25% of the Total Revenue for the Applicable Period in excess of \$3.2 million.

The Company valued the Therapeutics Contingent Consideration based on an analysis using a cash flow model to determine the expected contingent consideration payment. The model determined that the aggregate expected contingent consideration liability was an immaterial amount (\$4,000) with an associated immaterial present value of the contingent consideration liability of \$3,200. At the time of purchase, Therapeutics Medical had gone out of business, and the assets acquired were selected from a lot at auction. As such, the Company did not recognize a contingent consideration liability associated with the Therapeutics Contingent Consideration because management’s best estimates resulted in an extremely low, in fact near zero likelihood, of the revenue targets being achieved.

In determining the likelihood of payouts related to the Therapeutics Contingent Consideration, the probabilities for various scenarios (e.g., a greater than 98% probability that the minimum amount of Therapeutics Contingent Consideration will not be payable), as well as the discount rate used in the Company’s calculations, were based on internal projections, all of which were vetted by the Company’s senior management.

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The Company calculated the Therapeutics Contingent Consideration based upon the following formula:

<u>One-Year Anniversary Date Revenue</u>	<u>Probability</u>	<u>Revenue-Based Payment</u>	<u>Probability-Weighted Amounts</u>
\$ 3,200,000	0.00%	\$ 800,000	\$ –
\$ 2,000,000	0.50%	\$ 200,000	1,000
\$ 1,599,999	99.50%	\$ –	–
Fair Value of Expected Earn-out Payment			1,000
Discount Rate			25%
Payments			\$ 0
Present Value Factor at 20% Discount Rate for 12 Months			0.9457
Present Value of Contingent Consideration			\$ 946

As of December 31, 2016, based on revenues achieved throughout the year, the probability of a contingent payment is near zero and as such, no amount was due. As of March 31, 2017, the end of the Applicable Period, the Company was not required to make the contingent payment.

**Black Oak Gallery**

In the acquisition of Black Oak, the Company valued the Holdback Consideration and the Performance-Based Cash Consideration (collectively, the “Black Oak Contingent Consideration”), based on an analysis using a cash flow model to determine the expected contingent consideration payment, which model determined that the aggregate expected contingent consideration liability was \$15,305,463 and the present value of the contingent consideration liability was \$12,754,553. Accordingly, the Company recognized at April 1, 2016, the closing date of the Black Oak merger, a \$12,754,553 contingent consideration liability associated with the Black Oak Contingent Consideration paid pursuant to the Merger Agreement.

In determining the likelihood of payouts related to the Black Oak Contingent Consideration, the probabilities for various scenarios (e.g., a 75% probability that the maximum amount of Black Oak Contingent Consideration will be payable), as well as the discount rate used in the Company’s calculations were based on internal projections, all of which were vetted by the Company’s senior management.

**Holdback Consideration**

The Holdback Consideration is comprised of (i) the market-based clawback amount (the “Market-Based Clawback Amount”) and (ii) the performance-based clawback amount (the “Performance-Based Clawback Amount”). The Holdback Consideration, which is comprised of shares of our preferred stock, was issued on April 1, 2016, the closing date of the Black Oak merger.

The Market-Based Clawback Amount is determined as follows:

- If the Terra Tech Common Stock 30-day VWAP on the one-year anniversary date of the Merger Agreement exceeds the Terra Tech Closing Price, the Market-Based Clawback Amount shall mean the number of shares of Terra Tech Common Stock equal to (i) (A) \$4,912,000 divided by (B) the Terra Tech Closing Price, less (ii) (A) \$4,912,000 divided by (B) the Terra Tech Common Stock 30-day VWAP on such date.
- If the Terra Tech Common Stock 30-day VWAP on the one-year anniversary date of the Merger Agreement is less than or equal to the Terra Tech Closing Price, the Market-Based Clawback Amount shall be zero shares.

In no event will the Market-Based Clawback Amount exceed 50% of the Holdback Consideration.

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The Performance-Based Clawback Amount is determined as follows:

- a) The “Lower Threshold” means an amount equal to \$11,979,351, and the “Upper Threshold” means an amount equal to \$16,667,000.
- b) If Black Oak’s operating revenues for the 12-month period following the closing date of the Black Oak merger (the “Year 1 Revenue”) is less than the Lower Threshold, then the Performance-Based Clawback Amount will be the number of shares obtained from a quotient, (A) the numerator of which is equal to the sum of (1) \$4,912,000, plus (2) the product of 1.5 multiplied by the difference between the Lower Threshold and the Year 1 Revenue, and (B) the denominator of which is the Terra Tech common stock 30-day VWAP as of the one-year anniversary date of the closing of the Black Oak merger.
- c) If the Year 1 Revenue is greater than or equal to the Lower Threshold but is less than the Upper Threshold, then the Performance-Based Clawback Amount will be the number of shares obtained from a quotient, (A) the numerator of which is equal to the product of 1.053 multiplied by the difference between the Upper Threshold and the Year 1 Revenue, and (B) the denominator of which is the Terra Tech common stock 30-day VWAP as of the one-year anniversary date of the closing of the Black Oak merger.
- d) If the Year 1 Revenue is greater than or equal to the Upper Threshold, then the Performance-Based Clawback Amount will be zero shares.

***Performance-Based Cash Consideration***

Pursuant to the Merger Agreement, the Group B Shareholders may receive cash consideration of up to approximately \$2,088,000 to be paid on approximately the one-year anniversary date of the closing of the Black Oak merger, to be determined as follows:

- a) \$0 if Year 1 Revenue is less than or equal to \$12,000,000; and
- b) the product obtained by multiplying 0.447 times Year 1 Revenue if Year 1 Revenue is greater than \$12,000,000; provided, that in no event will the Performance-Based Cash Consideration amount exceed \$2,088,000.

For example, pursuant to the above formula, if the revenue in Year 1 equals \$16,666,666, then the Performance-Based Cash Consideration would be \$2,088,000 calculated as follows:

Year 1 Revenue	\$ 16,666,666
Less:	<u>12,000,000</u>
	\$ 4,666,666
	<u>0.44742864</u>
Performance-Based Cash Payment	<u>\$ 2,088,000</u>

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As of December 31, 2016, the Black Oak Contingent Consideration was based upon the following formula:

Year 1 Revenue	One-Year Anniversary Date of the Merger 30-Day VWAP	Value of Common Stock to Issue	Performance-Based Cash Payment	Probability	Probability-Weighted Amounts		Total	
					Earn-Out Shares	Performance-Based Cash		
	20%	\$ 15,788,827	\$ 2,088,000	4%	\$ 631,553	\$ 83,520	\$ 715,073	
	\$ 0.2108							
Upside	20%	70%	\$ 13,824,526	\$ 2,088,000	14%	\$ 1,935,434	\$ 292,320	\$ 2,227,754
\$ 16,667,000	\$ 0.3108							
	10%	\$ 12,816,555	\$ 2,088,000	2%	\$ 256,331	\$ 41,760	\$ 298,091	
	\$ 0.4108							
	20%	\$ 11,867,575	\$ 747,500	15%	\$ 1,780,136	\$ 112,125	\$ 1,892,261	
	\$ 0.2108							
Base	75%	70%	\$ 11,164,938	\$ 747,500	52.5%	\$ 5,861,592	\$ 392,438	\$ 6,254,030
\$ 13,670,835	\$ 0.3108							
	10%	\$ 10,804,383	\$ 747,500	7.5%	\$ 810,329	\$ 56,063	\$ 866,391	
	\$ 0.4108							
	20%	\$ 7,251,428	\$ –	1%	\$ 72,514	\$ –	\$ 72,514	
	\$ 0.2108							
Downside	5%	70%	\$ 8,034,038	\$ –	3.5%	\$ 281,191	\$ –	\$ 281,191
\$ 10,674,670	\$ 0.3108							
	10%	\$ 8,435,630	\$ –	0.5%	\$ 42,178	\$ –	\$ 42,178	
	\$ 0.4108							
Fair Value of Expected Earn-Out Payment					\$ 11,671,259	\$ 978,225	\$ 12,649,484	
Price Per Common Share					\$ 3.93	\$ 3.93		
Discount Rate					20%	20%		
Periods (nper)					0.250	0.250		

