



CEO Letter

Dear Shareholders,

Over the past year, iAnthus has continued to build a strong foundation as a leader in the United States' fastest growing industry. As you may have heard me say throughout the year, to succeed in the U.S. cannabis market, you must be good at raising capital, expanding your retail footprint, and hiring experienced people to execute your plan. In the last 12 months, we proved our ability in all three.

From a capital perspective, iAnthus continued its focus on a strong balance sheet, broad investor base and improving liquidity. Our balance sheet today is as strong as it has ever been in our Company's history. We have over \$50mm of cash reserves earmarked to fund our growth strategy, and we continue to focus on our cost of capital by accessing different sources of investors and lenders. We currently have over 60,000 shareholders across six continents, a tremendous breadth of investors and they can look for information on iAnthus from any one of the 10 banks that cover us in research. The Company was recently recognized as the third best performing stock in 2018 by the OTCQX exchange, demonstrating that iAnthus continues to resonate with investors who are seeking growth and transparency in their portfolio. And from a liquidity perspective, our trading volume has continued to increase to the point where we consistently have the highest float and highest volume in the industry in relation to our market capitalization. In 2019, we will continue to focus on reducing our cost of capital, improving liquidity and working on behalf of our shareholders to increase our share price.

From a scale perspective, we promised at the beginning of 2018 that iAnthus would be strategic in finding the right avenues to grow our presence and enter key markets. Early in 2018, we added New York and Florida and later in the year we announced the acquisition of MPX Bioceutical. MPX has proven to be an excellent complement to our existing retail footprint increasing our presence from six to 11 states with licenses to open 63 dispensaries and 15 cultivation/processing facilities, and positioning iAnthus as one of the largest players in the U.S. We are a market share leader in Arizona, and MPX products are asked for by name in over 90 dispensaries across three states. During the year, we have opened stores in our greenfield markets of New York, Florida, Massachusetts and Maryland and we are in the planning process to open in New Jersey in 2019. iAnthus now has three dispensaries open in Florida, with a goal of 17 more to be opened by the end of 2019. We also have two dispensaries open in New York, including our flagship Brooklyn location across from the Barclays Center, with the goal of opening our two other locations during the upcoming year. Combined with our recent dispensary wins in Nevada, iAnthus has significant retail operations in multiple high growth markets and we anticipate a very bullish 2019.

The last, and most important, of the three keys to success, is having experienced people to execute our plan. You must have the right person in the right job at the right time. Without the right people in place to carry out our vision, all the capital and scale in the world will not be enough to take full advantage of the opportunities ahead in the U.S. cannabis market. We are building an impressive operating team that combines cannabis expertise with crucial professional skillsets from outside the industry. You must not only be great at cannabis, but you need to replicate that exact same ability in every state in which you operate. Industry pioneers, like Elizabeth Stavola, our Chief Strategy Officer, who has built successful operations and brands in multiple states, provide us with strong cannabis leadership and savvy business sense. When we take leadership in cannabis and combine it with operational expertise from process driven businesses we can begin to ensure we will delight our customers across all our markets. Of our broader operations team, one of the biggest compliments I can provide them is that they are constantly learning and adjusting. There is no blueprint to being a world-class cannabis operator. It is something that companies need to figure out for themselves and develop in real-time. The fact that our team is able to learn from our successes and failures, and make timely adjustments and optimizations, will continue to separate iAnthus from the competition and allow us to out-execute the market over time.



Hadley Ford, CEO

With the foundation we have built in 2018, both organically and through the acquisition of MPX, iAnthus is poised for a transformative 2019. Speaking directly to our 60,000 shareholders, iAnthus' commitment has never wavered, and we will not stop in our effort to build the greatest cannabis company in the world's largest consumer market. We all thank you for continuing to place your trust in us.

“ The last, and most important...is having experienced people to execute our plan ”

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2018

Unparalleled Pace of Execution

Jan 2018

Acquisition of GrowHealthy

Feb 2018

Acquisition of Citiva

Feb 2018

Closed \$20 million financing

May 2018

\$50 million financing to accelerate growth initiatives

Jul 2018

Flagship dispensary opened in Boston, MA

Jul 2018

Groundbreaking announced at Warwick, NY cultivation facility

Oct 2018

Closed CAD \$34.5 million financing

Oct 2018

Acquisition of MPX Bioceutical Corporation ("MPX") announced

Dec 2018

Opened flagship Florida dispensary in West Palm Beach & second Florida dispensary in Brandon

Dec 2018

Opened flagship New York dispensary in Brooklyn

Feb 2019

Opened second New York dispensary in Hudson Valley

Feb 2019

Close of MPX transaction

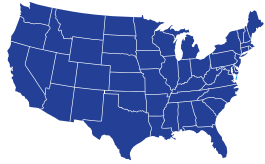
Mar 2019

Opened third Florida dispensary in Lake Worth

Mar 2019

Closed \$35 million financing

2019



11
States



121
Million



15
Facilities



63
Dispensaries

Landmark Transaction

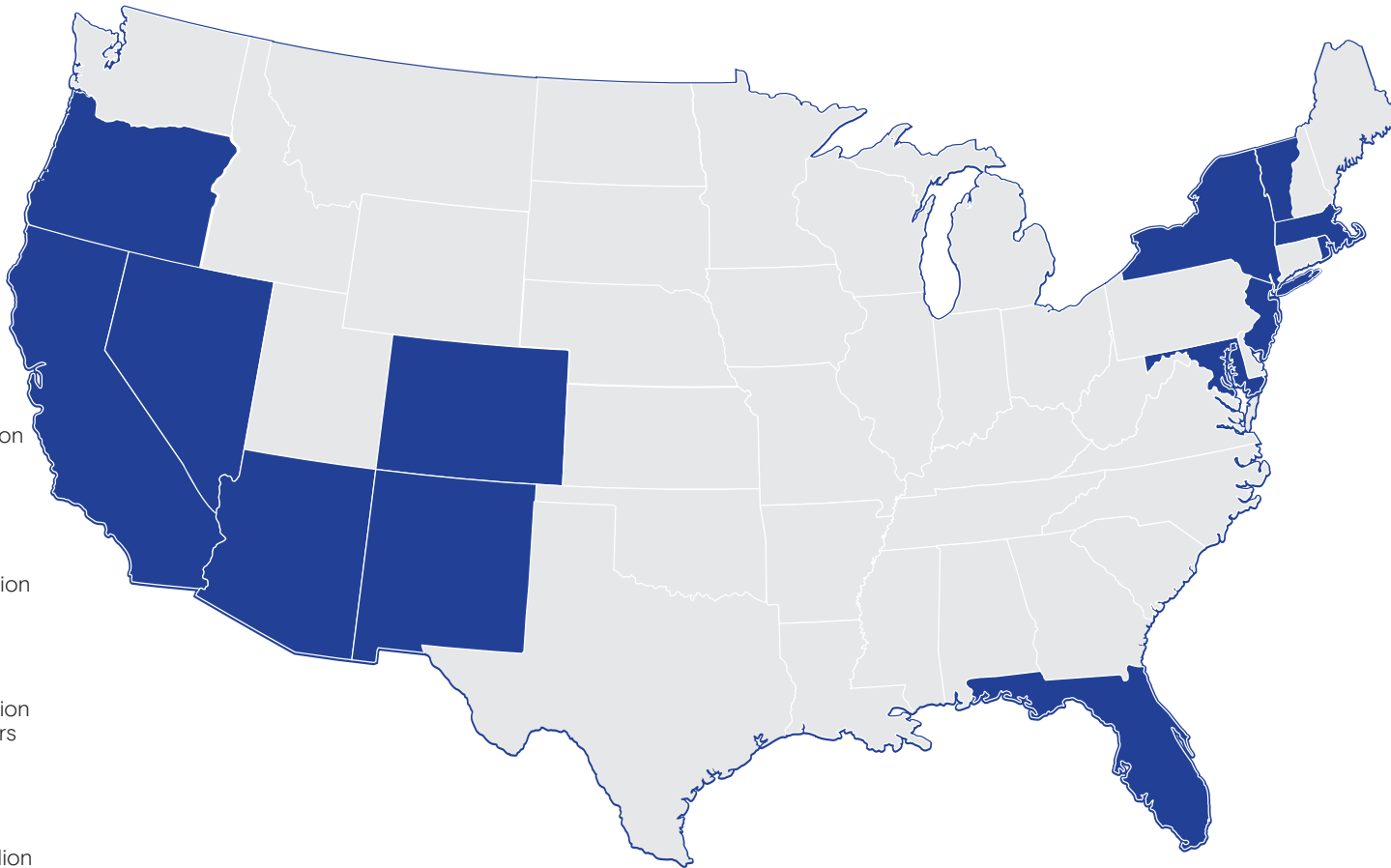
	iAnthus	MPX MELTING POINT EXTRACTS	Combined
Footprint	6 States	6 States	11 States
Addressable Population	56 Million	72 Million	121 Million
Cultivation/Processing Facilities	8	7	15
Dispensaries	46	17	63

The Announcement

On October 18, 2018, the Company announced the acquisition of MPX Bioceutical Corporation's ("MPX") U.S. assets, positioning the Company as one of the largest U.S. regulated cannabis operators and expanding the Company's footprint to 11 states. The transaction officially closed on February 5, 2019, making it the largest public to public U.S. cannabis transaction to date.



Summary of Operations & Licensed Facilities



NEW MEXICO

- Population⁽¹⁾, 2.1 million
- 6 Dispensaries
- 1 Management Service Company

COLORADO

- Population⁽¹⁾, 5.5 million
- 1 Dispensary⁽²⁾
- 1 Cultivation

ARIZONA

- Population⁽¹⁾, 7.0 million
- 2 Processing Centers
- 4 Dispensaries
- 2 Cultivation

NEVADA

- Population⁽¹⁾, 3.0 million
- 1 Cultivation
- 4 Dispensaries

CALIFORNIA⁽³⁾

- Population⁽¹⁾, 39.5 million

NEW YORK

- Population⁽¹⁾, 20.0 million
- 4 Dispensaries⁽⁴⁾
- 1 Cultivation/Processing⁽⁴⁾

MASSACHUSETTS

- Population⁽¹⁾, 6.8 million
- 6 Dispensaries⁽⁵⁾
- 2 Cultivation/Processing⁽⁴⁾

FLORIDA⁽⁶⁾

- Population⁽¹⁾, 21.0 million
- 30 Dispensaries⁽⁴⁾⁽⁷⁾
- 1 Cultivation/Processing⁽⁴⁾

VERMONT⁽⁸⁾

- Population⁽¹⁾, 0.6 million
- 2 Dispensaries⁽⁴⁾
- 1 Cultivation/Processing⁽⁴⁾

MARYLAND

- Population⁽¹⁾, 6.0 million
- 3 Dispensaries⁽⁹⁾
- 1 Processing⁽⁹⁾

NEW JERSEY

- Population⁽¹⁾, 9.0 million
- 3 Dispensaries⁽¹⁰⁾
- 1 Cultivation⁽⁴⁾

(1) Populations according to the United States Census Bureau from www.censusreporter.org (2019)

(2) The Company's wholly-owned Colorado subsidiaries have entered into management services, licensing, and leasing agreements with the licensed operator

(3) In July 2018, prior to the acquisition, MPX entered into an agreement to produce MPX branded concentrates for distribution in California

(4) Refers to the maximum allowable number of dispensaries and cultivation facilities permitted under current state law, given the licenses issued to date

(5) The Company has the ability to open a maximum of three medical dispensaries and three adult-use stores. One or more of those licenses will be co-located at the same facility

(6) Acquisition of the GrowHealthy Holdings, LLC ("GrowHealthy") assets includes an option to acquire an affiliate, McCrory's Sunny Hill Nursery, LLC ("McCrory's") which holds one of only 14 issued licenses to cultivate, process and dispense medical cannabis from the Florida Department of Health

(7) The maximum allowable number of dispensaries per license holder increases by five dispensaries per 100,000 patients added to the registry

(8) The Company owns 100% of Pakalolo, LLC, the sole member of FWR, Inc. d/b/a Grassroots Vermont ("GRVT") (a not-for-profit corporation)

(9) The Company operates three dispensaries and one processing facility in Maryland under management services agreements that include options to acquire those licenses in the future

(10) The Company expects to enter into a management services agreement with a newly licensed operator controlled by a senior executive of the Company, subject to regulatory approval by the New Jersey Department of Health

63
Dispensaries

CULTIVATION FOOTPRINT



600,000 square feet
of cultivation and
processing space



Rendering of Upgrades to Existing Facility

MANAGEMENT'S DISCUSSION & ANALYSIS



Company Overview

iAnthus Capital Holdings, Inc. (the “Company”, “ICH”, or “iAnthus”) owns and operates best-in-class, licensed cultivation, processing, and dispensary businesses. The Company also has ownership interests in cannabis operations in Colorado, New Mexico, and Maryland. iAnthus is capitalizing on the rapidly growing U.S. regulated cannabis market and the unique opportunity that exists for well-capitalized and professionally managed cultivation, processing and retail operations.

The Company is listed on the Canadian Securities Exchange (the “CSE”) under the ticker symbol “IAN” and is quoted on the OTCQX, part of the OTC Markets Group, under the ticker symbol “ITHUF”.

Board of Directors



Hadley Ford
Chief Executive Officer and Director



Randy Maslow
President and Director



Elizabeth Stavola
Chief Strategy Officer and Director



Julius Kalcevich
Chief Financial Officer and Director



Paul Rosen
Director



Robert Petch
Director



Robert Galvin
Director

Three Drivers of Growth

In the high growth environment of the U.S. cannabis market, an experienced team, access to capital and an ability to grow one’s footprint are the three key drivers of a company’s success. iAnthus was founded by entrepreneurs who bring together market leading experience in operations, capital markets and M&A. Combining these skills, we are building a cannabis company that will seize the opportunities this emerging industry offers.

New York Highlights

iAnthus Opens Flagship Brooklyn Dispensary

- Citiva's flagship dispensary in Brooklyn, opened on December 30, 2018, is the first dispensary to open in Brooklyn, and is expected to be one of three dispensaries in New York's largest borough, serving a population of roughly 2.6 million residents
- The 2,000 square foot retail location, located directly across from the Barclays Center, offers more than 30 locally-sourced, lab-tested products, including vape cartridges and tinctures, dispensed by knowledgeable patient care representatives

Growing Retail Footprint

- On February 14, 2019, Citiva opened its second dispensary location in Hudson Valley, and is in lease negotiations for its Staten Island dispensary location with a target opening in Q3 2019
- Near finalizing a lease for Citiva's fourth dispensary in Chemung County which is expected to open later this year
- As at March 29, 2019, Citiva had 2,223 unique patients, up from 722 patients in February 2019, representing a month-over-month increase of 208%
- Citiva has purchased and retro-fitted four energy- and fuel-efficient vehicles to begin delivery

Cultivation Facility

- During 2018, considerable progress was made on construction of the head house and greenhouse at Citiva's cultivation and processing facility located in Warwick, NY. The facility is expected to be operational in 2019
- The Warwick facility will begin with 49,700 square feet of production and cultivation space, which will yield 2,400kg of cannabis annually. The land can support further expansion of up to 125,000 square feet. Ahead of the completion of the facility, Citiva will continue to supply its dispensaries with a wide range of Citiva-branded products from various wholesale suppliers

Brooklyn Dispensary



“...flagship dispensary opened on December 30, 2018...”

Florida Highlights

Flagship Dispensary Open in Florida

- GrowHealthy opened the doors to its flagship dispensary in West Palm Beach on December 19, 2018, marking the Company's first dispensary location in the State of Florida
- On December 31, 2018, a second dispensary was opened in Brandon and on March 4, 2019 the Company's third Florida dispensary opened in Lake Worth
- 17 additional dispensary leases have been executed statewide and all are expected to open in 2019

Cultivation and Delivery Expansion

- GrowHealthy continues to expand its delivery program with eight vehicles in its fleet, with plans to add one additional vehicle for each new dispensary opened throughout 2019
- GrowHealthy continues to expand its cultivation and production capacity through the build out of outdoor shade houses and greenhouses at its Lake Wales cultivation facility which will add approximately 285,000 square feet of additional cultivation space
- Delivery sales saw a 124% increase from Q3 2018 to Q4 2018 as delivery is available six days a week with short turnaround times

Focus on Patient Outreach

- As of January 2019, the number of unique patients served by GrowHealthy has tripled since Q3 2018 as a result of its growing delivery program and dispensary openings
- As of March 8, 2019, the number of registered patients in Florida increased by 186% to 246,215 compared to 85,985 in the same period in 2018



West Palm Beach dispensary

“...build out of outdoor shade houses and greenhouses ...which will add approximately 285,000 square feet of additional cultivation space”

Massachusetts Highlights

Flagship Dispensary Open in Boston

- On July 19, 2018, Mayflower Medicinals Inc. (“Mayflower”) opened its flagship medical dispensary in Boston, which is currently one of only two operating within Boston city limits
- An application for an adult-use cultivation and processing license at the Holliston facility has been submitted to the Cannabis Control Commission (“CCC”). An application for an adult-use dispensary license for the Boston location has also been submitted, and the Company expects to commence adult-use sales in Boston later this year

Increasing Revenues

- Revenues increased during the quarter by 144% from \$590,000 in Q3 2018 to \$1.44 million in Q4 2018
- With improved cultivation yields and production, Mayflower began selling wholesale product and saw wholesale revenues increase by 231% in Q4 2018 over Q3 2018
- Partnering with Azuca – founded by Ron Silver, chef of popular NYC restaurant, Bubby’s – Mayflower launched a fast-acting cannabis infused edibles line in October 2018, that was created in Mayflower’s state of the art commercial kitchen
- The total volume of flower sold in the quarter increased by 242% from 14kg in Q3 2018 to 48kg in Q4 2018

Near Term Dispensary Openings

- Mayflower has signed a Host Community Agreement (“HCA”) with the City of Worcester for an adult-use dispensary. Additionally, the design phase for Mayflower’s 3,000 square foot Lowell dispensary, for which it holds a medical provisional Certificate of Registration, has been completed. Both dispensaries are expected to open within the second half of 2019, pending approval from the CCC
- As part of the MPX acquisition, the Company acquired a provisional medical Certificate of Registration for a dispensary location in Fall River. Construction of the 5,500 square foot dispensary is substantially complete and is expected to open in 2019, upon approval from the CCC. The Company also intends to apply for a license to sell adult-use cannabis products at this location



“...Revenues increased during the quarter by 144%...”

MASSACHUSETTS

Vermont Highlights

Positive Regulatory Developments

- On July 1, 2018, Vermont became the ninth state to legalize full adult use marijuana and became the first state to do so through the legislative process
- On December 18, 2018, the Governor's Marijuana Advisory Commission issued a report that included recommendations that would allow the commercial sale of adult use marijuana by licensed operators
- Bill S.54 was introduced through first reading as part of the February 2019 legislative session, which, if passed, would regulate the commercial sale of cannabis for recreational use in the state. With the addition of adult-use sales, combined cannabis revenues in the State are expected to grow 326%, from \$20.4 million in 2018 to \$87.1 million by 2022

Doubling Capacity for Increased Demand

- GRVT is in the final stage of the approval process for its second dispensary location in Williston, Vermont, which is located within a five-mile radius of four of the five most populous municipalities in the state
- As demand is expected to increase with the addition of the second dispensary, GRVT has continued significant upgrades to expand its growing space that will double its current production capacity to an annual total of 400kg



“On July 1, 2018, Vermont became the ninth state to legalize full adult use marijuana...”

VERMONT

Cautionary Note Regarding Forward-Looking Statements

This MD&A contains certain "forward-looking statements" which may include, but are not limited to, statements with respect to the future financial or operating performance of the Company. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variation (including negative variations) of such words and phrases, or statements that certain actions, events, or results "may", "could", "would", "might", or "will" be taken, occur or be achieved. Statements such as those about expected number of users of medical marijuana, the Company's ability to become a leader in the field of medical marijuana and the Company's ability to achieve profitability without further equity financing, or at all, are all forward looking statements.

Forward-looking statements are based on the reasonable assumptions, estimates, internal and external analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Although the Company has attempted to identify important factors that could cause actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events, or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of the MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

Legalization of Cannabis in the U.S

In the United States, the use and possession of cannabis is prohibited under federal law, as cannabis is classified as a Schedule I substance under the Controlled Substances Act of 1970 ("CSA"). At the state level, however, laws regarding the medical and/or recreational use of cannabis vary greatly, and in many states conflict with federal law.

The medical use of cannabis is permitted by thirty-three (33) states as well as the District of Columbia and the territories of Guam and Puerto Rico. The medical use of cannabis in the U.S. is generally protected under federal law by what is commonly referred to as the Rohrabacher Amendment¹, a congressional budget rider that prohibits the U.S. Department of Justice ("DOJ") from using federal funds to prosecute individuals acting strictly in accordance with state laws that permit and regulate the medical use of marijuana. The "adult" or "recreational" use of cannabis is legal in ten (10) states (Alaska, California, Colorado, Maine, Massachusetts, Michigan, Nevada, Oregon, Vermont, and Washington) and the District of Columbia. The commercial distribution of cannabis by licensed businesses is allowed in all those jurisdictions where cannabis has been legalized for recreational use, except Maine, Vermont and the District of Columbia.

In August 2013, the DOJ issued a guidance memorandum (the "Cole Memorandum") to the U.S. Attorney's Offices around the country stating that, given the DOJ's limited resources, the enforcement of federal marijuana prohibition would be de-prioritized in states that had adopted strict cannabis laws and regulations, provided that individuals and businesses operating in those states strictly comply with such state cannabis laws and unless the lack of enforcement would undermine eight (8) federal priorities, most notably including preventing the distribution of regulated cannabis to minors and preventing the diversion of regulated cannabis into the black market.

On January 4, 2018, former Attorney General Jeff Sessions rescinded the Cole Memorandum, as he had similarly previously rescinded several other Obama Administration DOJ guidance memoranda. This action was met with objections from both state and federal elected officials of both major U.S. political parties, particularly those from states where adult and/or medical cannabis programs have been adopted under state law.

Nevertheless, most experts believe that rescission of the Cole Memorandum has not fundamentally altered the DOJ policy around federal cannabis enforcement. Various U.S. Attorneys have the same wide discretion to prosecute or not to prosecute such cases as they possessed prior to the memo's rescission.

On March 10, 2018, former Attorney General Sessions announced that federal prosecutors would not prioritize the prosecution of small-time marijuana cases, but instead focus its resources on the prosecution of illegal marijuana-growing operations on national parklands and black-market gangs that traffic marijuana and other narcotics.

On November 7, 2018, Mr. Sessions tendered his resignation as United States Attorney General at the request of President Donald Trump. Following Mr. Sessions' resignation, Matthew Whitaker began serving as Acting United States Attorney General until February 14, 2019, when William Barr was appointed as the United States Attorney General. It is unclear what impact, if any, Mr. Sessions' resignation will have on the enforcement of federal regulation of cannabis in the United States.

On April 11, 2018, President Trump expressed his support to Senator Cory Gardner of Colorado for a legislative state's rights approach to the issue. In June, Senators Gardner and Elizabeth Warren of Massachusetts introduced a Senate bill titled "Strengthening the Tenth Amendment Through Entrusting States" (the "STATES Act"). A companion bill was simultaneously introduced in the House of Representatives as well. The STATES Act would essentially adopt a federalist approach that will permit states to determine for themselves the legality of marijuana in their states, free of federal interference.

These developments, coupled with the fact that regulated medical and adult use marijuana is supported by the vast majority of the American electorate, reinforce the Company's belief that the likelihood of the federal government taking action against state-licensed cannabis companies operating within the strict confines of their applicable state law is minimal. Refer to "Regulatory Environment: Issuers with United States Cannabis-Related Assets" for further discussion.

¹ The "Rohrabacher Amendment" is also referred to as the "Leahy Amendment" when referenced in relation to the U.S. Senate.

Selected Annual Information

The selected information presented below is derived from, and should be read in conjunction with, the December 31, 2018, and December 31, 2017, consolidated financial statements which are prepared under IFRS, as issued by the International Accounting Standards Board ("IASB").

	2018	2017	2016
Sales revenues	\$ 3,405,289	\$ -	\$ -
Other income ¹	1,080,426	2,407,229	391,652
Net loss	(62,027,747)	(13,716,665)	(5,055,732)
Net loss – Adjusted²	(22,922,302)	(8,966,232)	(3,642,606)
Loss per share - basic and diluted	(0.97)	(0.48)	(0.32)
Loss per share – basic and diluted – Adjusted²	(0.36)	(0.31)	(0.23)
Total assets	168,392,267	45,821,471	19,956,998
Total liabilities	57,136,628	23,996,236	2,450,188

¹Other income includes income earned from management fees, investment income, interest, and other sources.

²Non-GAAP measures excluding non-cash items. Refer to Non-GAAP Measures on page 37 of this Annual Report for additional information.

Landmark Transaction

On February 5, 2019, iAnthus completed a business combination with MPX, whereby iAnthus acquired all of the issued and outstanding common shares of MPX pursuant to a statutory plan of arrangement. The Company now has operations in 11 U.S. states that will permit iAnthus to operate 63 retail locations and 15 cultivation/processing facilities. As a result of the business combination, iAnthus has added retail and/or production capabilities in Arizona, Maryland, Nevada, California, Massachusetts and New Jersey. These additional licenses complement iAnthus' existing assets in New York, Florida, Massachusetts, Vermont, Colorado, and New Mexico, forming regional footprints in both the eastern and western United States reaching over 121 million potential customers.

Portfolio Expansion across the United States

Over the last three years, the Company has expanded its portfolio to become one of the largest multi-state, vertically integrated operators in the United States. During 2016, the Company first moved into markets through its investments in Colorado and New Mexico, and by the end of 2017, the Company completed its acquisitions of Mayflower in Massachusetts and FWR in Vermont. At the beginning of 2018, the Company added two wholly-owned operations: Citiva in New York and GrowHealthy in Florida.

As the delivery programs continued to accelerate and with dispensaries coming online, the Company reached an operational milestone in 2018 by recognizing cannabis revenues for the first time since inception. Throughout 2018, the cultivation facilities at these entities continued to develop, increasing their overall growing canopy and allowing for the cultivation and processing of ample product in order to meet the demands of both delivery and dispensary patients. As a result of multiple acquisitions over the past three years, total acquired assets, additional capital investments as well as revenues generated from these assets have all increased year-over-year.

Financing Activities

The Company continued to successfully raise funds during 2018 to support the ongoing build out of its multi-state retail, cultivation and processing operations. Over CAD\$34.5 million (equivalent \$26.6 million) was raised through a bought deal offering in October 2018 and \$40.0 million was raised through a note payable to Gotham Green Partners ("GGP") in May 2018. As part of the GGP transaction, in addition to the note payable, the Company issued \$10.0 million aggregate number of units whereby each unit is comprised of one Class A share of the Company at \$2.57 per share and a warrant to purchase one share of the Company at \$3.86 per share.

On July 16, 2018, the Company exercised its right to convert its outstanding principal and accrued interest balance of the February 2017 Debentures and issue shares for the repayment of its convertible promissory notes outstanding. As a result, at year end the Company had settled all long-term debt instruments apart from the note to GGP. Due to the early repayment of its other debt instruments, the Company recognized significant non-cash losses due to the accretion expense recorded upon the repayment.

Discussion of Operations

Sales Revenues and Gross Profit

The following represents the cannabis sales revenues and gross profit generated by each segment for the year ended December 31, 2018:

	For the Year ended December 31, 2018				
	New York	Vermont	Massachusetts	Florida	Total
Sales revenues	\$ 507	\$ 767,638	\$ 2,033,295	\$ 603,849	\$ 3,405,289
Cost of goods sold	(350)	(415,056)	(1,358,319)	(466,756)	(2,240,481)
Gross profit (loss) before fair value	\$ 157	\$ 352,582	\$ 674,976	\$ 137,093	\$ 1,164,808
Realized fair value adjustment on biological assets	-	176,240	1,506,710	274,510	1,957,460
Unrealized fair value adjustment on biological assets	-	1,221,913	2,012,128	3,235,855	6,469,896
Gross Profit	\$ 157	\$ 1,750,735	\$ 4,193,814	\$ 3,647,458	\$ 9,592,164

The sales revenues, cost of goods sold, realized and unrealized gains on fair value of biological assets and gross profit were \$Nil in the prior year.

The Company consolidates the financial results of its operations in New York, Vermont, Massachusetts and Florida. This led to the recognition of cannabis sales revenues, costs of goods sold and realized and unrealized gains on fair value of biological asset. Cannabis sales revenues, cost of goods sold and realized and unrealized gains on fair value of biological assets did not exist in the prior year, as these entities were not controlled by the Company at that time and were therefore not consolidated for accounting purposes.

New York (Citiva)

The Company's flagship dispensary in Brooklyn opened on December 30, 2018, and Citiva recognized its first revenues and the associated cost of goods sold during the year. With its first dispensary open in the state and a fleet of delivery vehicles ready to deliver across New York City, the Company believes that the flagship dispensary will add revenues to its New York operations in 2019. The Company's cultivation facility in Warwick was under construction during the year, therefore no gains were recognized from the transformation of biological assets.

