

## **IANTHUS CAPITAL HOLDINGS, INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND SEPTEMBER 30, 2015**

(All amounts expressed in U.S. dollars, unless otherwise stated)

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The following management discussion and analysis of the results of operations and financial condition ("MD&A") of iAnthus Capital Holdings, Inc. (the "Company" or "iAnthus"), prepared as of November 29, 2016, should be read in conjunction with the audited financial statements of iAnthus Capital Management, LLC ("ICM") for the year ended December 31, 2015, and accompanying notes thereto. The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

During the three and nine months ended September 30, 2016, the financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The Company's critical accounting estimates, significant accounting policies and risk factors have remained substantially unchanged and are still applicable to the Company unless otherwise indicated. All amounts are expressed in United States dollars unless noted otherwise.

#### **FORWARD-LOOKING STATEMENTS**

This MD&A contains certain statements that may constitute "forward-looking statements". Forward-looking statements include but are not limited to, statements regarding future anticipated business developments and the timing thereof, regulatory compliance, sufficiency of working capital, and business and financing plans. Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Forward-looking statements are typically identified by words such as: "believe", "expect", "anticipate", "intend", "estimate", "postulate" and similar expressions, or which by their nature refer to future events. The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance, and that actual results may differ materially from those in forward-looking statements as a result of various factors, including, but not limited to, the Company's ability to continue its projected growth, to raise the necessary capital or to be fully able to implement its business strategies.

#### **COMPANY OVERVIEW**

##### **General Development of the Business**

iAnthus was created to capitalize on the rapidly growing U.S. regulated cannabis (marijuana) market and the unique opportunity that exists for providing capital investment and expert management services ("value-added capital") to licensed cultivators, product manufacturers and dispensaries. 29 U.S. states and the District of Columbia have now legalized the cultivation and sale of cannabis for medical purposes. In addition, 8 states and the District of Columbia have completely legalized cannabis for both medical and recreational use by adults over the age of 21.

Despite the fast growing market for legalized cannabis in the U.S., cannabis remains a Schedule I substance under the federal Controlled Substances Act of 1970. Capital scarcity is therefore expected to continue until cannabis is completely legalized by repeal of the federal prohibition on cannabis cultivation and sale. The high demand for legal cannabis and limited number of licenses under most state regulatory schemes combined with the artificially restricted availability of capital has created an environment for compelling investment opportunities.

##### **Description of Business**

The principal business activity of iAnthus is to provide financing and related management and advisory services to state-licensed operators engaged in the cultivation, manufacturing and dispensing of cannabis in states throughout the U.S. where medical and/or adult use cannabis is legal.

iAnthus is expected to generate returns from any or all of the revenue sources below:

- Interest income from debt financing structures;
- Dividend income (or other profit distributions) and capital appreciation from equity investments; and
- Management and advisory fees from management service contracts with certain license holders to which iAnthus has provided debt or equity financing.

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#### *Management Services*

iAnthus is expected to provide advice and oversight in many areas of general business management. In addition to bringing value-added capital to transactions and relationships with investment targets, iAnthus works closely with cannabis industry leaders to augment its management services offering with expertise in cultivation, extraction, refining, analytical testing and dispensary operations. Through these relationships with other industry professionals, iAnthus can provide its local partners cannabis specific knowledge. In addition, iAnthus' strategic partners provide an additional channel for deal flow, increasing access to potential investment opportunities across the regulated landscape.

#### *Financing Structures*

iAnthus intends to provide debt or equity capital, sometimes as part of a syndicate, to existing holders or applicants for cannabis licenses. Such investments may include straight debt securities (secured or unsecured), convertible debt instruments, and/or common or preferred equity securities.

iAnthus expects to provide debt financings (typically to nonprofit entities in states where medical cannabis licenses may only be held by nonprofits) at interest rates currently prevailing in the U.S. cannabis market. Loans to such license holders will typically be secured by real estate and/or leasehold interests and collateral including cultivation, processing and dispensary equipment. iAnthus may also enter into a management services agreement with the license holder, thereby enhancing the financial return on its investment.

