



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

(Unaudited)

Condensed Interim Consolidated Statement of Financial Position

(In U.S. Dollars)
(Unaudited)

	Note	Mar 31, 2018	Dec 31, 2017
ASSETS			
Current Assets:			
Cash		\$ 3,270,001	\$ 6,175,287
Receivables and prepaid assets	4	5,866,760	384,862
Notes receivable	5	5,659,426	11,066,605
Inventory	6	2,426,462	126,106
Biological assets	7	3,171,037	129,708
Other current assets		961,463	434,901
		21,355,149	18,317,469
Non-current Assets:			
Investments and non-current notes receivable	8	233,047	3,099,969
Investment in associate	9	2,365,626	2,189,815
Property, plant and equipment	10	19,372,089	10,285,599
Intangible assets	11	4,494,010	4,439,535
Goodwill	11	75,934,783	7,182,675
Other assets		239,495	306,409
TOTAL ASSETS		\$ 123,994,199	\$ 45,821,471
LIABILITIES AND EQUITY			
Current Liabilities:			
Payables and accrued liabilities		\$ 3,383,414	\$ 2,356,405
Interest payable		676,050	421,862
Current portion of long-term debt	12	19,038,275	1,031,262
Derivative liabilities	12	6,015,064	592,959
Financial liabilities	4	4,256,074	4,411,481
Other liabilities		507,627	378,531
		33,876,504	9,192,500
Non-current Liabilities:			
Long-term debt	12	-	13,567,430
Deferred tax liabilities	4	1,236,306	1,236,306
Total Liabilities		35,112,810	23,996,236
Shareholders' Equity:			
Share capital	13	90,982,118	32,681,399
Shares to be issued	4	9,110,961	113,226
Reserves	13	9,802,050	9,652,181
Accumulated deficit		(21,124,551)	(20,479,383)
Accumulated other comprehensive income (loss)		110,811	(142,188)
Total Shareholder's Equity		88,881,389	21,825,235
TOTAL LIABILITIES AND EQUITY		\$ 123,994,199	\$ 45,821,471

On behalf of the Board of Directors



Hadley Ford
Director



Julius Kalcevich
Director

See accompanying notes to the condensed interim consolidated financial statements

Condensed Interim Consolidated Statement of Loss and Comprehensive Loss

(In U.S. Dollars, except share amounts)

(Unaudited)

	Note	Three months ended Mar 31, 2018	Three months ended Mar 31, 2017
Sales		\$ 225,076	\$ -
Cost of goods sold		(39,917)	-
Fair value adjustment on biological assets, net costs	7	2,607,104	-
Gross profit		2,792,263	-
Interest revenue		358,409	240,159
Other revenue		86,015	90,190
		3,236,687	330,349
Operating expenses:			
Depreciation and amortization	10, 11	480,794	97,414
Administrative and other expenses		1,318,221	455,802
Wages and salaries		1,484,191	364,585
Share-based compensation	13	1,754,325	328,044
Legal and professional fees		1,262,056	259,183
Consulting fees		920,857	417,253
Total operating expenses		7,220,444	1,922,281
Other items:			
Interest expense	12	(861,489)	(126,368)
Accretion expense	12	(2,871,056)	(163,874)
Changes in fair value	12, 4	7,126,370	(33,168)
Profits from investment in associate	9	175,811	23,902
Foreign exchange loss		(28,917)	(229)
Other losses		(202,130)	-
Total other items		3,338,589	(299,737)
Net loss		\$ (645,168)	\$ (1,891,669)
Other comprehensive gains			
Foreign exchange gain on translation		252,999	14,816
Comprehensive loss		\$ (392,169)	\$ (1,876,853)
Loss per share - basic and diluted		\$ (0.01)	\$ (0.07)
Weighted average number of common shares outstanding - basic and diluted		50,245,699	27,233,079

See accompanying notes to the condensed interim consolidated financial statements

Condensed Interim Consolidated Statement of Changes in Equity

(In U.S. Dollars, except share amounts)

(Unaudited)

	Note	Number of Shares (Common)	Number of Shares (Class A)	Share Capital	Shares to be Issued	Option Reserves	Warrant Reserves	Convertible Debtentures Reserves	Accumulated Other Comprehensive Income	Accumulated Deficit	Shareholders' Equity
Balance – January 1, 2017		15,976,269	11,255,000	\$ 19,494,534	\$ -	\$ 1,202,353	\$ 3,500,580	\$ -	\$ 72,061	\$ (6,762,718)	\$ 17,506,810
Exercise of warrants	13	12,500	-	34,895	-	-	(6,078)	-	-	-	28,817
Share-based compensation	13	-	-	-	-	328,044	-	-	-	-	328,044
Share issuance costs		-	-	-	-	-	5,058	-	-	-	5,058
Convertible debentures financing	12	-	-	-	-	-	-	1,880,093	-	-	1,880,093
Financing fees	12	-	-	-	-	-	-	(102,230)	-	-	(102,230)
Other comprehensive loss		-	-	-	-	-	-	-	14,816	-	14,816
Net loss		-	-	-	-	-	-	-	-	(1,891,669)	(1,891,669)
Balance – March 31, 2017		15,988,769	11,255,000	\$ 19,529,429	\$ -	\$ 1,530,397	\$ 3,499,560	\$ 1,777,863	\$ 86,877	\$ (8,654,387)	\$ 17,769,739
Balance – January 1, 2018		26,337,355	11,255,000	\$ 32,681,399	\$ 113,226	\$ 4,101,302	\$ 3,852,131	\$ 1,698,748	\$ (142,188)	\$ (20,479,383)	\$ 21,825,235
Exercise of warrants	13	780,258	-	2,207,583	-	-	(979,537)	-	-	-	1,228,046
Share-based compensation	13	-	-	-	-	1,754,325	-	-	-	-	1,754,325
Share issuance costs		-	-	(32,323)	-	-	-	-	-	-	(32,323)
Conversion of February 2017 Debentures	12	2,267,737	-	6,070,710	-	-	-	(624,919)	-	-	5,445,791
Conversion of Convertible Promissory Notes	12	183,360	-	300,000	-	-	-	-	-	-	300,000
Issuance of shares as settlement for interest payable	12	12,220	-	22,708	-	-	-	-	-	-	22,708
GrowHealthy acquisition	4	12,103,172	-	38,393,337	-	-	-	-	-	-	38,393,337
Citiva acquisition	4	1,146,428	1,977,563	11,338,704	8,997,735	-	-	-	-	-	20,336,439
Other comprehensive loss		-	-	-	-	-	-	-	252,999	-	252,999
Net loss		-	-	-	-	-	-	-	-	(630,474)	(630,474)
Balance – March 31, 2018		42,830,530	13,232,563	\$ 90,982,118	\$ 9,110,961	\$ 5,855,627	\$ 2,872,594	\$ 1,073,829	\$ 110,811	\$ (21,109,857)	\$ 88,896,083

See accompanying notes to the condensed interim consolidated financial statements

Condensed Interim Consolidated Statement of Cash Flows

(In U.S. Dollars)

(Unaudited)

	Three months Mar 31, 2018	Three months Mar 31, 2017
Operating activities		
Net loss for the period	\$ (645,168)	\$ (1,891,669)
Adjustments for non-cash items:		
Biological assets	(2,331,865)	-
Interest income	(358,409)	(240,159)
Depreciation and amortization	480,794	97,414
Share-based compensation	1,754,325	328,044
Interest expense	861,489	126,368
Accretion expense	2,871,056	163,874
Profits from investment in associate	(175,811)	(23,902)
Fair value adjustments	(7,126,370)	33,168
Listing and issuance costs	-	5,058
Foreign exchange loss	28,917	(43,683)
Changes in non-cash working capital items:		
Receivables and prepaid expenses	(403,231)	(189,510)
Accounts payable and accrued liabilities	(401,926)	250,312
Inventory	(1,335,765)	-
Related party balances	(276,410)	(26,746)
Net cash used in operating activities	(7,058,374)	(1,411,431)
Investing activities		
Investments in notes receivable	(131,094)	(4,350,000)
Cash and cash equivalents from acquisitions	19,642	-
Purchase of property, plant and equipment and intangibles	(1,138,847)	(510,099)
Interest received	902,672	18,333
Impact of acquisitions	(18,058,437)	-
Purchase of Organix assets	-	(800,000)
Repayment of notes receivable	2,000,000	-
Costs incurred in reverse takeover transaction	-	(500,000)
Net cash used in investing activities	(16,406,064)	(6,141,766)
Financing activities		
Proceeds from issuance of share capital	-	28,817
Proceeds from issuance of warrants	1,228,046	-
Share issuance costs	(32,323)	(820,845)
Proceeds from issuance of long term debt	20,000,000	15,096,000
Interest paid	(569,089)	-
Net cash generated from financing activities	20,626,634	14,303,972
Net increase (decrease) in cash	(2,837,804)	6,750,775
Cash, beginning of the period	6,175,287	9,413,953
Effect of movements in exchange rates on cash held	(67,482)	(18,333)
Cash, end of the period	\$ 3,270,001	\$ 16,146,395

Note 17: Supplemental Cash Flow Information

See accompanying notes to the condensed interim consolidated financial statements

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

1. Nature of Operations

iAnthus Capital Holdings, Inc. (the “Company” or “ICH”, or “iAnthus”) provides investors diversified exposure to licensed cannabis cultivators, processors and dispensaries throughout the United States. iAnthus capitalizes on the rapidly growing U.S. regulated cannabis markets and the unique opportunity that exists for providing capital investment and expert management services to licensed cultivators, product manufacturers and dispensaries.