Payments	\$	-	\$	-
Present Value Factor at 20% Discount Rate for 12 Months		0.9554		0.9554
Present Value of Contingent Consideration	\$	11,151,221	\$	934,638
<b>Present Value of Contingent Consideration</b>				<b><u>\$ 12,085,859</u></b>

The below table summarizes adjustments made to the Black Oak Contingent Consideration during the year ended December 31, 2016.

	<b>Preliminary April 1, 2016</b>	<b>Adjustments June 30, 2016</b>	<b>June 30, 2016</b>	<b>Adjustments September 30, 2016</b>	<b>September 30, 2016</b>	<b>Adjustments December 31, 2016</b>	<b>Final as of December 31, 2016</b>
Holdback Consideration Stock	\$ 11,324,969	\$ (514,339)	\$ 10,810,630	\$ 217,895	\$ 11,028,525	\$ 122,695	\$ 11,151,220
Performance-Based Cash	1,429,583	66,669	1,496,252	130,963	1,627,215	(692,577)	934,638
Adjustment to Goodwill	-	447,670(1)	-	(348,858)(1)	-	(98,812)(2)	-
Change in Fair Value of Contingent Consideration	-	-	-	-	-	98,812	-
<b>Total Contingent Consideration</b>	<b><u>\$ 12,754,553</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 12,306,882</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 12,655,740</u></b>	<b><u>\$ (569,882)</u></b>	<b><u>\$ 12,085,858</u></b>

(1) Changes in fair value of the Black Oak Contingent Consideration during the second and third quarter of 2016 (during measurement period) were taken to goodwill. Total adjustment was \$98,812 which was recorded to the income statement at December 31, 2016.

(2) \$98,812 is the combined adjustments to goodwill (\$447,670 less \$348,858) recorded to Change in Fair Value of Contingent Consideration at December 31, 2016.

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Changes in the fair market valuation of the contingent consideration are recognized in the consolidated statements of operations. During the year ended December 31, 2017, the loss on fair market valuation of contingent consideration was \$4,426,047. During the year ended December 31, 2016, the gain on market valuation of contingent consideration was \$668,694.

On April 1, 2017, the anniversary date of the acquisition and the settlement date of the contingent consideration, the final contingent consideration was approximately \$16.5 million. A summary of the changes in the contingent consideration as well as the detail is below:

	<u>Amount</u>
<b>Contingent Consideration Summary :</b>	
Balance at December 31, 2016	\$ 12,085,859
Change in Fair Market Valuation of Contingent Consideration	4,348,761
<b>Balance at March 31, 2017 and April 1, 2017</b>	<b><u>\$ 16,434,620</u></b>
<b>Contingent Consideration Detail :</b>	
Performance-Based Cash Contingent Consideration	\$ 2,088,000
Market-Based Stock Contingent Consideration	14,346,620
<b>Balance at March 31, 2017 and April 1, 2017</b>	<b><u>\$ 16,434,620</u></b>

During April 2017, in final settlement of the contingent consideration, the Company issued approximately \$4.7 million in shares of its common stock, or common stock equivalent of approximately 1.21 million shares of its common stock and made a cash payment of approximately \$2.1 million. A summary is as follows:

<b>Contingent Consideration Balance at March 31, 2017</b>	<b>\$ 16,434,620</b>
Change in Fair Market Valuation of Contingent Consideration	77,286
Payment of Contingent Consideration in Cash	(2,088,000)

Settlement of Contingent Consideration	(4,739,638)
Settlement of Contingent Consideration Recorded Against Additional Paid-In Capital	(4,692,697)
Gain on Settlement of Contingent Consideration	<u>(4,991,571)</u>
<b>Contingent Consideration December 31, 2017</b>	<b><u>\$ -</u></b>

Pursuant to the terms of the contingent consideration as outlined in the Merger Agreement, the Company was required to release from escrow shares worth approximately \$14.4 million. Of those shares, 1.21 million shares, with a value of \$4,789,638, were issued in final settlement of the Market-Based Contingent Consideration, and approximately 2.28 million shares were additionally clawed-back. The Market-Based Clawback associated with common stock equivalent of approximately 2.34 million shares were clawed-back pursuant to the appreciation of the quoted price of the Company's stock underlying the market-based component of the contingent consideration. An additional common stock equivalent of approximately 2.28 million shares, with a value of \$9,684,268, were clawed-back pursuant to disputes between the sellers of Black Oak and the Company with respect to certain operational and performance goals that would have impacted the appreciation of the quoted price of the Company's common stock underlying the market-based component of the contingent consideration and, in effect, increasing the number of clawback shares. The Company applied the guidance of ASC 470-50-40-2, related to the additional \$9,684,268 worth of shares that were clawed back. For the years ended December 31, 2017 and 2016, the Company recognized a gain on settlement of contingent consideration of \$4,991,571 and \$0, respectively. The balance attributable to related parties was recorded in additional paid in capital.

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See “*Note 13 – Fair Value Measurements*” for further information.

**NOTE 13 – FAIR VALUE MEASUREMENTS**

**Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The following tables set forth the financial liabilities measured at fair value on a recurring basis by level within the fair value hierarchy as of the dates indicated:

<b>Description</b>	<b>Fair Value at</b>	<b>Fair Value Measurement Using</b>		
	<b>December 31,</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>2017</b>			
Derivative Liabilities – Conversion Feature	\$ 9,331,400	\$ -	\$ -	\$ 9,331,400
	<b>\$ 9,331,400</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,331,400</b>



<b>Description</b>	<b>Fair Value at</b>	<b>Fair Value Measurement Using</b>		
	<b>December 31,</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>2016</b>			
Derivative Liabilities – Conversion Feature	\$ 6,987,000	\$ -	\$ -	\$ 6,987,000
Liability – Contingent Consideration	12,085,859	-	-	12,085,859
	<b>\$ 19,072,859</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 19,072,859</b>

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The following table presents a reconciliation of the derivative liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

<b>Balance at December 31, 2015</b>	<b>\$ 743,400</b>
Change in Fair Market Value of Conversion Feature	501,700
Issuance of Equity Instruments with Debt Greater Than Debt Carrying Amount	1,487,500
Derivative Debt Converted into Equity	(14,232,100)

Issuance of Debt Instruments with Derivatives	18,486,500
<b>Balance at December 31, 2016</b>	<b>\$ 6,987,000</b>
Change in Fair Market Value of Conversion Feature	3,494,550
Derivative Debt Converted into Equity	(14,223,550)
Issuance of Debt Instruments with Derivatives	13,073,400
<b>Balance at December 31, 2017</b>	<b>\$ 9,331,400</b>

The following table presents a reconciliation of the Black Oak Contingent Consideration liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