In the majority of states where for-profit license holders are permitted, iAnthus may make direct equity investments in license applicants or existing license holders, working closely with the local operator on its strategy and operating plan, developing a financing and business plan, and coming to agreement on mutually-beneficial terms of an iAnthus equity investment.

## **RECENT DEVELOPMENTS & SUBSEQUENT EVENTS**

iAnthus Capital Holdings, Inc. (formerly Genarca Holdings Ltd.) ("ICH" or the "Company") was incorporated in British Columbia, Canada, on November 15, 2013. The Company delivers solutions for financing, developing and managing state-licensed cannabis cultivators and dispensaries throughout the United States. The Company's registered and records office is located at 1500-1055 West Georgia Street, Vancouver, British Columbia, V6E 4N7, Canada.

On June 30, 2016, the Company signed an amended and restated share exchange agreement (superseding the March 11, 2016 share exchange agreement) with iAnthus Capital Management, LLC ("ICM"), the Founding Members of ICM, iAnthus Transfer Corp. ("iAnthus Transfer"), the Shareholders of iAnthus Transfer, iAnthus Formation Corp. ("iAnthus Formation"), and the Shareholders of iAnthus Formation (the "Amended SEA"), in which the consideration for the purchase of 100% of the ICM Purchased Membership Interests and 100% of the Purchased Shares, ICH shall issue from treasury at the time of closing, an aggregate of (i) 11,255,000 ICH Class A Common Shares to the Sellers that are Applicable U.S. Stockholders, and (ii) 5,083,065 ICH Common Shares to the Sellers, (collectively, the "Payment Shares") as follows:

- (a) 1,700,815 ICH Common Shares to iAnthus Investor Corp. ("iAnthus Investor"), which is currently owned by iAnthus Investor Shareholders, as defined in the preliminary prospectus, (or as it may otherwise direct);
- (b) 1,718,500 ICH Common Shares pro rata to the iAnthus Transfer Shareholders;
- (c) 1,598,750 ICH Common Shares pro rata to the iAnthus Formation Shareholders; and
- (d) 65,000 ICH Common Shares to Michael Cochrane, an ICM Seller as listed on the SEA.

On August 15, 2016, the Company completed the business transaction and acquired all issued and outstanding equity interest of ICM in exchange for issuance of 11,255,000 Class A common shares and 5,083,065 common shares of the Company. As a

**IANTHUS CAPITAL HOLDINGS, INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016**

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result of the transaction, the former shareholders of ICM acquired control of the Company. Therefore, the transaction is considered as a reverse take-over.

In accordance with IFRS 3, the substance of the transaction was a reverse takeover ("RTO") of a non-operating company. The transaction does not constitute a business combination since ICH does not meet the definition of a business under IFRS 3. As a result, the transaction is accounted for as an asset acquisition with ICM being identified as the acquirer (legal subsidiary) and the Company being treated as the accounting subsidiary (legal parent) with the transaction being measured at the fair value of the equity consideration issued to the Company.

The assets acquired and liabilities assumed are at their fair values which are the same as their carrying amounts. The net assets of the Company at fair value on August 15, 2016, are as follows:

	\$
<b>iAnthus Capital Management's Identifiable Net Assets</b>	
Cash	106,607
Accounts Receivable	2,594
Accounts Payable and Accrued Liabilities	(69,284)
<u>Identifiable net assets</u>	<u>39,917</u>
<b>Transaction Costs</b>	
Deemed share issue	750,001
	<u>750,001</u>
<u>Listing expense, net of identifiable net assets</u>	<u>710,084</u>

After deducting the Company's deficit of \$83,979, the net charge of \$626,105 was charged to the statement of comprehensive loss as a listing expense.

Pursuant to the closing of the RTO, the Company changed its name to iAnthus Capital Holdings, Inc. to better reflect its new business.

The Company listed on the Canadian Securities Exchange (the "CSE") and began trading on September 7, 2016 under the ticker symbol "IAN".