The Company’s registered office is located at 1055 West Georgia Street, Suite 1500, Vancouver, British Columbia, V6E 4N7, Canada. The Company is listed on the Canadian Securities Exchange (the “CSE”) under the ticker symbol “IAN” and on the OTCQB, part of the OTC Markets Group, under the ticker “ITHUF”.

2. Basis of Preparation

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee.

The condensed interim consolidated financial statements for the three months ended March 31, 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting. These condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company’s annual consolidated financial statements as at December 31, 2017. These condensed interim consolidated financial statements were approved by the Board of Directors on May 28, 2018.

Going Concern

These condensed interim consolidated financial statements have been prepared under the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue in the normal course of operations is dependent on its ability to raise financing sufficient to maintain operations and there are no assurances that the Company will be successful in achieving this goal. For the three months ended March 31, 2018, the Company reports a net loss of \$645,168 operating cash outflows of \$7,058,374 and, as of that date, an accumulated deficit amounting to \$21,124,551. These material circumstances cast substantial doubt on the Company’s ability to continue as a going concern and ultimately on the appropriateness of the use of the accounting principles applicable to a going concern. These condensed interim consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. The Company continues to have access to equity and debt financing from public and private markets in Canada. If such financing were no longer available in the public markets in Canada due to changes in applicable law, the Company expects that it would have access to raise financing privately but there are no guarantees that such financing would be available.

Basis of Measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for the following: certain financial instruments, including derivatives, and biological assets.

Functional and Presentation Currency

These condensed interim consolidated financial statements are presented in U.S. dollars. The functional currency of the standalone ICH entity is the Canadian dollar and the functional currency of all the Company’s other subsidiaries is the U.S. dollar.

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

2. Basis of Preparation (cont.)

Basis of Consolidation

These condensed interim consolidated financial statements incorporate the financial information of the Company and its subsidiaries. The accounts of subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. Intercompany transactions, balances and unrealized gains or losses on transactions are eliminated. The Company's subsidiaries and its interests in each are presented below:

Subsidiary	Jurisdiction	Interest
iAnthus Capital Management, LLC ("ICM")	Delaware, USA	100%
Pakalolo, LLC ("Pakalolo")	Delaware, USA	100%
Scarlet Globemallow, LLC ("Scarlet")	Colorado, USA	100%
Bergamot Properties, LLC ("Bergamot")	Colorado, USA	100%
Grassroots Vermont Management Services, LLC ("GVMS")	Vermont, USA	100%
FWR, Inc. ("FWR") ⁽¹⁾	Vermont, USA	100%
Pilgrim Rock Management, LLC ("Pilgrim")	Massachusetts, USA	100%
Mayflower Medicinals, Inc. ("Mayflower") ⁽¹⁾	Massachusetts, USA	100%
iAnthus Florida Holdings, LLC ("IFH")	Florida, USA	100%
GrowHealthy Properties, LLC ("GHP")	Florida, USA	100%
GHHIA Management, Inc. ("GHHIA")	Florida, USA	100%
McCrorry's Sunny Hill Nursery, LLC ("McCrorry's") ⁽¹⁾	Florida, USA	100%
iAnthus Empire Holdings, LLC ("IEH")	New York, USA	100%
Citiva Medical, LLC ("Citiva")	New York, USA	100%

⁽¹⁾ Refer to Note 4 for discussion of acquisitions and analysis of the Company's controlling interest in these subsidiaries

During the three months ended March 31, 2018, the Company has dissolved iAnthus Formation Corp. and iAnthus Transfer Corp. in order to streamline the corporate structure of the Company.

Critical Estimates and Judgments by Management

The preparation of condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

3. Segment Information

The Company divides its reportable operating segments by state. At March 31, 2018, the Company has seven reportable operating segments: Massachusetts, Vermont, Florida, New York, Colorado, New Mexico, and Corporate. These segments operate in different jurisdictions with distinct operating and regulatory considerations. The Company's management regularly reviews internal financial reporting and makes decisions based on these segments.

The Corporate segment is comprised of items not separately identifiable to the other six operating segments and are not part of the measures used by the Company when assessing the operating segments' results.

	March 31, 2018							Total
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statement of financial position								
Total assets	\$ 20,285,434	\$ 2,386,997	\$ 61,322,264	\$ 26,010,275	\$ 7,757,107	\$ 2,365,626	\$ 3,866,496	\$ 123,994,199
Total liabilities	(6,514,875)	(665,949)	(359,252)	(618,204)	(256,105)	-	(26,698,425)	(35,112,810)
Net assets (liabilities)	\$ 13,770,559	\$ 1,721,048	\$ 60,963,012	\$ 25,392,071	\$ 7,501,002	\$ 2,365,626	\$ (22,831,929)	\$ 88,881,389

	Three months ended March 31, 2018							Total
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Other information								
Property, plant and equipment	\$ 8,447,282	\$ 173,084	\$ 8,455,615	\$ 185,479	\$ 1,945,619	\$ -	\$ 165,010	\$ 19,372,089

	Three months ended March 31, 2018							Total
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statement of operations								
Gross profit	\$ 112,178	\$ 277,822	\$ 2,402,263	\$ -	\$ -	\$ -	\$ -	\$ 2,792,263
Other revenues	-	-	-	-	423,971	-	20,453	444,424
Operating expenses	(968,041)	(169,689)	(785,202)	(415,715)	(54,935)	-	(4,826,862)	(7,220,444)
Other items	155,407	(29,618)	-	-	-	175,811	3,036,989	3,338,589
Net profit (loss)	\$ (700,456)	\$ 78,515	\$ 1,617,061	\$ (415,715)	\$ 369,036	\$ 175,811	\$ (1,769,420)	\$ (645,168)

Segment information for comparative periods is presented below:

	December 31, 2017							Total
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statement of financial position								
Total assets	\$ 18,704,777	\$ 2,174,982	\$ -	\$ -	\$ 9,507,758	\$ 2,189,815	\$ 13,244,139	\$ 45,821,471
Total liabilities	(6,331,814)	(743,384)	-	-	(61,250)	-	(16,859,788)	(23,996,236)
Net assets (liabilities)	\$ 12,372,963	\$ 1,431,598	\$ -	\$ -	\$ 9,446,508	\$ 2,189,815	\$ (3,615,649)	\$ 21,825,235

	Three months ended March 31, 2017							Total
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Other information								
Property, plant and equipment	\$ 8,062,001	\$ 117,259	\$ -	\$ -	\$ 1,951,206	\$ -	\$ 155,133	\$ 10,285,599

	Three months ended March 31, 2017							Total
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statement of operations								
Other revenues	\$ -	\$ -	\$ -	\$ -	\$ 169,685	\$ -	\$ 160,664	\$ 330,349
Operating expenses	-	-	-	-	(105,217)	-	(1,817,064)	(1,922,281)
Other items	-	-	-	-	-	23,902	(323,639)	(299,737)
Net profit (loss)	\$ -	\$ -	\$ -	\$ -	\$ 64,468	\$ 23,902	\$ (1,980,039)	\$ (1,891,669)

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

4. Acquisitions and Business Combinations

Acquisition of Florida Entities

On January 17, 2018, the Company entered into a series of merger and acquisition transactions resulting in the acquisition of 100% control of GHP, GHH and McCrory's (collectively "GrowHealthy"). This acquisition was completed in exchange for a combination of cash and the Company's shares. As part of the acquisition, the Company's investment of 2,925,003 preferred shares in GrowHealthy (Note 8) were redeemed in return for \$3,000,000 paid to the Company at closing.

The transactions included the formation of IFH and GHHIA, two wholly owned subsidiaries of iAnthus together with the purchase of GHP and an option to acquire 100% of McCrory's for a nominal consideration, pending approval of the Florida Department of Health.

The following table summarizes the preliminary purchase price allocation:

		Preliminary
Prepaid expenses	\$	116,970
Receivables		5,000,000
Inventory		1,177,235
Biological assets		709,464
Other assets		125,543
Fixed assets		981,347
Building and leasehold improvements		6,105,005
Land		1,293,505
Goodwill and intangibles		43,122,048
		58,631,117
Accounts payable and accrued liabilities		(356,009)
Fair value of net assets acquired	\$	58,275,108

The \$5.0 million of receivables pertains to a cash collateral Low-THC Performance Bond posted by the Company with the State of Florida, which has since been released by the State and is classified as a receivable as at March 31, 2018.

The following table summarizes the total fair value of consideration:

Settlement of pre-existing investment in GHH	\$	3,000,000
Cash paid		14,458,437
Shares issued ⁽¹⁾		38,393,337
Debt assumed		110,000
Settlement of pre-existing relationship with GHHIA		2,313,334
Fair value of consideration	\$	58,275,108

(1) The number of shares issued amounts to 12,103,172 of the Company

The consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Due to the timing of the acquisition, the fair values assigned to the consideration paid, intangible assets and net assets acquired is preliminary and may be revised by the Company as additional information is received. The Company has not completed the allocation of value between the identifiable intangible assets and the goodwill at this time. Furthermore, the amount to be allocated to deferred income tax liabilities has yet to be determined.