<b>Balance at December 31, 2015</b>	<b>\$ -</b>
Purchase of Black Oak Gallery	12,754,553
Change in Fair Market Valuation of Black Oak Contingent Consideration	(668,694)
<b>Balance at December 31, 2016</b>	<b>\$ 12,085,859</b>
Change in Fair Market Valuation of Contingent Consideration	4,426,047
Payment of Contingent Consideration in Cash	(2,088,000)
Settlement of Contingent Consideration	(4,739,638)
Settlement of Contingent Consideration Recorded Against Additional Paid-In Capital	(4,692,697)
Gain on Settlement of Contingent Consideration	(4,991,571)
<b>Balance at December 31, 2017</b>	<b>\$ -</b>

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The Company estimates the fair value of the derivative liabilities using the Black-Scholes-Merton option pricing model using the following assumptions:

	December 31,		
	2017	2016	2015
Stock Price	\$2.25 - \$5.85	\$4.35 - \$7.35	\$1.35 - \$3.30
Conversion and Exercise Price	\$1.80 - \$6.60	\$3.30 - \$7.50	\$1.05 - \$2.40
Annual Dividend Yield	-	-	-
Expected Life (Years)	0.46 - 3.42	1.5 - 4.0	1.0 - 4.0
Risk-Free Interest Rate	1.04% - 2.50%	2.50%	2.50%
Expected Volatility	43.80% - 123.56%	120.30% - 144.03%	98.35% - 148.71%

Volatility is based on historical volatility of our common stock. Historical volatility was computed using weekly pricing observations for our common stock that correspond to the expected term. This method produces an estimate that is representative of our expectations of future volatility over the expected term of these warrants and conversion features.

No financial assets were measured on a recurring basis as of December 31, 2017 and 2016.

**Non-Financial Assets Measured at Fair Value on a Non-Recurring Basis**

Non-financial assets, such as property, equipment and leasehold improvements, goodwill, and intangible assets, are required to be measured at fair value only when an impairment loss is recognized. The Company recorded an impairment charge related to property during the third quarter 2017, see “*Note 8 - Property, Equipment and Leasehold Improvements, Net*” for further information. In addition, the Company recorded an impairment charge related to certain intangible assets, see “*Note 9 - Intangible Assets, Net*” for further information. There were no impairment charges recorded for the fiscal years ended 2016 and 2015.

**NOTE 14 – TAX EXPENSE**

The (benefit) expense for income taxes consists of the following:

	Year Ended December 31,		
	2017	2016	2015
Current:	\$ -	\$ -	\$ -
Federal	(343,943)	-	-
State	(3,512)	-	-
	<u>(347,455)</u>	<u>-</u>	<u>-</u>
Deferred:			
Federal	-	-	44,000
State	-	-	-
	<u>-</u>	<u>-</u>	<u>44,000</u>
<b>Total (Benefit) Expense for Income Taxes</b>	<b><u>\$ (347,455)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 44,000</u></b>

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The reconciliation between the Company's effective tax rate and the statutory tax rate is as follows:

	<b>Year Ended December 31,</b>		
		<b>2016</b>	
		<b>(As</b>	
	<b>2017</b>	<b>Revised,</b>	<b>2015</b>
		<b>See Note 2)</b>	
Expected Income Tax Benefit at Statutory Tax Rate, Net	<u>\$ (13,456,000)</u>	<u>\$ (9,469,000)</u>	<u>\$ (3,694,000)</u>
Non-Deductible Items	-	1,263,000	368,000
Warrants Expense	871,000	4,186,000	1,196,000
Derivatives Expense	4,104,000	4,067,000	(545,000)
Net Operating Losses	-	-	2,667,000
Impairment of Property and Intangibles	365,000	-	-
Other	1,033,545	-	-
Change in Valuation Allowance	<u>6,735,000</u>	<u>(47,000)</u>	<u>52,000</u>

<b>Reported Income (Benefit) Tax Expense</b>	<b>\$ (347,455)</b>	<b>\$ -</b>	<b>\$ 44,000</b>
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The components of deferred income tax assets and (liabilities) are as follows:

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016 (As Revised, See Note 2)</b>
Deferred Income Tax Assets:		
Net Operating Losses	\$ 8,023,000	\$ 15,242,000
	8,023,000	15,242,000
Deferred Income Tax Liabilities:		
Depreciation	(850,000)	(1,334,000)
<b>Total</b>	<b>7,173,000</b>	<b>13,908,000</b>
Valuation Allowance	(7,173,000)	(13,908,000)
<b>Net Deferred Tax</b>	<b>\$ -</b>	<b>\$ -</b>

The U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code that affects revaluation of deferred tax assets and liabilities to reflect the federal tax rate reduction from 35.0% to 21.0%.

For the years ended December 31, 2017 and 2016, the Company had subsidiaries that produced and sold cannabis or cannabis pure concentrates, subjecting the Company to the limits of Internal Revenue Code ("IRC") Section 280E. Pursuant to IRC Section 280E, the Company is allowed only to deduct expenses directly related to sales of product. The State of California does not conform to IRC Section 280E and, accordingly the Company is allowed to deduct all operating expenses on its California income tax returns. As the Company files consolidated federal income tax returns, the taxable income generated from its subsidiaries subject to IRC Section 280E has been offset by losses generated by operations not subject to IRC Section 280E. During 2017, Company amended income tax returns of Black Oak for the periods prior to acquisition, which resulted in a net tax refund in 2017.

Permanent tax differences include ordinary and necessary business expenses deemed by the Company as non-allowable deductions under IRC Section 280E; non-deductible expenses for interest, derivatives and warrant expense related to debt financings and non-deductible losses related to various acquisitions.

As of December 31, 2017, and 2016, the Company had net operating loss carryforwards of approximately \$26,333,000 and \$34,940,000, respectively, which, if unused, will expire beginning in the year 2034. These tax attributes are subject to an annual limitation from equity shifts, which constitute a change of ownership as defined under IRC Section 382, which will limit their utilization. The Company has assessed the effect of these limitations and does not believe these losses to be substantially limited. The Company also has deferred tax liabilities from the excess carrying amounts of the basis of depreciable assets for financial reporting purposes.

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Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative losses incurred through the period ended December 31, 2017. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth. On the basis of this evaluation, as of December 31, 2017, a valuation allowance of has been recorded against all net deferred tax assets as these assets are more likely than not to be unrealized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. All tax years from 2013 to 2016 are subject to examination.

## **NOTE 15 – EQUITY**

### **Preferred Stock**

#### **Amendment to Certificate of Designation of Series B Preferred Stock; Designation of New Series of Preferred Stock**

The Company filed an Amended and Restated Certificate of Designation of Series B Preferred Stock (the “Amended Series B Certificate”) with the Secretary of State of the State of Nevada, effective March 29, 2016. The Amended Series B Certificate decreased the number of authorized shares of Series B Preferred Stock, specified a liquidation preference, clarified the provisions related to adjustments to the conversion rate upon certain events, and made such other amendments as the Company’s Board of Directors deemed necessary.