Florida (GrowHealthy)

In December 2018, GrowHealthy opened its first two dispensaries in West Palm Beach and Brandon, adding to the sales from its statewide delivery program. A third dispensary was opened in Lake Worth on March 4, 2019. Five additional dispensaries are scheduled to open over the next two quarters, and as a result, it is expected that revenues will increase significantly in 2019. An additional 12 dispensaries are expected to open before the end of 2019, representing a combined retail footprint of 56,000 square feet for all dispensaries slated to be opened in Florida during 2019.

GrowHealthy has completed the construction of the first phase of its expanded cultivation and processing facility. During 2019, expansion of the facility will continue with the opening of its first shade house and the addition of at least 150,000 square feet of cultivation space. Depending on customer demand and the regulatory environment in the state, the facility has the capability to be further expanded.

Discussion of Operations (cont.)

As with Citiva, iAnthus seeks to match cultivation expansion to consumer demand as best as possible. The gains recognized from the change in fair value of biological assets increased year over year as cultivation continues to ramp up and as yields have been improving over the course of the year.

Massachusetts (Mayflower)

Mayflower opened its first dispensary in 2018, which is located in the Allston-Brighton neighborhood of Boston. It is currently one of only two dispensary licenses within Boston city limits. Sales continued to grow throughout the year as Mayflower began to build its patient base. In addition to its retail sales, Mayflower began selling wholesale products in 2018. Revenues are projected to increase significantly in 2019 as the Company continues to attract patients, pursue wholesale contracts and open its second and third dispensaries during the year. The expansion into the adult-use market, pending approval from the DPH, is expected to also significantly bolster future revenue.

Mayflower continues its cannabis cultivation and production at its state-of-the-art 36,000 square foot facility in Holliston, with capacity to produce up to 3,200kg of plant material annually. The gains recognized from the change in fair value of biological assets increased year over year as Mayflower's facility became operational in early 2018 and as yields in the facility improved over the course of the year.

Vermont (GRVT)

The Company continues to focus on building a strong patient base through fostering strong relationships with the patients at the Brandon dispensary and state-wide through its delivery program. GRVT started offering a more diverse product selection and has added clones to its menu of retail offerings.

At the cultivation and processing facility, the realized and unrealized gains recognized from the transformation of biological assets increased over the year as a result of the completion of the first phase of upgrades. Through maximizing cultivation efficiencies, GRVT is now able to produce up to 200kg of raw materials annually and plans to double this capacity to 400kg once the second phase of construction is complete. GRVT continues to focus on building up inventory and increasing product variety in anticipation of its second dispensary opening, and it is anticipated that revenues and realized and unrealized gains from fair value adjustments will continue to increase in 2019.

	Three months ended		Year ended	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Investment income	\$ -	\$ 110,181	\$ -	\$ 419,735
Interest income	7,908	715,485	566,873	1,978,727
Other	214,859	7,635	513,553	8,767
TOTAL	\$ 222,767	\$ 833,301	\$ 1,080,426	\$ 2,407,229

Investment income in 2018 was \$Nil (December 31, 2017 - \$419,735) as this income related to management fees from companies which were acquired in late 2017. Their financial results were consolidated in 2018.

Interest income was recognized during the year as a result of the Company's loan facilities and bank balances. Interest income was lower in 2018 compared to 2017 as the main driver of interest income in 2017 was the \$7.5 million credit facility issued to The Green Solution, LLC ("TGS"), which was outstanding for the entirety of 2017 and was fully repaid in June 2018.

Income from other sources was recognized from the Company's arrangements between Bergamot Properties, LLC ("Bergamot") and Scarlet Globemallow, LLC ("Scarlet") with Bellflower, LLC d/b/a Organix ("Organix") in Colorado. The Company realizes certain other revenues through rental and leasing arrangements with Organix. Current state regulatory restrictions prevent iAnthus from consolidating the financial results of Organix. However, there is substantial momentum behind certain proposed legislative changes in Colorado that may permit the Company to consolidate the financial results of Organix in the near future.

Operating Expenses

Depreciation and Amortization

Depreciation and amortization increased from \$144,187 for the year ended December 31, 2017, to \$6,349,065 in 2018. The increase in depreciation and amortization charges are a result of an increase in the Company's depreciable asset base, following the acquisitions in Florida, New York, Vermont and Massachusetts. The assets acquired include real estate, equipment and other tangible and intangible assets and all intellectual property which significantly increased depreciation and amortization in comparison to 2017. Additionally, upon finalizing the purchase price allocations, all licenses were reclassified from indefinite to finite life intangibles, resulting in an increase in amortization for the period.

Administrative and Other Expenses

Administrative and other expenses increased from \$1,125,702 for the year ended December 31, 2017 to \$6,942,324 in 2018. Compared to the prior year, administrative expenses are higher due to the acquisitions in Florida, New York, Vermont and Massachusetts, as this resulted in consolidating the expenses incurred by the subsidiaries, including rent expenses, utility fees, insurance expenses, IT and other technology related expenses, research and development, repairs and maintenance, and state regulatory fees.

Wages and Share-based Compensation

	Three months ended		Year ended	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Wages and salaries	\$ 3,460,576	\$ 882,698	\$ 10,723,870	\$ 2,300,515
Share-based compensation	1,840,810	1,285,505	7,521,693	2,898,949
TOTAL	\$ 5,301,386	\$ 2,168,203	\$ 18,245,563	\$ 5,199,464

The Company's headcount has significantly increased over 2018 as a result of acquisitions throughout the year as well as ongoing hiring to support the expanding operations. This resulted in increased wages and share-based compensation for the period.

Hiring at the Company's operations continues as it builds out teams across all functions. At the corporate level the Company has made strategic additions to its management, operations and finance functions and has brought several key functions in-house by establishing new departments, including human resources, marketing, legal and IT.

In line with the increase in wages and salaries expenses across the Company, the share-based compensation expense has increased as employee stock options were issued as part of the Company's compensation package, which is designed to attract top talent while managing cash compensation in a competitive and highly specialized job market.

Legal, Professional and Consulting Fees

	Three months ended		Year ended	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Legal and professional fees	\$ 1,849,112	\$ 1,098,440	\$ 5,635,734	\$ 2,203,400
Consulting fees	1,575,924	311,451	4,700,717	1,284,107
TOTAL	\$ 3,425,036	\$ 1,409,891	\$ 10,336,451	\$ 3,487,507

Legal, professional and consulting fees for the year ended December 31, 2018, have increased compared to December 31, 2017 due to a significant increase in mergers and acquisitions activity and capital raising, both of which require the expertise of external lawyers, accountants, valuers and tax specialists. Furthermore, ensuring compliance with state and local regulations in expanded jurisdictions has also increased the Company's legal, professional and consulting fees.

Discussion of Operations (cont.)

Other Items

Interest and Accretion Expense

	Three months ended		Year ended	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Interest expense	\$ 1,331,177	\$ 352,002	\$ 4,794,155	\$ 1,135,892
Accretion expense	812,233	412,052	16,140,052	1,352,791
TOTAL	\$ 2,143,410	\$ 764,054	\$ 20,934,207	\$ 2,488,683

As a result of the following events during the quarter, the Company's only outstanding debt instrument at December 31, 2018, is the note outstanding with GGP.

- On July 16, 2018, the Company elected to exercise its right to convert all of the principal amount outstanding of the February 2017 Debentures and unpaid accrued interest up to July 13, 2018, into common shares of the Company. The conversion was completed on August 15, 2018; and
- On August 15, 2018, the remaining principal on the Convertible Promissory notes of \$975,000 and accrued interest were fully repaid through the issuance of 617,588 common shares.

The interest expense and accretion expense are expected to continue at the same levels as Q4 2018 in the upcoming quarters unless the Company issues additional debt instruments. The accretion expense in Q2 2018 was a result of the early repayment of the January 2018 debentures and was a one-time, non-cash expense.

Change in fair value on financial instruments

The change in fair value on financial instruments decreased from a profit of \$325,556 for the year ended December 31, 2017 to a loss of \$8,628,788 for the same period in 2018. The change in fair value on financial instruments is the result of the revaluations on the derivative component of compound instruments each reporting period. The number of compound financial instruments has increased substantially year over year as a result of the additional private and public financings. This also explains the increase in the size of the overall balance. More specifically, derivatives were recognized on the GGP and January 2018 Debenture financings during 2018 which resulted in non-cash items as compared to 2017.

Summary of Quarterly Results

	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Sales revenues	\$ 1,985,505	\$ 939,098	\$ 255,610	\$ 225,076
Other income	222,767	135,300	277,935	444,424
Net loss	(15,926,073)	(10,021,080)	(35,435,426)	(645,168)
Net loss - Adjusted¹	\$ (8,054,611)	\$ (4,937,715)	\$ (6,864,720)	\$ (3,065,256)
Loss per share - basic and diluted	(0.25)	(0.15)	(0.61)	(0.01)
Loss per share - basic and diluted - Adjusted¹	(0.13)	(0.10)	(0.17)	(0.11)
Total assets	168,392,267	137,272,456	142,167,150	123,994,199
Total non-current liabilities	48,819,836	31,654,815	30,863,706	1,236,306

¹Non-GAAP measures excluding non-cash items. Refer to Non-GAAP Measures on page 37 of this Annual Report for additional information.

Fourth Quarter Performance

The fourth quarter of 2018 was filled with significant milestones for the Company. In addition to continuing to build out its existing operations, the Company opened its first dispensaries in New York and Florida. The Company also completed a bought deal offering during the quarter to continue to finance its expansion in these states.

- In December 2018, Citiva's first dispensary was opened in Brooklyn, New York. The 2,000 square foot dispensary is located across from the Barclays Center and two blocks away from the Long Island Railroad's Atlantic Terminal, and is in one of the highest foot-trafficked areas of New York City. It is expected to be one of only three dispensaries in Brooklyn, which is New York's most populous borough with approximately 2.6 million residents. To coincide with the opening of this dispensary, Citiva will soon launch its delivery program, enabling access to patients across New York City;
- Also in December 2018, the Company opened its first two dispensaries in Florida, including GrowHealthy's 4,500 square foot flagship location in West Palm Beach as well as a dispensary in Brandon. These two dispensaries will also serve as distribution hubs for delivery and are strategically located to enable accessibility for patients across the state; and
- In October 2018, the Company closed its bought deal offering of 5,188,800 common shares for aggregate gross proceeds of CAD\$34.5 million (equivalent \$26.6 million). Proceeds of the offering have been allocated to capital expenditures for capacity expansion, working capital and general corporate requirements.

The Company's performance in the fourth quarter led to a significant increase in sales revenues compared to the previous quarter, an increase in total assets as buildouts continued and an increase in cash flows from financing activities due to the October 2018 bought deal offering.

- Sales revenues more than doubled quarter-on-quarter, increasing to \$1,985,505 in the fourth quarter, compared to \$939,098 in the third quarter. This was the result of achieving improved market penetration at Mayflower, and the increase in delivery sales, and inaugural dispensary sales in Florida;
- Total assets continued to increase during the quarter, from \$137,272,456 in Q3 2018 to \$168,392,267 in Q4 2018 as buildouts continued, particularly at the new dispensaries in Florida and New York. The Company's level of non-current liabilities remained consistent with the previous quarter as there were no new debt issuances and the only change was due to the accretion of the existing debt instruments; and
- The bought deal offering increased cash flows from financing activities to the Company by \$26,557,978 during the quarter. The proceeds from the financing are to be used for the facility and dispensary build-outs and associated operating costs at Citiva and GrowHealthy and for general corporate purposes over the next year.

The following is a summary of quarterly results for the last eight quarters:

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Sales revenues	\$ 1,985,505	\$ 939,098	\$ 255,610	\$ 225,076	\$ 833,301	\$ 688,112	\$ 555,467	\$ 330,349
Other income	222,767	135,300	277,935	444,424	(7,078,907)	(2,209,283)	(2,551,622)	(1,876,853)
Net loss	(15,926,073)	(10,021,080)	(35,435,426)	(645,168)	(0.25)	(0.09)	(0.10)	(0.07)
Net loss per share - basic and diluted	(0.25)	(0.15)	(0.61)	(0.01)	(0.25)	(0.09)	(0.10)	(0.07)

Over the last eight quarters, the Company has transitioned from a manager and advisor into a fully vertically integrated operator across the United States. This can be seen in the shift in revenue generation as the Company recognized \$2,208,272 in cannabis sales revenue and other income in Q4 2018 compared to \$330,349 in other income in Q1 2017. It is expected that this trend will continue in 2019 as store openings accelerate throughout the year.

As is typical for a company in its buildout phase, iAnthus has incurred net losses. In addition to increases in administrative expenses, salaries and wages, and professional fees as the Company grows in size and complexity, the Company has recognized a number of non-cash losses such as depreciation and amortization, accretion expense and losses from the change in fair value of financial instruments.

Liquidity and Capital Resource Management

Capital Raises

October 2018 Bought Deal

On October 10, 2018, the Company closed its bought deal offering of 5,188,800 common shares of the Company at CAD\$6.65 per common share for aggregate gross proceeds of CAD\$34,505,520 (equivalent \$26,557,978). The net proceeds were CAD\$32,114,554 (equivalent \$24,718,573) after incurring legal and other issuance costs. The approximate use of the net proceeds from the financing through the end of 2018 is outlined in the Company's short form prospectus dated October 3, 2018, and reproduced below:

Project	Timeline	Milestone	Allocation of Proceeds (CAD)
GrowHealthy	Next 12 months	Facility and dispensary build-out and associated operating costs	\$ 11,000,000
Citiva	Next 12 months	Facility and dispensary build-out and associated operating costs	\$ 10,300,000
General corporate purposes	Next 12 months	Not applicable	\$ 6,354,464
Total			\$ 27,654,464¹

¹This amount is derived from the assumption that no exercise of the over-allotment option would take place on the date of the prospectus filing. However, the over-allotment option was exercised which increased the net proceeds received.

GGP \$50.0 million Financing

On May 14, 2018, the Company issued \$40,000,000 in High Yield Notes ("HY Notes") to GGP. The HY Notes accrue interest at 13.0%, have a three-year maturity, and are convertible into shares of the Company at \$3.08 per share. The HY Notes include warrants to purchase, in aggregate, up to 6,670,372 shares of the Company at \$3.60 per share. Concurrently with the issuance of the HY Notes, the Company issued \$10,000,000 of 3,891,051 Units of the Company (the "Units"). Each Unit is comprised of one Class A Share of the Company at \$2.57 per share and a warrant to purchase one Common Share of the Company at a price of \$3.86 per share.

Liquidity

Financing requirements have fluctuated from period to period during 2018 because the Company and the majority of its subsidiaries were in the development stage. Management consistently monitors its cash flow and assesses the liquidity necessary to fund both operations and development.

The Company has historically had, and continues to have, access to equity and debt financing from the public and prospectus-exempt (private placement) markets, specifically:

- In November 2016, the Company closed an equity bought deal offering and concurrent non-brokered private placement for gross proceeds of CAD\$21,505,092 (equivalent \$20,002,500);
- In February 2017, the Company closed a convertible debenture brokered private placement for gross proceeds of CAD\$20,000,000 (equivalent \$15,096,000) which the full principal amount outstanding of the debentures and unpaid accrued interest thereon up to July 13, 2018, have been converted into common shares of the Company;
- In November 2017, the Company closed a public offering of Common Shares for gross proceeds of CAD\$12,023,250 (equivalent \$9,409,336) along with a non-brokered private placement of Common Shares for further proceeds of CAD\$4,593,385 (equivalent \$3,581,932);
- In January 2018, the Company closed a non-brokered private placement of debentures for gross proceeds of \$20,000,000, which was fully repaid on May 16, 2018 including accrued interest of \$978,082;
- In May 2018, the Company received a \$40,000,000 investment from GGP, in the form of high-yield senior secured notes and Class A Shares. The Company concurrently issued \$10.0 million aggregate number of units whereby each unit is comprised of one Class A share of the

Company at \$2.57 per share and a warrant to purchase one share of the Company at \$3.86 per share;

- In October 2018, the Company closed its bought deal offering of 5,188,800 common shares of the Company at CAD\$6.65 per common share for aggregate gross proceeds of CAD\$34,505,520 (equivalent \$26,557,978); and
- In March 2019, the Company completed a private placement of \$35,000,000 of unsecured convertible debentures which mature on March 15, 2023 and accrued interest of 8%. This placement can be convertible at \$5.92 per common share which would convert into an aggregate of 5,912,160 common shares of the Company.

If capital was no longer available in the public markets due to changes in applicable law, the Company expects that it would continue to have access to capital and the ability to raise such capital privately. However, there are no guarantees that such capital would be available.

Commercial banks, private equity firms and venture capital firms have approached the cannabis with caution to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and projects similar to the Company's projects. Although there has been an increase in the amount of private capital available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants in the United States. There can be no assurance that additional capital, if raised privately, will be available to the Company when needed or on terms that are acceptable. The Company's potential inability to raise capital to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect on future profitability.

The Company has complied with all covenants during the fiscal year.

See Note 2 to the consolidated financial statements relating to the Going Concern disclosure.

Working Capital

Working capital for the year ended December 31, 2018, was \$32,653,793, compared to \$9,124,969 as at December 31, 2017. The increase in working capital of \$23,528,824 is largely attributable to the increases in inventory and biological assets of \$15,532,560 resulting from increased production and cultivation during the year and an increase of cash and restricted cash totaling \$14,391,591 generated from debt and equity financings. The total amount is partially offset by an increase of \$3,082,978 in accounts payable in order to fund cultivation and production facility construction, and \$662,140 from promissory notes due as part of historical financings.

Cash Flows

Cash was \$15,294,656 at December 31, 2018, compared to \$6,175,287 at December 31, 2017. The increase in cash was largely due to the funds raised through financing activities, offset by the cash outflows from investing and operating activities.

Cash Flow from Operating Activities

Cash used in operating activities during the year was \$29,010,984 compared to \$6,493,189 for year ended December 31, 2017. The year over year increase was a result of the significant activity in 2018 compared to 2017 as iAnthus continued to acquire license holders and achieve operational milestones at existing operations. Significant cash outflows from operating activities were primarily related to wages and salaries, legal fees, professional fees, and consulting fees over the period.

Cash Flow from Investing Activities

Cash used in investing activities during the year was \$23,595,366 compared to \$23,049,813 during the year ended December 31, 2017.

During the year, the Company made the following significant investments:

- \$14.5 million - cash used in the acquisition of GrowHealthy's assets in January 2018;
- \$13.9 million - purchase of property, plant, and equipment;
- \$3.6 million - cash used in the acquisition of Citiva in February 2018; and

Liquidity and Capital Resource Management (cont.)

- \$0.2 million – promissory note issued to Citiva Jamaica LLC.

During the year, the Company received the following cash flows from investments:

- \$7.5 million – full principal repayment on promissory note receivable due from TGS; and
- \$1.2 million – interest payment on promissory note receivable due from TGS.

Cash Flow from Financing Activities

Cash generated from financing activities during the year was \$69,062,749 compared to \$26,069,569 during the year ended December 31, 2017. Significant sources of financing during the year include:

- \$20.0 million from the non-brokered private placement of debentures issued by the Company in January 2018, which the Company fully repaid with accrued interest on May 16, 2018;
- \$46.0 million from the GGP financing through the issuance of \$40.0 million of debt and \$10.0 million of equity net issuance costs of \$4.0 million;
- \$26.6 million from the bought deal offering issued by the Company in October 2018; and
- \$2.7 million from the exercise of warrants from previous rounds of financing.

Contractual Obligations

The following table presents the Company's significant contractual obligations as at December 31, 2018.

USD DENOMINATED	<1 YEAR	1-2 YEARS	3-5 YEARS	> 5 YEARS	TOTAL
Payables and accrued liabilities	\$ 5,762,218	\$ -	\$ -	\$ -	\$ 5,762,218
Long-term debt	5,214,444	5,344,444	41,921,111	-	52,479,999
Leases	2,681,341	5,107,023	5,063,509	6,779,375	19,631,248
Consultants and advisors	833,519	108,877	-	-	942,396
Construction contracts	3,471,582	-	-	-	3,471,582
TOTAL USD DENOMINATED	\$ 17,963,104	\$ 10,560,344	\$ 46,984,620	6,779,375	\$ 82,287,443

CAD DENOMINATED					
Payables and accrued liabilities	\$ 489,801	\$ -	\$ -	\$ -	\$ 489,801
Leases	63,205	394,368	98,592	-	556,165
Consultants and advisors	3,358,750	-	-	-	3,358,750
TOTAL CAD DENOMINATED	\$ 3,911,756	\$ 394,368	\$ 98,592	\$ -	\$ 4,404,716

Long-term debt consists of convertible debentures. The Company's contractual obligations include consultants, advisors, construction contracts and leases for the Company's offices, dispensaries, cultivation facilities, vehicles, and computer software in Massachusetts, New York, Florida, Vermont, and Canada.

As part of the Company's business plan to expand its operations, further capital expenditures that have yet to be committed will be required to fund growth initiatives. In New York, leasehold improvements in two additional dispensaries will be required in addition to build-out costs at the Warwick cultivation facility. In Florida, significant build-out costs will be required to open 17 dispensaries during the year and additional commitments will be incurred for the build-out of the Lake Wales cultivation facility. In Massachusetts, capital expenditures will be incurred to complete two dispensary build-outs during the year. In Vermont, additional capital expenditures will be committed to expand its existing cultivation facility, as well as for the construction of a second dispensary location.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements at December 31, 2018.

Share Capital

The following table presents the Company's share capital information as at April 12, 2019.

	Number Outstanding
Common Shares issued and outstanding	144,346,551
Class A Common Shares issued and outstanding	15,497,036
Options to purchase Common Shares	7,551,825
Options to purchase Class A Common Shares	2,255,500
Warrants	30,616,084
MPX dilutive instruments ¹	14,190,943
Convertible Debentures	5,912,159
HY Notes	12,970,169
Fully diluted shares outstanding	233,340,267

¹ Subsequent to year-end, the Company completed the acquisition of MPX. Prior to the acquisition, MPX had instruments outstanding that were potentially dilutive and as a result of the transaction, iAnthus assumed certain of these instruments. For further detail on the acquisition of MPX, refer to the discussion of subsequent events on page 38.

Additional Information

Critical Accounting Estimates and Judgements

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The critical accounting estimates and judgements are disclosed in full within Note 22 in the notes to the Company's consolidated financial statements.

The Company made critical estimates and judgements in the following areas in the preparation of the financial statements: biological assets, property, plant and equipment, business combinations, share-based payments, fair value of financial instruments, impairment, and going concern.

Changes in Accounting Policies

The Company has implemented the following IFRS standards effective for reporting periods commencing January 1, 2018. These standards have been discussed in greater detail within Note 22 in the notes to the consolidated financial statements.

- *IFRS 7 Financial Instruments: Disclosure*
- *IFRS 9 Financial Instruments*
- *IFRS 15 Revenue from Contracts with Customers*

IFRS 16 Leases

The following IFRS standard has been recently issued by the IASB. The Company is assessing the impact of this new standard on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined to not have a significant impact to the Company have been excluded herein. This standard has been discussed in greater detail within Note 22 in the notes to the consolidated financial statements. The Company expects that it will recognize additional assets and liabilities as a result of the leasing arrangements currently entered into or to be entered by its subsidiaries. As shown in Note 16 in the Company's consolidated financial statements, the Company has over \$20.0 million in operating lease obligations as at December 31, 2018. This will represent a significant recognition of lease assets and obligations on the balance sheet once IFRS 16 is adopted.

IAS 41 Biological Assets

Management has made this accounting policy change in response to the Canadian Securities Administrators ("CSA") Staff Notice 51-537 Staff Review of Reporting Issuers in the Cannabis Industry, to retrospectively capitalize cultivation costs in order to improve the comparability of the Company's financial statements and to enhance the relevance and comparability of financial information presented.

Additional Information (cont.)

The capitalized cultivation costs through retrospective application amounted to \$5,133,808 for the period ending December 31, 2018 which concurrently increased the unrealized gain by the same amount. There were no cultivation costs recognized in 2017; therefore, the retrospective impact is \$Nil.

Financial Instruments

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors (the "Board") mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

The financial instruments are disclosed in full within Note 15 in the Company's consolidated financial statements as at December 31, 2018. Below is a discussion of entity-wide risk management.

Liquidity risk and capital management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its cash flow necessary to fund operations and development. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. This includes monitoring cash balances, subsidiary funding requirements and short-term obligations on a weekly basis.

Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash, loans and other receivables, and notes receivable. The risk exposure is limited to their carrying amounts at the statement of financial position date. The company is consistently monitoring the status of the financial institutions and is in the middle of opening additional accounts at other institutions to mitigate credit risk.

Credit risk from the notes receivable arises from the possibility that principal and/or interest due may become uncollectible. The Company mitigates this risk by managing and monitoring the underlying business relationships along with the corresponding cash flow activity. Credit risk is further mitigated through entering into strategic partnerships with the underlying businesses by means of conversion of company debt into equity ownership.

Market risk

a) Currency risk

- As the Company's operations are located in Canada and the United States, the Company is subject to currency transaction and translation risks;
- the Company holds cash in Canadian dollars and U.S. dollars. The Company raises capital in U.S. and Canadian capital markets and thus is exposed to fluctuations in the Canadian dollar relative to the U.S. dollar, specifically in relation to USD denominated liabilities;
- as at December 31, 2018, the Company does not hold a material Canadian dollar balance. Hence if the Canadian dollar had strengthened or weakened by 5% in relation to the U.S. dollar, with all variables held constant, the assets of the Company would not have had a material increase or decrease; and
- as at December 31, 2018, the Company had no hedging agreements in place with respect to foreign exchange rates, however management monitors the Canadian and U.S. currency markets closely and continuously assesses the need to enter into currency hedging arrangements. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

b) Interest rate risk

- Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's notes payable have fixed rates of interest and therefore expose the Company to a limited interest rate risk.

Non-GAAP Measures

To provide improved relevance for readers, the Company has excluded non-cash items from the following balances:

- Net loss - Adjusted;
- Loss per share - Adjusted; and
- Diluted loss per share - Adjusted.

Non-cash items have been adjusted to remove the effects of the revaluation of derivative instruments and financial liabilities as reported in the "Change in fair value" line item as this line is a non-cash, accounting loss movement on the revaluation of instruments and may not provide a fair representation of the quarterly activities of the Company. Other non-cash items from the consolidated statement of loss and comprehensive loss have similarly been adjusted for as shown below.

Non-GAAP Measures:	2018	2017	2016
Depreciation and amortization	\$ (6,349,065)	(144,187)	(7,744)
Share-based compensation	(7,521,693)	(2,898,949)	(1,064,238)
Accretion expense	(16,140,052)	(1,352,791)	(200,809)
Change in fair value on instruments	(8,628,788)	325,556	(248,512)
Profits from investment in associate	134,020	(196,153)	36,116
Foreign exchange gain	(819,129)	(269,660)	-
Foreign exchange gain on translation	219,262	(214,249)	72,061
Non-cash items	\$ (39,105,445)	(4,750,433)	(1,413,126)

Transactions with Related Parties

Reynold Greenleaf & Associates, LLC ("RGA")

The Company's wholly-owned subsidiary, iAnthus Capital Management, LLC ("ICM"), converted its loan to RGA, an entity owned by an individual with a familial relationship with an officer and director of the Company, Hadley Ford, into Class A-1 units of RGA. The Company is to be reimbursed \$30,000 from RGA in connection with certain legal fees and expenses incurred as a result of the financing. As at December 31, 2018, the reimbursement due from RGA was \$30,000.

Grassroots Vermont

Effective December 31, 2017, the Company entered into a series of transactions which resulted in the acquisition of 100% of the sole member of GRVT, a non-profit corporation (refer to Note 4 in the notes to the consolidated financial statements). From its historical transactions, GRVT 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 \$31,192 as at December 31, 2018.

Other

As at December 31, 2018, the Company had a loan due from an officer and director of the Company, Hadley Ford, with a balance of CAD\$500,000 (equivalent \$391,267). The maximum amount of the loan facility is CAD\$500,000 (equivalent \$391,267) and the loan accrues 2.5% interest due upon the maturity of the loan. The loan is payable on demand and is expected to be repaid within the next 12 months. Interest accrued on the loan for the year ended December 31, 2018, was CAD\$18,670 (equivalent \$13,686).

Additional Information (cont.)

	December 31, 2018	December 31, 2017
Due from RGA	\$ 30,000	\$ 30,000
Director's loans outstanding	391,267	398,565
TOTAL DUE FROM RELATED PARTIES	\$ 421,267	\$ 428,565
Due to RGA and affiliates	31,192	81,056
TOTAL DUE TO RELATED PARTIES	\$ 31,192	\$ 81,056

Subsequent Events

iAnthus and MPX Biocutical Corporation Combination

On October 18, 2018, the Company and MPX signed an arrangement agreement pursuant to which the Company will combine with MPX. The arrangement agreement provides that existing MPX shareholders will be entitled to receive 0.1673 common shares of iAnthus for each common share of MPX held, representing a consideration of approximately CAD\$1.28 (equivalent \$0.98) per MPX common share. In addition, each MPX shareholder will receive common shares of the newly formed MPX International, which will hold all of the non-U.S. businesses of MPX. MPX International will apply to list on the Canadian Securities Exchange with the listing to occur contemporaneously with the closing of the transaction.