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)
(Unaudited)

4. Business Combinations (cont.)

Acquisition costs of \$180,813 were incurred and recognized in legal and professional fees in the condensed interim consolidated statement of loss and comprehensive loss.

The purchase price allocation, specifically in respect of goodwill, intangibles and deferred income tax liabilities, had not been finalized as of the date of issuance of these condensed interim consolidated financial statements. As is customary in a business acquisition transaction, until the time of acquisition of control, the Company did not have full access to the relevant portions of GrowHealthy's books and records. Upon having sufficient time to review the relevant portions of books and records, as well as obtaining new and additional information about the related facts and circumstances as of the acquisition date, the Company will adjust the provisional amounts for identifiable assets acquired and liabilities assumed and thus finalize the purchase price allocation. Goodwill and intangibles are grouped together in the condensed interim consolidated statement of financial position; however, these items will be presented separately once the purchase price allocation is complete.

Acquisition of Citiva Medical, LLC

On February 1, 2018, the Company completed its acquisition of Citiva, the holder of one of the ten vertically-integrated medical marijuana "Registered Organization" licenses issued by New York State. This acquisition was completed in exchange for a combination of cash and the Company's shares.

The following table summarizes the preliminary purchase price allocation:

		Preliminary
Cash	\$	19,642
Other assets		57,694
Leaseholds and equipment		166,124
Goodwill and intangibles		25,630,060
		25,873,520
Accounts payable and accrued liabilities		(1,117,890)
Fair value of net assets acquired	\$	24,755,630

The following table summarizes the total fair value of consideration:

Cash paid		3,600,000
Shares issued – Common shares (1,146,428 shares)		4,161,026
Shares issued – Class A shares (1,977,563 shares)		7,177,678
Shares to be issued – Common shares (2,479,017 shares)		8,997,735
Assumed debt		230,000
Settlement of pre-existing relationship		589,191
Fair value of consideration	\$	24,755,630

The consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Due to the timing of the acquisition, the fair values assigned to the consideration paid, intangible assets and net assets acquired is preliminary and may be revised by the Company as additional information is received. The Company has not completed the allocation of value between the identifiable intangible assets and the goodwill at this time. Furthermore, the amount to be allocated to deferred income tax liabilities has yet to be determined.

Acquisition costs of \$52,316 were incurred and recognized in legal and professional fees in the condensed interim consolidated statement of loss and comprehensive loss.

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

4. Business Combinations (cont.)

The purchase price allocation, specifically in respect of goodwill, intangibles and deferred income tax liabilities had not been finalized as of the date of issuance of these condensed interim consolidated financial statements. As is customary in a business acquisition transaction, until the time of acquisition of control, the Company did not have full access to the relevant portions of Citiva's books and records. Upon having sufficient time to review the relevant portions of books and records, as well as obtaining new and additional information about the related facts and circumstances as of the acquisition date, the Company will adjust the provisional amounts for identifiable assets acquired and liabilities assumed and thus finalize the purchase price allocation. Goodwill and intangibles are grouped together in the condensed interim consolidated statement of financial position; however, these items will be presented separately once the purchase price allocation is finalized.

Acquisition of Mayflower Medicinals, Inc and Pilgrim Rock Management, LLC

Effective December 31, 2017, the Company acquired an 80% interest in Pilgrim, the affiliated management services company that provides lending facilities, intellectual property licensing, professional and management services, real estate and equipment leasing, and certain other services to Mayflower. In addition, Mayflower's bylaws were amended to adopt a single-member not-for-profit structure. The sole member of Mayflower is Pilgrim, which enables Pilgrim to appoint all directors of the not-for-profit corporation.

The acquisition was completed through a series of transactions including the following: acquiring 80% of the ownership interest in Pilgrim, contributing the Company's loan to and accrued interest receivable from Mayflower and related party receivable to Pilgrim in return for equity units of Pilgrim, amending the bylaws of Mayflower and operating agreement of Pilgrim to provide the Company power to direct the activities of both entities, executing service agreements between Pilgrim and Mayflower.

Additionally, the Company entered into a binding agreement with VSH PR, Inc. ("VSH"), that required the Company to acquire the remaining 20% ownership interest in exchange for shares of the Company valued at \$4.0 million, at a price per share equal to the greater of (i) 90% of the 20-day volume weighted average trading price of iAnthus shares on the CSE immediately preceding the closing date or (ii) 85% of the closing price of iAnthus shares on the day immediately preceding the closing date. This obligation meets the definition of a financial liability and is measured at fair value through profit and loss. For the three months ended March 31, 2018, a fair value adjustment of \$155,407 (March 31, 2017 - \$Nil) is included in the change in fair value line in the condensed interim consolidated statement of loss and comprehensive loss, bringing the financial liability to \$4,256,074 at March 31, 2018 (December 31, 2017 - \$4,411,481). On April 17, 2018, the Company closed this transaction and acquired the remaining 20% ownership interest in Pilgrim, resulting in the Company's 100% ownership of Pilgrim. The Company acquired the remaining units of Pilgrim from VSH in exchange for 1,655,734 common shares of the Company. On April 17, 2018, the Company's financial liability relating to its obligation to purchase the remaining interest in Pilgrim was extinguished.

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

4. Business Combinations (cont.)

Acquisition of Mayflower Medicinals, Inc and Pilgrim Rock Management, LLC (cont.)

The following table summarizes the preliminary purchase price allocation:

		Preliminary
Cash	\$	423,607
Prepaid expenses		167,020
Inventory		15,225
Other assets		162,876
Leaseholds and equipment		8,062,001
Intangible assets - licenses		2,900,000
Intangible assets - standard operating procedures		290,000
Intangible assets - website		2,535
Goodwill		6,681,513
		<u>18,704,777</u>
Accounts payable and accrued liabilities		(537,825)
Deferred income tax liabilities		(871,508)
Fair value of net assets acquired	\$	17,295,444

The following table summarizes the total fair value of consideration:

Settlement of pre-existing relationship with Pilgrim	\$	7,944,863
Settlement of pre-existing relationship with Mayflower		4,938,100
Cash to be paid		1,000
Financial liability - VSH		4,411,481
Fair value of consideration	\$	17,295,444

The consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Due to the timing of the acquisition, the fair values assigned to the consideration paid, intangible assets and net assets acquired is preliminary and may be revised by the Company as additional information is received.

In determining the fair value of the identifiable intangible assets acquired, the Company used an income-based approach, which involves estimating the future net cash flows and applies an appropriate discount rate to those future cash flows. The Company's preliminary estimates of expected future cash flows are based on significant management judgments. Refer to Note 19.

Goodwill has been recognized as a result of the specialized assembled workforce at Mayflower, prime dispensary locations and the expectation that Mayflower will receive a recreational cannabis sales license. The goodwill acquired is not deductible for tax purposes.

Acquisition costs of \$97,997 were incurred and recognized in legal and professional fees in the consolidated statement of loss and comprehensive loss during the year ended December 31, 2017.

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

4. Business Combinations (cont.)

Acquisitions of FWR, Inc and Pakalolo, LLC

Effective December 31, 2017, the Company acquired a 100% controlling interest in Pakalolo, the sole member of FWR. This acquisition was completed in exchange for a combination of cash and shares of the Company.

The FWR acquisition was completed through a series of transactions that included the following: acquiring the ownership interest in Pakalolo in exchange for a combination of cash and shares, settlement of the pre-existing relationship with FWR, and forming GVMS. GVMS is a wholly-owned subsidiary and will act as the management company providing intellectual property licensing, professional and management services, real estate and equipment leasing, and certain other services to FWR.

The following table summarizes the preliminary purchase price allocation:

		Preliminary
Cash	\$	54,044
Prepaid expenses and other current assets		14,928
Biological assets		129,708
Inventories		110,881
Leaseholds and equipment		117,259
Intangible assets – licenses		1,220,000
Intangible assets - standard operating procedures		27,000
Goodwill		501,162
		<u>2,174,982</u>
Accounts payable and accrued liabilities		(123,952)
Deferred income tax liabilities		(364,798)
Fair value of net assets acquired	\$	1,686,232

The following table summarizes the total fair value of consideration:

Cash to be paid	\$	44,000
Shares to be issued		113,226
Settlement of pre-existing relationship with FWR		1,270,075
Debt assumed		258,931
Fair value of consideration	\$	1,686,232

The consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Due to the timing of the acquisition, the fair values assigned to the consideration paid, intangible assets and net assets acquired is preliminary and may be revised by the Company as additional information is received.

In determining the fair value of the identifiable intangible assets acquired, the Company used an income-based approach, which involves estimating the future net cash flows and applies an appropriate discount rate to those future cash flows. The Company's preliminary estimates of expected future cash flows are based on significant management judgments. Refer to Note 19

Goodwill has been recognized as a result of the specialized assembled workforce at FWR, reputable operating history and customer relationships in Vermont. The goodwill acquired is not deductible for tax purposes.

Acquisition costs of \$35,716 were incurred and recognized in legal and professional fees in the consolidated statement of loss and comprehensive loss during the year ended December 31, 2017.