Effective March 29, 2016, the Company also designated two additional series of preferred stock: (i) Series Z Preferred Stock and (ii) Series Q Preferred Stock, by filing a Certificate of Designations with the Secretary of State of the State of Nevada. The Certificate of Designation of Series Z Preferred Stock (the “Series Z Certificate”) designates 8,300 shares as Series Z Preferred Stock and is intended to mirror the rights of the holders of the Series B Preferred Stock. Each share of Series Z Preferred Stock is convertible into 1,857 shares of Series B Preferred Stock immediately upon the Company filing with the Secretary of State of the State of Nevada an Amendment to its Articles of Incorporation to increase its authorized capital for, among other reasons, satisfaction of the terms of the potential acquisition of Black Oak, as discussed in more detail below. The holders of the Series Z Preferred Stock are entitled to a liquidation preference equal to \$10.00 per share (subject to appropriate adjustment in the event of any stock dividend, forward stock split, or other similar recapitalization). Such liquidation preference is in preference (but equal with the holders of the Company’s Series B Preferred Stock) to the holders of the common stock, but subordinate in preference to any sum to which the holders of the Company’s Series A Preferred Stock are entitled. During the year ended December 31, 2016, all Series Z Preferred Stock were converted to Series B Preferred Stock.

The Certificate of Designation of Series Q Preferred Stock (the “Series Q Certificate”) designates 21,600 shares as Series Q Preferred Stock. Each share of Series Q Preferred Stock is convertible into 5,000 shares of the Company’s common stock immediately upon the Company filing with the Secretary of State of the State of Nevada an Amendment to its Articles of Incorporation to increase its authorized capital for, among other reasons, satisfaction of the terms of the potential acquisition of Black Oak, as discussed in more detail below. The holders of the Series Q Preferred Stock are entitled to a liquidation preference equal to \$0.001 per share (subject to appropriate adjustment in the event of any stock dividend, forward stock split, or other similar recapitalization). Such liquidation preference is in preference to the holders of the common stock, but subordinate in preference to any sum to which the holders of any shares of any other series of the Corporation’s preferred stock are entitled. During the year ended December 31, 2016, all Series Q Preferred Stock were converted to common stock.



On July 26, 2017, the Company filed a Certificate of Amendment to the Certificate of Designation of the Company's Series B Preferred Stock (the "Amendment") with the Secretary of State of the State of Nevada to provide for an adjustment of the Conversion Rate of the Company's Series B Preferred Stock in the event of a reverse stock split or combination in the same ratio as the Company's common stock. A copy of the Amendment was filed as Exhibit 3.14 to the Company's Current Report on Form 8-K dated July 26, 2017.

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The Company authorized 50,000,000 shares of preferred stock with \$0.001 par value per share. The Company designated 100 shares of preferred stock as "Series A Preferred Stock," of which there were 8 shares of Series A Preferred Stock outstanding as of December 31, 2017 and 2016. Series A Preferred Stock is convertible on a one-for-one basis into common stock and has all of the voting rights of the Company's common stock.

The Company designated 49,990,900 shares of preferred stock as “Series B Preferred Stock,” of which there were 0 and 2,455,064 shares of Series B Preferred Stock outstanding as of December 31, 2017 and 2016, respectively. Each share of Series B Preferred Stock: (i) is entitled to 100 votes for each share of common stock into which a share of Series B Preferred Stock is convertible and (ii) is convertible, at the option of the holder, on a 1-for-5.384325537 basis, into shares of the Company’s common stock. During the year ended December 31, 2017, all Series B Preferred Stock were converted to common stock.

#### Common Stock

The Company authorized 990,000,000 shares of common stock with \$0.001 par value per share. As of December 31, 2017 and 2016, 61,818,560 and 36,924,254 shares of common stock were issued and outstanding, respectively.

#### NOTE 16 – STOCK-BASED COMPENSATION

##### 2016 Equity Incentive Plan

In the first quarter of 2016, the Company adopted the 2016 Equity Incentive Plan. The following table contains information about the 2016 Equity Incentive Plan as of December 31, 2017:

	<b>Awards Reserved for Issuance</b>	<b>Awards Issued</b>	<b>Awards Available for Grant</b>
2016 Equity Incentive Plan	30,000,000	1,177,732	28,822,268

##### Stock Options

The following table summarizes the Company’s stock option activity and related information for the year ended December 31, 2017:

	<b>Number of Shares</b>	<b>Weighted- Average Exercise Price Per Share</b>	<b>Weighted- Average Remaining Contractual Life</b>	<b>Aggregate Intrinsic Value of In- the-Money Options</b>
<b>Options Outstanding as of January 1, 2016</b>	-	\$ -		
Options Granted	446,667	\$ 1.35		
Options Exercised	-	\$ -		
Options Forfeited	-	\$ -		
Options Expired	-	\$ -		
<b>Options Outstanding as of December 31, 2016</b>	<b>446,667</b>	<b>\$ 1.35</b>		
Options Granted	731,065	\$ 2.68		
Options Exercised	-	\$ -		
Options Forfeited	-	\$ -		
Options Expired	-	\$ -		
<b>Options Outstanding as of December 31, 2017</b>	<b>1,177,732</b>	<b>\$ 2.17</b>	<b>8.9 Years</b>	<b>\$ 4,330,481</b>
<b>Options Exercisable as of December 31, 2017</b>	<b>491,035</b>	<b>\$ 1.90</b>	<b>8.6 Years</b>	<b>\$ 1,940,491</b>

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The aggregate intrinsic value is calculated as the difference between the Company's closing stock price of \$5.85 on December 31, 2017 and the exercise price of options, multiplied by the number of options. As of December 31, 2017, there was \$1,547,443 total unrecognized stock-based compensation. Such costs are expected to be recognized over a weighted-average period of approximately 2.2 years.

The Company recognizes compensation expense for stock option awards on a straight-line basis over the applicable service period of the award. The service period is generally the vesting period. The following weighted-average assumptions were used to calculate stock-based compensation:

	<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
Expected term (years)	5 Years	5 Years
Volatility	117.3-120.9%	121.62%
Risk-Free Interest Rate	2.0-2.4%	2.5%
Dividend Yield	0%	0%

The Company does not have sufficient historical information to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior. Hence, the Company uses the "simplified method" described in Staff Accounting Bulletin 107 to estimate the expected term of share option grants.

The expected stock price volatility assumption was determined by examining the historical volatilities for the Company's common stock. The Company will continue to analyze the historical stock price volatility and expected term assumptions as more historical data for the Company's common stock becomes available.

The risk-free interest rate assumption is based on the U.S. treasury instruments whose term was consistent with the expected term of the Company's stock options.

The expected dividend assumption is based on the Company's history and expectation of dividend payouts. The Company has never paid dividends on its common stock and does not anticipate paying dividends on its common stock in the foreseeable future. Accordingly, the Company has assumed no dividend yield for purposes of estimating the fair value of the Company stock-based compensation.

The Company estimates the forfeiture rate at the time of grant and revisions, if necessary, were estimated based on management's expectation through industry knowledge and historical data.