*Limited Liability Company Agreement*

On January 22, 2015, ICM amended and restated the limited liability company agreement. The capitalization of ICM was amended to be represented by issued and outstanding units, which may be divided into one or more types, classes or series, with each type of class or series having rights and privileges, including voting rights, if any, as set forth in the agreement. The agreement provides for the issuance of up to 100,000,000 Class A units and 2,500,000 Class B units.

*Capital Contributions*

Through September 30, 2016, the Company raised additional capital through the issuance of 4,294,800 Class A units yielding proceeds amounting to \$5,356,000 less offering costs of \$88,779. Up to the date of the RTO, there were 16,338,065 issued and fully paid Class A units. Please see above for further details regarding the RTO and the Company's share capital subsequent to the RTO.

## **IANTHUS CAPITAL HOLDINGS, INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016**

(All amounts expressed in U.S. dollars, unless otherwise stated)

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Pursuant to an agreement between ICM and iAnthus Formation Corp. ("iAnthus Formation"), during May 2016, the Company repurchased 201,250 of founders units originally granted to iAnthus Formation at no cost, for an agreed upon price of \$15.

#### *4Front Ventures, Inc.*

On April 20, 2015, ICM issued a convertible promissory note in the amount of \$100,000 to 4Front Ventures, Inc. The principal amount and any unpaid accrued interest was payable upon the maturity date of February 27, 2018. The note bears interest at a rate of 5% payable annually on the first day of each calendar year with the balance due payable on the maturity date. ICM had the right, but not the obligation, to convert the entire unpaid principal into Series B preferred stock, but not the accrued interest (i) in the event of a type 1 funding event and/or a type 2 funding event, as defined or (ii) if this note has not been previously converted into Series B preferred stock or paid in full on February 27, 2018. On November 19, 2015, ICM was notified by 4Front Ventures, Inc. that a "type 1 funding event" was entered into. On December 22, 2015, ICM exercised its conversion option to convert the principal balance of the note into units of 4Front Ventures, Inc. Series B preferred stock. The \$100,000 principal was converted to 627 units of Series B preferred stock for approximately \$159 per unit. The investment in 4Front Ventures, Inc. is carried at fair value as determined by the management of 4Front Ventures, Inc. at the date of the conversion.

#### *Platform Investments*

On June 23, 2015, ICM entered into an agreement to provide management services to FWR Inc. ("FWR"), a related party through a family relationship with one of the officers, Hadley Ford. The management fees which are based on 10% of the fiscal year gross revenue of FWR and an additional 1% of the fiscal year gross revenues for each \$50,000 by which the aggregate amount drawn by FWR under the loan exceeds \$500,000, commenced on July 1, 2015. Management fee income amounted to \$19,795 and \$48,754 for the three months and nine months ended September 30, 2016, respectively. As of September 30, 2016, the management fee receivable from FWR is \$73,098 and is not expected to be collected within 12 months, and therefore is classified as non-current. The agreement also provides for the reimbursement by FWR of certain expenses incurred by ICM on behalf of FWR which amounted to \$5,834 and \$25,247 for the three months and nine months ended September 30, 2016, respectively. As of September 30, 2016, the reimbursement receivable from FWR is \$38,160 and is expected to be repaid within 12 months, and therefore is classified as current.

ICM loaned Reynold, Greenleaf and Associates LLC ("RGA"), a related party through a family relationship with one of the officer's, Hadley Ford, \$50,000 on January 21, 2016 and entered into allonges for \$350,000 on March 10, 2016, for \$20,000 on April 7, 2016, for \$50,000 on April 23, 2016, for \$450,000 on May 26, 2016, for \$400,000 on July 1, 2016, for \$400,000 on July 29, 2016 and for \$550,000 on September 8, 2016. These loans bear interest at a rate of 20% and are payable at the maturity date, which is the earlier of (a) closing of an investment in the Maker by the Note holder or its affiliate in excess of \$1,000,000 or (b) the one-year anniversary of the date of the loan or (c) an event of default occurs. As of September 30, 2016, the total amount outstanding is \$2,392,940 including accrued interest and is classified as current. Interest income on the note amounted \$86,022 and \$122,940 for the three and nine months ended September 30, 2016, respectively.