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

5. Notes Receivable

	Note Due from The Green Solution, LLC	Note Due from Citiva Medical, LLC	Note Due from GrowHealthy Holdings, LLC	Current Portion of Note Due from FWR, Inc	Total
As at December 31, 2016	\$ -	\$ -	\$ -	\$ 99,647	\$ 99,647
Transfer to investments	-	-	-	(99,647)	(99,647)
Drawdowns	7,500,000	577,000	2,250,000	-	10,327,000
Interest receivable	708,127	9,707	21,771	-	739,605
As at December 31, 2017	\$ 8,208,127	\$ 586,707	\$ 2,271,771	\$ -	\$ 11,066,605
Repayments	(2,708,126)	-	-	-	(2,708,126)
Interest receivable	159,425	2,484	-	-	161,909
Settlement of pre-existing relationship	-	(589,191)	(2,271,771)	-	(2,860,962)
As at March 31, 2018	\$ 5,659,426	\$ -	\$ -	\$ -	\$ 5,659,426

Note Due from The Green Solution, LLC

On February 6, 2017, the Company issued a \$7,500,000 promissory note to The Green Solution, LLC and certain of its affiliated Colorado entities (collectively, "TGS"). TGS is a leading cultivator and dispenser of marijuana and marijuana-infused products in Colorado. The note had a term of 1 year and interest on borrowings were payable at the rate of 14.0% during the first 4 months, escalating to 23.0% for the remaining 8 months.

On February 5, 2018, the note was restructured. The amended terms specify that the principal payments and accrued interest at the payment dates are due February 13, 2018 (\$2,000,000), April 24, 2018 (\$2,000,000) and July 31, 2018 (\$3,500,000). The interest rate from the date of restructuring is 23.0% for the remainder of the loan term. The two payments due for February 13, 2018 and April 24, 2018 have been received by the Company.

At March 31, 2018, the loan receivable balance was \$5,659,426 (December 31, 2017 - \$8,208,127). Interest earned during the three months ended March 31, 2018 was \$353,970 (March 31, 2017 - \$103,867).

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

6. Inventory

Inventory as at March 31, 2018 and December 31, 2017 consisted of the following:

	March 31, 2018		December 31, 2017	
Raw Materials				
Harvested cannabis	\$	574,465	\$	1,265
Harvested trim		6,530		7,221
Supplies		-		15,224
Total raw materials	\$	580,995	\$	23,710
Work in Process				
Inventory obtained on acquisition of GrowHealthy	\$	870,471	\$	-
Work in process - transferred in		107,514		-
Work in process - processing		518,480		-
Transferred to finished goods		(142,642)		-
Total work in process	\$	1,353,823	\$	-
Finished Goods				
Consumables	\$	103,552	\$	66,603
Packaged cannabis		129,426		28,322
Extracts		258,666		7,471
Total finished goods	\$	491,644	\$	102,396
Total Inventory	\$	2,426,462	\$	126,106

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)
(Unaudited)

7. Biological Assets

Biological assets as at March 31, 2018 and December 31, 2017 consisted of the following:

		March 31, 2018		December 31, 2017
Biological Assets				
Balance as at December 31, 2017	\$	129,708	\$	-
Fair value adjustment on biological assets		2,999,836		-
Assets obtained in acquisition of GrowHealthy Holdings, LLC		709,464		-
Assets obtained in acquisition of FWR, Inc.		-		129,708
Transferred to inventory upon harvest		(667,971)		-
Ending Balance	\$	3,171,037	\$	129,708

Production costs of \$392,732 were incurred during the three months ended March 31, 2018 and the corresponding fair value adjustment on biological assets net of these costs is \$2,607,104

The significant estimates and assumptions used in determining the fair value of medical cannabis plants are as follows, all of which represent Level 3 inputs on the fair value hierarchy:

- wastage of plants based on their various stages;
- yield by strain of plant;
- percentage of costs incurred to date compared to the total costs to be incurred are used to estimate the fair value of an in-process plant; and
- percentage of costs incurred for each stage of plant growth.

These estimates are subject to volatility and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods. All the plants are to be harvested as agricultural produce (i.e. medical cannabis) and as at March 31, 2018, on average, were 32.6% complete (December 31, 2017 – 64.0%).

The Company estimates the harvest yields for the plants at various stages of growth. As of March 31, 2018, it is expected that the Company's biological assets will yield approximately 709,678 grams (December 31, 2017 – 38,447 grams). The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the fair value of the biological assets.

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

8. Investments and Non-Current Notes Receivables

	GrowHealthy Holdings, LLC	Mayflower Medicinals, Inc	FWR, Inc	Citiva Jamaica, LLC	Other	Total
As at December 31, 2016	\$ -	\$ 2,131,432	\$ 450,353	\$ -	\$ 99,969	\$ 2,681,754
Additions	3,000,000	1,604,445	455,000	-	-	5,059,445
Transfer from Notes Receivable	-	-	99,647	-	-	99,647
Interest receivable	-	672,223	22,694	-	-	694,917
Settlement of pre-existing relationship	-	(4,408,100)	(1,027,694)	-	-	(5,435,794)
As at December 31, 2017	\$ 3,000,000	\$ -	\$ -	\$ -	\$ 99,969	\$ 3,099,969
Additions	-	-	-	131,094	-	131,094
Interest receivable	-	-	-	1,984	-	1,984
Settlement of pre-existing relationship (Note 4)	(3,000,000)	-	-	-	-	(3,000,000)
As at March 31, 2018	\$ -	\$ -	\$ -	\$ 133,078	\$ 99,969	\$ 233,047

Citiva Jamaica, LLC

On February 1, 2018, the Company issued a \$250,000 promissory note to Citiva Jamaica, LLC ("Citiva Jamaica"). The note was provided in connection with the merger agreement dated February 1, 2018, among ICH, IEH, Citiva and as at March 31, 2018, Citiva Jamaica had drawn down an amount of \$131,094. The note has a maturity date of February 1, 2021 and yields interest at 12% on or before February 1, 2019 and at 20% beginning February 2, 2019. The additional 20%, if applicable, shall apply and accrue retrospectively from February 1, 2018.

During the period, the Company earned interest income of \$1,984 (March 31, 2017 - \$Nil).

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

9. Investment in Associate

During 2016, the Company provided a series of loans in an aggregate amount of \$2,270,000 to Reynold, Greenleaf & Associates, LLC ("RGA"), a company incorporated in the U.S.A. which provides consulting and management services to companies operating in the medical cannabis industry in New Mexico. On October 12, 2016 (the "Conversion Date"), the Company converted the loans, plus accrued interest of \$101,272, into Class A-1 Units of RGA at \$10.32 per unit resulting in a 24.6% interest in RGA. Additionally, the Company has the ability to exercise significant influence over RGA as it has more than 20.0% of the voting interests and can elect two of seven directors to the board of RGA. Accordingly, RGA is classified as an investment in associate and the Company has applied the equity method of accounting. No quoted market price exists for the investment.

As part of the conversion above, the Company is to be reimbursed \$30,000 from RGA relating to certain legal fees and expenses incurred for the conversion. At March 31, 2018 the reimbursement due from the RGA loan conversion was \$30,000 (December 31, 2017 - \$30,000).

During the three months ended March 31, 2018, the Company's share of profit from RGA was \$175,811 (March 31, 2017 - \$23,902). RGA's net income for the three months ended March 31, 2018 was \$714,567. The Company's investment in RGA at March 31, 2018 was \$2,365,626 (December 31, 2017 - \$2,189,815).

		March 31 2018		December 31, 2017
Balance, beginning of year	\$	2,189,815	\$	2,407,388
Profits (losses) from investment in associate		175,811		(196,153)
Dividend receivable		-		(21,420)
Balance, end of year	\$	2,365,626	\$	2,189,815

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

10. Property, Plant and Equipment

	Buildings and improvements	Production equipment	Processing equipment	Sales equipment	Office equipment	Land	Construction in progress	Total
Cost								
As at December 31, 2017	\$ 8,199,242	\$ 995,853	\$ 456,927	\$ 55,729	\$ 371,344	\$ 750,000	\$ 19,525	\$ 10,848,620
Additions	431,788	133,775	119,989	81,386	129,365	-	167,994	1,064,297
Additions from acquisition (Note 4)	6,260,074	453,976	315,010	41,875	18,105	1,293,607	163,334	8,545,981
Disposals	(24,602)	(26,313)	-	-	(12,154)	-	-	(63,069)
As at March 31, 2018	\$ 14,866,502	\$ 1,557,291	\$ 891,926	\$ 178,990	\$ 506,660	\$ 2,043,607	\$ 350,853	\$ 20,395,829
Accumulated depreciation								
As at December 31, 2017	\$ 345,211	\$ 117,157	\$ 26,684	\$ 55,729	\$ 18,240	\$ -	\$ -	\$ 563,021
Depreciation	356,154	40,406	29,283	2,940	31,936	-	-	460,719
Disposals	-	-	-	-	-	-	-	-
As at March 31, 2018	\$ 701,365	\$ 157,563	\$ 55,967	\$ 58,669	\$ 50,176	\$ -	\$ -	\$ 1,023,740
Net book value								
As at December 31, 2017	\$ 7,854,031	\$ 878,696	\$ 430,243	\$ -	\$ 353,104	\$ 750,000	\$ 19,525	\$ 10,285,599
As at March 31, 2018	\$ 14,165,137	\$ 1,399,728	\$ 835,959	\$ 120,321	\$ 456,484	\$ 2,043,607	\$ 350,853	\$ 19,372,089