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**Stock-Based Compensation Expense**

The following table sets forth the total stock-based compensation expense resulting from stock options and restricted grants of common stock to employees, directors and non-employee consultants in the consolidated statement of operations which are included in selling, general and administrative expenses:

Type of Award	For the Year Ended			
	December 31, 2017		December 31, 2016	
	Number of Shares or Options Granted	Stock-Based Compensation Expense	Number of Shares or Options Granted	Stock-Based Compensation Expense
Stock Options	731,065	\$ 692,971	446,667	\$ 190,355
Stock Grants:				
Employees (Common Stock)	158,867	490,880	-	-
Employees (Series B Preferred Stock)	40,000	1,035,406	430,113	2,451,220
Directors (Common Stock)	81,061	221,973	71,381	334,424
Non-Employee Consultants (Common Stock)	389,374	1,284,562	422,971	2,406,061
<b>Total Stock-Based Compensation Expense</b>		<b>\$ 3,725,792</b>		<b>\$ 5,382,060</b>

**NOTE 17 – WARRANTS**

The Company has the following shares of common stock reserved for exercise of the warrants outstanding as of December 31, 2017:

	Shares	Weighted-Average Exercise Price
<b>Warrants Outstanding as of January 1, 2016</b>	2,161,734	\$ 2.70
Warrants Exercised	(1,873,206)	\$ 2.55
Warrants Granted	802,122	\$ 3.45
Warrants Expired	(34,889)	\$ 6.75
<b>Warrants Outstanding as of December 31, 2016</b>	1,055,761	\$ 2.85
Warrants Exercised	-	\$ -
Warrants Granted	214,915	\$ 2.79
Warrants Expired	(79,309)	\$ 3.34
<b>Warrants Outstanding as of December 31, 2017</b>	<b>1,191,367</b>	<b>\$ 0.19</b>

The weighted-average exercise price and weighted-average fair value of the warrants granted by the Company are as follows:

	For the Year Ended			
	December 31, 2017		December 31, 2016	
	Weighted-Average Exercise Price	Weighted-Average Fair Value	Weighted-Average Exercise Price	Weighted-Average Fair Value
Warrants Granted Whose Exercise Price Exceeded Fair Value at the Date of Grant	\$ -	\$ -	\$ 4.50	\$ 3.75
Warrants Granted Whose Exercise Price Was Equal or Lower Than Fair Value at the Date of Grant	\$ 2.79	\$ 3.20	\$ 4.35	\$ 4.80

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The following table summarizes information about fixed-price warrants outstanding as of December 31, 2017:

<u>Range of Exercise Prices</u>	<u>Number Outstanding at December 31, 2017</u>	<u>Average Remaining Contractual Life</u>	<u>Weighted-Average Exercise Price</u>
\$ 0.90	304,467	9 Months	\$ 0.90
\$ 0.99	16,629	36 Months	\$ 0.99
\$ 1.82	61,932	16 Months	\$ 1.82
\$ 1.95	57,559	15 Months	\$ 1.95
\$ 2.04	44,053	55 Months	\$ 2.04
\$ 2.06	105,263	6 Months	\$ 2.06
\$ 2.40	111,759	37 Months	\$ 2.40
\$ 2.91	56,760	60 Months	\$ 2.91
\$ 3.09	26,711	6 Months	\$ 3.09
\$ 3.12	52,834	56 Months	\$ 3.12
\$ 3.74	24,048	50 Months	\$ 3.74
\$ 4.05	37,037	48 Months	\$ 4.05
\$ 5.25	170,190	40 Months	\$ 5.25
\$ 5.55	11,905	33 Months	\$ 5.55
\$ 6.15	29,268	47 Months	\$ 6.15
\$ 6.60	80,952	32 Months	\$ 6.60
	<b>1,191,367</b>		

For the warrants issued in 2017 and 2016 the Company valued the warrants utilizing the Black-Scholes option-pricing model with the following weighted-average inputs:

	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Stock Price on Date of Grant	\$ 4.15	\$ 4.80
Exercise Price	\$ 2.79	\$ 4.50
Volatility	126.14%	138.00%
Term	5-Years	5-Years
Risk-Free Interest Rate	1.87%	1.24%
Expected Dividend Rate	0%	0%

Based on the Black-Scholes calculations, warrant expense of \$211,534, \$467,066, and \$1,148,069 was recorded during the years ended December 31, 2017, 2016, and 2015, respectively. For the year ended December 31, 2017, \$478,008 of warrants were issued in connection with debt and recorded as a debt discount.

**NOTE 18 – COMMITMENTS AND CONTINGENCIES**

**Operating Lease Commitments**

The Company leases certain business facilities under operating lease agreements that specify minimum rentals. Many of these have renewal provisions. The Company's net rent expense for the years ended December 31, 2017, 2016 and 2015 was \$1,383,033, \$515,413 and \$501,449, respectively.

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Future minimum lease payments under non-cancelable operating leases having an initial or remaining term of more than one year are as follows:

<u>Year Ending December 31</u>	<u>Scheduled Payments</u>
2018	\$ 1,580,306
2019	1,476,267
2020	1,412,252
2021	1,394,609
2022	1,065,985
2023 and Thereafter	2,894,828
<b>Total Future Minimum Lease Payments</b>	<b><u>\$ 9,824,247</u></b>

**Production Operating Agreement**

On May 23, 2017, the Company entered into a one-year operating agreement with Panther Gap Farms pursuant to which Panther Gap Farms will grow up to approximately one metric ton of the Company's IVXX cannabis annually. The operating agreement is renewable, upon mutual agreement between Panther Gap Farms and the Company, for up to three additional terms of one year each. The agreement requires the Company to issue common stock, with a value of \$1,150,000, upon execution of the agreement, which the Company issued in August 2017 and held in escrow. In addition to the common stock, the Company is required to issue common stock, with a value of \$785,500, for the profit share of the cannabis ultimately sold by the Company upon execution of the agreement. Panther Gap Farms has the right to receive up to \$100,000 in cash in lieu of receiving the common stock related to the net profit share. If Panther Gap Farms requests such cash payment, the amount of common stock to be delivered will be reduced by an amount equal to the amount of such cash divided by the lower of the closing price or the 30 day VWAP of common stock on the date of the agreement. The shares to be received by Panther Gap Farms under the profit share agreement are dependent on the ultimate profit recognized by the Company when the cannabis product is sold.

The Company and Panther Gap Farms also entered into a lease agreement pursuant to which the Company leases the property on which the cannabis is grown. The lease agreement requires monthly payments of \$30,000 for eight months and is also renewable for up to three additional terms of one year each.

**California Operating Licenses**

Effective January 1, 2018 the State of California allowed for adult use cannabis sales. California's cannabis licensing system is being implemented in two phases. First, beginning on January 1, 2018, the state began issuing temporary licenses that will expire on May 1, 2018 for retail and distribution permits and May 20, 2018 for cultivation permits. The Company's prior license obtained from the local jurisdictions it operated in have been continued by such jurisdictions and are necessary to obtain State licensing. The Company has received a temporary license for each local jurisdiction which it had active operations. The temporary permits may be extended for an additional period of time. The Company intends to submit its applications for the annual permits in April 2018. Although the Company believes it will receive the necessary licenses from the state to conduct its business in a timely fashion, there is no guarantee the Company will be able to do so and any failure to do so may have a negative effect on its business and results of operations.