#### *Convertible Promissory Notes*

In February 2016, iAnthus Investor, LLC ("iAnthus Investor"), a U.S. investment vehicle for ICM, issued two unsecured convertible promissory notes (the Notes) for a total principal amount of \$1,300,000. \$500,000 of that amount has been loaned to ICM on the same terms as the Notes and \$800,000 initially was being held in escrow subject to the public filing of ICM and other certain milestones. The Notes are convertible at conversion prices ranging from \$1.00 to \$1.65 per unit contingent

## **IANTHUS CAPITAL HOLDINGS, INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016**

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on certain company milestones being met, bear interest at 8.0% per annum and have maturities of one to three years. The Notes do not have redemption, retraction, purchase for cancellation, surrender, or sinking or purchase fund provisions.

In conjunction with issuance of the Notes, iAnthus Investor has issued 275,758 three-year warrants (consisting of 106,061 warrants currently issued and 169,697 warrants initially held in escrow subject to the public filing of the Company and other certain milestones). Each warrant gives the holder the right to purchase one Class A unit of the Company for an exercise price of \$1.75. The carrying value of the warrants was determined using the proportional value allocation method. This is based upon the issuance date fair value of the warrants determined using the Black Scholes method of \$104,640 for the 106,061 warrants initially issued. The allocation at issuance was \$413,450 for the note and \$86,550 for the warrants. At September 30, 2016, the \$500,000 convertible note is carried at \$431,854. The convertible note is stated at a discount that will be accreted to interest expense using the effective interest method. For the three and nine months ended September 30, 2016, \$7,213 and \$18,404 of interest was accreted, respectively.

On September 1, 2016, \$500,000 was released from escrow of which \$160,000 was loaned to Mayflower and \$340,000 was loaned to ICH. On September 19, 2016, the remaining \$300,000 was released from escrow and was loaned to ICH. In conjunction with the release of the Notes, the 169,697 warrants held in escrow were released. The carrying value of the warrants was determined using the proportional value allocation method. This is based upon the issuance date fair value of the warrants determined using the Black Scholes method of \$167,543. As such, \$661,440 was allocated to the note and \$138,560 to the warrants. At September 30, 2016, the \$800,000 convertible note is carried at \$665,289. The convertible note is stated at a discount that will be accreted to interest expense using the effective interest method. For the three and nine months ended September 30, 2016, \$3,849 of interest was accreted.

The Notes have a covenant requiring that as long as the Notes remain outstanding and less than 80% of the original principal amount of the Notes have been converted by the payee, the Company shall maintain a minimum cash balance of \$500,000. As of September 30, 2016, the Company was in compliance with this covenant.

#### *Commitments*

ICM entered into an agreement with ProActive Capital Resources Group ("PCG") on February 8, 2016 to provide strategic advisory, communications and market access services. Pursuant to the services agreement, ICM retained PCG on a 12-month term and to pay PCG a monthly cash fee of \$5,000 and all reasonable out-of-pocket expenses related to the services. Either party can terminate the agreement without any reason by providing 30 days written notice to the other party of the termination thereof.

ICM entered into an agreement with Baron Global Financial Canada Ltd. ("Baron") on February 4, 2016 to provide advisory services. Pursuant to the advisory services agreement, ICM retained Baron on a 12-month term upon listing on the Canadian Stock Exchange ("CSE") to be its exclusive corporate advisor. Pursuant to the advisory services agreement, the Company agreed to pay Baron a one-time fee of CAD\$50,000 and a monthly cash fee of CAD\$12,000 plus applicable tax upon listing on CSE and the Company is responsible for all reasonable out-of-pocket expenses related to the services.

Either party can terminate the agreement without any reason by providing 30 days written notice to the other party of the termination thereof. In addition, the Company granted 100,000 stock options to Baron.