	Buildings and improvements	Production equipment	Processing equipment	Sales equipment	Office equipment	Land	Construction in progress	Total
Cost								
As at December 31, 2016	\$ 1,035,297	\$ 113,244	\$ 30,472	\$ 34,416	\$ 5,449	\$ 750,000	\$ -	\$ 1,968,878
Additions	501,500	7,198	-	906	495	-	-	510,099
As at March 31, 2017	\$ 1,536,797	\$ 120,442	\$ 30,472	\$ 35,322	\$ 5,944	\$ 750,000	\$ -	\$ 2,478,977
Accumulated depreciation								
As at December 31, 2016	\$ 3,290	\$ 2,948	\$ 563	\$ 839	\$ 107	\$ -	\$ -	\$ 7,747
Depreciation	13,044	10,365	1,948	2,907	373	-	-	28,637
As at March 31, 2017	\$ 16,334	\$ 13,313	\$ 2,511	\$ 3,746	\$ 480	\$ -	\$ -	\$ 36,384
Net book value								
As at December 31, 2016	\$ 1,032,007	\$ 110,296	\$ 29,909	\$ 33,577	\$ 5,342	\$ 750,000	\$ -	\$ 1,961,131
As at March 31, 2017	\$ 1,520,463	\$ 107,129	\$ 27,961	\$ 31,576	\$ 5,464	\$ 750,000	\$ -	\$ 2,442,593

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

11. Intangible Assets and Goodwill

Intangible Assets

	Licenses		Standard operating procedures		Other		Total	
Cost								
As at December 31, 2017	\$	4,120,000	\$	317,000	\$	2,535	\$	4,439,535
Additions		-		-		74,550		74,550
As at March 31, 2018	\$	4,120,000	\$	317,000	\$	77,085	\$	4,514,085
Accumulated amortization								
As at December 31, 2017	\$	-	\$	-	\$	-	\$	-
Amortization		-		17,875		2,200		20,075
As at March 31, 2018	\$	-	\$	17,875	\$	2,200	\$	20,075
Net carrying amount								
As at December 31, 2017	\$	4,120,000	\$	317,000	\$	2,535	\$	4,439,535
As at March 31, 2018	\$	4,120,000	\$	299,125	\$	74,885	\$	4,494,010

Goodwill	March 31, 2018		December 31, 2017	
Balance, beginning of period	\$	7,182,675	\$	2,553,485
Goodwill acquired in acquisition of Mayflower		-		6,681,513
Goodwill acquired in acquisition of FWR		-		501,162
Goodwill impairment of Organix		-		(2,553,485)
Goodwill addition due to measurement period adjustment		-		-
Goodwill and intangible assets acquired in acquisition of GrowHealthy		43,122,048		-
Goodwill and intangible assets acquired in acquisition of Citiva		25,630,060		-
Balance, end of year	\$	75,934,783	\$	7,182,675

The above values relating to the Citiva and GrowHealthy acquisitions include provisional amounts that are subject to adjustment throughout the measurement period. Refer to Note 4 for further details.

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

12. Long-Term Debt

	Convertible Promissory Notes	Debentures	Bridge Loan	Total
As at December 31, 2016	\$ 735,324	\$ -	\$ -	\$ 735,324
Fair value of financial liability at issuance	-	13,215,907	2,817,391	16,033,298
Financing costs at issuance	-	(718,615)	-	(718,615)
Accretion of balance	295,938	1,042,084	14,769	1,352,791
Repayment	-	-	(1,626,880)	(1,626,880)
Conversion to equity	-	(707,682)	(1,179,656)	(1,887,338)
Foreign exchange impact	-	735,736	(25,624)	710,112
As at December 31, 2017	\$ 1,031,262	\$ 13,567,430	\$ -	\$ 14,598,692
Fair value of financial liability at issuance	-	7,740,480	-	7,740,480
Accretion of balance	126,410	2,744,646	-	2,871,056
Conversion to equity	(300,000)	(5,445,791)	-	(5,745,791)
Foreign exchange impact	-	(426,162)	-	(426,162)
As at March 31, 2018	\$ 857,672	\$ 18,180,603	\$ -	\$ 19,038,275

Convertible Promissory Notes

In February 2016, the Company issued two unsecured convertible promissory notes (the "Notes") for a total principal amount of \$1,300,000. The Notes, which are convertible at prices ranging from \$1.00 to \$1.65 per share contingent on certain milestones being met, bear interest at 8% per annum and have maturity date of August 2018.

The terms of the Notes contain a covenant requiring the Company to maintain a minimum cash balance of \$500,000 while the Notes remain outstanding and while less than 80% of the original principal amount of the Notes have been converted by the payee. For the periods ending December 31, 2017 and December 31, 2016, the Company was in compliance with this covenant.

In conjunction with the issuance of the Notes, the Company issued 275,758 three-year warrants. Each warrant gives the holder the right to purchase one Class A common share of the Company at an exercise price of CAD\$2.24. The warrants are classified as an equity instrument and recognized at fair value with no subsequent revaluation.

The conversion feature is a derivative liability and is required to be separated from the debt host liability and valued independently. As the conversion feature is designated as fair value through profit or loss, it is revalued at each reporting date using the Black-Scholes valuation model. As at March 31, 2018, the Company used a volatility of 81.7%, dividend yield of 0.0% and risk-free rate of 1.8%. The fair value at March 31, 2018 was calculated to be \$593,544 (December 31, 2017 - \$592,959). For the three months ended March 31, 2018, the Company recognized a decrease in fair value of \$585.

The residual value from the instrument was assigned to the debt host liability which is valued on an amortized cost basis. At March 31, 2018 the debt host liability amounted to \$857,672 (December 31, 2017 - \$1,031,262).

During the three months ended March 31, 2018, interest expense of \$21,775 was accrued (March 31, 2017 - \$26,195). During the three months ending March 31, 2018, accretion expense of \$126,410 was accrued (March 31, 2017 - \$64,880).

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

12. Long-Term Debt (cont.)

During the three months ending March 31, 2018, the Company issued 12,220 common shares in satisfaction of \$20,165 of accrued interest on the convertible promissory notes. In addition to this, the Company issued 183,360 common shares for equity conversions relating to the convertible promissory notes with a value of \$300,000.

Debentures

February 2017 Convertible Debentures

On February 28, 2017, the Company entered into an agreement with a syndicate of underwriters led by Canaccord Genuity Corp., and including Beacon Securities Limited, pursuant to which the underwriters agreed to purchase, on a bought deal, private placement basis, a CAD\$20,000,000 (equivalent to \$15,096,000 at issuance) aggregate principal amount of unsecured convertible debentures (the "February 2017 Debentures") at a price of CAD\$1,000 (equivalent to \$755 at issuance) per convertible debenture. The February 2017 Debentures commenced to bear interest from February 28, 2017 (the "Closing Date") at 8.0% per annum, payable semi-annually on the last day of February and August of each year. The Convertible Debentures have a maturity date of February 28, 2019, 24 months from the Closing Date.

The February 2017 Debentures are convertible at the option of the holder into common shares of the Company at any time prior to the close of business on the maturity date at a conversion price of CAD\$3.10 per common share (the "Conversion Price"). Beginning June 29, 2017, the Company may force the conversion of all the principal amount of the then outstanding February 2017 Debentures at the Conversion Price on 30 days prior written notice should the daily volume weighted average trading price of the Company's common shares exceed CAD\$4.50 for any 10 consecutive trading days.

The February 2017 Debentures are subject to redemption, in whole or in part, by the Company at any time after 12 months upon giving holders not less than 30 and not more than 60 days' prior written notice, at a price equal to the then outstanding principal amount of the February 2017 Debentures plus all accrued and unpaid interest up to and including the redemption date.

At issuance, the fair value of the liability component was estimated to be CAD\$17,509,150 (equivalent to \$13,215,907 at issuance) and the residual of CAD\$2,490,850 (equivalent to \$1,880,093 at issuance) was allocated as the fair value of the conversion feature. The market rate of interest assumed in estimating the fair value of the debt host liability was estimated to be 15.0%. Issuance costs of CAD\$1,087,500 were allocated proportionately with CAD\$952,060 (equivalent to \$718,615) as a debit against the liability component and CAD\$135,440 (equivalent to \$102,230) as a debit against the equity component.

During the three months ended March 31, 2018, the Company issued 2,267,737 common shares for the conversion of CAD \$7,030,000 (equivalent to \$5,445,791). For the year ending December 31, 2017, the Company issued 287,095 common shares for the conversion of CAD\$890,000 (equivalent to \$786,797) of the February 2017 Debentures.

During the three months ended March 31, 2018, interest expense of \$226,105 (March 31, 2017 - \$100,173) and accretion expense of \$244,856 (March 31, 2017 - \$98,853) was recognized. As at March 31, 2018, the debt host liability amounts to \$7,988,219 (December 31, 2017 - \$13,567,430).

January 2018 Debentures

On January 17, 2018, the Company issued \$20,000,000 aggregate principal amount of unsecured debentures, with a maturity date of one year (the "January 2018 Debentures"). The January 2018 Debentures contain a 15%, non-cash pay coupon and warrants to purchase up to 10,040,000 shares of the Company at an aggregate purchase price of \$20,000,000 (being \$1.9928 per Warrant Share). The Debentures were purchased by a private U.S. investment group.

Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited)

Long-Term Debt (cont.)

January 2018 Debentures (cont.)

The warrants are a derivative liability as the exercise price is in USD for shares of the Company which trades on the CSE in CAD\$. As the derivative liability is classified as fair value through profit or loss, it is revalued at each reporting date using the Black-Scholes valuation model.