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**NOTE 19 – SELECTED QUARTERLY FINANCIAL DATA (Unaudited)**

Selected financial data for 2017 and 2016 is summarized as follows and highlights certain items that impacted our quarterly results (unaudited):

	<b>Year Ended December 31, 2017</b>			
	<b>(Unaudited)</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Total Revenues	\$ 6,824,456	\$ 7,842,873	\$ 10,121,375	\$ 11,012,140
Gross Profit	\$ 359,063	\$ 1,506,373	\$ 2,334,938	\$ 1,276,699
Loss from Operations	\$ (6,027,237)	\$ (4,522,914)	\$ (3,903,172)	\$ (5,426,695)
Amortization of Debt Discount	\$ (610,616)	\$ (515,654)	\$ (490,068)	\$ (522,424)
Impairment of Property	\$ -	\$ -	\$ (138,037)	\$ -
Impairment of Intangible Assets	\$ -	\$ -	\$ -	\$ (757,467)
Loss on Extinguishment of Debt	\$ (1,039,458)	\$ (1,639,137)	\$ (1,373,538)	\$ (3,092,155)
(Loss) Gain on Fair Market Valuation of Derivatives	\$ 1,610,750	\$ 987,200	\$ (1,475,900)	\$ (4,616,600)
Interest Expense	\$ (157,833)	\$ (130,510)	\$ (119,650)	\$ (134,671)
Gain on Settlement of Contingent Consideration	\$ -	\$ 4,991,571	\$ -	\$ -
Loss on Fair Market Valuation of Contingent Consideration	\$ (4,348,761)	\$ (77,286)	\$ -	\$ -
Net Loss Attributable to Terra Tech Corp.	\$(10,111,988)	\$ (453,769)	\$ (7,792,933)	\$(14,318,913)
Net Loss Per Common Share Attributable to Terra Tech Corp. Common Stockholders – Basic and Diluted	\$ (0.27)	\$ (0.01)	\$ (0.16)	\$ (0.24)
Stock Price Per Share:				
High	\$ 5.10	\$ 4.35	\$ 4.35	\$ 5.85
Low	\$ 3.75	\$ 2.10	\$ 3.00	\$ 2.70

	<b>Year Ended December 31, 2016</b>			
	<b>(Unaudited)</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Total Revenues	\$ 1,548,167	\$ 9,699,909	\$ 6,950,365	\$ 7,129,322
Gross Profit	\$ 133,974	\$ 1,649,944	\$ 1,319,386	\$ (530,621)
Loss from Operations	\$ (1,912,374)	\$ (3,817,377)	\$ (4,686,560)	\$ (7,731,540)
Amortization of Debt Discount	\$ (94,406)	\$ (218,126)	\$ (610,089)	\$ (491,581)
Loss on Extinguishment of Debt	\$ (920,797)	\$ -	\$ -	\$ (4,462,016)
Loss from Derivatives Issued with Debt Greater Than Debt Carrying Value	\$ -	\$ (488,000)	\$ (867,000)	\$ (132,500)
(Loss) Gain on Fair Market Valuation of Derivatives	\$ (1,160,700)	\$ (206,000)	\$ 771,000	\$ (1,248,800)
Interest Expense	\$ (55,995)	\$ (60,565)	\$ (159,633)	\$ (101,156)
Gain on Fair Market Valuation of Contingent Consideration	\$ -	\$ -	\$ -	\$ 668,694
Provision (Benefit) for Income Taxes	\$ -	\$ 381,000	\$ 410,300	\$ (791,300)
Net Loss Attributable to Terra Tech Corp.	\$ (4,126,064)	\$ (4,934,238)	\$ (5,587,759)	\$(12,270,829)
Net Loss Per Common Share Attributable to Terra Tech Corp. Common Stockholders – Basic and Diluted	\$ (0.19)	\$ (0.21)	\$ (0.24)	\$ (0.35)
Stock Price Per Share:				
High	\$ 6.30	\$ 11.25	\$ 7.65	\$ 8.40
Low	\$ 1.35	\$ 3.30	\$ 4.05	\$ 3.30

**NOTE 20 – SEGMENT INFORMATION**

The Company's operating and reportable segments are currently organized around the following products that it offers as part of its core business strategy:

- **Herbs and Produce Products** – Includes herbs and leafy greens that are grown using classic Dutch hydroponic farming methods.
- **Cannabis Dispensary, Cultivation and Production** – Includes cannabis-focused retail, cultivation and production.

The Company experienced significant growth over the last few years in most of our product areas. As the Company has grown organically, and as the Company previously added to its capabilities through acquisitions, its products have increased in scale and become more strategically important and distinctly organized and managed under these two groupings. In addition, Derek Peterson, the Company's Chief Operating Decision Maker ("CODM"), reviews results, manages and allocates resources between these two strategic business groupings, and budgets using these business segments. The Company's CODM reviews revenues including intersegment revenues, gross profit and operating income (loss) before income taxes when evaluating segment performance and allocating resources to each segment. Accordingly, intersegment revenue is included in the segment revenues presented in the tables below and is eliminated from revenues and cost of goods sold in the "Eliminations and Other" column. The "Eliminations and Other" column also includes various income and expense items that the Company does not allocate to its operating segments. These income and expense amounts include interest income, interest expense, corporate overhead, and corporate-wide expense items such as legal and professional fees as well as expense items for which the Company has not identified a reasonable basis for allocation. The accounting policies of the reportable segments are the same as those described in "Note 2 - Summary of Significant Accounting Policies" of the notes to consolidated financial statements.







**Herbs and Produce Products**

Either independently or in conjunction with third parties, the Company is a wholesale seller of locally grown hydroponic herbs, produce, and floral products, which are distributed through major grocery stores throughout the East and Midwest regions of the U.S.

**Cannabis Dispensary, Cultivation and Production**

Either independently or in conjunction with third parties, the Company operates medical and adult use marijuana retail dispensaries, medical and adult use marijuana cultivation and production facilities in California and Nevada. The Company owns real property in Nevada on which the Company plans to build a medical marijuana grow facility. All of our retail dispensaries in California offer a broad selection of medical cannabis products including flowers, concentrates and edibles while our dispensaries in Nevada offer a broad selection of medical and adult use cannabis products including flowers, concentrates and edibles. The Company also produces and sells a line of medical cannabis flowers, as well as a line of medical cannabis-extracted products, which include concentrates, cartridges, vape pens and wax products.

Summarized financial information concerning the Company's reportable segments is shown in the following tables. Total asset amounts at December 31, 2017, 2016 and 2015 exclude intercompany receivable balances eliminated in consolidation.

	<b>For the Year Ended December 31, 2017</b>			
	<b>Herbs and Produce Products</b>	<b>Cannabis Dispensary, Cultivation and Production</b>	<b>Eliminations and Other</b>	<b>Total</b>
Total Revenues	\$ 5,701,233	\$ 30,031,046	\$ 68,565	\$ 35,800,844
Cost of Goods Sold	5,211,658	25,112,113	-	30,323,771
Gross Profit	489,575	4,918,933	68,565	5,477,073
Selling, General and Administrative Expenses	3,123,037	10,843,210	11,390,844	25,357,091
Loss from Operations	(2,633,462)	(5,924,277)	(11,322,279)	(19,880,018)
Other Income (Expense):				
Amortization of Debt Discount	-	-	(2,138,762)	(2,138,762)
Impairment of Property	-	-	(138,037)	(138,037)
Impairment of Intangibles	(757,467)	-	-	(757,467)
(Loss) Gain on Extinguishment of Debt	(18)	187	(7,144,457)	(7,144,288)
Loss on Fair Market Valuation of Derivatives	-	-	(3,494,550)	(3,494,550)
Interest (Expense) Income	-	110	(542,774)	(542,664)
Gain on Settlement of Contingent Consideration	-	4,991,571	-	4,991,571
Loss on Fair Market Valuation of Contingent Consideration	-	(4,426,047)	-	(4,426,047)
Total Other Income (Expense)	(757,485)	565,821	(13,458,580)	(13,650,244)
Loss Before Provision for Income Taxes	\$ (3,390,947)	\$ (5,358,456)	\$ (24,780,859)	\$ (33,530,262)
Total Assets at December 31, 2017	\$ 5,847,286	\$ 69,844,546	\$ 22,495,967	\$ 98,187,799