On February 5, 2019, the MPX transaction closed, and iAnthus acquired all of the issued and outstanding common shares of MPX. As a result of the combination, the Company has increased its retail and production capabilities to further expand its national footprint and it is expected that, as a result of this, the Company will recognize significantly higher revenues in 2019. Further, the combination should enable the Company to access more and larger pools of capital to continue to support its strategic initiatives.

The initial accounting for the business combination was incomplete as of the date of this report.

Concurrent with the MPX transaction, the Company assumed the obligation of MPX to issue common shares and warrants on the conversion of the MPX Luxembourg SARL's \$40.0 million principal amount of senior secured convertible debentures of MPX Luxembourg.

March 2019 Debentures

On March 18, 2019, the Company completed a private placement of \$35,000,000 of unsecured convertible debentures (the "March 2019 Debentures") and corresponding warrants of 2,177,291 to purchase common shares of the Company. Prior to April 26, 2019, an additional \$25,000,000 of debentures and 1,555,209 corresponding warrants can be issued.

The March 2019 Debentures mature on March 15, 2023 and accrue interest at a rate of 8% annually, payable on a quarterly basis.

The March 2019 Debentures are convertible at \$5.92 per common share, which would convert into an aggregate of 5,912,160 common shares of the Company. At any time, following July 16, 2019, the Company may force the conversion of the March 2019 Debentures into common shares if the daily volume weighted average trading price of the Company's common shares on the OTCQX is greater than \$10.29 for any ten consecutive trading days.

Each warrant entitles the holder to acquire one common share of the Company at an exercise price of \$6.43 per common share from the closing date until March 15, 2022.

Warrants Exercised

Subsequent to year-end, 3,142,188 warrants were exercised and resulted in the issuance of an equal amount Common Shares. The proceeds from the exercised warrants aggregates to \$8,153,254.

REGULATORY ENVIRONMENT



Regulatory Environment: Issues with U.S. Cannabis-Related Assets

Canadian Securities Administrators Staff Notice 51-352 (Revised) – Issuers with U.S. Marijuana-Related Activities (“Staff Notice 51-352”) provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state’s regulatory framework. All issuers with United States cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents.

In accordance with Staff Notice 51-352, the Company will evaluate, monitor and reassess the disclosure contained herein, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation. As a result of the Company’s investments in certain United States entities (as described herein), the Company is subject to Staff Notice 51-352 and accordingly provides the following disclosure.

Operation

As at December 31, 2018, the Company currently operates in the United States as more specifically described below.

	Massachusetts ⁽¹⁾	Vermont ⁽¹⁾	New Mexico ⁽¹⁾	Colorado ⁽¹⁾⁽⁴⁾	New York ⁽¹⁾	Florida ⁽¹⁾
	Mayflower Medicinals, Inc. (“Mayflower”)	FWR Inc. d/b/a Grassroots Vermont (“GRVT”) ⁽²⁾	Reynold Greenleaf & Associates LLC (“RGA”)	Bellflower, LLC d/b/a Organix, LLC (“Organix”)	Citiva Medical, LLC (“Citiva Medical”)	McCroy’s Sunny Hill Nursery, LLC d/b/a GrowHealthy (“McCroy’s”) ⁽³⁾
Type of Investment ⁽⁶⁾	Ownership (100%)	Ownership (100%)	Ownership (24.6%)	See Note 4 below	Ownership (100%)	Ownership (100%)
Permitted Number of Facilities	3 dispensaries 1 cultivation 1 processing	2 dispensaries 1 cultivation 1 processing	Nil ⁽⁵⁾	1 dispensary 1 cultivation	4 dispensaries 1 cultivation 1 processing	30 dispensaries 1 cultivation 1 processing

- Notes:
- For further details on the Company’s operations in the United States
 - The Company owns 100% of Pakalolo, LLC, the sole member of GRVT (a not-for-profit corporation).
 - The Company owns 100% of GHHA, which holds an exclusive 40-year management contract to operate the medical cannabis business associated with the Medical Marijuana Treatment Center (“MMTC”) license issued to McCroy’s.
 - On December 5, 2016, the Company acquired certain assets of Organix, the owner and operator of a Colorado medical and adult use marijuana operation with a cultivation facility in Denver, Colorado and a fully-integrated medical and adult use dispensary located in the ski town of Breckenridge, Colorado. The assets acquired include all real estate holdings of Organix’s affiliate, DB Land Holdings, Inc., consisting of a 12,000 square foot cultivation facility in Denver, as well as all equipment and other tangible and intangible assets and all of the intellectual property of Organix including its brands. The foregoing assets are held by the Company’s subsidiaries, Scarlet Globemallow, LLC and Bergamot Properties, LLC and are classified as “ancillary” involvement in the United States cannabis industry for the purpose of Staff Notice 51-352. The Colorado Marijuana Enforcement Division regulates Colorado’s marijuana regulatory program. Applicable regulation in Colorado requires licensed operators and a portion of its shareholders to be residents of Colorado and accordingly, iAnthus, as a publicly listed company, is unable at this time to acquire a direct license under Colorado’s marijuana regulatory program. As such, the Company cannot consolidate the results of Organix at this time.
 - RGA currently manages two cultivation operations in Albuquerque, New Mexico totaling approximately 25,000 square feet and six dispensary locations, five in Albuquerque and one in Grants, New Mexico.
 - The Company confirms that no investee has experienced any non-compliance and no investee is subject to any notices of violation by its respective regulatory authority.

Compliance with Applicable State Law in the United States

Each operating entity complies with applicable U.S. state licensing requirements as follows: (1) each operating entity is licensed pursuant to applicable U.S. state law to cultivate, possess and/or distribute marijuana in such state; (2) renewal dates for such licenses are docketed by legal counsel and/or other advisors; (3) random internal audits of the investee’s business activities are conducted by the applicable state regulator and by the respective investee to ensure compliance with applicable state law; (4) each employee is provided with an employee handbook that outlines internal standard operating procedures in connection the cultivation, possession and distribution of marijuana to ensure that all marijuana inventory and proceeds from the sale of such marijuana are properly accounted for and tracked and using scanners to confirm each customer’s legal age and with the validity of each customer’s drivers license; (5) each room that marijuana inventory and/or proceeds from the sale of such inventory enter is monitored by video surveillance; (6) software is used to track marijuana inventory from seed to sale; and (7) each investee is contractually obligated to the Company to comply with applicable state law in the United States in connection with the cultivation, possession and/or distribution of marijuana. The Company’s United States legal counsel reviews, from time to time, the licenses and documents referenced above in order to confirm such information and identify any deficiencies.

Each operating entity that is a license holder holds licenses that are in good standing to cultivate, possess and/or distribute marijuana in its respective state. Each license holder is in compliance with its respective state’s marijuana regulatory program. No investee has experienced any non-compliance and no investee is subject to any notices of violation by its respective regulatory authority.

The Company’s Balance Sheet and Operating Statement Exposure to U.S. Marijuana Related Activities

The following represents the portion of certain assets on the Company’s consolidated statement of financial position that pertain to U.S. cannabis activity as at December 31, 2018:

Balance Sheet Line Item	Percentage which relates to Investments/Holdings with U.S. marijuana-related activities
Receivables and prepaid assets	7%
Inventory and biological assets	100%
Other current assets	66%
Investments and investments in associates	100%
Property, plant and equipment	99%
Intangible assets and goodwill	100%
Other assets	8%
Payables and accrued liabilities	59%
Interest payable	0%
Derivative liabilities	0%
Other liabilities	96%
Long-term debt	0%
Deferred tax liabilities	100%

Income Statement Line Item	Percentage which relates to Investments/Holdings with U.S. marijuana-related activities
Gross profit	100%
Other income	77%
Operating expenses	42%
Other items	1%

Readers are cautioned that the foregoing financial information, though extracted from the Company’s financial systems that supports its annual financial statements, has not been audited in its presentation format and accordingly is not in compliance with IFRS based on consolidation principles.

Regulatory Environment: Issues with U.S Cannabis-Related Assets (cont.)

United States Federal Overview

In the United States, thirty-three (33) states, the District of Columbia, Puerto Rico, Guam, the Northern Mariana Islands, and the U.S. Virgin Islands have legalized medical marijuana, and ten (10) states, the District of Columbia, and the Northern Mariana Islands have legalized "adult use" or "recreational" marijuana. At the federal level, however, marijuana currently remains a Schedule I drug under the CSA. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, marijuana related practices or activities including, without limitation, the manufacture, importation, possession, use, or distribution of marijuana, remain illegal under United States federal law.

On December 20, 2018, President Donald Trump signed the Agriculture Improvement Act of 2018 which amended the CSA to exclude hemp (defined as cannabis containing no more than 0.3 percent THC) and its extracts from the definition of marijuana. While the system to be used to regulate hemp federally is still unclear, the federal legalization of hemp signals a major shift in federal policy.

Although federally illegal, the U.S. federal government's approach to enforcement of such laws trended toward non-enforcement. On August 29, 2013, the U.S. Department of Justice ("DOJ") issued a memorandum known as the "Cole Memorandum" to all U.S. Attorneys' offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly regulated medical or recreational cannabis programs. While not legally binding, and merely prosecutorial guidance, the Cole Memorandum laid a framework for managing the tension between state and federal laws concerning state regulated marijuana businesses.

However, on January 4, 2018, the Cole Memorandum was rescinded by former Attorney General Jeff Sessions, a long-time opponent of state-regulated medical and recreational cannabis. While this did not create a change in federal law, as the Cole Memorandum was not itself law, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated cannabis industries substantially in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority.

In addition to his revocation of the Cole Memorandum, former Attorney General Sessions also issued a one-page memorandum known as the "Sessions Memorandum." The Sessions Memorandum confirmed the rescission of the Cole Memorandum and explained the rationale of the DOJ in doing so: the Cole Memorandum, according to the Sessions Memorandum, was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the former Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

While the Sessions Memorandum emphasized that marijuana is a Schedule I controlled substance, and reiterated the statutory view that cannabis is a "dangerous drug and that marijuana activity is a serious crime," it does not otherwise indicate that the prosecution of marijuana-related offenses was a DOJ priority. Furthermore, the Sessions Memorandum explicitly described itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether or not to prosecute marijuana-related offenses.

On December 7, 2018, President Donald Trump nominated former Deputy Attorney General William Barr as Jeff Sessions' successor. Barr was eventually confirmed and sworn in as the United States Attorney General on February 14, 2019. During his confirmation hearings in January 2019, Barr specifically stated that the Department of Justice would not pursue legal action against marijuana companies that are operating in compliance with state laws. This development signals a complete reversal from the above-noted position taken by former Attorney General Jeff Sessions and appears to be a positive development for the United States' marijuana industry.

The Company and its legal counsel continuously monitor statements and guidance issued by U.S. Attorneys regarding the risk of enforcement action in connection with marijuana-related activities in jurisdictions in which the Company conducts marijuana-related activities. U.S. Attorneys in the jurisdictions in which the Company conducts marijuana-related activities have issued the following

statements or guidance regarding the risk of enforcement action in connection with marijuana-related activities:

(1) Colorado

Jason R. Dunn is the U.S. Attorney for the District of Colorado. Mr. Dunn has issued no public statements or guidance regarding the risk of enforcement in connection with marijuana-related activities.

(2) Florida

Maria Chapa Lopez is the U.S. Attorney for the Middle District of Florida, Lawrence Keefe is the U.S. Attorney for the Northern District of Florida and Ariana Fajardo Orshan is the U.S. Attorney for the Southern District of Florida. Ms. Lopez, Mr. Keefe and Ms. Fajardo have issued no public statements or guidance regarding the risk of enforcement in connection with marijuana-related activities.

(3) Maryland

Robert K. Hur is the U.S. Attorney for the District of Maryland. Mr. Hur has issued no public statements or guidance regarding the risk of enforcement in connection with marijuana-related activities.

(4) Massachusetts

Andrew E. Lelling is the U.S. Attorney for the District of Massachusetts. On January 24, 2018, Mr. Lelling issued the following statements: "Marijuana cultivation and trafficking is unambiguously illegal under federal law"; "That said, the number one enforcement priority from my office is the opioid crisis"; "Twenty-one hundred people in Massachusetts were killed by opioid overdoses, not marijuana overdoses"; "The number one drug enforcement priority for us is not marijuana, it's opioids"; "Historically, the marijuana cases that we have pursued have almost always been bulk importation of marijuana from Canada or from Mexico accompanied by money laundering." On July 10, 2018, Mr. Lelling further stated that his office's marijuana enforcement would be focused on: (1) overproduction by licensed cultivations, (2) the targeted sale of cannabis to minors, and (3) organized crime and interstate transportation of drug proceeds. Following the first legal recreational marijuana sales in Massachusetts, Lelling further emphasized that his scrutiny of the legal marijuana industry in the state remained focused on the above-listed three activities and that his department would "keep doing the kind of enforcement that we've been doing all along."

(5) New Mexico

John C. Anderson is the U.S. Attorney for the District of New Mexico. Mr. Anderson has issued no public statements or guidance regarding the risk of enforcement in connection with marijuana-related activities.

(6) New York

Richard Donoghue is the U.S. Attorney for the Eastern District of New York, Grant C. Jaquith is the U.S. Attorney for the Northern District of New York, Geoffrey Berman is the U.S. Attorney for the Southern District of New York and James P. Kennedy is the U.S. Attorney for the Western District of New York. Mr. Donoghue, Mr. Jaquith, Mr. Berman and Mr. Kennedy have issued no public statements or guidance regarding the risk of enforcement in connection with marijuana-related activities.

(7) Vermont

Christina E. Nolan is the U.S. Attorney for the District of Vermont. In January of 2018, Ms. Nolan issued the following statement: "We're going to use the principles we've long used in all drug cases to prioritize our finite resources."

Regulatory Environment: Issues with U.S Cannabis-Related Assets (cont.)

In January of 2018, Kraig LaPorte, a spokesman for Ms. Nolan, issued the following statements: "U.S. Attorney Nolan is continuing to focus on the heroin issue in Vermont, drug trafficking, violence associated with drug trafficking and gun violence." "That remains her focus."

Regardless, marijuana remains a Schedule I controlled substance at the federal level, and neither the Cole Memorandum, its rescission, or the confirmation of Attorney General William Barr has altered that fact. The federal government of the United States has always reserved the right to enforce federal law in regard to the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. From a purely legal perspective, the criminal risk today remains identical to the risk on January 3, 2018. It remains unclear whether the risk of enforcement has been altered.

Additionally, under U.S. federal law it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from marijuana sales or any other Schedule I substance.

Canadian banks are also hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy. Despite these laws, the U.S. Department of the Treasury issued a memorandum in February of 2014 (the "FinCEN Memorandum") outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses. Under these guidelines, financial institutions must submit a "suspicious activity report" ("SAR") as required by federal money laundering laws. These marijuana related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution's belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated.

On the same day the FinCEN Memorandum was published, the DOJ issued a memorandum (the "2014 Cole Memorandum") directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related conduct. The 2014 Cole Memorandum has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes was not a DOJ priority.

However, former Attorney General Sessions' revocation of the Cole Memorandum and the 2014 Cole Memorandum has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memorandum and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum can act as a standalone document which explicitly lists the eight enforcement priorities originally cited in the Cole Memorandum. As such, the FinCEN Memorandum remains intact.

Enforcement of U.S. Federal Laws

For the reasons set forth above, the Company's existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction. See "Risk Factors" section of this MD&A.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical or adult-use cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical or adult use cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations. See "Risk Factors" section of this MD&A.

Further, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical or adult-use cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. See "Risk Factors" section of this MD&A.

U.S. Enforcement Proceedings

Although the Cole Memorandum and 2014 Cole Memorandum have been rescinded, one legislative safeguard for the medical marijuana industry remains in place: Congress has used a rider provision in the FY 2015, 2016 and 2017 Consolidated Appropriations Acts (formerly referred to as the "Rohrabacher-Farr Amendment" and "Leahy Amendment", and currently, the "Joyce Amendment") to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana license holders and patients operating in compliance with state and local law. In September 2018, Congress passed the Continuing Appropriations Act, 2019 that extends the deadline of the March 2018 omnibus spending bill until December 7, 2018. Following the much-publicized shutdown of the United States Federal Government, the Consolidated Appropriations Act of 2019 was signed into law on February 15, 2019 with the Joyce Amendment intact (Section 538). As it stands, the Joyce Amendment will provide the medical marijuana industry with protection against federal prosecution until September 30, 2019.

New York

On February 1, 2018, the Company acquired 100% of Citiva. The license held by Citiva allows for one cultivation facility and up to four dispensaries. The acquisition provides the Company with exposure to one of the nation's largest markets, with a state-wide population of approximately 20.0 million people in a state where only 10 licenses have been granted.

The Company's flagship dispensary in Brooklyn opened on December 30, 2018, and Citiva recognized its first revenues and the associated cost of goods sold during the year. With its first dispensary open in the state and a fleet of delivery vehicles ready to deliver across New York City, the Company believes that the flagship dispensary will add incremental revenues to its New York operations in 2019. The dispensary is expected to be one of only three dispensaries operating in Brooklyn, a borough of 2.6 million residents. To supply the dispensary with product ahead of completion of the Warwick facility, Citiva entered into a wholesale purchase agreement with another Registered Organization ("RO") in New York, which includes a range of vapes, capsules, and tinctures.

Subsequent to year end, the Company completed construction of its second dispensary location in Hudson Valley, NY, which opened on February 14, 2019. Further, the Company is negotiating a lease agreement for a dispensary in Staten Island, and is near finalizing a lease for its final dispensary in Chemung County. The Company continues to educate physicians in the State of New York on Citiva's product offerings and to create brand awareness through the medical outreach program.

For the purposes of Staff Notice 51-352, the Company's investment in Citiva is classified as "direct" involvement in the United States cultivation or distribution industry because the Company has a controlling interest in Citiva.

The State of New York has authorized the cultivation, possession and distribution of marijuana by certain licensed New York marijuana businesses. The New York State Department of Health regulates New York's marijuana regulatory program. The Company is advised by legal counsel regarding compliance with New York's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with New York's marijuana regulatory program.

Regulatory Environment: Issues with U.S Cannabis-Related Assets (cont.)

The Company only engages in transactions with New York marijuana businesses that hold licenses that are in good standing to cultivate, possess and/or distribute marijuana in New York in compliance with New York's marijuana regulatory program. To operate a marijuana business in New York, an entity must submit an application for registration as a RO. ROs are required to manufacture, transport, distribute and dispense marijuana for certified medical use. To the extent required by New York's marijuana regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such New York marijuana businesses. The Company and its investee (Citiva) are in compliance with New York's marijuana regulatory program. In addition to the foregoing description, Staff Notice 51-352 also requires additional disclosure for issuers with a "direct" involvement in the United States cultivation and distribution industry.

The additional disclosure is set forth as follows:

(i) Corporate Structure

An applicant must provide the New York State Department of Health with the applicant's organizational and operational documents, including explanations of parents and affiliates and affidavits regarding all owners, officers, board members, managers, and employees.

An applicant must provide the New York State Department of Health the applicant's financial statements setting forth all elements and details of any business transactions connected with the application, including but not limited to, all agreements and contracts for consultation and/or arranging for the assistance in preparing the application. An applicant must also provide the most recent financial statement of the applicant prepared in accordance with generally accepted accounting principles ("GAAP") applied on a consistent basis and certified by an independent certified public accountant.

If another entity maintains a 10.0% interest in the applicant, the applicant must provide a statement with the name and address of the entity together with a description of the goods, leases, or services and the probable or anticipated cost to the registered organization.

(ii) Premises Requirements

An applicant must provide the New York State Department of Health the identification of all real property, buildings, and facilities that will be used in manufacturing and dispensing activities and all equipment that will be used to carry out the manufacturing, processing, transportation, distributing, sale, and dispensing activities described in the application and operating plan. An applicant must provide the New York State Department of Health with all applicable executed and proposed deeds, leases, and rental agreements or executed option contracts related to the organization's real property interests, showing that the applicant possesses or has the right to use sufficient land, buildings, other premises, and equipment.

(iii) RO Operations

An applicant must provide an operational plan that includes a detailed description of the RO's manufacturing processes, transporting, distributing, sale and dispensing policies or procedures. An applicant must also provide the New York State Department of Health with a timeline demonstrating the estimated timeframe from growing marijuana to production of a final approved product. An applicant must enter into a labor peace agreement with a bona fide labor organization. An applicant must provide the New York State Department of Health a staffing plan for staff to be involved in activities related to the cultivation of marijuana, the manufacturing and/or dispensing of approved medical marijuana products, and/or staff with oversight responsibilities.

An applicant must provide the New York State Department of Health proof from the local internet service provider(s) that all of the applicant's manufacturing and dispensing facilities are located in an area with internet connectivity.

An applicant must provide the security plan of the applicant's proposed manufacturing and dispensing facilities indicating how the applicant will comply with all legal requirements.

(iv) Record Keeping and Inventory Tracking

An applicant must provide the New York State Department of Health with detailed descriptions of plans, procedures and systems adopted and maintained for seed to sale tracking, record keeping, record retention and surveillance systems relating to all medical marijuana at every stage, including cultivating, possessing of marijuana, and manufacturing, delivery, transporting, distributing, sale and dispensing by the proposed registered organization.

(v) Pricing

ROs must submit the proposed prices of approved medical marijuana products to the New York State Department of Health for approval with documentation to support them. Documentation is to include all costs the RO considered to arrive at its proposed price. In doing so, the RO may submit documentation related to indirect costs for consideration by the New York State Department of Health.

(vi) Testing

The New York State Department of Health's Wadsworth Laboratories conducts the final product testing. The regulations require that the testing of each lot of final medical marijuana product be conducted with a statistically significant number of samples using acceptable methodologies to ensure that all lots manufactured of each medical marijuana product are adequately assessed for contaminants and the cannabinoid profile is consistent throughout.

(vii) Labelling

An RO's dispensing must affix a patient-specific dispensing label approved by the New York State Department of Health that is easily readable, firmly affixed and includes patient and care giver names and registry ID numbers, the certifying practitioner's name, the dispensing facility contact information, the dosing and administration instructions, the quantity and date dispensed, and any recommendations or limitations.

Florida

On January 17, 2018, the Company acquired substantially all of the assets of GrowHealthy Holdings, LLC ("GrowHealthy") and certain related subsidiaries. The Company had previously acquired approximately six percent (6%) of GrowHealthy in a preferred share purchase in October 2017. Those shares were redeemed by GrowHealthy as part of the Company's asset purchase in January 2018.

GrowHealthy and its affiliate, McCrory's Sunny Hill Nursery, LLC ("McCrory's"), comprise one of just fourteen (14) issued Florida MMTCs licensed to cultivate, process and dispense medical cannabis under Florida's medical marijuana law. The acquisition also included GHHA, a wholly-owned subsidiary of GrowHealthy that holds an exclusive 40-year management contract to operate the medical cannabis business associated with the MMTC license issued to McCrory's, together with an option to acquire 100% of McCrory's for a nominal consideration, pending approval of the Florida Department of Health. The license held by McCrory's allows for one cultivation and manufacturing facility and up to 30 dispensaries in Florida, which has a current population of approximately 21.0 million residents.

GrowHealthy continues to expand its cultivation and production capacity through the build out of outdoor shade houses and greenhouses at its Lake Wales cultivation facility which will add approximately 285,000 square feet of additional cultivation space.

GrowHealthy opened its flagship dispensary in West Palm Beach in December 2018 and another in Brandon in the same month, totaling two dispensaries opened in 2018. A third dispensary was opened in March 2019 in Lake Worth, bringing the total dispensaries opened in Florida to three.

Regulatory Environment: Issues with U.S Cannabis-Related Assets (cont.)

To date, GrowHealthy has executed 20 dispensary leases and is expected to open the remaining 17 dispensaries by the end of 2019. GrowHealthy continues to expand its delivery program through the addition of delivery vehicles. It is expected that each new dispensary will house an additional delivery vehicle.

For the purposes of Staff Notice 51-352, the Company's investment in GrowHealthy is classified as "direct" involvement in the United States cultivation or distribution industry because the Company has a controlling interest in GHHA.

Florida has authorized the cultivation, possession and distribution of marijuana by certain licensed Florida marijuana businesses. The Florida Department of Health, Office of Medical Marijuana Use regulates Florida's marijuana regulatory program. The Company is advised by legal counsel regarding compliance with Florida's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with Florida's marijuana regulatory program. The Company only engages in transactions with Florida marijuana businesses that hold a Medical Marijuana license that is in good standing to cultivate, process and dispense medical marijuana in Florida in compliance with Florida's marijuana regulatory program. To the extent required by Florida's marijuana regulatory program, the Company has or is in the process of fully disclosing and/or registering each financial interest the Company holds in such Florida marijuana businesses.

The Company and its investee are in compliance with Florida's marijuana regulatory program. In addition to the foregoing description, Staff Notice 51-352 also requires additional disclosure for issuers with a "direct" involvement in the United States cultivation and distribution industry.

The applicable regulations in Florida are summarized below.

(i) Registration and Certification

In order to become a licensed MMTC, each applicant must pass a background check and submit audited certified financial statements at the time of application. The MMTC is to provide an organizational chart illustrating the supervisory structure, including all owners, officers, board members, managers, and employees.

An applicant must also demonstrate that all owners, officers, board members, and managers have passed a level-2 background check. In addition, each owner, officer, board member, and manager must be fingerprinted. Each applicant must employ a Medical Director to supervise the activities of the MMTC. The Medical Director can only be employed by one MMTC.

The MMTC must also demonstrate it has been registered to do business in Florida for the prior five consecutive years and that the applicant possesses a valid certificate of registration issued by the Department of Agriculture and Consumer Services.

(ii) Inspections

An MMTC needs to be prepared to be inspected prior to receiving approval from the Florida Department of Health to be authorized to begin cultivation, processing, and dispensing. The MMTC is to have inspection processes in place to handle pests that endanger or threaten the horticulture or agriculture of the State of Florida.

(iii) Security Requirements

As part of the MMTC application, the applicant must provide information about the MMTC's security plan, including the following: (i) plan to ensure a sanitary and safe processing facility; (ii) an alarm system that secures all entry points and perimeter windows and is equipped with motion detectors, pressure switches and duress, panic and hold-up alarms; (iii) video surveillance that: (a) records continuously for 24 hours per day, (b) has cameras in fixed places that allow for the clear identification of persons and

activities in the controlled areas of the premises, including grow rooms, processing rooms, storage rooms, disposal rooms/areas and point of sale rooms, (c) has the capability of recording clear images and displays the time and date of the recording, and (d) demonstrates a plan for retention of recordings for at least 45 days; and (iv) outdoor lighting.

In addition, the applicant must show a storage plan for each cultivation, processing, dispensing, and delivery facility, including the following: safes, vaults, climate control, plans to ensure all medical marijuana is stored in a secured locked room or vault; and plans to ensure at least two security personnel are on the premises where the cultivation, processing, and storage occur, at all times.

(iv) Operations

As part of the MMTC application, the applicant must provide information about the MMTC's infrastructure, including the following: (i) communication systems; (ii) facility odour mitigation; and (iii) back-up systems for all cultivation and processing systems.

The MMTC must demonstrate it has a cultivation plan that will ensure consistent supply of safe medical marijuana for patients that addresses the following: (i) the applicant's expertise cultivating medical marijuana; (ii) the proper conditions and techniques for cultivating marijuana; and (iii) the steps the applicant will take to ensure a sanitary and safe cultivation facility.

(v) Record Keeping and Inventory Tracking

MMTCs must have diversion and trafficking prevention procedures, including the following: (i) a plan for tracking and securing medical marijuana throughout an applicant's supply chain, which includes a seed-to-sale system; (ii) descriptions of an inventory control system for medical marijuana and derivative products; and (iii) a description of personal qualifications and experience with chain of custody or other tracking mechanisms. In addition, MMTCs must have a transportation plan, including the following information: (i) proposed vehicles to be used for the business, including transporting between an MMTC's facility and delivering to patients; (ii) vehicle tracking systems; (iii) vehicle security systems, including plan to incorporate separate locking compartments to store any medical marijuana product or delivery devices; and (iv) the use of transportation manifests that are generated from the seed-to-sale tracking system, including (a) the departure date, (b) name, location, address and license number of the originating MMTC, (c) quantity and form of product to be delivered, (d) arrival date and estimated time of arrival, (e) name and signature of the employee delivering the product.

Massachusetts

In 2017, the Company acquired an 80.0% controlling interest in Pilgrim Rock Management, LLC ("Pilgrim"), the affiliated management company that provides intellectual property licensing, professional and management services, real estate and equipment leasing, and certain other services to Mayflower, a formerly not-for-profit corporation and the holder of the Registered Marijuana Dispensary ("RMD") licenses in Massachusetts. The remaining 20.0% of Pilgrim was acquired in April 2018, which gave the Company a 100% ownership of Pilgrim, which in turn was the sole member of the not-for-profit corporation Mayflower. On July 31, 2018, Mayflower was converted under Massachusetts law into a for-profit corporation, which is now 100% owned by the Company.