At issuance, the fair value of the debenture component was estimated to be \$18,852,459, applying a discount rate of 22%, and the fair value of the derivative was estimated to be \$22,544,080. The fair value of the warrants was calculated using the Black-Scholes valuation model, applying a volatility rate of 93.13%, dividend yield of 0.0% and risk-free rate of 1.83%.

As neither fair value measurement is evidenced by a quoted price in an active market for an identical asset or liability, the initial loss on recognition has not been recognized in the condensed interim consolidated statement of loss and comprehensive loss. The Black-Scholes valuation model used to calculate the fair value of the derivative was calibrated so that the fair value is equal to the intrinsic value solving for the unobservable inputs. On issuance, fair value of \$12,259,520 was allocated to the warrant derivative and a residual amount of \$7,740,480 was allocated to the debt host. An initial loss of \$10,284,560 has not been recognized in the condensed interim consolidated statement of loss and comprehensive loss.

As at March 31, 2018, the Company re-measured the warrant derivative using a volatility of 81.75%, dividend yield of 0.0% and risk-free rate of 1.77%. The Black-Scholes valuation model was subsequently calibrated to be consistent with the initial valuation and the fair value of the warrant derivative was estimated to be \$5,421,520 (December 31, 2017 - \$Nil). For the three months ended March 31, 2018, the Company recognized a decrease in the fair value of the warrant derivative of \$6,971,548. As at March 31, 2018, the unrecognized loss relating to the warrant derivative was \$9,634,560.

During the three months ended March 31, 2018, interest expense of \$611,718 (March 31, 2017 - \$Nil) and accretion expense of \$2,499,790 (March 31, 2017 - \$Nil) was recognized. As at March 31, 2018, the debt host liability amounts to \$10,192,384 (December 31, 2017 - \$Nil).

13. Share Capital

Share Capital

Authorized: Unlimited common shares and Class A common shares.

The Company's common shares are voting and dividend-paying. The Company's Class A common shares are also voting and dividend-paying, but holders of Class A common shares are not entitled to vote for the election of directors of the Company. The holders of Class A convertible restricted share options have the right to convert the option into either a Class A common share or common share of the Company.

Public Offering and Private Placement

On November 21, 2017, the Company completed a public offering of 7,072,500 common shares at CAD\$1.70 per common share for gross proceeds to the Company of CAD\$12,023,250 (equivalent \$9,409,336). In connection with the offering, 495,075 agents' warrants (fair value - \$454,663) were issued. Each warrant is exercisable to purchase one Common Share at a price of CAD\$1.70 per share for a period of 2 years.

The Company also completed a non-brokered private placement at CAD\$1.70. The Company issued 2,182,491 common shares on November 21, 2017 and 495,000 common shares on November 27, 2017 for an aggregate 2,677,491 common shares and aggregate gross proceeds of CAD\$4,593,385 (equivalent \$3,581,932). The common shares issued in the private placement were subject to a statutory hold period until March 22, 2018. In connection with the private placement, 66,260 finders' warrants (fair value - \$18,407) were issued. Each warrant is exercisable to purchase one common share at a price of CAD\$1.70 per share for a

Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited)

13. Share Capital (cont.)

period of 2 years. The fair value of the warrants issued are included in the condensed interim consolidated statement of changes in equity.

The Company paid \$1,414,508 of issuance costs to various finders, agents and brokers for these transactions.

Stock Options

In November 2015, ICM established the ICM 2015 Equity Compensation Plan (the "Plan"). The Plan authorized the issuance of up to 2,000,000 Class A common shares. Options granted generally vest over 1 to 2 years, and typically have a life of 10 years. The option price under the Plan is determined at the sole discretion of management, but in no case, will it be less than 100% of the fair market value of a share on the date prior to the grant date.

Upon closing of the reverse takeover ("RTO"), the Company adopted a rolling stock option plan (the "ICH Plan"), in which the maximum number of common shares which can be reserved for issuance under the ICH Plan is 10% of the issued and outstanding common shares of the Company. 1,300,000 options issued by ICM under the ICM 2015 Equity Compensation Plan were assumed by the ICH Plan. The exercise price of each option ("Option") shall not be less than the closing price of the common shares on the trading day immediately preceding the day on which the Option is granted, less any discount permitted by the CSE.

On January 17, 2017, ICH granted incentive stock options to employees and consultants of the Company, exercisable at CAD\$2.91 on the grant date, to purchase up to an aggregate of 153,000 shares of the Company.

Stock Options (cont.)

On April 4, 2017, the Company granted incentive stock options to consultants and employees of the Company, exercisable at CAD\$3.10, to purchase up to an aggregate of 835,000 common shares of the Company. The grant includes 200,000 stock options granted to TGS in relation to the advisory agreement entered into with the Company as announced on February 6, 2017.

On November 21, 2017, the Company granted 1,125,500 Class A convertible restricted share options and 339,500 common share options to advisory board members and employees of the Company. Each option is exercisable at CAD\$2.25 to purchase one Class A common share or one common share, respectively, and is exercisable for a period of 10 years, vesting over 1 to 2 years.

On March 2, 2018, ICH granted incentive stock options to employees and consultants of the Company, exercisable at CAD\$3.56, to purchase up to an aggregate of 1,886,000 shares of the Company.

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

13. Share Capital (cont.)

The continuity of stock options is as follows:

	Number	Weighted average exercise price (\$CAD)
Balance as at December 31, 2017	3,816,000	\$ 2.15
Issued	1,886,000	3.56
Expired	(200,000)	3.10
Balance as at March 31, 2018	5,502,000	\$ 2.60

The options outstanding and exercisable are as follows:

	Number	Weighted average exercise price (\$CAD)
Balance as at December 31, 2017	3,816,000	\$ 2.15
Issued	1,886,000	3.56
Exercised	-	-
Cancelled/Forfeited/Expired	(200,000)	(3.10)
Balance as at March 31, 2018	5,502,000	2.60

	Outstanding Options			Exercisable Options	
	Number outstanding	Range of exercise prices (CAD\$)	Weighted average remaining contractual life (years)	Number exercisable	Range of exercise prices (CAD\$)
2015	345,000	\$1.34	7.65	345,000	\$1.34
2016	1,143,000	\$1.50 - 1.76	7.94 - 8.51	1,046,375	\$1.50 - 1.76
2017	2,128,000	\$1.34 - 1.64	7.97	1,231,515	\$1.34 - 1.64
2018	1,886,000	\$3.56	9.23	1,886,000	\$3.56
	5,502,000	\$1.34 - 3.56	8.99	4,508,890	\$2.15

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)
(Unaudited)

13. Share Capital (cont.)

The Company used the Black-Scholes option pricing model to estimate the fair value of the options at the grant date using the following ranges of assumptions:

	March 31, 2018	December 31, 2017
Risk-free interest rate	0.74 - 2.16%	1.33% - 1.81%
Expected dividend yield	0.00%	0.00%
Expected volatility	94.81% - 96.99%	94.82% - 96.14%
Expected option life	7 years	10 years

Option pricing models require the application of estimates and assumptions including the expected volatility. As the Company became publicly traded in September 2016, trading information for the Company is not available for 7 years (December 31, 2017 - 10 years), as would be used in the Black-Scholes model. Therefore, the Company uses expected volatility rates based upon historical data from comparable companies.

The related share-based compensation expense for the three months ended March 31, 2018 was \$1,754,325 (March 31, 2017 - \$328,044).

Warrants

The continuity of warrants for the Company is as follows:

	Number	Weighted average exercise price (\$CAD)
Balance as at December 31, 2017	1,698,320	\$ 2.06
Granted ⁽¹⁾	10,040,000	2.27
Exercised	(780,258)	1.94
Balance as at March 31, 2018	10,958,062	\$ 2.26

⁽¹⁾ Warrants granted pertain to the January 2018 Debentures.

275,758 warrants were issued at an exercised price of CAD \$2.26 in February 2016 in connection with the convertible promissory notes (Note 12). 460,727 agent warrants were issued at an exercise price of CAD \$2.10 in connection with the November 2016 financing. 267,000 warrants were issued at an exercise price of CAD\$2.65 on October 11, 2017 in connection with the Bridge Loan (Note 12). After determining the fair value of the host liability and the derivative liability for the additional 133,500 warrants to be issued, the residual value of \$27,424 was assigned to the 267,000 warrants. The additional 133,500 warrants were issued at an exercise price of CAD\$2.03 on November 21, 2017 in connection with the Bridge Loan. Applying the Black-Scholes option pricing model, the Company applied a volatility of 83.5%, dividend yield of 0.0% and risk-free rate of 1.55%, resulting in an estimate of fair value of \$125,980. In addition, 495,075 of agent's warrants, and 66,260 warrants were issued at an exercise price of CAD\$1.70 in relation to the November 2017 public offering and private placement.

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

13. Share Capital (cont.)

Full share equivalent warrants outstanding and exercisable are as follows:

Year of expiry	March 31, 2018		December 31, 2017	
	Number outstanding	Weighted average exercise price (CAD\$)	Number outstanding	Weighted average exercise price (CAD\$)
2018	918,062	2.19	460,727	2.10
2019	10,040,000	2.27	1,237,593	2.07
	10,958,062	\$ 2.26	1,698,320	\$ 2.07

14. Financial Instruments

Fair Value

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. The Company characterizes inputs used in determining fair value using a hierarchy that prioritizes inputs depending on the degree to which they are observable. The levels of the fair value hierarchy are as follows:

- Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between levels during the three months ended March 31, 2018.