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	<b>For the Year Ended December 31, 2016</b>			
	<b>Herbs and Produce Products</b>	<b>Cannabis Dispensary, Cultivation and Production</b>	<b>Eliminations and Other</b>	<b>Total</b>
Total Revenues	\$ 12,000,423	\$ 13,207,327	\$ 120,013	\$ 25,327,763
Cost of Goods Sold	11,021,449	11,664,737	68,894	22,755,080
Gross Profit	978,974	1,542,590	51,119	2,572,683
Selling, General and Administrative Expenses	2,520,061	5,729,884	12,470,589	20,720,534
Loss from Operations	(1,541,087)	(4,187,294)	(12,419,470)	(18,147,851)
Other Income (Expense):				
Amortization of Debt Discount	-	-	(1,414,202)	(1,414,202)
Loss on Extinguishment of Debt	-	-	(5,382,813)	(5,382,813)
Loss from Derivatives Issued with Debt Greater than Debt Carrying Value	-	-	(1,487,500)	(1,487,500)
Loss on Fair Market Valuation of Derivatives	-	-	(1,844,500)	(1,844,500)
Interest Expense	-	-	(377,349)	(377,349)
Gain on Fair Market Valuation of Contingent Consideration	-	-	668,694	668,694
Total Other Income (Expense)	-	-	(9,837,670)	(9,837,670)
Loss Before Provision for Income Taxes	\$ (1,541,087)	\$ (4,187,294)	\$ (22,257,140)	\$ (27,985,521)
Total Assets at December 31, 2016	\$ 7,064,697	\$ 12,516,441	\$ 56,597,592	\$ 76,178,730
	<b>For the Year Ended December 31, 2015</b>			
	<b>Herbs and Produce Products</b>	<b>Cannabis Dispensary, Cultivation and Production</b>	<b>Eliminations and Other</b>	<b>Total</b>
Total Revenues	\$ 8,633,538	\$ 1,207,424	\$ 134,384	\$ 9,975,346
Cost of Goods Sold	7,771,039	1,078,852	108,584	8,958,475
Gross Profit	862,499	128,572	25,800	1,016,871
Selling, General and Administrative Expenses	1,910,375	763,728	7,159,543	9,833,646
Loss from Operations	(1,047,876)	(635,156)	(7,133,743)	(8,816,775)
Other Income (Expense):				
Amortization of Debt Discount	-	-	(696,180)	(696,180)

Loss on Extinguishment of Debt	-	-	(619,444)	(619,444)
Loss from Derivatives Issued with Debt Greater than Debt Carrying Value	-	-	(561,000)	(561,000)
Gain on Fair Market Valuation of Derivatives	-	-	1,800,100	1,800,100
Interest Expense	-	-	(469,576)	(469,576)
Total Other Income (Expense)	-	-	(546,100)	(546,100)
Loss Before Provision for Income Taxes	\$ (1,047,876)	\$ (635,156)	\$ (7,679,843)	\$ (9,362,875)
Total Assets at December 31, 2015	\$ 5,383,659	\$ 1,671,966	\$ 2,109,414	\$ 9,165,039

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**NOTE 21 – LITIGATION AND CLAIMS**

The Company is the subject of lawsuits and claims arising in the ordinary course of business from time to time. The Company reviews any such legal proceedings and claims on an ongoing basis and follows appropriate accounting guidance when making accrual and disclosure decisions. The Company establishes accruals for those contingencies where the incurrence of a loss is probable and can be reasonably estimated, and it discloses the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for the Company's financial statements to not be misleading. To estimate whether a loss contingency should be accrued by a charge to income, the Company evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of the loss. The Company does not record liabilities when the likelihood that the liability has been incurred is probable, but the amount cannot be reasonably estimated. Based upon present information, the Company determined that there were no matters that required an accrual as of December 31, 2017 nor were there any asserted or unasserted material claims for which material losses are reasonably possible.

## **NOTE 22 – RELATED PARTY TRANSACTIONS**

Except as described below, during the past fiscal year, there have been no transactions, whether directly or indirectly, between the Company and any of its respective officers, directors, beneficial owners of more than 5% of our outstanding Common Stock or their family members, that exceeded the lesser of \$120,000 or 1% of the average of our total assets at year-end for the last completed fiscal year.

During the three months ended March 31, 2016, the Company's subsidiary, IVXX, purchased raw materials totaling \$16,076 from Black Oak, an entity in which the Company's Chief Executive Officer then-held an ownership interest of 12% prior to the acquisition. On April 1, 2016, we acquired Black Oak and it became a wholly-owned subsidiary of the Company. There was no accounts receivable balance from Black Oak as of March 31, 2016. During the year ended December 31, 2017, all transactions between IVXX and Black Oak were eliminated in consolidation.

Prior to the acquisition of Black Oak, IVXX had historically not been charged any rent for use of the space where its extraction lab is located.

The Company leases the land in Belvidere, New Jersey, on which Edible Garden's greenhouse structure is situated. The land is being leased from Whitetown Realty, LLC, an entity in which David Vande Vrede and Greda Vande Vrede own interests. David Vande Vrede and Greda Vande Vrede are the parents of one of our directors, Kenneth Vande Vrede. The lease commenced on January 1, 2015 and expires December 31, 2029. The current monthly lease amount is \$14,640 and increases 1.5% each calendar year.

Pursuant to an Independent Director Agreement dated June 9, 2016 by and between the Company and Steven J. Ross, the Company agreed to pay Mr. Ross \$8,333 per month for a period of one year. The Company also issued to Mr. Ross an aggregate of 48,048 restricted shares of Common Stock, of which all of the shares vested on the date of appointment.

Pursuant to an Independent Director Agreement dated June 1, 2017 by and between the Company and Steven J. Ross, the Company agreed to pay Mr. Ross \$10,000 per month for a period of one year. The Company also issued to Mr. Ross an aggregate of 72,727 restricted shares of Common Stock, of which all of the shares vested on the date of appointment.

Pursuant to an Independent Director Agreement dated November 15, 2017 by and between the Company and Alan Gladstone, the Company agreed to pay Mr. Gladstone \$6,250 per month for a period of one year. The Company also issued to Mr. Gladstone an aggregate of 29,167 shares of the Company's stock options, to be fully vested on the date of appointment.

On December 12, 2017 management entered into a lock-up agreement with Derek Peterson, the Company's Chief Executive Officer and Chairman of the Board, subject to certain exceptions, not to sell any shares of the Company's common stock for a period of one year from date of the lock-up agreement.

On May 7, 2013, Edible Garden entered into a letter agreement with Gro-Rite related to Edible Garden's right to purchase and distribute a majority of Gro-Rite's plant products. During the year ended December 31, 2017, the agreement is still in effect on a month to month basis. Gro-Rite is affiliated with one of our directors, Kenneth Vande Vrede. Edible Garden received a valuable strategic partnership through this letter agreement. The revenue under the agreement was not significant for the years ended December 31, 2017, 2016 and 2015.

On May 7, 2013, Edible Garden entered into a letter agreement with NB Plants related to Edible Garden's right to purchase and distribute a majority of NB Plants' plant products. NB Plants is affiliated with three of our directors, Kenneth Vande Vrede, Michael Vande Vrede, and Steven Vande Vrede, and another member of their family. Edible Garden receives a valuable strategic partnership through this letter agreement. This agreement was terminated as of December 31, 2016. For the years ended December 31, 2016 and 2015, the sales under this agreement of \$7,649,125 and \$6,166,927, respectively. There were no sales during the year ended December 31, 2017 as the agreement was terminated as of December 31, 2016.