**IANTHUS CAPITAL HOLDINGS, INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016**

(All amounts expressed in U.S. dollars, unless otherwise stated)

**MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

Management is responsible for the preparation and fair representation of the financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

**OVERALL PERFORMANCE AND RESULTS OF OPERATIONS****For the nine months ended September 30, 2016****Revenues**

During the three and nine months ended September 30, 2016, the Company earned management fee income and interest income from its investments in Vermont, New Mexico and Massachusetts.

**General and administrative expenses**

During the nine months ended September 30, 2016, the Company incurred a net loss of \$3,209,323 (September 30, 2015 – \$608,376).

Operating expenses for the nine months ended September 30, 2016 totaled \$3,514,870 (September 30, 2015 - \$649,015). The following chart details the operating expense comparatives for the nine months ended September 30, 2016 and 2015:

	September 30, 2016 (\$)	September 30, 2015 (\$)	Change (\$)
Management fee income	48,754	12,246	36,508
Reimbursed expenses	25,247	18,357	6,890
Interest income	235,840	10,036	225,804
<b>Total operating income</b>	<b>309,841</b>	<b>40,639</b>	<b>269,202</b>
Accounting	253,235	37,493	215,742
Consulting fees	873,170	54,768	818,402
Insurance	72,394	1,392	71,002
Interest expense	53,048	-	53,048
Legal and professional fees	554,081	174,134	379,947
Listing expense (Note 2)	626,105	-	626,105
Marketing and promotion	76,925	17,500	59,425
Share-based compensation	696,124	-	696,124
Transfer agent and regulatory fees	19,531	-	19,531
Travel, Meals and entertainment	91,488	53,180	38,308
Office and administrative expenses	159,971	64,985	94,986
Wages and salaries	38,798	245,563	(206,765)
<b>Total operating expenses</b>	<b>3,514,870</b>	<b>649,015</b>	<b>2,865,855</b>
Loss on settlement of debt	(4,294)	-	(4,294)

**IANTHUS CAPITAL HOLDINGS, INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016**

(All amounts expressed in U.S. dollars, unless otherwise stated)

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**For the three months ended September 30, 2016****Revenues**

During the three and nine months ended September 30, 2016, the Company earned management fee income and interest income from its investments in Vermont, New Mexico and Massachusetts.

**General and administrative expenses**

During the three months ended September 30, 2016, the Company incurred a net loss of \$1,809,750 (September 30, 2015 – \$200,538).

Operating expenses for the three months ended September 30, 2016 totaled \$1,988,400 (September 30, 2015 - \$237,538). The following chart details the operating expense comparatives for the nine months ended September 30, 2016 and 2015:

	September 30, 2016 (\$)	September 30, 2015 (\$)	Change (\$)
Management fee income	19,795	12,246	7,549
Reimbursed expenses	5,834	18,357	(12,523)
Interest income	157,315	6,217	151,098
<b>Total operating income</b>	<b>182,944</b>	<b>36,820</b>	<b>146,124</b>
Accounting	171,452	4,167	167,285
Consulting fees	325,134	19,300	305,834
Insurance	28,346	301	28,045
Interest expense	26,404	-	26,404
Legal and professional fees	274,727	56,594	218,133
Listing expense (Note 2)	626,105	-	626,105
Marketing and promotion	40,073	6,667	33,406
Share-based compensation	324,938	-	324,938
Transfer agent and regulatory fees	19,531	-	19,531
Travel, Meals and entertainment	35,308	16,728	18,580
Office and administrative expenses	77,584	21,685	55,899
Wages and salaries	38,798	111,916	(73,118)
<b>Total operating expenses</b>	<b>1,988,400</b>	<b>237,358</b>	<b>1,751,042</b>
Loss on settlement of debt	(4,294)	-	(4,294)

**IANTHUS CAPITAL HOLDINGS, INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016**

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**SUMMARY OF QUARTERLY RESULTS**

The following table presents unaudited selected financial information for each of the last four quarters:

	Q3 September 30, 2016 \$	Q2 June 30, 2016 \$	Q1 March 31, 2016 \$	Q4 December 31, 2015 \$
Net sales	-	-	-	-
Net loss	(1,988,400)	(863,987)	(535,585)	(1,315,748)
Basic and diluted loss per share	(0.21)	(0.06)	(0.04)	(0.11)
Weighted average shares outstanding	8,770,248	15,209,174	12,636,119	11,937,550

**Net Loss**

The net loss for the three-month period ended September 30, 2016 was \$1,988,400 (December 31, 2015 - \$863,987). The increase in net loss of \$1,124,413 resulted primarily from an increase in operating activities pursuant to the closing of the RTO.