Upon the completion of construction in December 2017, Mayflower received a final Certificate of Registration from the Massachusetts Department of Public Health (the "DPH") and began operations at the Holliston, Massachusetts cannabis cultivation and processing facility in January 2018. The first harvest took place on April 20, 2018 and the first dispensary, located in Boston, opened July 19, 2018. On June 25, 2018, Mayflower launched its delivery program, which now serves the municipalities of Arlington, Ashland, Boston, Brookline, Cambridge, Chelsea, East Boston, Everett, Holliston, Malden, Medford, Milford, Milton, Quincy, Revere, Sherborn, Somerville and Watertown.

The Company anticipates that Mayflower will ultimately operate out of four locations - one cultivation and manufacturing facility totalling 36,000 square feet, and three retail dispensing locations. The Holliston facility will be dedicated to cultivation and the manufacturing of cannabis infused products and cannabis concentrates including edibles, vaporizer pen cartridges, tinctures, and topicals.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

The Company has received a provisional Certificate of Registration and signed a lease for a second dispensary in Lowell.

For the purposes of Staff Notice 51-352, the Company's investment in Mayflower is classified as "direct" involvement in the United States cultivation or distribution industry because the Company has a controlling interest in Mayflower.

Massachusetts has authorized the cultivation, processing, possession and distribution of cannabis by certain licensed Massachusetts cannabis businesses. Currently, the DPH regulates Massachusetts' cannabis regulatory program. State law requires that the Medical Use of Marijuana Program be transferred from the DPH to the Cannabis Control Commission by December 31, 2018. The Commission also regulates the adult use marijuana program. The Company is advised by legal counsel regarding compliance with Massachusetts' cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with Massachusetts' cannabis regulatory program. The Company only engages in transactions with Massachusetts cannabis businesses that hold licenses that are in good standing to cultivate, possess and/or distribute cannabis in Massachusetts in compliance with Massachusetts' cannabis regulatory program. To the extent required by Massachusetts' cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Massachusetts cannabis businesses (i.e., Mayflower). The Company and its investee (Mayflower) are in compliance with Massachusetts' cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issues with a "direct" involvement in the United States cultivation or distribution industry.

The applicable regulations in the Commonwealth of Massachusetts are summarized below.

(i) Registration and Certification

The DPH grants vertically-integrated, medical cannabis cultivation, processing and dispensary licenses. To obtain a license to cultivate, process and/or dispense cannabis, each applicant must file an application detailing the applicant's business structure, management profile, operations profile, capitalization, architectural plans and the proposed location of business operations.

(ii) Inspections

The DPH may inspect a license holder at any time without prior notice to determine the license holder's compliance with state law and regulatory requirements. All areas of an RMD, all dispensary agents and activities, and all records are subject to such inspection.

(iii) Security Requirements

A license holder must implement sufficient security measures to deter and prevent unauthorized entrance into areas containing cannabis and theft of cannabis. A license holder is required to use and maintain security alarms, locks, surveillance equipment, safes, a lit outside perimeter and additional safeguards as required by the DPH if the DPH determines that additional safeguards are necessary. A license holder's written operating procedures must contain a policy requiring the immediate dismissal of any employee that diverts cannabis or engages in unsafe practices.

(iv) Operations

A license holder must maintain a set of detailed written operating procedures regarding security measures, employee security policies, hours of operations, pricing, inventory storage, record keeping procedures, quality control, staffing plan and records, emergency procedures, employee termination procedures, a list of board members and executives, and cash handling procedures. Each license holder must maintain minimum liability insurance coverage. A license holder's employees are required to complete training prior to performing job functions. Furthermore, a license holder is required to abide by packaging and labelling requirements and edible cannabis products cannot bear a reasonable resemblance to any product available for consumption as a commercially available candy. License holders are required to provide educational materials about cannabis to customers.

(v) Record Keeping and Inventory Tracking

Massachusetts requires license holders to maintain written records for a period of at least two (2) years regarding operating procedures, inventory, seed-to-sale tracking, personnel, financials and waste disposal. Each license holder is required to track cannabis inventory from seed-to-sale, including by tagging all cannabis inventory. A license holder is required to conduct a monthly inventory of cannabis inventory.

Vermont

In 2017, the Company acquired 100% of Pakalolo, LLC, ("Pakalolo") the sole member of GRVT, a not-for-profit medical marijuana license holder in Vermont.

As a not-for-profit corporation, GRVT does not have equity owners. Ms. Alexandra Ford serves as one of the three board members that oversee GRVT. Ms. Ford is the sister of Hadley Ford (a director and officer of the Company). Pakalolo, as the sole member of GRVT, has the right to elect the board of directors of GRVT.

On January 22, 2018, Vermont Governor Phil Scott signed Vermont's recreational bill into law, the first recreational marijuana law to be passed by a state legislature. This law took effect on July 1, 2018 and allows adults 21 and older to possess up to an ounce of marijuana and possess up to two plants. There is not currently a regulatory system in place to permit the commercial sale of recreational marijuana; Bill H-0196 was introduced for first reading as part of the February 2019 legislative session, which if passed, would regulate the commercial sale of cannabis for recreational use in the state.

For the purposes of Staff Notice 51-352, the Company's investment in GRVT is classified as "direct" involvement in the United States cultivation or distribution industry because the Company has a controlling interest in Pakalolo.

Vermont has authorized the cultivation, possession and distribution of cannabis by certain licensed Vermont cannabis businesses. The Vermont Department of Public Safety ("DPS") regulates Vermont's cannabis regulatory program. The Company is advised by legal counsel regarding compliance with Vermont's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with Vermont's cannabis regulatory program. The Company only engages in transactions with Vermont cannabis businesses that hold licenses that are in good standing to cultivate, possess and/or distribute cannabis in Vermont in compliance with Vermont's cannabis regulatory program. To the extent required by Vermont's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Vermont cannabis businesses (i.e., GRVT). In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issues with a "direct" involvement in the United States cultivation or distribution industry.

The applicable regulations in the State of Vermont are summarized below.

(i) Registration and Certification

The DPS grants cannabis dispensary licenses. To obtain a license to dispense cannabis, each applicant must file an application. Currently, the DPS is not accepting cannabis dispensary applications.

Applications must provide a summary of the applicant's business structure, proposed location of business operations, verification that any proposed location is not within 1,000 feet of a pre-existing public or private school, the applicant's business plan, the applicant's capitalization, an applicant's projected income, and management profile. No person shall commence cannabis dispensary operations without a DPS-issued license.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

(ii) Inspections

A license holder is subject to on-site assessments by the DPS at any time, without notice. The DPS may require laboratory testing of cannabis inventory.

(iii) Security Requirements

A license holder must transport cannabis inventory in a secured locked container and schedule deliveries only during established operating hours. A license holder may only cultivate cannabis in a secure indoor facility. A license holder must implement security measures to deter and prevent unauthorized entrance into areas containing cannabis and the theft of cannabis, including the usage of exterior lighting, alarms, security cameras, locks and procedures to prevent loitering.

(iv) Operations

A license holder must maintain written operating procedures regarding security measures, employee security policies, hours of operations, pricing, inventory storage, record keeping procedures, quality control, employee matters, and cash handling procedures. A license holder may only dispense a limited amount of cannabis inventory to a customer during a 30-day period. A license holder may only dispense cannabis in containers that are properly labelled. A license holder must maintain a written alcohol and drug-free workplace policy.

(v) Record Keeping and Inventory Tracking

A license holder must maintain a written record of all individuals entering and exiting a cannabis cultivation and/or processing location. A license holder must maintain written records regarding personnel policies and practices, job description and employment contract policies, business and financial records, patent education, employee files, inventory controls, customers and security measures. A license holder must maintain a written inventory (e.g., harvest dates, drying completion dates, and packaging dates) and the sale of such cannabis inventory.

Colorado

On December 5, 2016, the Company, through its wholly-owned subsidiary, Scarlet Globemallow, LLC ("Scarlet"), acquired certain assets of Organix, the owner and operator of a Colorado medical and adult-use cannabis operation with a cultivation facility in Denver, Colorado and a medical and adult-use dispensary located in the town of Breckenridge, Colorado. The assets acquired include all real estate holdings of Organix's affiliate, DB Land Holdings, Inc. ("DB"), consisting of a 12,000 square foot cultivation facility in Denver, as well as all equipment and other tangible and intangible assets and all of the intellectual property of Organix, including its brands (the "Organix Assets"). Upon finalization of the purchase price allocation, the purchase price of the Organix Assets was determined to be \$4,520,174. The real estate assets are owned by Bergamot Properties, LLC, which is a wholly-owned subsidiary of Scarlet.

In a related transaction, Bellflower, LLC agreed to acquire all cannabis inventory and licenses to cultivate, manufacture and sell cannabis-based products from Organix for \$300,000 (the "Bellflower Transaction"). The Company holds no ownership interest in Bellflower and accordingly, Bellflower is an arm's length party to the Company. The Company, through Scarlet and Bergamot, provided a broad range of real estate, financing, intellectual property licensing and professional services to Organix and has provided the same to Bellflower since the completion of the Bellflower Transaction. Scarlet and Bergamot were formed to provide long term contractual services to Bellflower and potentially other licensed cannabis operators in Colorado. Scarlet has acquired substantially all of the Organix Assets and serves as a branding, marketing, financing, equipment leasing and professional services company to Bellflower and potentially to other licensed cannabis operators in Colorado. Bergamot Properties acquired and now holds all the applicable real estate and master leasehold interests associated with Organix's operations and serves as a lessor of real property to Bellflower.

For the purposes of Staff Notice 51-352, the assets held by the Company's subsidiaries, Scarlet and Bergamot, are classified as "ancillary" involvement in the United States cannabis industry for the purpose of Staff Notice 51-352.

Colorado has authorized the cultivation, possession and distribution of marijuana by certain licensed Colorado marijuana businesses. The Colorado Marijuana Enforcement Division regulates Colorado's marijuana regulatory program. The Company is advised by legal counsel regarding compliance with Colorado's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with Colorado's marijuana regulatory program. The Company only engages in transactions with Colorado marijuana businesses that hold licenses that are in good standing to cultivate, possess and/or distribute marijuana in Colorado in compliance with Colorado's marijuana regulatory program. To the extent required by Colorado's marijuana regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Colorado marijuana businesses. The Company and the Company's subsidiaries, Scarlet and Bergamot, are in compliance with Colorado's marijuana regulatory program.

New Mexico

RGA was formed on April 2, 2014 for the primary purpose of serving as: (i) a branding, marketing and consulting company to license and/or sublicense certain technology and product names to medical marijuana license holders in New Mexico; (ii) a holding company for acquiring, leasing, and/or managing real estate, fixtures and equipment; and (iii) an entity that enters into financial transactions to support operating medical marijuana license holders. RGA currently manages two cultivation operations in Albuquerque, New Mexico totaling approximately 25,000 square feet and six dispensary locations (five in Albuquerque and one in Grants, New Mexico). Working with the Company, RGA is currently instituting an expansion of its cultivating facilities and dispensaries, as well as developing a production strategy to provide value-added cannabis-infused products for its license holders and others in the State of New Mexico. The Company has a 24.6% equity interest in RGA.

For the purposes of Staff Notice 51-352, the Company's investment in RGA is classified as "ancillary" involvement in the United States cultivation or distribution industry.

New Mexico has authorized the cultivation, possession and distribution of marijuana by certain licensed New Mexico marijuana businesses. The New Mexico Department of Health regulates New Mexico's marijuana regulatory program. The Company is advised by legal counsel regarding compliance with New Mexico's marijuana regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with New Mexico's marijuana regulatory program. The Company only engages in transactions with New Mexico marijuana businesses that hold licenses that are in good standing to cultivate, possess and/or distribute marijuana in New Mexico in compliance with New Mexico's marijuana regulatory program. To the extent required by New Mexico's marijuana regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such New Mexico marijuana businesses. The Company and its investee, RGA, are in compliance with New Mexico's marijuana regulatory program.

Maryland

The Company holds a non-material preferred stock position in 4Front Holdings, LLC ("4Front"), purchased for \$99,969. The Company's equity position in 4Front is less than 1% of 4Front's issued and outstanding shares.

The Company understands that 4Front, through various subsidiaries, holds a 65.0% interest in one dispensary license in the State of Maryland. That dispensary is not yet operational and the Company's interest in 4Front is not material.

The Company and, to the best of the Company's knowledge, its investee (4Front), are in compliance with Maryland's medical marijuana regulatory program. In addition to the foregoing description, Staff Notice 51-352 also requires additional disclosure for issuers with an "indirect" involvement in the United States cultivation and distribution industry.

Maryland has authorized the cultivation, possession and distribution of marijuana by certain licensed Maryland marijuana businesses. The Maryland Medical Cannabis regulates Maryland's marijuana regulatory program.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

The Company is advised by legal counsel regarding compliance with Maryland's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with Maryland's marijuana regulatory program. The Company only engages in transactions with Maryland marijuana businesses that hold licenses that are in good standing to cultivate, possess and/or distribute marijuana in Maryland in compliance with Maryland's marijuana regulatory program.

To the extent required by Maryland's marijuana regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Maryland marijuana businesses.

The applicable regulations in the State of Maryland are summarized below.

(i) Registration and Certification

The Medical Marijuana Cannabis Commission ("MMCC") grants medical cannabis grower, processor, and dispensary licenses. A licensee may hold a license in each category to obtain vertical integration. The applicant must first seek pre-approval from the MMCC in order to be granted a license. As part of the pre-approval application, the applicant must submit information related to its operations; safety and security; medical cannabis professionalism; retail management factors; business and economic factors; and other additional factors that may apply.

In order to become a licensed medical cannabis dispensary, each applicant must submit an application detailing the location of the proposed dispensary, the personal details of each principal officer or director, and operating procedures the dispensary will use. An owner, a member, an employee, a volunteer, an officer, or a director of a dispensary must undergo a criminal background check and register as a dispensary agent.

Once licensed, the medical cannabis dispensary is required to submit to the MMCC quarterly reports including the following information: (i) the number of patients served; (ii) the county of residence of each patient served; (iii) the medical condition for which medical cannabis was recommended; (iv) the type and amount of medical cannabis dispensed; and (v) if available, a summary of clinical outcomes, including adverse events and any cases of suspected diversion. The medical cannabis dispensary must not include any patient personal information in the quarterly report.

(ii) Inspections

A medical cannabis dispensary is inspected by the MMCC prior to receiving approval from the MMCC to be authorized to begin cultivation, processing, and dispensing.

(iii) Safety and Security Requirements

As part of the medical cannabis dispensary application, the applicant must provide information about the dispensary's operating procedures consistent with the oversight regulations established by the MMCC, including the following: (i) storage of cannabis and products containing cannabis only in enclosed and locked facilities; (ii) security features and procedures; (iii) how the dispensary will prevent diversion; and (iv) safety procedures. As part of the safety and security requirements, the applicant must detail how the premises will be constructed to prevent unauthorized entry, including a designation of a secured room meeting high-security requirements. The applicant must describe how it would train all registered dispensary agents on safety procedures, including responding to: (i) a medical emergency; (ii) a fire; (iii) a chemical spill; and (iv) a threatening event including: (1) an armed robbery, (2) an invasion, (3) a burglary, or (4) any other criminal incident.

The applicant must describe its security and surveillance plan with information including the following: (i) an alarm system that covers all perimeter entry points, windows, and portals at the premises that: (a) will be continuously monitored; (b) detects smoke and fire capabilities; (c) detects power loss capabilities; (d) includes panic alarm devices mounted at convenient, readily-accessible locations through the licensed premises; (e) inclusion of a second, independent alarm system to protect where records are stored on- and off-site and where any secure room holds medical cannabis; (f) equipped with auxiliary power to continue operation for at least 48 hours; (ii) a video surveillance that: (a) records continuously for 24 hours per day for 365 days a year without interruption, (b) has cameras in fixed places that allow

for the clear facial identification and of activities in the controlled areas of the premises, including where medical cannabis is packaged, tested, processed, stored, or dispensed, (c) has the capability of recording clear images and displays the time and date of the recording, and (d) demonstrates a plan for retention of recordings for at least 30 days.

(iv) Operations

As part of the dispensary application, the applicant must provide information about the dispensary's operations, including the following: (i) communication systems; (ii) facility odour mitigation; and (iii) back-up systems for all cultivation and processing systems. The applicant must establish a standard operating procedure of all aspects of the receipt, storage, packaging, labelling, handling, tracking, and dispensing of products containing medical cannabis and medical cannabis waste.

In addition, the applicant must provide information about the dispensary's medical cannabis professionalism, including the following information: (i) experience, knowledge, and training in training dispensary agents in the science and use of medical cannabis; and (ii) use of a clinical director.

The applicant must also provide information about the dispensary's retail management operations, including the following: (i) a detailed plan to preserve the quality of the medical cannabis; (ii) a plan to minimize any negative impact on the surrounding community and businesses; (iii) a detailed inventory control plan; and (iv) a detailed medical cannabis waste disposal plan.

The business and economic factors of the dispensary business must also be detailed, including the following information: (i) a business plan demonstrating a likelihood of success, demonstrating sufficient business ability and experience on the part of the applicant, and providing for appropriate employee working conditions, benefits, and training; (ii) demonstration of adequate capitalization; and (iii) a detailed plan evidencing how the dispensary will enforce the alcohol and drug free workplace policy.

Additional information the applicant must also provide includes the following: (i) demonstration of Maryland residency among the owners and investors; (ii) evidence that the applicant is not in arrears regarding any tax obligation in Maryland or other jurisdictions; and (iii) the medical cannabis extracts and medical cannabis-infused products proposed to be dispensed with proposed cannabinoid profiles, including varieties with high cannabidiol content, and the varieties of routes of administration.

(v) Record Keeping and Inventory Tracking

Maryland requires use of a seed-to-sale tracking system. The applicant must create and use a perpetual inventory control system that identifies and tracks the stock of medical cannabis from the time it is delivered or produced to the time it is delivered to a grower or qualified caregiver. The applicant must describe how it will assure the integrity of the electronic manifest and inventory control system and that a cannabis transportation agent will continue the chain of custody to a dispensary agent. The applicant must retain attendance records and ensure dispensary agents are trained on the record retention and standard operating procedure.

Risk Factors

Risks Related to the Company

An investment in the securities of the Company is speculative and subject to risks and uncertainties. The occurrence of any one or more of these risks or uncertainties could have a material adverse effect on the value of any investment in the Company and the business, prospects, financial position, financial condition or operating results of the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair the Company's business operations.

The risks and uncertainties described here are not the only ones the Company may face. Additional risks and uncertainties that the Company is unaware of, or that the Company currently deems not to be material, may also become important factors that affect the Company. If any such risks actually occur, the Company's business, financial condition or results of operations could be materially adversely affected, with the result that the trading price of the Common Shares could decline and Shareholders could lose all or part of their investment. Additionally, readers should consider the following risk factors:

Risks Specifically Related to the United States Regulatory System

(1) The Company's business activities, and the business activities of its subsidiaries, while believed to be compliant with applicable U.S. state and local laws, currently are illegal under U.S. federal law.

While certain states in the U.S. have legalized "medical cannabis," "adult use cannabis" or both, medical and adult-use cannabis remains illegal under federal law. The U.S. Controlled Substances Act (the "CSA"), classifies "marijuana" as a Schedule I drug. Under U.S. federal law, a drug or other substance is placed on Schedule I if:

- "[t]he drug or other substance has a high potential for abuse";
- "[t]he drug or other substance has no accepted medical use in the United States"; and
- "[t]here is a lack of safety for the use of the drug or other substance under medical supervision."

As such, cannabis-related business activities, including without limitation, the cultivation, manufacture, importation, possession, use or distribution of cannabis, remains illegal under U.S. federal law. Individual state laws do not always conform to U.S. federal law or the laws of other states, and there are a number of variations in the laws and regulations of the various states in which the Company operates. Although the Company believes its business activities and those of its subsidiaries are compliant with the laws and regulations of the states in which the Company and its subsidiaries operate, strict compliance with state and local laws with respect to cannabis neither absolves the Company of liability under U.S. federal law, nor provide a defense to any proceeding that may be brought against the Company under U.S. federal law. Any proceeding that may be brought against the Company could have a material adverse effect on the Company's business, financial condition and results of operations.

Violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements, arising from either civil or criminal proceedings brought by either the U.S. federal government or private citizens, including, but not limited to, property or product seizures, disgorgement of profits, cessation of business activities or divestiture. Such fines, penalties, administrative sanctions, convictions or settlements could have a material adverse effect on the Company, including but not limited to:

- the Company's reputation and on the Company's ability to conduct business;
- the Company's ability to obtain and/or maintain cannabis licenses, whether directly or indirectly, in the United States;
- the listing of the Company's securities on various stock exchanges;
- the Company's financial position, operating results, profitability or liquidity; and
- the market price of the publicly traded Common Shares.

(2) There is uncertainty surrounding the policies of President Donald Trump and the Trump administration and their ability to influence policies in opposition to the cannabis industry as a whole.

There is uncertainty surrounding the policies of President Donald Trump and the Trump administration regarding the medical or adult use of cannabis. In an effort to provide guidance to U.S. federal law enforcement, under former President Barack Obama, the U.S. Department of Justice (the "DOJ"), released a memorandum on August 29, 2013 entitled "Guidance Regarding Marijuana Enforcement" from former Deputy Attorney General James Cole (the "Cole Memorandum"). The Cole Memorandum sought to limit the use of the U.S. federal government's prosecutorial resources by providing U.S. Attorneys with the following eight areas (the "Cole Priorities") on which to focus their attention in states that have established cannabis programs with regulatory enforcement systems:

- Preventing the distribution of cannabis to minors;
- Preventing revenue from the sale of cannabis from going to criminal enterprises, gangs, and cartels;
- Preventing the diversion of cannabis from states where it is legal under state law in some form to states where it is not legal;
- Preventing legal cannabis activity from being used as a pretext for trafficking other illegal drugs or other illegal activity;
- Preventing violence and the use of firearms in the cultivation and distribution of cannabis;
- Preventing drugged driving and the exacerbation of other adverse public health consequences associated with cannabis use;
- Preventing the growing of cannabis on public lands and the attendant public safety and environmental dangers posed by cannabis production on public lands; and
- Preventing possession or use of cannabis on U.S. federal property.

U.S. Attorneys were required to adhere to the Cole Priorities until the rescission of the Cole Memorandum in January 2018.

On January 4, 2018, former Attorney General Sessions rescinded the Cole Memorandum. While this did not create a change in U.S. federal law, as the Cole Memorandum was policy guidance and not law, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority. Accordingly, the rescission added to the uncertainty of U.S. federal enforcement of the CSA in states where cannabis use is regulated. Pursuant to his rescission of the Cole Memorandum, former Attorney General Sessions also issued a one-page memorandum known as the "Sessions Memorandum." The Sessions Memorandum confirmed the rescission of the Cole Memorandum and explained the rationale of the DOJ. According to the Sessions Memorandum, the Cole Memorandum was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the U.S. federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

As of the date of this document, Attorney General William Barr has not issued statements or guidance in his official capacity since becoming Attorney General with respect to the medical or adult use of cannabis. Enforcement of U.S. federal laws with respect to cannabis, including cannabis products, remains uncertain.

If the Trump administration and U.S. federal agencies adopt a policy of stricter enforcement of the CSA, it could have a material adverse effect on the Company's business, financial condition and results of operations.

(3) The U.S. federal government's approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined.

The Cole Memorandum outlined the Cole Priorities for the DOJ relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority for the DOJ.

Risk Factors (cont.)

Notably, however, the DOJ has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memorandum standard. However, as discussed above, the Cole Memorandum was rescinded by former Attorney General Sessions.

The United States House of Representatives passed an amendment to the Commerce, Justice, Science, and Related Agencies Appropriations Bill (currently known as the "Joyce Amendment" and formerly known as the "Rohrabacher-Blumenauer Amendment"), which funds the DOJ. Under the Joyce Amendment, the DOJ is prohibited from using federal funds to prevent states "from implementing their own State laws that authorize the use, distribution, possession, or cultivation of medical marijuana." In particular, this amendment only prohibits the use of federal funds to prosecute individuals and businesses operating cannabis companies in compliance with state laws regulating the medical use of cannabis and does not apply to adult use cannabis operations. The Joyce Amendment must be renewed each federal fiscal year and was subsequently renewed by Congress through September 30, 2019. There can be no assurance that Congress will further renew the Joyce Amendment for the 2020 fiscal year. If the Joyce Amendment is not renewed in the future, the DOJ and other U.S. federal agencies may utilize U.S. federal funds to enforce the CSA in states with a medical cannabis program, including states in which the Company's subsidiaries operate, which could have a material adverse effect on the Company's expansion strategy, business, financial condition and results of operations.

(4) The Company's investments in the United States are subject to applicable anti-money laundering laws and regulations in the United States and Canada.

All of the Company's subsidiaries are located in the United States. Therefore, the Company is subject to a variety of laws and regulations in the United States and Canada that involve money laundering, financial recordkeeping and proceeds of crime. Such laws and regulations may include the U.S. Currency and Foreign Transactions Reporting Act of 1970 (the "Bank Secrecy Act"), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "US PATRIOT Act"), in the United States, and the Proceeds of Crime (Money Laundering) and Terrorist Financing Act, as amended, in Canada.

The Financial Crimes Enforcement Network ("FinCEN"), a bureau within the U.S. Department of the Treasury primarily charged with administering and enforcing the Bank Secrecy Act, previously issued a memorandum providing instructions to banks seeking to provide services to cannabis-related businesses (the "FinCEN Memorandum"). The FinCEN Memorandum states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of U.S. federal money laundering laws, and explicitly refers to the Cole Priorities. As discussed above, the Cole Memorandum was rescinded in January 2018 and the decision to prosecute was left to the discretion of each U.S. Attorney in each district. As a result, it is unclear at this time whether the current administration will follow the guidelines of the FinCEN Memorandum and whether Attorney General Barr will reinstate the Cole Priorities, adopt a different enforcement policy or take no action at all. If any of the Company's investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States were found to be in violation of anti-money laundering laws or otherwise, such transactions may be viewed as proceeds of crime, including under one or more of the statutes discussed above. Any property, real or personal, and its proceeds, involved in or traceable to such a crime is subject to seizure by and forfeiture to governmental authorities. Any such seizure, forfeiture or other action by law enforcement regarding the Company's assets could restrict or otherwise jeopardize the Company's ability to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada and could have a material adverse effect on the Company's business, financial condition and results of operations.

(5) The Company's investments in the United States may be subject to heightened scrutiny by regulators, stock exchanges and other authorities in Canada and the United States.

The Company's existing investments in the United States, and any future investments in the United States, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada and the United States. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction, in addition to those described herein.

Following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, TMX Group Limited announced the signing of a Memorandum of Understanding (the "TMX MOU"), with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The TMX MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and Clearing and Depository Services Inc. ("CDS"), as it relates to issuers with cannabis-related activities in the United States. The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no assurance that this approach to regulation will continue in the future. Any implementation by CDS of a ban on the clearing of securities of issuers with cannabis-related activities in the United States would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, Common Shares likely would become highly illiquid and, until an alternative stock exchange became available or the ban were lifted, investors would have no ability to effect a trade of Common Shares through the facilities of a stock exchange. The Company has obtained eligibility with the Depository Trust Company ("DTC") for its Common Share quotation on the OTCQX and such eligibility provides another possible avenue to clear the Common Shares in the event of a CDS ban. Revocation of DTC eligibility or implementation by DTC of a ban on the clearing of securities of issuers with cannabis-related activities in the United States would similarly have a material adverse effect on the ability of holders of the Common Shares to make and settle trades.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of the medical or adult use of cannabis could affect future legislation or regulation in Canada, the United States or elsewhere. Among other things, such a shift could cause such jurisdictions to abandon initiatives or proposals to legalize cannabis, or reverse existing legislation that legalized cannabis in some respect. A shift by any such jurisdiction could limit the number of new jurisdictions into which the Company could expand or reduce the jurisdictions in which the Company operates, either of which could have a material adverse effect on the Company's expansion strategy, business, financial condition and results of operations.

(6) U.S. border officers could deny entry into the United States to non-U.S. citizens who are employees of or investors in companies with cannabis operations in the United States or Canada.

As cannabis remains illegal under U.S. federal law, those non-U.S. citizens who are employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry or lifetime bans from the United States for their business associations with U.S. or Canadian cannabis businesses. Entry happens at the sole discretion of the U.S. Customs and Border Protection (the "USCBP"), officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a foreign national.

As a result, the Canadian government has started warning travelers on its website that previous use of cannabis, or any substance prohibited by U.S. federal laws, could mean denial of entry to the United States. In addition, business or financial involvement in the legal cannabis industry in Canada or in the United States could also be reason enough for USCBP officers to deny entry in the United States. In reaction to the then-impending legalization of cannabis in Canada, the USCBP released a statement outlining its current position with respect to enforcement of U.S. federal laws. The statement specified that Canada's legalization of cannabis would not change the USCBP's enforcement of U.S. federal laws regarding controlled substances and, because cannabis continues to be a controlled substance under the CSA, working in or facilitating the proliferation of the cannabis industry in states or Canada where cannabis is legal may affect admissibility to the United States. Although, the USCBP has affirmed that Canadian citizens "working in or facilitating the proliferation of the legal cannabis industry in Canada, coming to the U.S. for reasons unrelated to the cannabis industry will generally be admissible to the U.S.," if Canadian citizens, or any other travelers, are "found to be coming to the U.S. for reason related to the cannabis industry, they may be deemed inadmissible" and risk being barred from entry into the United States.