Pursuant to the Krueger Independent Director Agreement dated November 2, 2015, the Company agreed to issue to Mr. Krueger an aggregate of 23,333 restricted shares of its Common Stock, to be fully vested on the date of appointment. The value of the 23,333 shares of Common Stock was equal to approximately \$60,550.

## **NOTE 23 – SUBSEQUENT EVENTS**

### **Equity Financing Facility**

Subsequent to December 31, 2017, the Company issued 160,450 shares of common stock for cash in the amount of \$750,000 pursuant to an equity financing with an accredited investor.

Subsequent to December 31, 2017, the Company issued a \$5,000,000 convertible note to an accredited investor. The convertible note matures in July 2019 and accrues interest at a rate of 12.0% per year.

Subsequent to December 31, 2017, the Company obtained a \$40,000,000 Securities Purchase Agreement with an accredited investor. As of March 16, 2018, the Company issued one \$5,000,000 convertible note to the accredited investor under this Securities Purchase Agreement. The convertible note matures in September 2019 and accrues interest at 7.5% per year.

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**Debt and Interest Converted into Equity**

Subsequent to December 31, 2017, senior convertible promissory notes and accrued interest in the amount of \$9,400,000 and \$84,613, respectively, were converted into 3,141,005 shares of common stock.

**Option Issuances**

Subsequent to December 31, 2017, the Company issued 800,000 options which vest quarterly over 3 years to various directors and executives.

**Other Events**

Throughout January 2018, various directors and executive management entered into lock-up agreements, subject to certain exceptions, not to sell any shares of the Company's common stock for a period of one year from their respective date of lock-up agreement.

On March 12, 2018, the Company notified the other party to the Tech Center Drive acquisition, See "Note 4 – Acquisitions" the amount to be adjusted from the shares held in escrow. The other party has thirty days from the date of notice to respond.

On March 12, 2018, the Company implemented 1-for-15 reverse stock split of the Company's common stock (the "Reverse Stock Split"). The Reverse Stock Split became effective in the stock market upon commencement of trading on March 13, 2018. As a result of the Reverse Stock Split, every fifteen shares of the Company's Pre-Reverse Stock Split common stock were combined and reclassified into one share of the Company's common stock. No fractional shares were issued in connection with the Reverse Stock Split, and any fractional shares were rounded up to the nearest whole share. The number of shares of common stock subject to outstanding options, warrants and convertible securities were also reduced by a factor of fifteen as of March 13, 2018. All historical share and per share amounts reflected throughout consolidated financial statements have been adjusted to reflect the Reverse Stock Split. The authorized number of shares and the par value per share of the Company's common stock were not affected by the Reverse Stock Split.

On December 6, 2017, the Company through Dyer, entered into an agreement to purchase real property for a purchase price of \$11,000,000. On January 18, 2018, the Company closed on the acquisition of the real property.

In connection with the acquisition of the real property, on January 18, 2018 the Company entered into a loan agreement with an unrelated third party to lend the Company \$6,500,000 for the purchase of the real property. The loan is collateralized by the real property. The Loan matures on the three-year anniversary of the closing date (January 18, 2018); provided that the Company may extend the maturity date by 12 months by delivering a notice to the lender at least 30 days before the stated maturity date. The Loan bears interest at the rate of 12% during the first 12 months, 12.5% during the second 12 months, 13% during the third 12 months, and 13.5% during any extension. The Company prepaid the first three (3) months of interest on the Loan and additional interest payments are due on the first day of each month starting on the fourth month after the Closing Date. The Company may prepay the loan, in whole or in part, at any time after the end of the third full month immediately following the closing date, without penalty or premium. At any time after an event of default, as defined in the loan agreement, the Company may elect to convert the then outstanding principal balance and interest due on the Loan into shares of common stock of the Company at a price based on commercially reasonable determinations, plus a default penalty of 130% of the principal balance and interest.

In connection with the \$40.0 million Securities Purchase Agreement noted above, on June 7, 2018 the Company issued a \$5,000,000 convertible note to an accredited investor which matures in December 2019 and accrues interest at the rate of 7.5%.



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

**TERRA TECH CORP.**

Date: June 12, 2018

By: /s/ Derek Peterson  
Derek Peterson  
Chief Executive Officer

**Consent of Independent Registered Public Accounting Firm**

Terra Tech Corp  
Irvine, California

We hereby consent to the incorporation by reference in the Supplemental Prospectus constituting a part of the Registration Statement (No. 333-210673), of our report dated March 16, 2018, except as to the 11<sup>th</sup> paragraph of Note 23 as to which the date is June 7, 2018, relating to the consolidated financial statements and our report dated March 16, 2018 relating to the effectiveness of Terra Tech Corp's internal control over financial reporting, appearing in Amendment No. 1 on Form 10-K/A for the year ended December 31, 2017.

We also consent to the reference to us under the caption "Experts" in the Supplemental Prospectus.

/s/ Macias Gini & O'Connell LLP

Sacramento, California  
June 12, 2018



**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and  
Stockholders of Terra Tech Corp.:

We consent to incorporation by reference in the Supplemental Prospectus constituting a part of the Registration Statement (No. 333-210673), of our report dated March 16, 2018, except as to the 11<sup>th</sup> paragraph on Note 23 as to which the date is June 7, 2018, with respect to the audit of Terra Tech Corp.'s Consolidated Statements of Operations, Stockholders' Equity, and Cash Flows for the fiscal year ended December 31, 2015, as appearing in Amendment No. 1 on Form 10-K/A.

*/s/ Benjamin & Young, LLP*  
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Irvine, California  
June 12, 2018

**Certification of Chief Executive Officer**  
**Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934**

I, Derek Peterson, certify that:

1. I have reviewed this annual report on Form 10-K/A for the year ended December 31, 2017 of Terra Tech Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 12, 2018

By: /s/ Derek Peterson  
Derek Peterson  
Chief Executive Officer

**Certification of Chief Financial Officer**  
**Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934**

I, Michael James, certify that:

1. I have reviewed this annual report on Form 10-K/A for the year ended December 31, 2017 of Terra Tech Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 12, 2018

By: /s/ Michael James

Michael James  
Chief Financial Officer

**Certifications of Chief Executive Officer**  
**Pursuant to 1350 of Chapter 63 of Title 18 of the United States Code**

Pursuant to U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Executive Officer of Terra Tech Corp. (the "Company") does hereby certify, to the best of such officer's knowledge, that:

1. The Annual Report on Form 10-K/A of the Company for the year ended December 31, 2017 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 12, 2018

By: /s/ Derek Peterson

Derek Peterson  
Chief Executive Officer

The certifications set forth above are being furnished as an exhibit solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Terra Tech Corp. and will be retained by Terra Tech Corp. and furnished to the Securities and Exchange Commission or its staff upon request.

**Certifications of Chief Financial Officer**  
**Pursuant to 1350 of Chapter 63 of Title 18 of the United States Code**

Pursuant to U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Chief Financial Officer of Terra Tech Corp. (the "Company") does hereby certify, to the best of such officer's knowledge, that:

1. The Annual Report on Form 10-K/A of the Company for the year ended December 31, 2017 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 12, 2018

By: /s/ Michael James

Michael James  
Chief Financial Officer

The certifications set forth above are being furnished as an exhibit solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Terra Tech Corp. and will be retained by Terra Tech Corp. and furnished to the Securities and Exchange Commission or its staff upon request.