The carrying values of cash, receivables, payables and accrued liabilities approximate their fair values because of the short-term nature of these financial instruments. Balances due to and due from related parties have no terms and are payable on demand, thus also considered current and short-term in nature, hence carrying value approximates fair value.

The promissory notes receivable from TGS, Citiva, GrowHealthy and Citiva Jamaica were initially recognized at fair value and were subsequently measured on an amortized cost basis. This approximates fair value as a market rate of interest was applied to the majority of the loans and the credit risk of the counterparty to the loan has not changed. During the first quarter of 2018, an amendment to the agreement and corresponding note receivable from TGS was filed which resulted in a revision to the repayment schedule.

The component of the Company's long-term debt attributed to the host liability is recorded at amortized cost for the debentures and convertible promissory notes.

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

14. Financial Instruments (cont.)

The following table summarizes the Company's financial instruments as at March 31, 2018 in accordance with IFRS 9 (Note 19):

	Amortized cost	Fair value through profit and loss	Fair value through other comprehensive income	Total
Financial Assets				
Cash	\$ 3,270,001	\$ -	\$ -	\$ 3,270,001
Receivables and prepaids	5,886,760	-	-	5,886,760
Notes receivable (current)	5,659,426	-	-	5,659,426
Investment in 4Front	-	99,969	-	99,969
Citiva Jamaica promissory note	133,078	-	-	133,078
Financial Liabilities				
Payables and accrued liabilities	\$ 3,383,414	\$ -	\$ -	\$ 3,383,414
Interest payable	676,050	-	-	676,050
February 2017 debentures	7,988,219	-	-	7,988,219
January 2018 debentures	10,192,384	-	-	10,192,384
Convertible promissory notes	857,672	-	-	857,672
Derivative liability	-	6,015,064	-	6,015,064
Financial liability - VSH	-	4,256,074	-	4,256,074

The following table summarizes the Company's financial instruments as at December 31, 2017 in accordance with IFRS 9:

	Amortized cost	Fair value through profit and loss	Fair value through other comprehensive income	Total
Financial Assets				
Cash	\$ 6,175,287	\$ -	\$ -	\$ 6,175,287
Receivables and prepaids	384,862	-	-	384,862
Notes receivable (current)	11,066,605	-	-	11,066,605
Investment - 4Front	-	99,969	-	99,969
Investment - Preferred shares in GrowHealthy	-	3,000,000	-	3,000,000
Financial Liabilities				
Payables and accrued liabilities	\$ 2,356,405	\$ -	\$ -	\$ 2,356,405
Interest payable	421,862	-	-	421,862
January 2017 debentures	13,567,430	-	-	13,567,430
Convertible promissory notes	1,031,262	-	-	1,031,262
Derivative liability	-	592,959	-	592,959
Financial liability - VSH	-	4,411,481	-	4,411,481

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)
(Unaudited)

14. Financial Instruments (cont.)

The following table compares the classification of financial instruments under IFRS 9 and IAS 39 (Note 19), and reconciles the IAS 39 and IFRS 9 carrying amounts as at March 31, 2018:

	IAS 39	IFRS 9
Financial Assets		
Cash	Loans and receivables	Amortized cost
Receivables and prepaids	Loans and receivables	Amortized cost
Notes receivable (current)	Loans and receivables	Amortized cost
Investments – GrowHealthy Preferred Shares	Fair value through profit and loss	Fair value through profit and loss
Investments – 4Front	Fair value through profit and loss	Fair value through profit and loss
Financial Liabilities		
Payables and accrued liabilities	Other financial liabilities	Amortized cost
Interest payable	Other financial liabilities	Amortized cost
January 2017 debentures	Other financial liabilities	Amortized cost
February 2018 debentures	Other financial liabilities	Amortized cost
Convertible promissory notes	Other financial liabilities	Amortized cost
Derivative liability	Fair value through profit and loss	Fair value through profit and loss
Financial liability - VSH	Fair value through profit and loss	Fair value through profit and loss

The following table presents the fair value hierarchy for the Company's financial assets and financial liabilities that are re-measured at their fair values periodically:

	Level 1	Level 2	Level 3	Total
Financial Assets				
Investment in 4Front Ventures, Inc.	\$ -	\$ -	\$ 99,969	\$ 99,969
Financial Liabilities				
Financial liability - VSH	\$ -	\$ 4,256,074	\$ -	\$ 4,256,074
Derivative liability	-	-	6,015,064	6,015,064

The Company's equity investments in 4Front Ventures, Inc. ("4Front") and GrowHealthy, presented as Investments in the condensed interim consolidated financial statements, are considered to be Level 3 instruments because they are shares of private companies, thus there is no active market for the shares and no observable market data or inputs.

The derivative liabilities related to the convertible promissory note and the warrants relating to the January 2018 debentures are recorded at fair value estimated using the Black-Scholes option pricing model and is therefore considered to be a Level 3 measurement. Refer to Note 12.

During the periods ended March 31, 2018 and December 31, 2017 there were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy.

Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited)

14. Financial Instruments (cont.)

The component of the Company's long-term debt attributed to the host liability is recorded at amortized cost for the debentures and convertible promissory notes.

	March 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt				
Convertible promissory notes	\$ 857,672	\$ 1,073,039	\$ 1,031,262	\$ 1,228,475
February 2017 Debentures	7,988,219	8,321,228	13,567,430	14,458,470
January 2018 Debentures	10,192,384	17,198,624	-	-
Total	\$ 19,038,275	\$ 26,592,891	\$ 14,598,692	\$ 15,686,945

The Company thoroughly examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include foreign currency risk, interest rate risk, credit risk, and liquidity risk. Where material, these risks are reviewed and monitored by the Board of Directors.

The key risks and risk management strategies are disclosed in full in the Company's consolidated financial statements and associated management's discussion and analysis as at December 31, 2017 and are available on www.sedar.com and should be reviewed in detail by all readers.

The risks and risk management strategies remain unchanged for the period ended March 31, 2018.

	< 1 Year	1-2 Years	3-5 Years	> 5 Years	Total
USD Denominated					
Payables and accrued liabilities	2,773,612	-	-	-	2,773,612
VSH liability	4,256,074	-	-	-	4,256,074
Long-term debt	24,092,000	-	-	-	24,092,000
Total USD Denominated	\$ 31,121,686	\$ -	\$ -	\$ -	\$ 31,121,686
CAD Denominated					
Payables and accrued liabilities	785,796	-	-	-	785,796
Long-term debt	13,046,400	-	-	-	13,046,400
Total CAD Denominated	\$ 13,832,196	\$ -	\$ -	\$ -	\$ 13,832,196

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

15. Commitments

The Company has contractual obligations to make the following payments.

	< 1 Year		1-2 Years		3-5 Years		> 5 Years		Total
USD denominated									
Operating leases	\$	2,403,367	\$	2,609,586	\$	2,431,916	\$	6,475,306	\$ 13,920,175
Consultants and advisors		194,000		-		-		-	194,000
Total USD denominated	\$	2,597,367	\$	2,609,586	\$	2,431,916	\$	6,475,306	\$ 14,114,175
CAD denominated									
Operating leases	\$	269,186	\$	351,076	\$	279,347		\$	899,609
Consultants and advisors		-		-		-		-	-
Total CAD denominated	\$	269,186	\$	351,076	\$	279,347		\$	899,609

The Company's commitments include consultants and advisors and leases for the Company's head offices in Toronto and New York, as well as offices, dispensaries and cultivation facilities in Vermont, Massachusetts, Florida, and New York.

16. Related Party Transactions

	March 31, 2018		December 31, 2017	
Due from RGA	\$	30,000	\$	30,000
Director's loans outstanding		387,777		398,565
Total due from related parties	\$	417,777	\$	428,565
Executive's loans payable		20,000		-
Due to RGA and affiliates		60,439		81,056
Total due to related parties	\$	80,439	\$	81,056

Reynold Greenleaf & Associates, LLC

As described in Note 9, ICM converted its loan with RGA into Class A-1 Units of RGA, a related party through a family relationship with one of the Company's officers. As part of that transaction, the Company is to be reimbursed \$30,000 from RGA in connection with certain legal fees and expenses incurred as a result of the conversion. As at March 31, 2018, the reimbursement due from the RGA loan conversion was \$30,000 (December 31, 2017 - \$30,000). The related party balance is presented in the "Other current assets" line on the condensed interim consolidated statement of financial position.

On December 31, 2017, the Company acquired control of FWR (Refer to Note 4). From its historical transactions, FWR had amounts due to RGA and its affiliates and as a result of the acquisition, the Company has included a due to related parties balance of \$60,439 as at March 31, 2018 (December 31, 2017 - \$81,056). The related party balance is presented in the "Payables and accrued liabilities" line on the condensed interim consolidated statement of financial position.

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

16. Related Party Transactions (cont.)

Other

As of March 31, 2018, the Company had a loan due from a director with a balance of CAD\$500,000 (equivalent \$387,777). The total loan facility is up to CAD\$500,000 (equivalent \$387,777) and the loan accrues 2.5% interest due upon the maturity of the loan. The loan is repayable on demand and is expected to be repaid within the next 12 months. Interest accrued on the loan for the quarter ended March 31, 2018 was CAD\$7,329 (equivalent \$5,684) (December 31, 2017 - CAD\$4,247 or equivalent \$3,270). The related party balance is presented in the "Other current assets" line on the condensed interim consolidated statement of financial position.