Certain of the Company's directors, officers and employees are Canadian citizens, and may be subject to denials or bans from entry into the United States by USCBP officers due to their service or employment with the Company. In the event that any such directors, officers or employees are hindered or otherwise prevented from entering the U.S., either in one instance or permanently, their ability to provide services to the Company could be materially hindered, which could have a material adverse effect on the Company's business. In addition, the Company's ability to attract qualified candidates for positions with

Risk Factors (cont.)

the Company may be diminished by the prospect of a denial or ban from entry into the United States, which could have a material adverse effect on the Company's business.

(7) Laws, regulations and the policies with respect to the enforcement of such laws and regulations affecting the U.S. cannabis industry are constantly changing, which could detrimentally affect the Company's cultivation, production and dispensary operations.

Medical and adult-use cannabis laws and regulations in the United States are complex, broad in scope, and subject to evolving interpretations. As a result, compliance with such laws and regulations could require the Company to incur substantial costs or alter certain aspects of the Company's business. Violations of these laws, or allegations of such violations, could disrupt certain aspects of the Company's business plan and result in a material adverse effect on certain aspects of the Company's planned operations. Regulations may be enacted in the future that will be directly applicable to certain aspects of the Company's cultivation, production and dispensary businesses, and the Company's ability to sell cannabis. The Company cannot predict the nature of any future laws, regulations, interpretations or applications, especially in the United States, nor can it be determined what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on the Company's business.

Currently, there are 33 states plus the District of Columbia and certain U.S. territories that have laws and/or regulations that recognize, in one form or another, consumer use of cannabis in connection with medical treatment. Of those, 10 states plus the District of Columbia and certain U.S. territories have laws and/or regulations that permit the adult use of cannabis. Many other states are considering similar legislation, for either medical or adult use. As cannabis is identified under U.S. federal law as a Schedule I substance under the CSA, it is the policy of the U.S. federal government and its agencies that cannabis has no medical benefit. U.S. federal laws and regulations prohibit a range of activities regarding cannabis, including cultivation, manufacturing, distribution, sales and personal use. Unless and until the U.S. Congress ("Congress") amends the CSA with respect to cannabis (the timing and scope of which is not assured and hard to predict), there is a risk that governmental authorities in the United States may enforce current U.S. federal law, and the Company may be deemed to be operating in direct violation of U.S. federal law. Accordingly, active enforcement of the current U.S. federal regulatory position on cannabis could have a material adverse effect on the Company. The risk of strict enforcement of the CSA in light of Congressional activity, judicial holdings, and stated policy remains uncertain, and any regulations prohibiting the use of cannabis, or prohibiting cannabis-related activities, could have a material adverse effect on the Company's business, financial condition and results of operations.

In addition, due to variations in state law among states sharing borders, certain states that have not approved the legal sale of cannabis may seek to overturn laws legalizing the sale of cannabis in neighboring states. For example, the attorneys general of Nebraska and Oklahoma filed a complaint with the U.S. Supreme Court against Colorado arguing that the Supremacy Clause (Article VI of the Constitution) prohibits Colorado from passing laws that conflict with U.S. federal anti-drug laws and that Colorado's laws are increasing cannabis trafficking in neighboring states that maintain cannabis bans, thereby putting pressure on such neighboring states' criminal justice systems. The Supreme Court declined to hear this case, but there is no assurance that it will not hear a similar case in the future. Additionally, nothing prevents these or other state attorneys general from using the same or similar cause of action for a lawsuit in a lower U.S. federal or other court.

Previously, the U.S. Supreme Court has held that drug prohibition is a valid exercise of U.S. federal authority under the commerce clause; however, it has also held that an individual state itself is not required to adopt or enforce U.S. federal laws with which it disagrees. If the U.S. Supreme Court rules that a legal cannabis state's legislation is unconstitutional, that could result in legal action against other states with laws legalizing cannabis for medical and/or adult use. The successful prosecution of such legal actions could have a material adverse effect on the Company's business, financial condition and results of operations.

While the Company's management believes that legalization trends are favorable and create a compelling business opportunity for early movers, there is no assurance that those trends will continue and be realized, that existing limited markets will continue to be available or that any new markets for cannabis will emerge. The Company's business plan is based on the premise that cannabis legalization will expand, that consumer demand for cannabis will continue to exceed supply for the foreseeable

future, and that consumer demand for cannabis for medical and adult use will grow as it becomes legal to possess and consume cannabis. There is no assurance that this premise will prove to be correct or that the Company will be profitable in the future. Moreover, if cannabis legalization is scaled back or reversed at the state level, or if the U.S. federal government increases regulation and prosecution of cannabis-related activities, it could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, with the rescission of the Cole Memorandum by former Attorney General Jefferson B. Sessions III, the risk of potential U.S. federal prosecution arising out of the states' legalization of certain cannabis products has been made even more uncertain, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Risk Generally Related to the Company

(8) The Company relies on third-party suppliers, manufacturers and contractors.

The Company relies on third-party suppliers, manufacturers and contractors to provide certain products and services. Due to the uncertain regulatory landscape for regulating cannabis in Canada and the United States, the Company's third-party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Company's operations and the operations of the Company's subsidiaries. Loss of these suppliers, manufacturers and contractors could have a material adverse effect on the Company's business, financial condition and results of operations.

(9) The Company may not be able to continue executing the Company's merger and acquisition strategy successfully.

The Company's business plan depends in part on its ability to continue merging with or acquiring other businesses in the cannabis industry, including cultivators, processors, manufacturers and dispensaries. The success of any acquisition will depend upon, among other things, the Company's ability to integrate acquired personnel, operations, products and technologies into the Company's organization effectively, to retain and motivate key personnel of acquired businesses, to retain their customers, and maintain product quality.

Any future mergers or acquisitions, or similar transactions, are subject to conditions, which may include, without limitation, the Company's satisfactory completion of due diligence, negotiation and finalization of formal legal documents, debt financing and approval from the Board. As a result, there can be no assurance that the Company will complete any such transactions. If the Company does not complete such transactions, the Company may be subject to a number of risks, including, but not limited to:

- a decline in the price of the Common Shares to the extent that the current market price reflects a market assumption that these transactions will be completed;
- the payment of certain costs related to each transaction, such as legal, accounting and consulting fees, even if a transaction is not completed; and
- an absence of assurance that such opportunities will be available to the Company in the future or at all.

Furthermore, any future merger or acquisition may result in diversion of management's attention from other business concerns, and such transactions may be dilutive to the Company's financial results and/or result in impairment charges and write-offs. Such transactions could involve other risks, including the assumption of unidentified or unknown liabilities, disputes or contingencies, for which the Company, as a successor owner, may be responsible, and/or changes in the industry, location, or regulatory or political environment in which these investments are located, that the Company's due diligence review may not adequately uncover and that may arise after entering into such transactions.

Although the Company has and expects to continue to realize strategic, operational and financial benefits as a result of the Company's mergers and acquisitions, the Company cannot predict whether and to what extent such benefits will be achieved.

Risk Factors (cont.)

(10) The Company competes for market share with other companies, which may have longer operating histories, more financial resources and more manufacturing and marketing experience than the Company has.

The Company faces, and expects to continue to face, competition from other companies some of which may have longer operating histories, more financial resources and more experience than the Company. Increased competition by larger and well-financed competitors, and/or competitors that have longer operating histories and more manufacturing and marketing experience than the Company, could have a material adverse effect on the Company's business, financial condition and results of operations. As the Company and its subsidiaries operate in an early stage industry, the Company expects to face additional competition from new entrants. To remain competitive, the Company will require research and development, marketing, sales and other support.

The Company expects to face additional competition from new market entrants that are granted licenses within a particular state in which the Company's subsidiaries operate or existing license holders which are not yet active in the industry. If a significant number of new licenses are granted in the near term, the Company may experience increased competition for market share and may experience downward price pressure on the Company's products as new entrants increase production, which could have a material adverse effect on the Company's business.

In addition, if the number of users of cannabis increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, and in sales. The Company may not have sufficient resources to maintain research and development, and sales efforts on a competitive basis, which could have a material adverse effect on the Company's business, financial condition and results of operations.

(11) The Company's U.S. tax classification could have a material adverse effect on the Company's financial condition and results of operations.

Although the Company is a Canadian corporation, it is classified as a U.S. domestic corporation for U.S. federal income tax purposes under section 7874(b) of the U.S. Internal Revenue Code of 1986, as amended (the "U.S. Tax Code") and will be subject to U.S. federal income tax on its worldwide income. However, for Canadian tax purposes, regardless of any application of section 7874 of the U.S. Tax Code, the Company is treated as a Canadian resident corporation. As a result, the Company is subject to taxation in both Canada and the United States, which could have a material adverse effect on the Company's financial condition and results of operations. It is unlikely that the Company will pay any dividends on the Common Shares in the foreseeable future. However, dividends received by shareholders who are residents of Canada for purposes of the *Income Tax Act* (Canada) (the "Canadian Tax Act") will generally be subject to U.S. withholding tax. Any such dividends may not qualify for a reduced rate of withholding tax under the U.S.-Canada income tax treaty ("U.S.-Canada Treaty"). In addition, a Canadian foreign tax credit may not be available under the Canadian Tax Act in respect of such taxes. Dividends received by shareholders resident in the United States will not be subject to U.S. withholding tax but will be subject to Canadian withholding tax under the Canadian Tax Act. In the event that the Company pays any dividends, they will be characterized as U.S. source income for purposes of the foreign tax credit rules under the U.S. Tax Code. Accordingly, shareholders resident in the United States generally will not be able to claim a credit for any Canadian tax withheld unless, depending on the circumstances, such shareholders have an excess foreign tax credit limitation due to other foreign source income that is subject to a low or zero rate of foreign tax. Dividends received by shareholders that are residents of neither Canada nor the United States generally will be subject to U.S. withholding tax and Canadian withholding tax. These dividends may not qualify for a reduced rate of U.S. withholding tax under any income tax treaty otherwise applicable to the Company's shareholders, subject to examination of the relevant treaty. Since the Company is classified as a U.S. domestic corporation for U.S. federal income tax purposes under section 7874(b) of the U.S. Tax Code, the Common Shares will be treated as shares of a U.S. domestic corporation and shareholders will be subject to the relevant provisions of the U.S. Tax Code and/or the U.S. Treaty.

Each shareholder should seek tax advice, based on such shareholder's particular facts and circumstances, from an independent tax advisor, including, without limitation, in connection with the company's classification as a U.S. domestic corporation for U.S. federal income tax purposes under section 7874(b) of the U.S. tax code, the application of the U.S. tax code, the application of the U.S.-Canada treaty, the application of U.S. federal estate and gift taxes, the application of U.S. federal tax withholding requirements, the application of U.S. estimated tax payment requirements and the application of U.S. tax return filing requirements.

(12) The Company may incur significant tax liabilities under section 280E of the U.S. Tax Code.

Section 280E of the U.S. Tax Code prohibits businesses from deducting certain expenses associated with trafficking controlled substances (within the meaning of Schedule I and II of the CSA). The Internal Revenue Service of the United States (the "IRS") has invoked section 280E of the U.S. Tax Code in tax audits against various cannabis businesses in the United States that are permitted under applicable state laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly, and the bulk of operating costs and general administrative costs are not permissible deductions. While there are currently several pending cases before various U.S. administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E of the U.S. Tax Code favorable to cannabis businesses.

(13) The Company relies on the operators of the Company's subsidiaries to execute their business plans and operations.

The Company relies on the operators of the Company's subsidiaries to execute on their business plans, produce cannabis products, and otherwise operate the Company's subsidiaries. As a result, the Company's cash flows are dependent upon the operators to operate the Company's subsidiaries successfully. The operators of the Company's subsidiaries have significant influence over the results of operations. Further, the Company's interests and the interests of such operators may not always be aligned. As a result, the Company's cash flows are dependent upon the activities of the operators of the Company's subsidiaries, which creates the risk that at any time those third parties may:

- have business interests or targets that are inconsistent with ours;
- take action contrary to the Company's policies or objectives;
- be unable or unwilling to fulfill their obligations under their agreements with the Company; or
- experience financial, operational or other difficulties, including insolvency, which could limit or suspend a third party's ability to perform its obligations.

In addition, payments may flow through the subsidiaries, and there is a risk of delay and additional expense in receiving such revenues. Failure to receive payments in a timely fashion, or at all, under the agreements to which the Company is entitled may have a material adverse effect on the Company. In addition, the Company must rely, in part, on the accuracy and timeliness of the information it receives from the investee companies, and uses such information in its analyses, forecasts and assessments relating to its own business. If the information provided to the Company by a subsidiary contains material inaccuracies or omissions, the Company's ability to accurately forecast or achieve such subsidiary's stated objectives, or satisfy its reporting obligations, may be materially impaired.

(14) The Company may invest in securities of private companies, and may hold a minority interest in such companies, which may limit the Company's ability to sell or otherwise transfer those securities and direct management decisions of such companies.

The Company may invest in securities of private companies, and may hold a minority interest in such companies. In some cases, the Company may be restricted for a period by contract or applicable securities laws from selling or otherwise transferring those securities. In addition, any securities of private companies in which the Company invests may not have a ready market, and the inability to sell those securities on a timely basis or at acceptable prices may impair the Company's ability to exit the investments when the Company considers it appropriate. Further, because the Company holds a minority interest in certain companies, the Company may be limited in the Company's ability to direct management decisions of such companies.

Risk Factors (cont.)

(15) The market price of the Common Shares is volatile and may not accurately reflect the long-term value of the Company.

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies has experienced substantial volatility in the past. This volatility may affect the ability of holders of the Common Shares to sell their securities at an advantageous price. Market price fluctuations in the Common Shares may be due to the Company's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or the Company's competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the Common Shares. Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted, and the trading price of the Common Shares may be materially adversely affected.

(16) There is no assurance that an investment in the Common Shares will earn any positive return.

There is no assurance that an investment in the Common Shares will earn any positive return in the short term or long term. An investment in Common Shares involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. An investment in Common Shares is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

(17) The Company experienced negative cash flow from operating activities.

During the fiscal year ended December 31, 2018, the Company experienced negative cash flow from operating activities. Although the Company anticipates having positive cash flow from operating activities in future periods, the Company cannot assure that it will achieve sufficient revenues from sales of cannabis to achieve or maintain profitability or positive cash flow from operating activities. If the Company does not achieve or maintain profitability or positive cash flow from operating activities, it could have a material adverse effect on the Company's business, financial condition and results of operations.

(18) The Company's auditors have issued a going concern qualification with respect to the Company's financial statements.

The Company's interim and annual financial statements contain a going concern qualification. The Company and certain of its subsidiaries have limited operating history and a history of negative cash flow from operating activities. The Company's ability to continue as a going concern is dependent upon the Company's ability to raise additional capital, the Company's ability to achieve sustainable revenues and profitable operations and, in the meantime, the Company's ability to obtain the necessary capital to meet the Company's obligations and repay the Company's liabilities when they become due. No assurances can be given that the Company will be successful in achieving these goals. If the Company is unable to achieve these goals, the Company's ability to carry out and implement the Company's planned business objectives and strategies will be significantly delayed, limited or may not occur. 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. The Company's 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 capital from public and private markets in Canada and the United States; however, there are no guarantees that such capital will be available, or if available, will be on terms favorable to the Company.

(19) The Company is a holding company and the majority of the Company's assets are the capital stock of the Company's subsidiaries.

The Company is a holding company and the majority of the Company's assets is the capital stock of the Company's subsidiaries. As a result, investors are subject to the risks attributable to the Company's subsidiaries. As a holding company, the Company conducts substantially all of its business through its subsidiaries, which generate substantially all of the Company's revenues. Consequently, the Company's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of the Company's subsidiaries and the distribution of those earnings to the Company. The ability of the Company's subsidiaries to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations, which require that solvency and capital standards be maintained, as well as any contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of the Company's subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before the Company can receive any dividends or other distributions from its subsidiaries.

(20) The Company believes that it has, and will seek to maintain, adequate insurance coverage in respect of risks customarily insured by other companies in the Company's industry; however, insurance premiums for such insurance may not continue to be commercially justifiable and there may be coverage limitations and other exclusions that may not be sufficient to cover potential liabilities faced by the Company.

The Company believes it has, and will seek to maintain, adequate coverage in respect of risks customarily insured by other companies in the Company's industry, including insurance to protect the Company's assets, operations and employees. While the Company does not maintain crop insurance and the Company's ability to obtain insurance coverage may be limited because of the Company's industry, the Company believes the Company's insurance coverage addresses all material risks to which the Company is exposed and is adequate and customary in the Company's current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when the Company is not able to obtain liability insurance, it could have a material adverse effect on the Company's business, financial condition and results of operations.

(21) The Company's cannabis cultivation operations are subject to risks inherent in an agricultural business.

The Company's business involves the growing of cannabis, an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and other agricultural risks that may create crop failures and supply interruptions for the Company's customers. Although the majority of the Company's cultivators grow products indoors under climate controlled conditions and carefully monitor the growing conditions with trained personnel, there can be no assurance that such agricultural risks will not have a material adverse effect on the production of the Company's products.

(22) The Company's cannabis cultivation operations are vulnerable to rising energy costs and dependent upon key inputs.

The Company's cannabis cultivation operations consume considerable amounts of energy, making the Company vulnerable to rising energy costs. Rising or volatile energy costs could have a material adverse effect on the Company's business, financial condition and results of operations.

In addition, the Company's business is dependent on a number of key inputs and their related costs, including raw materials and supplies related to the Company's growing operations, as well as electricity, water and other utilities. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier were to go out of business, the Company might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to the Company or its subsidiaries in the

Risk Factors (cont.)

future. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs or the Company's inability to secure required supplies and services or to do so on appropriate terms could have a material adverse effect on the Company's business, financial condition and results of operations.

(23) The Company is dependent on the popularity of consumer acceptance of cannabis.

The Company believes the medical and adult-use cannabis industries are highly dependent upon consumer perception regarding the safety, efficacy and quality of its products. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There has been limited scientific research on cannabis, and there can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for medical and adult-use cannabis products and on the Company's business, financial condition and results of operations. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general or associating the consumption of cannabis with illness or other negative effects or events, could also have such a material adverse effect. Such adverse publicity reports or other media attention could hinder market growth and state legalization due to inconsistent public opinion and perception of the medical and adult-use cannabis industry.

While public opinion and support appears to be rising for legalizing the use of cannabis for medical and adult use, especially in the United States, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, decriminalizing cannabis as opposed to full legalization). If consumers do not accept the Company's cannabis, or if the Company fails to meet customers' needs and expectations adequately, the Company's ability to continue generating revenues could be reduced.

(24) The Company will likely need additional capital to sustain the Company's operations and will likely need to seek further financing, which the Company may not be able to obtain on acceptable terms, or at all. If the Company fails to raise additional capital, as needed, the Company's ability to implement its business model and strategy could be limited.

The Company has limited capital resources and operations. To date, the Company's operations have been funded primarily from the proceeds of debt and equity financings, and the Company may require additional equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. If additional capital is raised through further issuances of equity or debt securities, existing holders of Common Shares could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to such holders. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

The Company has historically raised capital from the public markets in Canada. If the Company is unable to continue to raise capital from the public markets in Canada in the future, due to changes in applicable law or any other unforeseeable reason, then the Company expects that it would be able to raise capital through private equity and/or debt financings. However, there is no assurance that the Company will be able to raise capital through private equity or debt financings, or from any other resources, in the future.

Further, commercial banks, private equity firms and venture capital firms have approached the industry cautiously to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and projects similar to ours. Although there has been an increase in the amount of private financings available over the last several years, there is neither a broad number of institutional investors nor a significant pool of institutional capital that is available to

cannabis license holders and license applicants. Further, because cannabis is illegal under U.S. federal law, the Company may have difficulty attracting investors or raising capital on favorable terms, or at all.

(25) The Company, and its subsidiaries, have limited operating history and therefore the Company is subject to many of the risks common to early-stage enterprises.

The Company and certain of its subsidiaries have a limited operating history, which may make evaluating the Company's business and future prospects difficult, and may increase the risk of an investment in the Company. The Company may face certain risks and difficulties as an early-stage company with limited operating history, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. The Company's ability to manage growth effectively will require the Company to manage the Company's subsidiaries effectively and continue to implement and improve the Company's operational and financial systems and to expand, train and manage the Company's employee base. There is no assurance that the Company will manage growth effectively. If the Company does not successfully address these risks, it could have a material adverse effect on the Company's business, financial condition and results of operations.

(26) The Company depends on key personnel to operate its business, and if the Company is unable to retain, attract and integrate qualified personnel, the Company's ability to develop and successfully grow the Company's business could be harmed.

The Company believes its success has depended, and will continue to depend, on the efforts and talents of the Company's executives and employees. The Company's future success depends on the Company's continuing ability to attract, develop, motivate and retain highly qualified and skilled employees, including employees with sufficient experience in the cannabis industry. Qualified individuals, including individuals with sufficient experience in the cannabis industry, are in high demand, and the Company may incur significant costs to attract and retain them. In addition, the loss of any of the Company's key employees or senior management could have a material adverse effect on the Company's ability to execute the Company's business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all. The Company's executive officers and other employees are at-will employees, which means they may terminate their employment relationship with the Company at any time, and their knowledge of the Company's business and industry would be extremely difficult to replace. The Company may not be able to retain the services of any members of the Company's senior management or other key employees. If the Company does not succeed in attracting well-qualified employees or retaining and motivating existing employees, it could have a material adverse effect on the Company's business, financial condition and results of operations.

(27) The cannabis industry is highly regulated and the Company may not always succeed in complying fully with applicable regulatory requirements in all jurisdictions where the Company carries on business.

The Company's cannabis-related business and activities, and those of the Company's subsidiaries, are heavily regulated in all jurisdictions where the Company carries on business. The Company's operations are subject to various laws, regulations and guidelines by governmental authorities, both in the United States and Canada, relating to, among other things, the manufacture, marketing, and sale of cannabis, as well as laws and regulations relating to health and safety, insurance coverage, the conduct of operations and the protection of the environment. Laws and regulations, applied generally, grant government agencies and self-regulatory bodies broad administrative discretion over the Company's activities, including the power to limit or restrict business activities as well as impose additional disclosure requirements on the Company's products.

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all necessary licenses, permits, authorizations, or accreditations for the Company's cultivation, production and dispensary business. The Company may not be able to obtain such approvals or may be able to do so only at a significant expense. The commercial cannabis industry is still a new industry in Canada and is an emerging industry in the United States. The effect of relevant governmental authorities' administration, application and enforcement of their respective regulatory regimes and delays in obtaining, or the Company's failure to obtain, the necessary licenses, permits, authorizations, or accreditations to conduct the Company's business may significantly delay or impact the development of markets, products and

Risk Factors (cont.)

sales initiatives and could have a material adverse effect on the Company's business, financial condition and results of operations.

While the Company endeavors to comply with all relevant laws, regulations and guidelines with respect to the Company's cannabis-related business and, to the Company's knowledge, the Company is in compliance or is in the process of being assessed for compliance with all such laws, regulations and guidelines, any failure to comply with the regulatory requirements applicable to the Company's operations may lead to possible sanctions. Possible sanctions may include, but are not limited to, the revocation or imposition of additional conditions on licenses to operate the Company's business, the suspension or expulsion from a particular market or jurisdiction or of the Company's key personnel, the imposition of additional or more stringent inspection, testing and reporting requirements, and the imposition of fines and censures. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increase compliance costs or give rise to material liabilities or a revocation of the Company's licenses and other permits, which could have a material adverse effect on the Company's business, financial condition and results of operations. Furthermore, governmental authorities may change their administration, application or enforcement procedures at any time, which may adversely affect the Company's ongoing costs relating to regulatory compliance.

Failure to comply with these laws and regulations could subject the Company to regulatory or agency proceedings, investigations or audits and could lead to damage awards, fines and penalties. The Company may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Company's reputation, require the Company to take, or refrain from taking, actions that could harm the Company's operations or require the Company to pay substantial amounts of money, harming the Company's financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on the Company's business, financial condition and results of operations.

(28) The Company may have difficulty accessing the service of banks, which may make it difficult for the Company to operate.

Since cannabis and certain cannabis-related activities are illegal under U.S. federal law and certain state laws, many banks and other financial institutions will not accept for deposit funds from cannabis-related businesses and will close deposit accounts upon discovery that the account contains such funds. Financial transactions involving proceeds generated by cannabis-related activities can form the basis for prosecution under the U.S. federal anti-money laundering statutes, unlicensed money transmitter statute and the Bank Secrecy Act. The Bank Secrecy Act, enforced by FinCEN, requires the Company's banks and financial institutions with which the Company does business to file currency transaction reports for currency transactions in excess of \$10,000, including identification of the customer by name and social security number, to the IRS. This regulation also requires those banks and financial institutions to file suspicious activity reports with respect to certain suspicious activity, including any transaction that exceeds \$5,000 that they know, suspect or have reason to believe involves funds from illegal activity (including funds from cannabis-related businesses) or is designed to evade U.S. federal regulations or reporting requirements and to verify sources of funds. Substantial penalties can be imposed against those banks and financial institutions if they fail to comply with the applicable laws and regulations. In recent years, anti-money laundering enforcement has included the assessment of money penalties that, in some cases, have been very substantial amounts, the acceptance of responsibility and admission regarding the facts by the company involved, actions focused on individual officers, including compliance officers, of the company involved, and seizure and forfeiture of company property and its proceeds. If those banks and financial institutions fail to comply with this regulation and other laws and regulations, FinCEN and other regulatory agencies may impose substantial penalties on those banks and financial institutions.

For the reasons noted above, despite the guidance set forth to banks under the FinCEN Memorandum, banks remain hesitant to offer banking services to cannabis-related businesses. Consequently, those businesses involved in the cannabis industry continue to encounter difficulty establishing and maintaining banking relationships. The Company's inability to maintain its current bank accounts would make it difficult for the Company to operate the Company's business, increase the Company's operating

costs, and pose additional operational, logistical and security challenges and could result in the Company's inability to implement the Company's business plan, which could have a material adverse effect on the Company's business, financial condition and results of operations.

(29) The Company competes for market share with illicit cannabis businesses and other persons engaging in illicit cannabis-related activities, and each such business or other person likely is not adhering to the same laws, regulations, rules and other restrictions that are applicable to the Company.

The Company faces, and expects to continue to face, competition from illicit cannabis businesses, which are unlicensed and unregulated, and other persons engaging in illicit cannabis-related activities. These illicit cannabis businesses and other persons are cultivating and/or selling cannabis while likely not adhering to the same laws, regulations, rules and other restrictions that are applicable to the Company. Further, these illicit cannabis businesses and other persons may be able to offer products with higher concentrations of active ingredients than the Company is authorized to produce and sell, and using delivery methods, including edibles, concentrates and extract vaporizers, that the Company is currently prohibited from offering in certain of the states in which the Company operates. The competition presented by these illicit cannabis businesses and other persons, and the inability or unwillingness of law enforcement authorities to enforce existing laws prohibiting the unlicensed or otherwise illegal cultivation and sale of cannabis could result in the perpetuation of the illegal market for cannabis and/or have a material adverse effect on the perception of cannabis use.

In addition, the Company must follow certain state regulations to set the retail prices of the Company's cannabis, which such regulations are not applicable to illicit cannabis businesses and other persons engaging in illicit cannabis related-activities. In determining the retail prices of the Company's cannabis, the Company must consider a number of factors, including the price of cannabis in the existing illicit market, in the event the Company's prices are too high, and the risk of the Company's customers reselling the Company's cannabis, in the event the Company's prices are too low. If the Company does not appropriately set the retail prices on the Company's cannabis, the Company may have difficulty attracting new customers, or maintaining its existing customers, from purchasing cannabis from these illicit cannabis businesses and other persons, which may have a material adverse effect on the Company's business.

(30) Servicing the Company's debt will require a significant amount of cash, and the Company may not have sufficient cash flow from the Company's business to pay the Company's substantial debt.

The Company's ability to make scheduled payments of the principal of, to pay interest on or to refinance the Company's current and future indebtedness depends on the Company's future performance, which is subject to economic, financial, competitive and other factors beyond the Company's control.

For year ended 2018, the Company had a long-term debt of \$48,819,836 and cash balance of \$15,294,656, representing a shortfall of cash to cover the long-term debt of \$33,525,180. There is no assurance that the Company's operations will generate cash flow to service the Company's debt sufficiently, which could have a material adverse effect on the Company's financial condition. If the Company is unable to generate such cash flow, the Company may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. The Company's ability to refinance the Company's current and future indebtedness will depend on the capital markets and the Company's financial condition at such time. The Company may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on the Company's debt obligations.

(31) Certain events or developments in the cannabis industry more generally may affect the Company's business.