**LIQUIDITY AND CAPITAL RESOURCES**

As of September 30, 2016, the Company had working capital of \$3,154,693 (December 31, 2015 - \$69,906) and cash of \$1,356,816 (December 31, 2015 - \$211,717).

The chart below highlights the Company's cash flows during the nine months ending September 30, 2016 and September 30, 2015.

Net cash provided by (used in):	Nine Months Ended	
	September 30, 2016	September 30, 2015
Operating activities	<b>\$(1,745,829)</b>	<b>\$(725,444)</b>
Investing activities	<b>\$(4,123,512)</b>	<b>\$(200,000)</b>
Financing activities	<b>\$6,899,423</b>	<b>\$1,636,296</b>

**OFF BALANCE SHEET ARRANGEMENTS**

To the best of management's knowledge, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.



**IANTHUS CAPITAL HOLDINGS, INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016**

(All amounts expressed in U.S. dollars, unless otherwise stated)

**PROPOSED TRANSACTIONS**

The Company has no proposed transactions.

**RELATED PARTY TRANSACTIONS**

Related party transactions are as follows:

	September 30, 2016	December 31, 2015
	Unaudited	Audited
Due from Mayflower Medicinal, a non-profit entity Controlled by Company Management	<b>\$1,490,572</b>	<b>\$204,637</b>
Due from Griscom Advisors, LLC, owned by Manager, Hadley Ford	\$-	<b>\$1,676</b>
Total due from related parties	<b><u>\$1,490,572</u></b>	<b><u>\$206,313</u></b>
Due to Last Dance Ventures, LLC, owned by Managers, Hadley Ford and Randy Maslow	\$-	<b>\$132,930</b>

At December 31, 2015, ICM had advanced \$203,595. The total amount of the secured promissory note includes previously advanced amount of \$929,579 including accrued interest as of July 1, 2016 at an interest rate of 2%. As of September 30, 2016, the total amount advanced under the promissory notes amounted to \$1,490,572 including accrued interest. Starting July 1, 2016, the note bears interest at a rate of 16%, compounded daily and payable on a quarterly basis, starting one year after Mayflower commences sales of licensed products to patients (the "First Payment Date"). The maturity date is 7 years after the First Payment Date, and therefore is classified as non-current. The parties are in the process of amending the secured promissory note limit to reflect the latest advances. Interest income on the note amounted to \$48,577 and \$53,482 for the three and nine months ended September 30, 2016, respectively.

ICM utilizes the services and office space of Last Dance Ventures LLC owned by two members. Such services are allocated based upon management's estimate and are as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Payroll and related fringes	<b>\$210,000</b>	<b>\$111,916</b>	<b>\$630,000</b>	<b>\$245,563</b>
Rental costs	<b>\$26,651</b>	<b>\$17,709</b>	<b>\$79,466</b>	<b>\$46,344</b>

On June 23, 2015, ICM entered into an agreement to provide management services to FWR Inc. ("FWR"), a related party through a family relationship with one of the officers, Hadley Ford. The management fees which are based on 10% of the fiscal year gross revenue of FWR and an additional 1% of the fiscal year gross revenues for each \$50,000 by which the aggregate amount drawn by FWR under the loan exceeds \$500,000, commenced on July 1, 2015. Management fee income amounted to \$19,795 and \$48,754 for the three months and nine months ended September 30, 2016, respectively. As of September 30, 2016, the management fee receivable from FWR is \$73,098 and is not expected to be collected within 12 months, and therefore is classified as non-current.