As of March 31, 2018, the Company had a loan payable to an executive of Citiva with a balance of \$20,000. The related party balance is presented in the "Other current liabilities" line on the condensed interim consolidated statement of financial position.

17. Supplemental Cash Flow Information

Non-cash transactions, excluded from the March 31, 2018 condensed interim consolidated statement of cash flows, include: \$22,708 of shares issued as settlement for interest payable, \$12,259,520 of warrants issued on January 2018 Debentures, \$300,000 of shares issued as settlement of conversion for convertible promissory notes, \$5,445,791 of shares issued as settlement for conversion for February 2017 Debentures, \$43,816,671 non-cash consideration transferred for the acquisition of GrowHealthy, and \$21,155,630 non-cash consideration transferred for the acquisition of Citiva.

18. Events After the Reporting Period

Pilgrim Rock Step Acquisition

- On April 17, 2018, the Company acquired the remaining 20% of Pilgrim, the affiliated management and services company that provides intellectual property licensing, professional and management services, real estate and equipment leasing, and certain other services to Mayflower.

Gotham Green Partners ("GGP") Financing

- On May 14, 2018, the Company received a \$50.0 million investment from GGP. The proceeds of the financings will be allocated to continued cultivation and dispensary build-outs in the Company's key markets of New York and Florida, repayment of \$20.0 million of unsecured debentures issued in January 2018, with the remainder to be utilized for potential expansion activities consistent with the Company's strategic objectives. Net cash proceeds to the Company were approximately \$46.0 million after the deductions of various fees and structuring costs.

Notes to the Condensed Interim Consolidated Financial Statements

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19. Significant Accounting Policies

Accounting Policies

The significant accounting policies as disclosed in the Company's annual consolidated financial statements as at December 31, 2017 have been applied consistently in the preparation of these condensed interim consolidated financial statements with the following exceptions:

Revenue

Revenue is recognized by the Company in accordance with IFRS 15. Through application of the standard, the Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

In order to recognize revenue under IFRS 15, the Company applies the following five (5) steps:

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

Derivative warrant financial liability

The Company's debenture liability contains a host liability and an embedded warrant derivative that arises due to the warrant being priced in a currency that is different to the functional currency of the entity issuing the instrument. The host liability is initially measured at fair value and subsequently measured at amortized cost. The embedded warrant derivative is initially measured at fair value and is subsequently measured at fair value with changes recognized in the statement of loss and comprehensive loss.

In cases where the fair value of the instruments recognized exceeds the transaction price the Company recognizes a gain or loss on initial recognition to the extent the fair value is evidenced by a quoted price in an active market for an identical asset or liability. Where fair value is not supported by a quoted price in an active market for an identical asset or liability, no such gain or loss is recognized.

Significant accounting estimates and judgements

The preparation of condensed interim consolidated financial statements requires management to apply judgment and make estimates that affect the reported amounts of assets and liabilities at the date of the condensed interim consolidated financial statements and reported amounts of expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations with regard to future events that are believed to be reasonable under the circumstances. However, actual outcomes may differ from these estimates.

The significant accounting estimates and judgments as disclosed in the Company's annual consolidated financial statements as at December 31, 2017 have been applied consistently in the preparation of these condensed interim consolidated financial.

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

19. Significant Accounting Policies (cont.)

Recent accounting pronouncements

The following section discusses the new standards effective for reporting periods commencing January 1, 2018

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments ("IFRS 9") reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and has been adopted by the Company as well as applied retrospectively. Refer to Note 14 for changes in classifications and amounts of financial instruments from IAS 39 to IFRS 9.

The Company has evaluated the potential areas of impact from the new standard as follows:

Solely payments of principal and interest ("SPPI") test for receivables: The Company's current investments are short-term in nature and do not contain features that would violate the SPPI test.

Measurement of unlisted equity investments: The Company currently measures its equity investments at fair value through profit or loss.

Option to record gains/losses of investments through OCI: IFRS 9 allows entities to record the fair value fluctuations on equity investments through other comprehensive income. The Company will elect to continue to record its fair value fluctuations on equity investments in profit and loss.

Impairment of receivables: IFRS 9 introduces a new expected credit loss methodology for assessing impairment of receivables, which estimates potential losses based on forward looking information, rather than incurred loss events. The Company has applied the new methodology and assessed its material notes receivable outstanding at March 31, 2018 for impairment as follows:

- Note due from TGS – Subsequent to year-end, the note was restructured to extend the repayment terms. The interest rate for the duration of the loan period is 23.0%. Management has performed a quantitative analysis and determined that the discounted cash flows from the note after restructuring exceed those of the original terms. In February 2018, the Company received \$2,902,671 from TGS, and an additional amount of \$2,228,705 in April 2018, for repayment of principal and accrued interest. Given that TGS has made repayments according to the restructured repayment schedule, management does not expect credit losses on this note.
- Note due from Citiva – In February 2018, the Company acquired 100% of the equity interest in Citiva and the receivable was included as part of consideration as a settlement of the pre-existing relationship.
- Note due from GrowHealthy – In January 2018, the Company acquired 100% of the equity interest in GrowHealthy and the receivable was included as part of consideration as a settlement of the pre-existing relationship.

The Company has retroactively applied the new methodology and assessed its material notes receivable outstanding at March 31, 2017 for impairment as follows:

- Note due from TGS – In February 2017, the Company entered into a strategic relationship with TGS which included a \$7,500,000 loan facility with a term of one year, with an interest rate of 14% for the first four months, escalating to 23% thereafter. As at March 31, 2018, the note had a balance of \$4,403,867. Management performed a quantitative and qualitative analysis of the note due from TGS as at March 31, 2018 and identified no indication of the company's inability or unwillingness to meet principal and interest payments as set forth in the original agreement, thus no credit losses were identified.
- Note due from FWR – In June 2015, the Company issued a secured promissory note to FWR for an amount not to exceed \$915,000. The note bore interest at a rate of 20%, compounded and payable on a monthly basis, with principal payments

Notes to the Condensed Interim Consolidated Financial Statements

(In U.S. Dollars, unless stated otherwise)

(Unaudited)

19. Significant Accounting Policies (cont.)

beginning in July 2017 after entering into a forbearance agreement with the Company. As at March 31, 2018, the note had a balance of \$612,902. No impairment was evident at the end of the period as there was an expectation of closing the acquisition of FWR by the end of the calendar year, and thus no credit losses were identified.

IFRS 15 Revenue from Contracts with Customers

The IASB replaced IAS 18, Revenue, in its entirety with IFRS 15, Revenue from Contracts with Customers. The standard contains a single model that further applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and has been adopted by the Company.

	Sales Revenue	Rental Revenue	Management Fees
<i>Contract existence</i>	A contract exists between a medical patient and the Company once a sale transaction occurs	Rental agreements for real estate and equipment exist between the Company and lessees as applicable	Management services agreements exist between the Company and the managed entities
<i>Performance obligations</i>	Provide the patient with the prescribed quantity of medical cannabis product as prescribed	Provide the real estate and/or equipment offered within the agreement available to the lessee for the duration of the rental agreement	The Company provides the managed entity with business and consulting services for the duration of the agreement. Services include administrative services, regulatory filings, banking, record keeping, payroll services, human resource functions, maintenance of vendor relationships, and maintenance of patient environment and experiences
<i>Transaction price</i>	Transaction price is equal to the displayed retail selling price less any applicable discounts	Transaction price is equal to the monthly rental fee set forth within the rental agreement	Transaction price is equal to the fees as set forth in each respective Statement of Work
<i>Allocation of transaction price</i>	The entirety of the transaction price is allocated to the Company's obligation to provide the cannabis products to the customer	The entirety of the transaction price is allocated to the Company's obligation to make the leased assets available to the lessee for the stated duration	The transaction price is allocated evenly across each of the services provided to the managed entities
<i>Satisfaction of performance obligation</i>	All performance obligations are satisfied once the cannabis products have been provided to the customer	Performance obligations are satisfied monthly, once the leased assets have been provided to the lessee for the month; at which time a portion of revenue equal to the contract value divided by duration of the contract (in months) is recognized	All services are considered to be one performance obligation, regardless if some services are not utilized during certain periods covered under the contract. As such, the performance obligation is considered to be satisfied on a monthly basis at which time revenue equal to the contract value divided by duration of the contract (in months) is recognized

Notes to the Condensed Interim Consolidated Financial Statements

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19. Significant Accounting Policies (cont.)

IFRS 15 Revenue from Contracts with Customers (cont.)

During the three months ended March 31, 2018, the Company generated revenue from the sale of cannabis products through its subsidiaries, GrowHealthy and Grassroots Vermont. The Company also generated rental revenue from its rental agreements with Scarlet and Bergamot.

During the three months ended March 31, 2017, the Company generated rental revenue from its rental agreements with Scarlet and Bergamot. The Company also generated management fee revenue from its management service agreement with FWR, interest income from its promissory notes issued from FWR and TGS.

The following new standards are not yet in effect and have not been adopted by the Company.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The Company expects that it will recognize additional assets and liabilities as a result of the leasing arrangements currently entered or to be entered by its subsidiaries. The full extent of the impact of adoption of the standard has not yet been determined and management will continue to assess the impact as January 1, 2019 approaches.