Cannabis is illegal under U.S. federal law and there is limited scientific evidence to verify the medical or therapeutic benefits associated with cannabis, which such evidence remains mostly anecdotal. In addition, there is no clear scientific evidence to suggest whether cannabis consumption can result in long-term health effects or any adverse public health consequences. Further, the cannabis industry has commonly been associated with certain criminal activities, including organized crime. The actual or perceived occurrence of any number of events, including publication of any negative scientific research or the actions and/or wrongdoing of other businesses and individuals in the cannabis industry, may negatively affect the reputation of the industry as a whole, and may cause potential investors to no longer invest in the Company's securities or the cannabis industry in general.

Risk Factors (cont.)

The Company ultimately does not have control over how the cannabis industry, or the Company is perceived by others. Any reputational issues may result in decreased investor confidence, increased challenges in developing and maintaining community relations, and present an impediment to the Company's overall ability to advance the Company's business strategy and realize on the Company's growth prospects.

(32) Cannabis pricing and supply regulation may adversely affect the Company's business.

Certain states require cannabis dispensaries to submit cannabis pricing for licensing approval in order to ensure that the cost of cannabis in the regulated market is neither too high (which, among other things, may encourage the purchase of cannabis from illicit cannabis business) or too low (which, among other things, may increase the risk of legally purchased cannabis being resold illicitly). Additionally, certain states regulate the operations of cultivators to address oversupply of local markets. The Company's ability to adjust sale prices at the Company's dispensaries or production volumes at the Company's cultivation facilities may be affected by such pricing and supply regulation, which could have a material adverse impact on the Company's ability to adapt to local market conditions.

(33) High tax rates on cannabis and compliance costs may adversely affect the Company's business.

Certain states impose significant excise taxes on products sold at licensed cannabis dispensaries, which taxes in some states exceed 15.00%. Local jurisdictions typically impose additional taxes on cannabis products. In addition, the Company incurs significant costs complying with state and local laws and regulations. As a result, products sold at the Company's dispensaries will likely cost more than similar products sold by illicit cannabis businesses that are unlicensed and unregulated, and the Company may lose market share to such businesses.

(34) Litigation, complaints, enforcement actions and governmental inquiries could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's participation in the cannabis industry may lead to litigation, formal or informal complaints, enforcement actions and governmental inquiries. Litigation, complaints, enforcement actions and governmental inquiries could consume considerable amounts of the Company's financial and other resources, which could have a material adverse effect on the Company's sales, revenue, profitability, and growth prospects. The Company's subsidiaries are presently engaged in the lawful distribution of cultivation, processing and sale of cannabis under state law in the jurisdictions in which they operate, and the Company, and its subsidiaries, have not been, and are not currently, subject to any material litigation, complaint, or enforcement action regarding cannabis (or otherwise) brought by any governmental authority.

Litigation, complaints, enforcement actions and governmental inquiries could result from cannabis-related activities in violation of federal law, including, but not limited to, the Racketeer Influenced Corrupt Organizations Act ("RICO"). RICO is a U.S. federal statute providing criminal penalties in addition to a civil cause of action for acts performed as part of an ongoing criminal organization. Under RICO, it is unlawful for any person who has received income derived from a pattern of racketeering activity, to use or invest any of that income in the acquisition of any interest, or the establishment or operation of, any enterprise that is engaged in interstate commerce. RICO also authorizes private parties whose properties or businesses are harmed by such patterns of racketeering activity to initiate a civil action against the individuals involved. Recently, a number of RICO lawsuits have been brought by neighbors of state-licensed cannabis farms, who allege they are bothered by noise and odor associated with cannabis production, which has also led to decreased property values. By alleging that the smell of cannabis interferes with the enjoyment of their property and drives down their property value, plaintiffs in these cases have effectively elevated common law nuisance claims into federal RICO lawsuits. These lawsuits have named not only the cannabis operator, but also supply chain partners and vendors that do not directly handle or otherwise "touch" cannabis. To the Company's knowledge, none of these cases has been entirely dismissed at the pleadings stage, and the Company cannot be certain how the courts will rule on cannabis-related RICO lawsuits in the future.

In addition, litigation, complaints, enforcement actions and governmental inquiries could result from product liability claims if the Company's products are alleged to have caused loss or injury. See "— The Company may be subject to product liability claims and product recalls."

Further, from time to time in the normal course of the Company's business operations, the Company or any of its subsidiaries may become subject to litigation, complaints, enforcement actions and governmental inquiries that may result in liability material to the Company's financial statements as a whole or may negatively affect the Company's operating results if changes to the Company's business operations are required. The cost to defend such litigation, complaints, actions or inquiries may be significant and may require a diversion of the Company's resources. There also may be adverse publicity associated with such litigation, complaints, actions or inquiries that could negatively affect customer perception of the Company's business, regardless of whether the allegations are valid or whether the Company is ultimately found liable. Insurance may not be available at all or in sufficient amounts to cover any liabilities with respect to these or other matters. A judgment or other liability in excess of the Company's insurance coverage for any claims could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company currently has insurance coverage protecting many, but not all, of its assets and operations. The Company's insurance coverage is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, it may be exposed to material uninsured liabilities that could impede the Company's liquidity, profitability or solvency. See "—The Company will seek to maintain adequate insurance coverage in respect of risks customarily insured by other companies in the Company's industry; however, insurance premiums for such insurance may not continue to be commercially justifiable and there may be coverage limitations and other exclusions that may not be sufficient to cover potential liabilities faced by the Company."

The Company (directly or through its subsidiaries) has been named as a defendant in several legal actions and is subject to various risks and contingencies arising in the normal course of business. Management is of the opinion that the outcome of these uncertainties will not have a material adverse effect on the Company's financial position.

MPX received a demand letter from a corporate finance firm in March 2019, claiming the right to receive approximately \$1.7 million and 3.0 million options of MPX, with respect to alleged fees owed by MPX to the firm. In addition, there is a claim from a former consultant against MPX for which the Company has assessed to have a remote of likelihood. The events that allegedly gave rise to these claims all occurred prior to the Company's closing on the MPX transaction in February 2019. The Company is of the view that the claims, if successful, do not present material financial risks to the Company.

(35) The Company may be subject to product liability claims and product recalls.

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if the Company's products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination, which may affect consumer confidence in the Company's cannabis products. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with the Company's clients and consumers generally, and could have a material adverse effect on the Company's business, financial condition and results of operations.

While the Company maintains product liability insurance, there can be no assurances that the Company will be able to maintain this or other product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's products.

Risk Factors (cont.)

In addition, manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If one or more of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin, or at all. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits.

Additionally, if one or more of the Company's products were subject to recall, the reputation of that product and the Company's reputation could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the Company's business, financial condition and results of operations. Additionally, product recalls may lead to increased scrutiny of the Company's operations by the cannabis regulatory agencies in the jurisdictions in which the Company operates, requiring further management attention and potential legal fees and other expenses. Furthermore, any product recall affecting the cannabis industry more broadly could lead consumers to lose confidence in the safety and security of the products, which could have a material adverse effect on the Company's business, financial condition and results of operations.

(36) If the Company is not able to comply with all safety, security, health and environmental regulations applicable to its operations and industry, the Company may be held liable for any breaches thereof.

Safety, security, health and environmental laws and regulations affect nearly all aspects of the Company's operations, including product development, working conditions, waste disposal, emission controls, the maintenance of air and water quality standards and land reclamation, security protocols with respect to the Company's facilities and the transportation of cannabis, and, with respect to environmental laws and regulations, impose limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Continuing to meet good manufacturing practice standards, which the Company follows voluntarily, requires satisfying additional standards for the conduct of the Company's operations and subjects the Company to ongoing compliance inspections in respect of these standards. Compliance with safety, security, health and environmental laws and regulations can require significant expenditures, and failure to comply with such laws and regulations may result in the imposition of fines and penalties, the temporary or permanent suspension of operations, the imposition of clean-up costs resulting from contaminated properties, the imposition of damages and/or the loss of or refusal of governmental authorities to issue permits or licenses to the Company. Exposure to these liabilities may arise in connection with the Company's existing operations, the Company's historical operations and operations that the Company may undertake in the future. The Company could also be held liable for worker exposure to hazardous substances and for accidents causing injury or death. There can be no assurance that the Company will always comply with all safety, security, health and environmental laws and regulations notwithstanding the Company's attempts to comply with such laws and regulations.

Changes in applicable safety, security, health and environmental standards may impose stricter standards and enforcement, increased fines and penalties for non-compliance, and a heightened degree of responsibility for companies and their officers, directors and employees. The Company is not able to determine the specific impact that future changes in safety, security, health and environmental laws and regulations may have on the Company's industry, operations and/or activities and the Company's resulting financial position. However, the Company anticipates that capital expenditures and operating expenses will increase in the future as a result of the implementation of new and increasingly stringent safety, security, health and environmental laws and regulations. Further changes in such laws and regulations, new information on existing safety, security, health and environmental conditions or other events, including legal proceedings based upon such conditions or an inability to obtain necessary permits in relation thereto, may require increased compliance expenditures by the Company.

(37) Third parties with whom the Company does business may perceive themselves as being exposed to reputational risk because of their relationship with the Company due to the Company's cannabis-related business activities, and may, as a result, refuse to do business with the Company.

The third parties with whom the Company does business may perceive that they are exposed to reputational risk because of the Company's cannabis-related business activities. Failure to establish or maintain business relationships could have a material adverse effect on the Company's business, financial condition and results of operations. Any third-party service provider could suspend or withdraw its services to the Company if it perceives that the potential risks exceed the potential benefits to such services. While the Company has other banking relationships and believe that the services can be procured from other institutions, the Company may in the future have difficulty maintaining existing, or securing new, bank accounts or clearing services.

(38) The Company is subject to regulatory limits on advertising and marketing activities, which limitations may have a material adverse effect on the Company's business.

The development of the Company's business and operating results may be hindered by applicable restrictions on advertising and marketing activities imposed by government regulatory bodies. The regulatory environment in the United States limits the Company's ability to compete for market share. If the Company is unable to effectively market the Company's products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for the Company's products, the Company's sales and operating results could be adversely affected.

(39) The Company may become subject to liability arising from any fraudulent or illegal activity by the Company's employees, independent contractors and consultants.

The Company is exposed to the risk that the Company's employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates government regulations, manufacturing standards, healthcare fraud and abuse laws and regulations or laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by the Company's employees and other third parties. The precautions taken by the Company to detect and prevent such misconduct may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to comply with such laws or regulations. If any such actions are instituted against the Company, and the Company is not successful in defending the Company's self or asserting the Company's rights, those actions could have a significant impact on the Company's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

(40) Some of the Company's lines of business rely on the Company's third-party service providers to host and deliver services and data, and any interruptions or delays in these hosted services, security or privacy breaches, or failures in data collection could expose the Company to liability and harm the Company's business and reputation.

Some of the Company's lines of business and services rely on services hosted and controlled directly by third-party service providers. The Company does not have redundancy for all of its systems, many of the Company's critical applications reside in only one of the Company's data centers, and the Company's disaster recovery planning may not account for all eventualities. If the Company's business relationship with a third-party provider of hosting or software services is negatively affected, or if one of the Company's service providers were to terminate its agreement with the Company, the Company might not be able to deliver access to its data, which could subject the Company to reputational harm and cause the Company to lose customers and future business, thereby reducing the Company's revenue.

(41) The Company may experience breaches of security at the Company's facilities or in respect of electronic documents and data storage and may face risks related to breaches of applicable privacy laws.

Given of the nature of the Company's cannabis products and the limited legal channels for distribution, as well as the concentration of inventory in the Company's facilities, the Company is subject to the risk of theft of the Company's products and other security breaches.

Risk Factors (cont.)

A security breach at one of the Company's facilities could result in a significant loss of available products, expose the Company to additional liability under applicable regulations and to potentially costly litigation or increase expenses relating to the resolution and future prevention of similar thefts, any of which could have an adverse effect on the Company's business, financial condition and results of operations.

In addition, the Company may collect and store personal information about its customers and is responsible for protecting that information from privacy breaches. A security incident at the Company's facilities may compromise the confidentiality, integrity or availability of customer data. Unauthorized access to customer data stored on the Company's computers or networks may be obtained through break-ins, breaches of the Company's secure network by an unauthorized party, employee theft or misuse or other misconduct. Unauthorized access to customer data may be obtained through inadequate use of security controls by customers. Accounts created with weak passwords could allow cyber-attackers to gain access to customer data. If there were an inadvertent disclosure of customer information, or if a third party were to gain unauthorized access to the information the Company possesses on behalf of its customers, the Company's operations could be disrupted, the Company's reputation could be damaged and the Company could be subject to claims or other liabilities, including liability from federal and state governmental agencies. In addition, such perceived or actual unauthorized disclosure of the information the Company collects or breach of the Company's security could damage the Company's reputation, result in the loss of customers and have a material adverse effect on the Company's business, financial condition and results of operations.

The Company collects and manages a large amount of data using the Company's hosted solutions. As a result, it is possible that hardware or software failures or errors in the Company's systems (or those of the Company's third-party service providers) could result in data loss or corruption, cause the information that the Company collects to be incomplete or contain inaccuracies that the Company's customers regard as significant or cause the Company to fail to meet committed service levels. Furthermore, the Company's ability to collect and report data may be delayed or interrupted by a number of factors, including access to the Internet, the failure of the Company's network or software systems or security breaches. In addition, computer viruses or other malware (including ransomware) may harm the Company's systems, causing the Company to lose data or incur additional costs to retrieve corrupted or encrypted data, and the transmission of computer viruses or other malware could expose the Company to litigation. The Company may also find, on occasion, that the Company cannot deliver data and reports in near real time because of a number of factors, including failures of the Company's network or software. If the Company supplies inaccurate information or experience interruptions in the Company's ability to capture, store and supply information in near real time or at all, the Company's reputation could be harmed and the Company could lose customers, or the Company could be found liable for damages or incur other losses.

In addition, there are a number of laws protecting the confidentiality of certain of the Company's customer's health information, including health records, and restricting the use and disclosure of that protected information. In the United States, under the administrative simplification provisions of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), and the HIPAA Privacy and Security Rules, 45 C.F.R. Parts 160 and 164, as amended by Title XIII of Division A and Title IV of Division B of the American Recovery and Reinvestment Act ("ARRA") (Pub. L. 111-5) also known as the Health Information Technology for Economic and Clinical Health Act ("HITECH Act") and the HITECH Act Final Rule published January 25, 2013 ("HITECH Act Final Rule"), the U.S. Department of Health and Human Services has issued regulations which establish uniform standards governing the conduct of certain electronic health care transactions and protecting the privacy and security of Protected Health Information ("PHI") and electronic PHI ("ePHI") used or disclosed by health care providers and other covered entities. HIPAA Privacy and Security Rules establish a minimum standard for healthcare privacy and security in the United States and do not preempt state privacy, security, and confidentiality laws that are more stringent or that provide individuals with greater rights with respect to the privacy or security of, and access to, their records containing PHI or ePHI.

If the Company were found to be subject to and in violation of the HIPAA Privacy and Security Rules or other state laws protecting the confidentiality of the Company's customer's health information, the Company could be subject to sanctions, civil or criminal penalties, and a corrective action plan which could increase the Company's liabilities, harm the Company's reputation and have a material adverse effect on the Company's business, financial condition and results of operations. Other jurisdictions in

which the Company may expand its operations may also have similar privacy and security laws to which the Company is subject, depending on the nature of the Company's operations in such jurisdictions.

(42) The Company may be subject to risks related to the protection and enforcement of the Company's intellectual property rights, and third parties may enforce their intellectual property rights against the Company.

The ownership and protection of the Company's intellectual property rights is a significant aspect of the Company's future success. Currently, the Company relies on trade secrets, trademarks, service marks, copyrights, technical know-how and other proprietary information (collectively, "Intellectual Property") to maintain the Company's competitive position. The Company tries to protect its Intellectual Property by seeking and obtaining registered protection where possible, developing and implementing standard operating procedures to protect Intellectual Property and entering into agreements with parties that have access to the Company's Intellectual Property, such as the Company's partners, collaborators, employees and consultants, to protect confidentiality and ownership. The Company also seeks to preserve the integrity and confidentiality of its Intellectual Property by maintaining physical security of the Company's premises and physical and electronic security of the Company's information technology systems.

It is possible that the Company will fail to identify Intellectual Property, fail to protect or enforce its Intellectual Property, inadvertently disclose such Intellectual Property or fail to obtain patents or register rights in relation to such Intellectual Property.

In relation to the Company's agreements with parties that have access to the Company's Intellectual Property, any of these parties may breach those agreements and the Company may not have adequate remedies for any specific breach. In relation to the Company's security measures, such security measures may be breached, and the Company may not have adequate remedies for any such breach. In addition, the Company's Intellectual Property which has not yet been applied for or registered, may otherwise become known to, or be independently developed by, competitors, or may already be the subject of applications for intellectual property registrations filed by the Company's competitors, which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company cannot provide any assurances that the Company's Intellectual Property will not be disclosed in violation of agreements or that competitors will not otherwise gain access to the Company's Intellectual Property or independently develop and file applications for intellectual property rights that adversely affect the Company's intellectual property rights. Unauthorized parties may attempt to copy, reverse engineer or otherwise obtain and use the Company's Intellectual Property. Identifying and policing the unauthorized use of the Company's current or future intellectual property rights could be difficult, expensive, time-consuming and unpredictable, as may be enforcing these rights against unauthorized use by others. The Company may be unable to effectively monitor and evaluate the products being distributed by the Company's competitors, including unlicensed dispensaries, and the processes used to produce such products. Additionally, if the steps taken to identify and protect the Company's intellectual property rights are deemed inadequate, the Company may have insufficient recourse against third parties for enforcement of the Company's intellectual property rights.

Furthermore, the laws and positions of intellectual property offices administering such laws and regulations regarding intellectual property rights with respect to cannabis, and services and products relating to cannabis, are constantly evolving and there is uncertainty regarding whether the laws or regulations of other countries prohibit the filing, prosecution and issuance of applications for intellectual property registrations with respect to cannabis, or services or products relating to cannabis, and whether the laws or regulations of other countries prohibit the enforcement of rights under intellectual property registrations with respect to cannabis, or services or products relating to cannabis.

For example, the Company's ability to obtain registered trademark protection with respect to cannabis, and services and products related to cannabis, may be limited in certain countries, such as the United States, where registered trademark protections are currently unavailable with the U.S. Patent and Trademark Office for trademarks covering cannabis or cannabis-based products in light of the CSA. Accordingly, the Company's ability to obtain intellectual property rights or enforce intellectual property rights against third-party uses of similar trademarks may be limited in certain countries.

Moreover, in any infringement proceeding, some or all of the Company's intellectual property rights, or arrangements or agreements seeking to protect the same for the Company's benefit, may be found invalid, unenforceable or anti-competitive. An adverse result in any litigation or defense proceedings

Risk Factors (cont.)

could put one or more of the Company's intellectual property rights at risk of being invalidated or interpreted narrowly and could put existing intellectual property applications at risk of not being issued. Any or all of these events could have a material adverse effect on the Company's business, financial condition and results of operations.

To the extent that the Company files any patent applications, the Company cannot offer any assurances about which, if any, patent applications will issue, the breadth of any such patent or whether any issued patents will be found invalid or unenforceable or which of the Company's products or processes will be found to infringe upon the patents or other proprietary rights of third parties. Any successful opposition to future issued patents could deprive the Company of rights necessary for the successful commercialization of any new products or processes that the Company may develop.

Further, there is no guarantee that any patent or other intellectual property applications that the Company files will result in registration or any enforceable intellectual property rights. Further, there is no assurance that the Company will find all potentially relevant prior art relating to any patent applications that the Company files, which may prevent a patent from issuing from a patent application or invalidate any patent that issues from such application. Even if patents do successfully issue, and cover the Company's products and processes, third parties may challenge their validity, enforceability, or scope, which may result in such patents being narrowed, found unenforceable, invalidated or not infringed. Furthermore, even if they are unchallenged, any patent applications and future patents may not adequately protect the Company's intellectual property, provide exclusivity for the Company's products or processes, or prevent others from designing around any issued patent claims. Any of these outcomes could impair the Company's ability to prevent competition from third parties, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Additionally, other parties may claim that the Company's products or services infringe on their proprietary and patent protected rights or other intellectual property rights. There may be third-party patents or patent applications with claims to products or processes related to the manufacture, use or sale of or products. There may be currently pending patent applications, some of which may still be confidential, that may later result in issued patents upon which the Company's products or processes may infringe. In addition, third parties may obtain patents in the future and claim that use of the Company's inventions, trade secrets, technical know-how and proprietary information, or the manufacture, use or sale of the Company's products infringes upon those patents. Third parties may also claim that the Company's use of the Company's trademarks infringes upon their trademark rights. Parties making claims against the Company may obtain injunctive or other equitable relief, which may have an adverse impact on the Company's business. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders and/or require the payment of damages. In addition, the Company may need to obtain licenses from third parties who allege that the Company has infringed on their lawful rights. However, such licenses may not be available on terms acceptable to the Company or at all. In addition, the Company may not be able to obtain or utilize on terms that are favorable to the Company, or at all, licenses or other rights with respect to intellectual property that the Company does not own.

(43) Conflicts of interest may arise between the Company and the Company's directors and officers.

The Company may be subject to various potential conflicts of interest because of the fact that some of the Company's directors and officers may be engaged in a range of business activities. In addition, the Company's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's directors and executive officers may have fiduciary obligations associated with those business interests that interfere with their ability to devote time to the Company's business and affairs and that could have a material adverse effect on the Company's business, financial condition and results of operations. These business interests could require significant time and attention of the Company's directors and executive officers.

In addition, the Company may also become involved in other transactions, which conflict with the interests of the Company's directors and officers who may from time to time deal with persons, firms, institutions or corporations with which the Company may be dealing or may be seeking investments similar to those desired by the Company. The interests of these persons could conflict with the

Company's interests, and these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the Company's directors are required to act honestly, in good faith and in the Company's best interests.

(44) As a foreign private issuer, the Company is subject to different U.S. securities laws and rules than a U.S. domestic issuer, particularly certain disclosure requirements, which could limit the information publicly available to the Company's shareholders.

So long as the Company qualifies as a foreign private issuer (as defined under Rule 3b-4(b) of the Exchange Act of 1934, as amended), the Company will not be required to comply with all of the periodic disclosure and current reporting requirements of the Exchange Act, that apply to U.S. domestic issuers and, as such, there may be less publicly available information about the Company than if the Company were a U.S. domestic issuer. Furthermore, the Company's officers, directors and principal shareholders are currently exempt from the insider reporting and short-swing profit recovery requirements in Section 16 of the Exchange Act. Accordingly, the Company's shareholders may not know on as timely a basis when the Company's officers, directors and principal shareholders purchase or sell their Common Shares, as the reporting deadlines under the corresponding Canadian insider reporting requirements are longer. As a foreign private issuer, the Company is also exempt from the requirements of Regulation FD (Fair Disclosure) under the Exchange Act, which, generally, are meant to ensure that select groups of investors are not privy to specific information about an issuer before other investors. As a result of such varied reporting obligations, shareholders should not expect to receive the same information at the same time as information provided by U.S. domestic issuers. The Company must determine its status as a foreign private issuer on an annual basis, as of the end of the Company's second fiscal quarter.

In addition, as a foreign private issuer, the Company has the option to follow certain Canadian corporate governance practices rather than those of the United States, except to the extent that such laws would be contrary to U.S. securities laws, provided that the Company discloses the requirements the Company is not following and describe the Canadian practices the Company follows instead. As a result, the Company's shareholders may not have the same protections afforded to shareholders of companies that are subject to all domestic U.S. corporate governance requirements.

(45) The Company may lose the Company's foreign private issuer status in the future, which could result in significant additional costs and expenses to the Company.

If the Company loses foreign private issuer status, the Company will be required to comply with the Exchange Act reporting and other requirements applicable to U.S. domestic issuers, which are more detailed and extensive than the disclosure requirements afforded foreign private issuers. Under current SEC rules, the Company will also be required to prepare the Company's financial statements in accordance with U.S. generally accepted accounting principles and modify certain of the Company's corporate governance practices in accordance rules. The regulatory and compliance costs required to comply with the reporting requirements applicable to a U.S. domestic issuer may be higher than the cost the Company would incur as a foreign private issuer. As a result, the Company expects that a loss of foreign private issuer status would increase the Company's legal and financial compliance costs.

The Company is required to determine the Company's status as a foreign private issuer on an annual basis, as of the end of the Company's second fiscal quarter, and there can be no assurance the Company will qualify as a foreign private issuer in future years.

(46) There is a limited market for the Common Shares.

The Company's Common Shares are listed for trading on the CSE and are quoted over-the-counter in the United States on the OTCQX. The over-the-counter markets provide less liquidity than U.S. national securities exchanges, such as the New York Stock Exchange or NASDAQ. Accordingly, a market for the Common Shares may become highly illiquid and holders of Common Shares may be unable to sell or otherwise dispose of their Common Shares at desirable prices or at all.

Risk Factors (cont.)

(47) The requirements of being a public company may strain the Company's resources, result in more litigation, and divert the attention of the Company's management.

As a public company, the Company will be subject to the reporting requirements of applicable securities rules and regulations of Canadian securities regulators and other requirements in Canada. Complying with these rules and regulations will increase the Company's legal and financial compliance costs, make some activities more difficult, time-consuming and costly, and increase demand on the Company's systems and resources. For example, in anticipation of becoming a public company, the Company will need to adopt additional internal controls and disclosure controls and procedures, retain a transfer agent, adopt an insider trading policy and bear all of the internal and external costs of preparing and distributing periodic public reports in compliance with the Company's obligations under the securities laws.

By disclosing information in this document and in filings required of a public company, the Company's business and financial condition is more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If those claims are successful, it could have a material adverse effect on the Company's business, financial condition and results of operations. Even if the claims do not result in litigation or are resolved in the Company's favour, the time and resources needed to resolve them could divert the Company's management's resources and still have a material adverse effect on the Company's business, financial condition and results of operations.

(48) The Company does not expect to declare or pay dividends in the foreseeable future.

The Company does not expect to declare or pay dividends on the Common Shares in the foreseeable future, as the Company anticipates that it will invest future earnings in the development and growth of the Company's business.

Should the Company declare and pay dividends on the Common Shares in the future, there may be significant tax implications to holders of the Common Shares who are recipients of such dividends. For example, as discussed above, the Company is a Canadian corporation, and are classified as a U.S. domestic corporation for U.S. federal income tax purposes under the Section 7874(b) "inversion" rules of the U.S. Tax Code. As such, dividends received by shareholders who are residents of Canada for purposes of the Canadian Tax Act will generally be subject to U.S. withholding tax. In addition, any such dividends may not qualify for a reduced rate of withholding tax under the U.S.-Canada Treaty, and Canadian foreign tax credits may not be available under the Canadian Tax Act in respect of such taxes. Further, any dividends received by shareholders resident in the United States will not be subject to U.S. withholding tax but will be subject to Canadian withholding tax under the Canadian Tax Act. In the event that the Company pays any dividends, such dividends will be characterized as U.S. source income for purposes of the foreign tax credit rules under the U.S. Tax Code. Accordingly, shareholders resident in the United States generally will not be able to claim a credit for any Canadian tax withheld unless, depending on the circumstances, such shareholders have an excess foreign tax credit limitation.

(49) The Company's failure to maintain effective internal controls over financial reporting could have an adverse effect on the Company.

The Company is required to establish and maintain appropriate internal controls over financial reporting. Failure to establish those controls, or any failure of those controls once established, could adversely affect the Company's public disclosures regarding the Company's business, financial condition or results of operations. In addition, management's assessment of internal controls over financial reporting may identify weaknesses and conditions that need to be addressed in the Company's internal controls over financial reporting or other matters that may raise concerns for investors. Any actual or perceived weaknesses and conditions that need to be addressed in the Company's internal control over financial reporting, disclosure of management's assessment of the Company's internal controls over financial reporting or disclosure of the Company's public accounting firm's attestation to or report on management's assessment of the Company's internal controls over financial reporting may have an adverse impact on the price of the Common Shares.

(50) Future issuances of Common Shares or securities convertible into, or exercisable or exchangeable for, Common Shares ("Securities"), or the expiration of escrow arrangements or lock-up agreements that restrict the issuance of new Common Shares or the trading of outstanding Common Shares, could cause the market price of the Common Shares to decline and would result in the dilution of current holders of Common Shares.

Future issuances of Common Shares or Securities, or the expiration of escrow arrangements or lock-up agreements that restrict the issuance of new Common Shares or the trading of outstanding Common Shares, could cause the market price of Common Shares to decline. The Company cannot predict the effect, if any, of future issuances of Common Shares or Securities, or the future expirations of lock-up agreements, on the price of Common Shares. In all events, future issuances of Common Shares or Securities would result in the dilution of current holders of Common Shares. In addition, the perception that new issuances of Common Shares or Securities could occur, or the perception that locked-up parties will sell their Common Shares when the lock-ups expire, could adversely affect the market price of Common Shares.

(51) Future issuances of debt securities, which would rank senior to Common Shares upon the Company's bankruptcy or liquidation, may adversely affect the level of return holders of Common Shares may be able to achieve from an investment in Common Shares.