The agreement also provides for the reimbursement, by FWR of certain expenses incurred by the Company on behalf of FWR which amounted to \$5,834 and \$25,247 for the three months and nine months ended September 30, 2016, respectively. As of September 30, 2016, the reimbursement receivable from FWR is \$38,160 and is expected to be repaid within 12 months, and therefore is classified as current.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

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On October 1, 2015, the Company entered into an administrative services agreement with LDV. LDV provides full time equivalent staff to perform certain accounting, business development, recordkeeping, tax filing and other operating functions. The agreement provides for a monthly fee. For the three months and nine months ended September 30, 2016, the Company incurred administrative management fees of \$210,000 and \$630,000, respectively. As of September 30, 2016, the amount due to LDV is \$236,652 and is expected to be repaid within 12 months, and therefore classified as current.

### OUTSTANDING SHARE (UNIT) DATA

The following share capital data is current as of the date of this document:

	<b>Balance</b>
Shares (units) issued and outstanding	16,954,022
Options	1,559,250
Warrants	325,758
Debentures	787,879
Fully diluted shares outstanding	19,626,909

### FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### *Fair Value*

Cash, receivables, due to/from related parties and accounts payable and accrued liabilities, approximate their fair values because of the short-term maturities of these financial instruments. The fair values of the promissory notes approximate their carrying values. Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 in a hierarchy that is based on the degree to which the fair value is observable. The levels in the 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).

**Investment valuation:** On April 20, 2015, ICM issued a convertible promissory note in the amount of \$100,000 to 4Front Ventures, Inc. The principal amount and any unpaid accrued interest was payable upon the maturity date of February 27, 2018. The note bears interest at a rate of 5% payable annually on the first day of each calendar year with the balance due payable on the maturity date. ICM had the right, but not the obligation, to convert the entire unpaid principal into Series B preferred stock, but not the accrued interest (i) in the event of a type 1 funding event and/or a type 2 funding event, as defined or (ii) if this note has not been previously converted into Series B preferred stock or paid in full on February 27, 2018. On November 19, 2015, ICM was notified by 4Front Ventures, Inc. that a "type 1 funding event" was entered into. On December 22, 2015, ICM exercised its conversion option to convert the principal balance of the note into units of 4Front Ventures, Inc. Series B preferred stock. The \$100,000 principal was converted to 627 units of Series B preferred stock for approximately

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**MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016**

(All amounts expressed in U.S. dollars, unless otherwise stated)

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\$159 per unit. The investment in 4Front Ventures, Inc. is carried at fair value as determined by the management of 4Front Ventures, Inc. at the date of the conversion.

There were no changes in valuation techniques during the periods.

***Financial Assets***

Financial assets are classified based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

***Losses and Receivables***

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs.

Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. The Company's loans and receivables are comprised of cash.

***Impairment of Financial Assets***

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets. No impairment losses have been required for the three and nine months ended September 30, 2016.

The Company is exposed through its operations to the following financial risks:

- Market risk
- Credit risk
- Liquidity risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments.

This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

***General Objectives, Policies and Processes***

Management has overall responsibility for the determination of the Company's risk management objectives and policies. The overall objectives of management are to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

**IANTHUS CAPITAL HOLDINGS, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016**

(All amounts expressed in U.S. dollars, unless otherwise stated)

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*Market risk*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

*Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's borrowings are non-interest bearing. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with financial institutions in the United States of America. The Company considers this risk to be immaterial.

*Equity price risk*

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company holds no such assets and is thus not exposed to equity price risk.

*Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments, which are potentially subject to credit risk for the Company, consist primarily of cash and promissory notes receivable. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand.

The carrying amount of financial assets represents the maximum credit exposure. Credit risk exposure is limited through maintaining cash with high-credit quality financial institutions and management considers this risk to be minimal for all cash assets based on changes that are reasonably possible at each reporting date.

*Liquidity and funding risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash is invested in business accounts and is available on demand. Funding risk is the risk that the Company may not be able to raise appropriate financing in a timely manner and on terms acceptable to management. There are no assurances that such financing will be available when, and if, the Company requires additional equity financing.

The following is an analysis of the contractual maturities of the Company's non-derivative financial liabilities as at September 30, 2016:

**IANTHUS CAPITAL HOLDINGS, INC.****MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016**

(All amounts expressed in U.S. dollars, unless otherwise stated)

	Within one year	Between one and five years	More than five years
Accounts payables and accrued liabilities	\$ 579,650	\$ -	\$ -
Due to related parties	\$ 236,652	\$ -	\$ -
Accrued interest payable	\$ 10,850	\$ -	\$ -

*Currency risk*

The Company has operations in Canada and the United States and is subject to foreign currency fluctuations. The Company's operating expenses are incurred in Canadian and U.S. dollars, and the fluctuation of the Canadian dollar in relation to these other currencies will have an impact upon the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company's exposure to foreign currency risk arises primarily on fluctuations between the Canadian and U.S. dollars.

The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

At September 30, 2016, and December 31, 2015, the Company's Canadian dollar-denominated monetary assets and monetary liabilities are as follows:

<b>Canadian Monetary assets (\$CAD)</b>		<b>September 30, 2016</b>		<b>December 31, 2015</b>
Cash and cash equivalents	\$	266,524	\$	-
Accounts payable and accrued liabilities	\$	184,612	\$	-

The exposure to foreign exchange rate risk is as follows:

<b>Canadian Monetary assets</b>		<b>CAD</b>	<b>10% Fluctuation Impact (CAD)</b>		<b>USD</b>
Cash and cash equivalents	\$	266,524	\$	26,652	\$ 20,320
Accounts payable and accrued liabilities	\$	184,612	\$	18,461	\$ 14,075

**Capital Management**

The Company monitors its cash, common units/shares and debt obligations as capital. The Company's objectives when maintaining capital are to maintain sufficient capital base in order to meet its short-term obligations and, at the same time, preserve investors' confidence required to sustain future development and production of the business.

The Company is not exposed to any externally imposed capital requirements.

**SIGNIFICANT ACCOUNTING POLICIES**

A summary of the Company's significant accounting policies under IFRS are consistent with those of the Company's condensed interim consolidated financial statements for the nine months ended September 30, 2016, and the Company's financial statements for the year ended December 31, 2015.

## **IANTHUS CAPITAL HOLDINGS, INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016**

(All amounts expressed in U.S. dollars, unless otherwise stated)

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#### **RISK AND UNCERTAINTIES**

Through the principal business activity of the Company, it is exposed to a number of risks and uncertainties that are not uncommon to other companies in the same business.

##### **Conflicts of Interest**

Certain directors of the Company also serve as directors and/or officers of other companies involved in other business ventures. Consequently, there exists the possibility for such directors to be in a position of conflict. Any decision made by such directors involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with the Company and such other companies. In addition, such directors will declare, and refrain from voting on, any matter in which such directors may have a conflict of interest.

##### **Negative Operating Cash Flows**

As the Company is in the early start-up stage it may continue to have negative operating cash flows. Without the injection of further capital and the development of revenue streams from its business, the Company may continue to have negative operating cash flows until it can realize stable cash flow from operations.

##### **Risks Related as a Going Concern**

The ability of the Company to continue as a going concern is uncertain and dependent upon its ability to achieve profitable operations, obtain additional capital and receive continued support from its members. Management of the Company will have to raise capital through private placements or debt financing and proposes to continue to do so through future private placements and offerings. The outcome of these matters cannot be predicted at this time.

##### **Reliance on Key Personnel and Advisors**

The Company relies heavily on its officers. The loss of their services may have a material adverse effect on the business of the Company. There can be no assurance that one or all of the employees of, and contractors engaged by, the Company will continue in the employ of, or in a consulting capacity to, the Company or that they will not set up competing businesses or accept positions with competitors. There is no guarantee that certain employees of, and contractors to, the Company who have access to confidential information will not disclose the confidential information.

#### **OTHER INFORMATION**

Additional information on the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).