In the future, the Company may attempt to increase its capital resources by offering debt securities. Upon bankruptcy or liquidation, holders of the Company's debt securities, and lenders with respect to other borrowings the Company may make, would receive distributions of the Company's available assets prior to any distributions being made to holders of Common Shares. As the Company's decision to issue debt securities or borrow money from lenders will depend in part on market conditions and other factors beyond the Company's control, the Company cannot predict or estimate the amount, timing or nature of any such future offerings or borrowings. Holders of Common Shares must bear the risk that any future offerings the Company conducts or borrowings the Company makes may adversely affect the level of return, if any, achievable from an investment in Common Shares.

(52) The Company may be subject to penny stock regulations and restrictions, which may make it difficult to sell the Common Shares.

The SEC has adopted regulations which generally define so-called "penny stocks" to be an equity security that has a market price less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exemptions. On March 29, 2019, the last reported closing price of the Common Shares on the OTCQX was \$5.57 per Common Share. Since January 1, 2018, the reported last sale price of the Common Shares on the OTCQX fell below \$5.00 on 117 trading days. If the reported sale price of the Common Shares on the OTCQX falls below \$5.00 in the future, the Common Shares may become a "penny stock" and, accordingly, the Company would become subject to Rule 15c-9 under the Exchange Act (the "Penny Stock Rule").

The Penny Stock Rule imposes additional sales practice requirements on broker-dealers that sell penny stocks to persons other than established customers. For transactions covered by the Penny Stock Rule, Financial Industry Regulatory Authority, Inc. ("FINRA"), has adopted rules that requires a broker-dealer to make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. As a result, this rule may affect the ability of broker-dealers to sell the Common Shares and may affect the ability of holders of the Company's Common Stock to sell the Company's Common Stock in the secondary market. For any transaction involving a penny stock, unless exempt, the Penny Stock Rule requires delivery, prior to any transaction in a penny stock, of a disclosure schedule prepared by the SEC relating to the penny stock market. Disclosure is also required to be made about sales commissions payable to both the broker-dealer and the registered representative and current quotations for the penny stock. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market for penny stocks.

The Company does not anticipate that the Common Shares would qualify for exemption from the Penny Stock Rule. In any event, even if the Common Shares were exempt from the Penny Stock Rule, the Company would remain subject to Section 15(b)(6) of the Exchange Act, which gives the SEC the authority to restrict any person from participating in a distribution of penny stock if the SEC finds that such a restriction would be in the public interest.



FINANCIAL STATEMENTS





INDEPENDENT AUDITORS' REPORT

To the Shareholders of
iAnthus Capital Holdings, Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of iAnthus Capital Holdings, Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

Material Uncertainty Related to Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 2, the Company has incurred significant losses and needs to raise additional funds to meet its obligations and sustain its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. Our opinion is not modified in respect of this matter.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Anson J. Augustine.

Marcum LLP

Marcum LLP

New York, NY
April 12, 2019

Consolidated Statement of Financial Position

	Note	Dec 31, 2018	Dec 31, 2017
ASSETS			
Current Assets:			
Cash		\$ 15,294,656	\$ 6,175,287
Restricted cash	12	5,272,222	-
Receivables and prepaid assets		3,846,993	384,862
Notes receivable	5	-	11,066,605
Inventory	6	11,560,276	126,106
Biological assets	7	4,744,132	129,708
Other current assets		1,282,338	434,901
		\$ 42,000,617	\$ 18,317,469
Non-current Assets:			
Investments and non-current notes receivable	8	351,498	3,099,969
Investment in associate	9	2,280,995	2,189,815
Property, plant and equipment	10	29,578,050	10,285,599
Intangible assets	11	56,493,262	4,439,535
Goodwill	11	37,454,069	7,182,675
Other assets		233,776	306,409
TOTAL ASSETS		\$ 168,392,267	\$ 45,821,471
LIABILITIES AND EQUITY			
Current Liabilities:			
Payables and accrued liabilities		\$ 6,465,997	\$ 2,356,405
Interest payable		43,333	421,862
Current portion of long-term debt	12	-	1,031,262
Derivative liabilities	15	1,255,099	592,959
Financial liabilities	4	-	4,411,481
Other liabilities		552,363	378,531
		\$ 8,316,792	\$ 9,192,500
Non-current Liabilities:			
Long-term debt	12	31,230,742	13,567,430
Deferred tax liabilities	18	17,589,094	1,236,306
Total Liabilities		\$ 57,136,628	\$ 23,996,236
Shareholders' Equity:			
Share capital	13	158,365,177	32,681,399
Shares to be issued	4	2,129,847	113,226
Reserves	13	33,190,671	9,652,181
Accumulated deficit		(82,507,130)	(20,479,383)
Accumulated other comprehensive income (loss)		77,074	(142,188)
Total Shareholders' Equity		\$ 111,255,639	\$ 21,825,235
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 168,392,267	\$ 45,821,471

On behalf of the Board of Directors



Hadley Ford
CEO and Director



Julius Kalcevich
CFO and Director

See accompanying notes to the consolidated financial statements

Consolidated Statement of Loss and Comprehensive Loss

	Note	2018	2017
Sales revenues		\$ 3,405,289	\$ -
Cost of sales		(2,240,481)	-
Gross profit before fair value adjustments		1,164,808	-
Realized fair value adjustment on biological assets	7	1,957,460	-
Unrealized fair value adjustment on biological assets	7	6,469,896	-
Gross profit		9,592,164	-
Operating expenses:			
Depreciation and amortization	10,11	6,349,065	144,187
Administrative and other expenses		6,942,324	1,125,702
Wages and salaries		10,723,870	2,300,515
Share-based compensation	14	7,521,693	2,898,949
Legal and professional fees		5,635,734	2,203,400
Consulting fees		4,700,717	1,284,107
Impairment loss	11	-	3,355,017
Total operating expenses		41,873,403	13,311,877
Other items:			
Other income		1,080,426	2,407,229
Interest expense	12	(4,794,155)	(1,135,892)
Accretion expense	12	(16,140,052)	(1,352,791)
Change in fair value on financial instruments	12, 15	(8,628,788)	325,556
Profits (losses) from investment in associate	9	134,020	(196,153)
Foreign exchange loss		(819,129)	(269,660)
Other losses		(578,830)	(183,077)
Total other items		(29,746,508)	(404,788)
Net loss		\$ (62,027,747)	\$ (13,716,665)
Other comprehensive gains			
Foreign exchange gain (loss) on translation		219,262	(214,249)
Comprehensive loss		\$ (61,808,485)	\$ (13,930,914)
Loss per share - basic and diluted		\$ (0.97)	\$ (0.48)
Weighted average number of common shares outstanding - basic and diluted		63,858,945	28,607,628

See accompanying notes to the consolidated financial statements

Consolidated Statement of Changes in Equity

	Note	Number of Shares (Common)	Number of Shares (Class A)	Share Capital	Shares to be Issued	Option Reserves	Warrant Reserves	Convertible Debt 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
Acquisition of FWR	4	-	-	-	113,226	-	-	-	-	-	113,226
Financing in October 2017 (public)	13	7,072,500	-	9,409,336	-	-	-	-	-	-	9,409,336
Financing in October 2017 (private)	13	2,677,491	-	3,581,932	-	-	-	-	-	-	3,581,932
Financing in February 2017	12	-	-	-	-	-	-	1,880,093	-	-	1,880,093
Financing fees	12	-	-	-	-	-	-	(102,230)	-	-	(102,230)
Issuance of shares to settle February 2017 Debentures	12	287,095	-	786,797	-	-	-	(79,115)	-	-	707,682
Issuance of shares as settlement for interest payable	12	9,845	-	20,165	-	-	-	-	-	-	20,165
Share issuance cost	13	-	-	(1,414,508)	-	-	478,127	-	-	-	(936,381)
Share-based compensation	13	-	-	-	-	2,898,949	-	-	-	-	2,898,949
Warrants issued for bridge loan	12	-	-	-	-	-	153,404	-	-	-	153,404
Exercise of warrants	13	314,155	-	803,143	-	-	(279,980)	-	-	-	523,163
Other comprehensive loss		-	-	-	-	-	-	-	(214,249)	-	(214,249)
Net loss		-	-	-	-	-	-	-	-	(13,716,665)	(13,716,665)
Balance – December 31, 2017		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
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
Acquisition of Florida Entities	4	12,103,172	-	38,393,337	-	-	-	-	-	-	38,393,337
Acquisition of Citiva	4	3,041,689	1,977,563	18,206,592	2,129,847	-	-	-	-	-	20,336,439
Acquisition of Mayflower and Pilgrim	4	1,655,734	-	4,000,254	-	-	-	-	-	-	4,000,254
Acquisition of FWR and Pakalolo	4	56,819	-	113,226	(113,226)	-	-	-	-	-	-
Financing in May 2018	12	-	3,891,051	13,408,412	-	-	1,270,669	1,671,198	-	-	16,350,279
Financing in October 2018	13	5,188,800	-	26,557,978	-	-	-	-	-	-	26,557,978
Issuance of shares to settle February 2017 Debentures	12	6,173,938	-	16,320,410	-	-	-	(1,698,748)	-	-	14,621,662
Issuance of shares to settle Convertible Promissory Notes	12	773,579	-	4,208,810	-	-	-	-	-	-	4,208,810
Issuance of shares as settlement for interest payable	12	40,440	-	90,977	-	-	-	-	-	-	90,977
Issuance of shares to settle outstanding obligations	13	65,900	-	349,270	-	-	-	-	-	-	349,270
Share issuance costs		-	-	(1,863,579)	-	-	-	-	-	-	(1,863,579)
Conversion of Class A to Common Shares	13	1,682,910	(1,682,910)	-	-	-	-	-	-	-	-
Reclassification from functional currency changes	13	-	-	-	-	-	16,781,989	-	-	-	16,781,989
Share-based compensation	14	-	-	-	-	7,531,157	-	-	-	-	7,531,157
Exercise of stock options	14	140,046	-	331,127	-	(205,025)	-	-	-	-	126,102
Exercise of warrants	14	1,461,879	-	5,566,964	-	-	(1,812,750)	-	-	-	3,754,214
Other comprehensive loss		-	-	-	-	-	-	-	219,262	-	219,262
Net loss		-	-	-	-	-	-	-	-	(62,027,747)	(62,027,747)
Balance – December 31, 2018		58,722,261	15,440,704	\$ 158,365,177	\$ 2,129,847	\$ 11,427,434	\$ 20,092,039	\$ 1,671,198	\$ 77,074	\$ (82,507,130)	\$ 11,255,639

See accompanying notes to the consolidated financial statements

Consolidated Statement of Cash Flows

	2018	2017
Operating activities		
Net loss for the period	\$ (62,027,747)	\$ (13,716,665)
Adjustments for non-cash items:		
Fair value adjustment on biological assets	(8,427,356)	-
Interest revenue	(566,873)	(1,978,727)
Other revenue	-	(150,576)
Depreciation and amortization	6,349,065	144,187
Share-based compensation	7,521,693	2,898,949
Impairment loss	-	3,355,017
Interest expense	4,794,155	1,135,892
Accretion expense	16,140,052	1,352,791
Change in fair value on instruments	8,628,788	(297,033)
(Profit) losses from investment in associate	(134,020)	196,153
Foreign exchange loss	819,129	269,660
Non-cash loss on settlement of debt	-	165,444
Dispositions of fixed assets	361,296	-
Shares issued to consultants	349,270	-
Changes in non-cash working capital items (Note 20)	(2,818,436)	131,719
Net cash used in operating activities	\$ (29,010,984)	\$ (6,493,189)
Investing activities		
Additions to fixed assets	(13,904,550)	(708,390)
Acquisitions of subsidiaries	(18,227,666)	(45,000)
Cash from acquisitions	19,642	477,650
Investments in notes and loans receivable	(231,094)	(23,443,774)
Proceeds from notes receivable	7,500,000	-
Interest received	1,248,302	669,701
Net cash used in investing activities	\$ (23,595,366)	\$ (23,049,813)
Financing activities		
Issuance of debt	36,971,701	18,096,000
Debt issuance costs	-	(820,845)
Repayment of debt	(20,000,000)	(1,652,880)
Issuance of share capital	43,883,258	12,140,116
Share issuance costs	(1,863,579)	(936,381)
Issuance of warrants	12,259,520	-
Exercise of warrants	2,656,283	-
Exercise of stock options	148,427	-
Interest paid	(4,992,861)	(756,441)
Net cash generated from financing activities	\$ 69,062,749	\$ 26,069,569
Net increase (decrease) in cash	16,456,400	(3,473,433)
Cash, beginning of the period	6,175,287	9,413,953
Effect of movements in exchange rates on cash held	(2,064,809)	234,767
Cash and restricted cash, end of the period	\$ 20,566,878	\$ 6,175,287

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 OTCQX, part of the OTC Markets Group, under the ticker “ITHUF”.

2 Basis of Preparation

Statement of Compliance

These 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, effective for the Company’s reporting for the years ended December 31, 2018 and December 31, 2017.

These consolidated financial statements were approved by the Board of Directors on April 12, 2019.

Going Concern

These 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 capital sufficient to maintain operations and there are no assurances that the Company will be successful in achieving this goal. For the year ended December 31, 2018, the Company reports a net loss of \$62,027,747 operating cash outflows of \$29,010,984 and an accumulated deficit amounting to \$82,507,130 at December 31, 2018. 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 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 capital from public and private markets in Canada and the United States but there are no guarantees that such capital would be available in the future. After the reporting period, significant financing events occurred. Refer to Note 21.

The Company’s business activities, and the business activities of its subsidiaries, which operate in jurisdictions where the use of marijuana has been legalized under state and local laws, currently are illegal under U.S. federal law. The U.S. Controlled Substances Act classifies marijuana as a Schedule I controlled substance. Any proceeding that may be brought against the Company could have a material adverse effect on the Company’s business plans, financial condition and results of operations.

Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis except for the following: certain financial instruments including derivatives, which are measured at fair value, and biological assets, which are measured at fair value less costs to sell.

Functional and Presentation Currency

These consolidated financial statements are presented in U.S. dollars. On May 14, 2018, as a result of a significant financing transaction, the primary source of financing changed from the Canadian dollar to the U.S. dollar, with the Company expecting to continue the majority of its fundraising in the U.S. dollar going forward. Therefore, the functional currency of the standalone ICH entity was changed to the U.S. dollar as of May 14, 2018. The functional currency of all the Company’s subsidiaries remains unchanged and is stated in the U.S. dollar.

2 Basis of Preparation (cont.)

Basis of Consolidation

These 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 as at December 31, 2018:

Subsidiary	Jurisdiction	Interest
iAnthus Capital Management, LLC ("ICM")	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%
Pakalolo, LLC ("Pakalolo")	Vermont, USA	100%
Pilgrim Rock Management, LLC ("Pilgrim")	Massachusetts, USA	100%
Mayflower Medicinals, Inc. ("Mayflower")	Massachusetts, USA	100%
iAnthus Holdings Florida, LLC ("IHF")	Florida, USA	100%
GrowHealthy Properties, LLC ("GHP")	Florida, USA	100%
GHHIA Management, Inc. ("GHHIA")	Florida, USA	100%
McCrary's Sunny Hill Nursery, LLC ("McCrary'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 of the Company's controlling interest in these subsidiaries

During the first quarter of 2018, the Company dissolved iAnthus Formation Corp. and iAnthus Transfer Corp.

Accounting Estimates and Judgements by Management

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgements, 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. Refer to Note 22 for significant accounting policies, estimates, and judgements.

3 Segment Information

The Company divides its reportable operating segments by state. At December 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 chief operating decision maker 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.

								December 31, 2018
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statement of financial position								
Total assets	\$ 24,370,734	\$ 3,994,077	\$ 76,229,816	\$ 36,895,607	\$ 2,092,643	\$ 2,280,995	\$ 22,528,395	\$ 168,392,266
Total liabilities	(2,211,990)	(543,837)	(12,303,163)	(7,046,612)	(248,957)	-	(34,782,069)	(57,136,628)
Net assets	\$ 22,158,744	\$ 3,450,240	\$ 63,926,653	\$ 29,848,995	\$ 1,843,686	\$ 2,280,995	\$ (12,253,674)	\$ 111,255,638
Other information								
Property, plant and equipment	\$ 7,776,132	\$ 263,694	\$ 14,662,661	\$ 4,728,226	\$ 1,907,939	\$ -	\$ 239,398	\$ 29,578,050
Other non-current assets	9,668,220	1,833,810	51,539,631	30,803,468	-	2,280,995	687,476	96,813,600
Total non-current assets	\$ 17,444,352	\$ 2,097,504	\$ 66,202,292	\$ 35,531,694	\$ 1,907,939	\$ 2,280,995	\$ 926,874	\$ 126,391,650

								December 31, 2018
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statements of operations								
Revenue	\$ 2,033,295	\$ 767,638	\$ 603,849	\$ 507	\$ -	\$ -	\$ -	\$ 3,405,289
Gross profit	4,193,814	1,750,735	3,647,458	157	-	-	-	9,592,164
Other income	-	-	-	-	830,055	-	250,371	1,080,426
Operating expenses	(6,040,121)	(1,147,154)	(7,913,842)	(2,522,105)	(152,707)	-	(24,097,474)	(41,873,403)
Other items	(397,346)	(32,977)	-	(4,026)	-	134,020	(30,526,605)	(30,826,934)
Net profit (loss)	\$ (2,243,653)	\$ 570,604	\$ (4,266,384)	\$ (2,525,974)	\$ 677,348	\$ 134,020	\$ (54,373,708)	\$ (62,027,747)

								December 31, 2017
	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	\$ 12,372,963	\$ 1,431,598	\$ -	\$ -	\$ 9,446,508	\$ 2,189,815	\$ (3,615,649)	\$ 21,825,235
Other information								
Property, plant and equipment	\$ 8,062,001	\$ 117,259	\$ -	\$ -	\$ 1,951,206	\$ -	\$ 155,133	\$ 10,285,599
Other non-current assets	10,028,773	1,753,362	-	-	2,206,205	2,189,815	1,040,248	17,218,403
Total non-current assets	\$ 18,090,774	\$ 1,870,621	\$ -	\$ -	\$ 4,157,411	\$ 2,189,815	\$ 1,195,381	\$ 27,504,002

								December 31, 2017
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statements of operations								
Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	-	-	-	-	1,513,491	-	893,738	2,407,229
Operating expenses	-	-	-	-	(419,884)	-	(12,891,993)	(13,311,877)
Other items	-	-	-	-	(17,633)	(196,153)	(2,598,231)	(2,812,017)
Net profit (loss)	\$ -	\$ -	\$ -	\$ -	\$ 1,075,974	\$ (196,153)	\$ (14,596,486)	\$ (13,716,665)

3 Segment Information (cont.)

As at December 31, 2018 and 2017, substantially all of the Company's assets were located in the United States and substantially all of the Company's revenue was earned in the United States.

For the year ended December 31, 2018, the Company reported sales to two customers representing \$745,000 and \$473,000 (December 31, 2017 - \$Nil) of total sales. No other sales were made to any one customer that represented in excess of 10.0% of total sales.

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 and McCrory's (collectively "GrowHealthy"). McCrory's holds a medical marijuana license in the state of Florida. 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 exchange for \$3,000,000 which was paid to the Company and reinvested at closing.

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

The following table summarizes the purchase price allocation:

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
Intangibles		38,810,000
Goodwill		15,222,483
		69,541,552
Deferred tax liability		(10,910,435)
Accounts payable and accrued liabilities		(356,009)
Fair value of net assets acquired	\$	58,275,108

The \$5,000,000 of receivables pertains to a cash collateral Low-THC Performance Bond posted by the Company with the State of Florida. The bond has a one-year term and is renewable annually. On May 9, 2018 the Company received \$5,000,000 from the State of Florida in relation to this bond.

The following table summarizes the total fair value of consideration:

Settlement of pre-existing investment in GrowHealthy	\$	3,000,000
Cash paid		14,458,437
Shares issued - Common shares (12,103,172 shares)		38,393,337
Debt assumed		110,000
Settlement of pre-existing relationship with GHHIA		2,313,334
Fair value of consideration	\$	58,275,108

At the date of acquisition, management allocated the initial purchase price based on the estimated fair value of the identifiable assets and liabilities assumed on the acquisition date. The pre-existing relationships settled were the Company's preferred shares in GrowHealthy, the Company's promissory note and related accrued interest with GrowHealthy.

4 Acquisitions and Business Combinations (cont.)

Acquisition of Florida Entities (cont.)

Subsequently, the Company finalized the purchase price allocation and has adjusted the provisional values retrospectively to reflect changes to the assets and liabilities at the acquisition date. For 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 following table summarizes the final adjustments made to the provisional purchase price allocation:

		Provisional allocation at acquisition	Adjustments	Final
Net identifiable assets acquired	\$	15,153,060	-	15,153,060
Intangibles		-	38,810,000	38,810,000
Goodwill		43,122,048	(38,810,000)	4,312,048
	\$	58,275,108	-	58,275,108

Goodwill has been recognized as a result of the specialized assembled workforce at GrowHealthy, their expertise in cultivation, and the existing number of registered patients. The goodwill acquired is not deductible for tax purposes.

Revenues of \$603,849 and net losses of \$4,266,384 from the acquired operations are included in the consolidated statement of loss and comprehensive loss from the date of acquisition. Had the acquisition of GrowHealthy occurred on January 1, 2018, there would not have been a significant impact on the consolidated operating revenues and net earnings for the year ended December 31, 2018. Acquisition costs of \$180,813 were incurred and recognized in legal and professional fees in the consolidated statement of loss and comprehensive loss.

Acquisition of Citiva

On February 1, 2018, the Company completed its acquisition of Citiva, which holds a medical marijuana "Registered Organization" license 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 purchase price allocation upon consolidation on December 31, 2017:

Cash	\$	19,642
Other assets		57,694
Leaseholds and equipment		166,124
Intangibles		16,780,000
Goodwill		15,048,911
		32,072,371
Deferred Tax Liability		(6,198,851)
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 (3,041,689 shares)		11,028,914
Shares issued - Class A shares (1,977,563 shares)		7,177,678
Shares to be issued - Common shares (583,756 shares)		2,129,847
Assumed debt		230,000
Settlement of pre-existing relationship		589,191
Fair value of consideration	\$	24,755,630

4 Acquisitions and Business Combinations (cont.)

Acquisition of Citiva (cont.)

At the date of acquisition, management allocated the initial purchase price based on the estimated fair value of the identifiable assets and liabilities assumed on the acquisition date. The pre-existing relationships settled were the Company's promissory note and related accrued interest with Citiva.

Subsequently, the Company finalized the purchase price allocation and has adjusted the values retrospectively to reflect changes to the assets and liabilities at the acquisition date. For 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 following table summarizes the final adjustments made to the provisional purchase price allocation:

		Provisional allocation at acquisition	Adjustments	Final
Net identifiable assets acquired	\$	(874,430)	-	(874,430)
Intangibles		-	16,780,000	16,780,000
Goodwill		25,630,060	(16,780,000)	8,850,060
	\$	24,755,630	-	24,755,630

Goodwill has been recognized as a result of the specialized workforce at Citiva, including a management team that has existing relationships with a number of registered physicians in New York State. The goodwill acquired is not deductible for tax purposes.

Revenues of \$507 and net losses of \$2,525,974, from the acquired operations are included in the consolidated statement of loss and comprehensive loss from the date of acquisition. Had the acquisition of Citiva occurred on January 1, 2018, there would not have been a significant impact on the consolidated operating revenues and net losses for the year ended December 31, 2018.

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

Acquisitions of Mayflower and Pilgrim

On December 31, 2017, the Company acquired an 80.0% 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 upon acquisition 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. On July 31, 2018, Mayflower was converted under Massachusetts law from a not-for-profit into a for-profit corporation, and on the same date became 100.0% owned by the Company.

The acquisition was completed through a series of transactions including the following: acquiring 80.0% of the ownership interest in Pilgrim, contributing the Company's promissory note 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 and executing service agreements between Pilgrim and Mayflower.

On April 17, 2018, the Company acquired the remaining 20.0% ownership interest in Pilgrim, resulting in the Company's 100.0% ownership of Pilgrim. The Company acquired the remaining units of Pilgrim from VSH PR, Inc ("VSH") in exchange for 1,655,734 common shares of the Company. This transaction extinguished the Company's financial liability relating to its obligation to purchase the remaining interest in Pilgrim and the Company recognized a fair value adjustment of \$411,227 which is included in the change in fair value line in the consolidated statement of loss and comprehensive loss.

4 Acquisitions and Business Combinations (cont.)

Acquisitions of Mayflower and Pilgrim (cont.)

The following table summarizes the purchase price allocation:

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 - other		292,535
Goodwill		6,681,513
		18,704,777
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

At the date of acquisition on December 31, 2017, management allocated the initial purchase price based on the estimated fair value of the identifiable assets and liabilities assumed on the acquisition date. The pre-existing relationships settled were the Company's promissory note and related accrued interest with Mayflower, and the Company's loan with Pilgrim. Subsequently, the Company finalized the purchase price allocation and had no changes to the preliminary allocation at the acquisition date.

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.

4 Acquisitions and Business Combinations (cont.)

Acquisitions of FWR and Pakalolo

Effective December 31, 2017, the Company acquired a 100.0% controlling interest in Pakalolo, the sole member of FWR. FWR is a Vermont not-for-profit corporation, with a director related through a familial relationship to an officer and director of the Company, which holds a medical cannabis license issued by the state of Vermont. 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 of ICM and acts 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 purchase price allocation:

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 - other		27,000
Goodwill		501,162
		2,174,982
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 issued - Common shares (56,819 shares)		113,226
Settlement of pre-existing relationship with FWR		1,270,075
Debt assumed		258,931
Fair value of consideration	\$	1,686,232

At the date of acquisition, management allocated the initial purchase price based on the estimated fair value of the identifiable assets and liabilities assumed on the acquisition date. The pre-existing relationships settled were the Company's promissory note and related accrued interest with FWR including a related party balance outstanding with FWR. Subsequently, the Company finalized the purchase price allocation and had no changes to the preliminary allocation at the acquisition date.

Goodwill has been recognized as a result of the specialized assembled workforce at FWR, its 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.

5 Notes Receivable

	Note Due from The Green Solution, LLC	Note Due from Citiva	Note Due from GrowHealthy	Current Portion of Note due from FWR	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
Interest receivable	540,175	2,484	-	-	542,659
Repayments	(8,748,302)	-	-	-	(8,748,302)
Settlement of pre-existing relationship	-	(589,191)	(2,271,771)	-	(2,860,962)
As at December 31, 2018	\$ -	\$ -	\$ -	\$ -	\$ -

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 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, near the date of maturity, the note was restructured. The amended terms specified that the principal payments and accrued interest at the payment dates were 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 was 23.0% for the remainder of the loan term. Three separate payments of the principal plus accrued interest have been received by the Company on February 13, 2018, April 19, 2018, and June 13, 2018 for the amounts indicated. As such, the full principal amount and accrued interest have been repaid.

At December 31, 2018, the loan receivable balance was \$Nil (December 31, 2017 - \$8,208,127). During 2018, interest earned was \$540,175 (2017 - \$1,244,333).

Note Due from Citiva Medical, LLC

On August 18, 2017, the Company issued a \$500,000 promissory note to Citiva. The note was provided in connection with the Letter of Intent to acquire Citiva, which holds one of the ten vertically integrated medical marijuana licenses in New York State. The promissory note has a term of one year, subject to acceleration in certain events, and held interest at 5.0% and up to 20.0%, subject to certain events. On December 1, 2017, the facility limit was increased and drawn to \$577,000.

On February 1, 2018, iAnthus acquired a 100% interest in Citiva. Refer to Note 4 for more details on the transaction. This transaction settled the outstanding arrangement with Citiva, resulting in a \$Nil balance as at December 31, 2018 (December 31, 2017 - \$586,707). During 2018, the Company earned interest income of \$2,484 (2017 - \$9,707).

Note Due from GrowHealthy Holdings, LLC

On September 14, 2017, the Company issued a \$2,000,000 promissory note to GrowHealthy. As part of the agreement, iAnthus was granted exclusive rights to negotiate a further strategic relationship with GrowHealthy. The note had a term of twelve months and a blended interest rate of 12.5% over the term, initiating at a 5.0% annual rate until January 31, 2018 and escalating to 20.0% for the remainder of the term. During 2017, there was an additional drawdown on the promissory note of \$250,000. On January 16, 2018, the facility limit was increased to \$2,500,000. The Company acquired 100% of GrowHealthy on January 17, 2018 (Note 4) and settled the outstanding arrangement. As such, the balance was \$Nil as at December 31, 2018 (December 31, 2017 - \$2,271,771).

6 Inventory

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

	December 31, 2018	December 31, 2017
Raw Materials		
Harvested cannabis	\$ 4,057,113	\$ 1,265
Harvested trim	239,940	7,221
Supplies	999,395	15,224
Total raw materials	\$ 5,296,448	\$ 23,710
Work in Process		
Work in process - transferred in	\$ 3,225,123	\$ -
Work in process - processing	179,790	-
Total work in process	\$ 3,404,913	\$ -
Finished Goods		
Consumables	\$ 239,109	\$ 66,603
Packaged cannabis	1,113,428	28,322
Extracts	1,389,190	7,471
Other inventory items	117,188	-
Total finished goods	\$ 2,858,915	\$ 102,396
Total Inventory	\$ 11,560,276	\$ 126,106

For the year ended December 31, 2018, the Company recognized \$4,197,941 (December 31, 2017 - \$Nil) of inventory expensed to cost of goods sold including \$1,957,460 (December 31, 2017 - Nil) non-cash expense relating to the changes in fair value of inventory sold.

7 Biological Assets

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

As at December 31, 2016	\$ -
Assets obtained in acquisition of FWR	129,708
As at December 31, 2017	\$ 129,708
Fair value adjustment on biological assets	8,427,356
Assets obtained in acquisition of GrowHealthy	709,464
Transferred to inventory upon harvest	(4,522,396)
As at December 31, 2018	\$ 4,744,132

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected wholesale selling price per gram.

The following unobservable inputs, all of which are classified as level 3 on the fair value hierarchy (refer to Note 15), were used by management as part of the biological asset models:

- Yield per plant – represents the expected number of grams of dry cannabis expected to be harvested from each plant
- Selling price – determined using a combination of third-party weekly cannabis spot price reports in addition to wholesale contract prices where applicable which, combined, are expected to approximate future selling prices
- Stage of growth – represents the number of days remaining in cultivation prior to harvest

7 Biological Assets (cont.)

The following table quantifies the significant unobservable inputs, and also provides the impact of a 5.0% increase or decrease to each input on the fair value of biological assets.

Unobservable Inputs	Weighted average as of Dec 31, 2018	Sensitivity	Effect on fair value as of Dec 31, 2018
Yield per plant	176 g	+/- 5.0%	\$149,981
Selling price	\$5.97	+/- 5.0%	\$190,559

These estimates are subject to volatility and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods. All of the plants are to be harvested as agricultural produce (i.e. medical cannabis) and as at December 31, 2018, on average, were 40.4% complete (December 31, 2017 - 64.0%).

The Company estimates the harvest yields for the plants at various stages of growth. As of December 31, 2018, management estimates that the Company's biological assets will yield approximately 1,206,952 grams of dried flower (December 31, 2017 - 34,886 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.

The Company's estimates are subject to change and differences from the anticipated yield are reflected in the gain or loss on biological assets in future periods. Refer to Note 22 for further details on the accounting policy for biological assets.

8 Investments in Subsidiaries and Non-Current Notes Receivable

	GrowHealthy	Mayflower	FWR	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	-	-	-	231,094	-	231,094
Interest receivable	-	-	-	20,435	-	20,435
Settlement of pre-existing relationship	(3,000,000)	-	-	-	-	(3,000,000)
As at December 31, 2018	\$ -	\$ -	\$ -	\$ 251,529	\$ 99,969	\$ 351,498

GrowHealthy

On October 12, 2017, the Company purchased 2,925,003 Class B preferred shares of GrowHealthy for a total purchase price of \$3,000,000. The purchase represented approximately 6.1% of the issued and outstanding equity shares of GrowHealthy. On January 17, 2018, the Company completed a transaction to acquire a controlling interest in the GrowHealthy group of entities (Note 4), resulting in the settlement of the outstanding balance.

Mayflower

During 2016, the Company entered into an agreement with Mayflower, to issue a secured promissory note to fund Mayflower's license application fees to the State of Massachusetts and related expenses. The amount due from Mayflower was \$2,131,432 as of December 31, 2016. The Company entered into a series of transactions effective December 31, 2017, which resulted in the acquisition of Pilgrim, the management company to Mayflower (Note 4), resulting in the settlement of the outstanding balance.

8 Investments in Subsidiaries and Non-Current Notes Receivable (cont.)

FWR

During 2015, the Company entered into an agreement with FWR to issue a promissory note and provide management services to FWR. The amount due from FWR was \$450,353 at December 31, 2016. The Company entered into a series of transactions effective December 31, 2017, which resulted in the acquisition of Pakalolo, the sole member of FWR (Note 4), resulting in the settlement of the outstanding balance.

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, and Citiva (Note 4) and as at December 31, 2018, Citiva Jamaica had drawn down an amount of \$231,094. The note has a maturity date of February 1, 2021 and yields interest at 12.0% on or before February 1, 2019 and at 20.0% beginning February 2, 2019.

For the year ended December 31, 2018, the Company earned interest income of \$20,435.

9 Investment in Associate

During 2016, the Company provided funding in the 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. This resulted in a 24.6% interest in RGA in the form of 229,774 Class A-1 Units of 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 a part of this investment, the Company is to be reimbursed \$30,000 from RGA related to certain legal fees and expenses incurred (see Note 17). At December 31, 2018, the reimbursement due from the RGA loan conversion was \$30,000 (December 31, 2017 - \$30,000).

The Company's share of profit from RGA was \$134,020 based on the net income of RGA during the period of \$544,712 (December 31, 2017 - net loss of \$737,630). The Company's investment in RGA at December 31, 2018, was \$2,280,995 (December 31, 2017 - \$2,189,815).

	2018	2017
Balance, beginning of year	\$ 2,189,815	\$ 2,407,388
Profits (losses) from investment in associate	134,020	(196,153)
Dividend receivable	(42,840)	(21,420)
Balance, end of year	\$ 2,280,995	\$ 2,189,815

Presented below is the summarized financial position for RGA as at December 31, 2018 and 2017.

Summarized statement of financial position

	December 31, 2018	December 31, 2017
Current assets		
Cash	\$ 165,372	\$ 46,006
Other current assets	16,139	640,434
Total current assets	181,511	686,440
Non-current assets	3,518,808	2,953,082
Current Liabilities		
Current Liabilities	20,181	5,730
Other current liabilities	208,322	303,548
Total current liabilities	228,503	309,278
Net assets	\$ 3,471,816	\$ 3,330,244

9 Investment in Associate (cont.)

Summarized statement of comprehensive income (loss)

	For the year ended December 31, 2018	For the year ended December 31, 2017
Revenues		
Consulting income	\$ 2,483,964	\$ 2,297,726
Rental income	706,838	528,000
Interest income	314,854	235,196
Total revenues	3,505,656	3,060,922
Total expenses	2,960,943	3,798,552
Net comprehensive income (loss)	\$ 544,713	(737,630)

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	\$ 995,854	\$ 456,927	\$ 55,729	\$ 371,343	\$ 750,000	\$ 19,525	\$ 10,848,620
Transfers	158,213	4,873	(203,427)	—	59,866	—	(19,525)	—
Additions	5,648,217	277,384	331,834	370,820	572,116	532,574	5,815,627	13,548,572
Additions from acquisition	6,260,080	453,976	315,010	41,875	18,105	1,293,607	163,334	8,545,987
Disposals	—	(26,313)	(314,488)	(5,074)	(15,421)	—	—	(361,296)
As at December 31, 2018	\$ 20,265,752	\$ 1,705,774	\$ 585,856	\$ 463,350	\$ 1,006,009	\$ 2,576,181	\$ 5,978,961	\$ 32,581,883

Accumulated depreciation								
As at December 31, 2017	\$ 345,211	\$ 117,156	\$ 26,684	\$ 55,729	\$ 18,240	\$ —	\$ —	\$ 563,020
Depreciation	1,846,717	310,123	112,697	33,382	153,830	—	—	2,456,749
Disposals	14,674	—	(30,562)	—	(48)	—	—	(15,936)
As at December 31, 2018	\$ 2,206,602	\$ 427,279	\$ 108,819	\$ 89,111	\$ 172,022	\$ —	\$ —	\$ 3,003,833

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 December 31, 2018	\$ 18,059,150	\$ 1,278,495	\$ 477,037	\$ 374,239	\$ 833,987	\$ 2,576,181	\$ 5,978,961	\$ 29,578,050

Cost								
As at December 31, 2016	\$ 1,035,297	\$ 113,244	\$ 30,472	\$ 34,416	\$ 5,449	\$ 750,000	\$ —	\$ 1,968,878
Additions	569,698	21,879	—	23,920	110,526	—	—	726,023
Additions from acquisition	6,594,247	878,698	430,243	—	256,547	—	19,525	8,179,260
Disposals	—	(17,968)	(3,788)	(2,607)	(1,178)	—	—	(25,541)
As at December 31, 2017	\$ 8,199,242	\$ 995,853	\$ 456,927	\$ 55,729	\$ 371,344	\$ 750,000	\$ 19,525	\$ 10,848,620

Accumulated depreciation								
As at December 31, 2016	\$ 3,290	\$ 2,948	\$ 563	\$ 839	\$ 107	\$ —	\$ —	\$ 7,747
Depreciation	67,756	43,843	7,900	12,552	12,136	—	—	144,187
Disposals	—	(5,565)	(960)	(897)	(485)	—	—	(7,907)
Impairment losses	274,165	75,931	19,181	43,235	6,482	—	—	418,994
As at December 31, 2017	\$ 345,211	\$ 117,157	\$ 26,684	\$ 55,729	\$ 18,240	\$ —	\$ —	\$ 563,021

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 December 31, 2017	\$ 7,854,031	\$ 878,696	\$ 430,243	\$ —	\$ 353,104	\$ 750,000	\$ 19,525	\$ 10,285,599

11 Intangible Assets and Goodwill

Intangible Assets

Cost	Licenses		Other		Total
As at December 31, 2016	\$	—	\$	—	\$ —
Additions from acquisition (Note 4)		4,120,000		319,535	4,439,535
As at December 31, 2017		4,120,000		319,535	4,439,535
Additions		—		356,043	356,043
Additions from acquisitions (Note 4)		55,590,000		—	55,590,000
As at December 31, 2018	\$	59,710,000	\$	675,578	\$ 60,385,578
Accumulated amortization					
As at December 31, 2016	\$	—	\$	—	\$ —
Amortization		—		—	—
As at December 31, 2017		—		—	—
Amortization		3,792,963		99,353	3,892,316
As at December 31, 2018	\$	3,792,963	\$	99,353	\$ 3,892,316
Net carrying amount					
As at December 31, 2016	\$	—	\$	—	\$ —
As at December 31, 2017		4,120,000		319,535	4,439,535
As at December 31, 2018	\$	55,917,037	\$	576,225	\$ 56,493,262

	Carrying Amount at December 31, 2018	Remaining Life at December 31, 2018
Licenses in Florida	\$ 36,317,148	14
Licenses in New York	15,754,556	14
Other Licenses	3,845,333	Various
Balance, end of period	\$ 55,917,037	

Goodwill	December 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, LLC	—	(2,553,485)
Goodwill acquired in acquisition of GrowHealthy	15,222,483	—
Goodwill acquired in acquisition of Citiva	15,048,911	—
Balance, end of period	\$ 37,454,069	\$ 7,182,675

As described in Note 22, annual impairment testing involves determining the recoverable amount of the cash generating unit ("CGU") to which goodwill is allocated and comparing this to the carrying value of the CGU. The impairment is first allocated to reduce the carrying amount of goodwill, with the remaining losses then allocated to other assets in accordance with IAS 36 Impairment of Assets. The net carrying value for goodwill was \$37,454,069 as at December 31, 2018 (December 31, 2017 - \$7,182,675).

Using the value-in-use method, management estimated that the recoverable amount of goodwill was higher than the carrying amount for the year ended December 31, 2018, and therefore, no impairment losses were recognized (December 31, 2017 - \$2,553,485).

As at December 31, 2017, the leaseholds and equipment related to the Colorado CGU had impairment of \$418,994 and asset impairment related to the Bellflower purchase price allocation of \$382,538.

The key assumptions used in the calculation of the recoverable amount include management's projections of future cash flows for a five-year period and after projections end, a growth rate of 2.0-3.0%, a discount rate of 20.0-38.0% with variability within the range based on the risk associated with the CGU.

12 Long-Term Debt

	Convertible Promissory Notes	Debentures	High Yield Notes	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	29,231,221	-	36,971,701
Accretion of balance	243,738	13,896,793	1,999,521	-	16,140,052
Repayment	-	(20,978,082)	-	-	(20,978,082)
Conversion to equity	(1,275,000)	(14,621,662)	-	-	(15,896,662)
Foreign exchange impact	-	395,041	-	-	395,041
As at December 31, 2018	\$ -	\$ -	\$ 31,230,742	\$ -	31,230,742

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 8.0% 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 80.0% of the original principal amount of the Notes have been converted by the payee. For the periods ending December 31, 2018 and December 31, 2017, the Company was in compliance with this covenant.

During the first quarter of 2017, the Company issued 13,071 common shares in satisfaction of \$21,567 of accrued interest on the convertible promissory notes. During the first quarter of 2018, the Company issued 183,360 common shares for equity conversions relating to the convertible promissory notes with a value of \$300,000. On August 15, 2018, the remaining principal of \$975,000 and accrued interest of \$44,016 were fully repaid through the issuance of 590,910 and 26,678 common shares, respectively. The fair value of the shares issued on the remaining principal on settlement was \$2,933,810.

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. The Company used a volatility of 87.5%, dividend yield of 0.0% and risk-free rate of 2.1% where the fair value of the Notes on that date was calculated to be \$1,960,949 (December 31, 2017 - \$592,959). For the year ended December 31, 2018, the Company recognized a decrease in fair value of \$226,896 arising from the full conversion of the Notes on August 15, 2018.

The residual value from the instrument was assigned to the debt host liability which is valued on an amortized cost basis. At December 31, 2018, the debt host liability amounted to \$Nil (December 31, 2017 - \$1,031,262). During 2018, interest expense of \$58,667 (December 31, 2017 - \$101,999) and accretion expense of \$243,738 (December 31, 2017 - \$295,938) was accrued.

February 2017 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 February 2017 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.

12 Long-Term Debt (cont.)

February 2017 Debentures (cont.)

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 \$13,215,907 at issuance) and the residual of CAD\$2,490,850 (equivalent \$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 (equivalent \$820,845) were allocated proportionately with CAD\$952,060 (equivalent \$718,615) as a debit against the liability component and CAD\$135,440 (equivalent \$102,230) as a debit against the equity component.

On July 16, 2018, the Company elected to exercise its right to convert all of the principal amount outstanding of the debentures and unpaid accrued interest up to July 13, 2018, into common shares of the Company when the conversion was completed on August 15, 2018.

During year ended December 31, 2018, the Company issued 6,173,938 common shares for the conversion of CAD\$19,141,900 (equivalent \$14,621,662). For the year ending December 31, 2017, the Company issued 287,095 common shares for the conversion of CAD\$890,000 (equivalent \$786,797) of the February 2017 Debentures.

During the year, interest expense of \$402,362 (December 31, 2017 - \$1,007,662) and accretion expense of \$1,597,268 (December 31, 2017 - \$1,042,084) was recognized. As at December 31, 2018, the debt host liability amounts to \$Nil (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 15.0%, 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).

At issuance, the warrants were classified as a derivative liability. 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. As of May 14, 2018, on the date of the change in the Company's functional currency, the classification of the warrants changed to equity and revaluations will no longer be completed for this instrument.

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 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.

On May 14, 2018, the Company revalued the reclassification of the warrant derivatives to equity using the modified assumptions used in the Black-Scholes model at issuance, with inputs as volatility of 1.0%, dividend yield of 0.0% and risk-free rate of 0.0%. The fair value of the warrants was estimated to be \$17,531,280 (December 31, 2017 - \$Nil).

On May 16, 2018, the Company repaid the full principal amount and accrued interest of \$20,987,872 for the January 2018 Debentures. The Company recognized \$9,807,616 in accretion expense on settlement of the repayment.

High Yield Notes

On May 14, 2018, the Company issued \$40,000,000 high yield secured notes (the "HY Notes") to Gotham Green Partners. The HY Notes accrue interest at 13.0%, have a three-year maturity, and are convertible into shares of the Company at \$3.08 per share. The HY Notes were issued with warrants to purchase, in aggregate, up to 6,670,372 shares of the Company at \$3.60 per share. Concurrently with the issuance of the HY Notes, \$10,000,000 comprised of 3,891,051 Units of the Company (the "Units") were issued where each Unit is comprised of one Class A Share of the Company at \$2.57 per share and a warrant to purchase one share of the Company at a price of \$3.86 per share. The HY Notes are secured by certain fixed assets of the Company.

12 Long-Term Debt (cont.)

High Yield Notes (cont.)

At issuance, the Class A Shares were recorded at their fair value at \$13,408,412, net of issuance costs. Using a market rate of interest of 24.4%, the fair value of the underlying host liability in the HY Notes was estimated to be \$29,231,221, net of issuance costs. The residual consideration was allocated proportionately based on the fair values of the warrants on equity, warrants on debt and conversion feature, resulting in recording \$460,119, \$810,550 and \$1,671,198, net of issuance costs, respectively. These fair values were estimated using the Black-Scholes model, with inputs as volatility of 88.3%, dividend yield of 0.0% and risk-free rate of 2.0%. Issuance costs of \$4,418,500 were allocated to each of the components proportionately.

During the year, interest expense of \$3,336,667 (December 31, 2017 - \$Nil) and accretion expense of \$1,999,521 (December 31, 2017 - \$Nil) was accrued.

As of December 31, 2018, the Company held \$5,272,222 (December 31, 2017 - \$Nil) restricted cash in escrow as part of the HY Notes. This balance was released to the Company on March 5, 2019.

The terms of the HY Notes and corresponding Units contain several financial and non-financial covenants. For the year ended December 31, 2018, the Company is in compliance with all covenants.

Bridge Loan

On October 11, 2017, the Company issued promissory notes with a total principal amount of \$3,000,000. The notes had a 1-year maturity and accrued interest at the rate of 8.0%. Accrued interest of \$26,231 and the principal were repaid in full on November 21, 2017. Cash of \$1,652,880 was repaid and the remaining \$1,373,778 was applied to the Company's private placement completed in November 2017 in exchange for 1,033,000 Common Shares at CAD\$1.70 per common share.

In conjunction with the issuance of the notes, the Company issued 267,000 warrants exercisable at CAD\$2.65 and 133,500 warrants exercisable at CAD\$2.03 on November 14, 2017. Each warrant entitles the holder to acquire one Common Share of the Company at the aforementioned exercise price for a period of 2 years.

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.

The following is a summary of the common share issuances for the year ended December 31, 2018:

- 6,173,938 common shares of the Company were issued as a result of conversions of the February 2017 Debentures;
- 814,019 common shares of the Company were issued in order to satisfy the accrued interest and conversion of the Convertible Promissory Notes;
- 1,461,879 common shares of the Company were issued as a result of warrant exercises during the period for cash proceeds of \$2,469,019 (CAD \$2,656,486 equivalent);
- 140,046 common shares of the Company were issued as a result of stock option exercises during the period for cash proceeds of \$148,427 (CAD \$179,050 equivalent);
- 1,682,910 common shares of the Company were issued as a result of Class A share conversions during the period;
- 65,900 common shares of the Company were issued in order to settle an outstanding obligation of \$349,270;
- 5,188,800 common shares of the Company were issued in relation to the October 2018 equity financing; and
- 16,857,414 common shares of the Company were issued in relation to acquisition activity during the year ended December 31, 2018.

13 Share Capital (cont.)

The following is a summary of the Class A share issuances for the year ended December 31, 2018:

- 1,977,563 Class A shares were issued in relation to acquisition activity; and
- 3,891,051 Class A shares in relation to the HY Notes.

The following is a summary of the common share issuances for the year ended December 31, 2017:

- 7,072,500 common shares of the Company were issued as a result of the November 21, 2017 public offering
- 2,182,491 common shares of the Company were issued on November 21, 2017, and 495,000 common shares of the Company were issued on November 27, 2017 for an aggregate 2,677,491 common shares as a result a non-brokered the private placement.

Financing in October 2018

On October 10, 2018, the Company closed its equity offering of 5,188,800 common shares of the Company at CAD\$6.65 per common share for aggregate gross proceeds of CAD\$34,505,520 (equivalent \$26,557,978). The net proceeds were CAD\$32,114,554 (equivalent \$24,718,573) after deducting issuance costs of CAD\$2,390,966 (equivalent \$1,840,327).

Financing in October 2017

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 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 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 fair value of the warrants issued are included in the Consolidated Statement of Changes in Equity. The fair value of the warrants issued was determined to be \$478,127 by applying the Black-Scholes option pricing model. The Company applied a volatility of 83.6%, dividend yield of 0.0% and risk-free rate of 1.46%. The Company paid \$1,414,508 of issuance costs to various finders, agents and brokers for these transactions.

Dilutive Securities

The following dilutive securities and the resulting common share equivalents were outstanding for years ended December 31, 2018 and 2017:

	2018	2017
Common Share Options	4,845,750	2,690,500
Class A Share Options	2,325,500	1,125,500
Warrants	20,933,995	1,698,320
High Yield Notes	12,970,169	6,937,245
Total Dilutive Securities	41,075,414	12,451,565

14 Share-based Payments

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 100.0% of the fair market value of a share on the date prior to the grant date.

In August 2016, 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 10.0% of the issued and outstanding common shares of the Company. 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. The continuity of stock options is as follows:

14 Share-based Payments (cont.)

Stock Options (cont.)

	Number	Weighted Average Exercise Price (CAD)	Weighted Average Contractual Life
Balance as at December 31, 2016	1,538,000 \$	1.57	
Granted	2,453,000	2.55	
Exercised	-	2.64	
Expired	(175,000)	-	
Balance as at December 31, 2017	3,816,000	2.15	9.12
Granted	3,823,500	4.77	
Exercised ⁽¹⁾	(168,750)	2.20	
Expired	(299,500)	3.06	
Balance as at December 31, 2018	7,171,250 \$	3.51	8.84

⁽¹⁾ Under the Plan, holders of the Company's stock options are entitled to a cashless exercise, whereby the Company will issue common shares net of the monetary value that would otherwise have been remitted to the Company by the option holder. As a result, the number of common shares issued is less than the number of options exercised. During the year ended December 31, 2018, 168,750 stock options were exercised, which resulted in the issuance of 140,046 common shares and 28,703 forfeited stock options attributable to cashless component of option exercises.

During the year ended December 31, 2018, a total of 3,823,500 stock options were granted.

- On March 2, 2018, the Company issued incentive stock options to employees and consultants of the Company, with a term of 10 years and exercisable at CAD\$3.56, to purchase up to an aggregate of 1,886,000 common shares of the Company;
- On June 4, 2018, the Company issued incentive stock options to employees and consultants of the Company, with a term of 10 years and exercisable at CAD\$5.70, to purchase up to an aggregate of 570,000 common shares of the Company; and
- On December 7, 2018, the Company issued incentive stock options to employees and directors of the Company, with a term of 10 years exercisable at CAD\$6.00 to purchase up to an aggregate of 1,367,500 common shares of the Company.

During the year ended December 31, 2017, a total of 2,453,000 stock options were granted.

- On January 17, 2017, the Company issued incentive stock options to employees and consultants of the Company, with a term of 10 years and exercisable at CAD\$2.91, to purchase up to an aggregate of 153,000 common shares of the Company;
- On April 4, 2017, the Company issued incentive stock options to employees and consultants of the Company, with a term of 10 years and 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; and
- 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.

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:

	December 31, 2018	December 31, 2017
Risk-free interest rate	1.33 - 2.50%	1.33% - 1.81%
Expected dividend yield	0.0%	0.0%
Expected volatility	75.55% - 96.99%	94.82% - 96.14%
Expected option life	7 years	10 years

14 Share-based Payments (cont.)

Stock Options (cont.)

Option pricing models require the application of estimates and assumptions including the expected volatility. As the Company became publicly traded in September 2016, sufficient historical trading information for the Company was not available for the Black-Scholes model. Therefore, the Company initially used the expected volatility rates based upon historical data from comparable companies. As of December 31, 2018, the Company has determined that it now has sufficient historical trading data to use as a basis for determining expected volatility.

The related share-based compensation expense for the year ended December 31, 2018, was \$7,521,693 (December 31, 2017 - \$2,898,949).

Warrants

The continuity of warrants for the Company is as follows:

	Number	Weighted average exercise price (CAD)
Balance as at December 31, 2016	6,104,200	\$ 2.86
Granted	1,060,562	2.07
Exercised	(314,155)	2.23
Expired	(5,152,287)	3.00
Balance as at December 31, 2017	1,698,320	2.06
Granted	20,697,553	3.40
Exercised	(1,461,879)	2.16
Balance as at December 31, 2018	20,933,994	\$ 3.38

During the year ended December 31, 2017, a total of 1,060,562 warrants were granted, 314,155 warrants were exercised, and 5,152,287 warrants were expired as follows:

- On May 4, 2017, the Company issued 98,727 warrants at an exercise price of CAD\$3.00 as part of the November 2016 bought deal offering.
- On October 11, 2017, the Company issued 267,000 warrants at an exercise price of CAD\$2.65 in connection with the Bridge Loan (Note 12). On November 21, 2017, the Company issued an additional 133,500 warrants at an exercise price of CAD\$2.03 in connection with the Bridge Loan.
- On November 11, 2017, the Company expired 5,152,287 warrants.
- On November 21, 2017, the Company issued 561,335 warrants at an exercise price of CAD\$1.70 in relation to the November 2017 public offering and private placement.
- During 2017, an aggregate of 314,155 warrants were exercised for aggregate proceeds of \$523,163.

During the year ended December 31, 2018, a total of 20,697,553 warrants were granted and 1,461,879 warrants were exercised as follows:

- On January 17, 2018, the Company issued 10,036,130 warrants at an exercise price of \$1.9928 in connection with the January 2018 Debentures. As at December 31, 2018, 378,864 of the warrants have been exercised for gross proceeds of \$755,000.
- On April 3, 2018, the Company issued 100,000 warrants at an exercise price of CAD\$3.21 to an agent in connection with the Citiva acquisition. As at December 31, 2018, all 100,000 of the warrants have been exercised for gross proceeds of CAD\$321,000 (\$235,303 equivalent).
- On May 14, 2018, the Company issued 6,670,372 warrants at an exercise price \$3.60 in relation to the HY notes. Concurrently, the Company issued 3,891,051 warrants at an exercise price of \$2.57 in relation to 3,891,051 Class A shares issued to GGP. As at December 31, 2018, all 10,561,423 warrants held by GGP remain outstanding.
- On February 6, 2018, 460,727 warrants were exercised at CAD\$2.10 for aggregate proceeds of CAD\$967,527 (\$772,168 equivalent). Additionally, during 2018, 522,287 warrants were exercised at CAD\$1.70 for aggregate proceeds of CAD\$887,888 (\$685,539 equivalent).

14 Share-based Payments (cont.)

Warrants (cont.)

With the change in functional currency on May 14, 2018 (Note 2), the classifications of the warrants issued in relation to the October 2017 financing, the November 2017 financing and the January 2018 financing were changed from equity to derivative liabilities.

As at December 31, 2018, the warrant derivatives were revalued, with the following inputs: volatility of 77.48%, dividend yield of 0.0% and risk-free rate of 1.85%. This resulted in a value of \$1,255,099. On the revaluation for the year-ended December 31, 2018, the Company recognized a loss of \$1,603,737. Full share equivalent warrants outstanding and exercisable are as follows:

Year of expiry	2018		2017	
	Number outstanding	Weighted average exercise price (CAD)	Number outstanding	Weighted average exercise price (CAD)
2018	-	\$ -	460,727	\$ 2.10
2019	715,306	2.33	1,237,593	2.07
2020	-	-	-	-
2021	20,218,689	3.41	-	-
	20,933,995	\$ 3.38	1,698,320	\$ 2.06

15 Financial Instruments

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 years ended December 31, 2018 and 2017.

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 are also considered current and short-term in nature, hence carrying value approximates fair value.

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.

The following table compares the classification of financial instruments under IAS 39 and IFRS 9 (Note 22), and reconciles the IAS 39 and IFRS 9 carrying amounts as at December 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	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
Notes and Debentures	Other financial liabilities	Amortized cost
Derivative liability	Fair value through profit and loss	Fair value through profit and loss

15 Financial Instruments (cont.)

The following table summarizes the Company's financial instruments as at December 31, 2018:

	Amortized cost	Fair value through profit and loss	Total
Financial Assets			
Cash	\$ 15,294,656	\$ -	\$ 15,294,656
Receivables and prepaid assets	3,846,993	-	3,846,993
Investment - Other	-	99,969	99,969
Citiva Jamaica promissory note	251,529	-	251,529
Financial Liabilities			
Payables and accrued liabilities	\$ 6,465,997	\$ -	\$ 6,465,997
Interest payable	43,333	-	43,333
HY Notes	31,230,742	-	31,230,742
Derivative liabilities	-	1,255,099	1,255,099

The following table summarizes the Company's financial instruments as at December 31, 2017:

	Amortized cost	Fair value through profit and loss	Total
Financial Assets			
Cash	\$ 6,175,287	\$ -	\$ 6,175,287
Receivables and prepaid assets	384,862	-	384,862
Notes receivable (current)	11,066,605	-	11,066,605
Investment - Other	-	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

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:

	December 31, 2018				December 31, 2017			
	Carrying Value	Level 2	Level 3	Total	Carrying Value	Level 2	Level 3	Total
Financial Assets								
Preferred Shares - GrowHealthy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3,000,000	\$ 3,000,000
Investment - Other	-	-	99,969	99,969	-	-	99,969	99,969
Financial Liabilities								
Financial liability - VSH	\$ -	\$ -	\$ -	\$ -	\$ -	4,411,481	\$ -	4,411,481
Derivative liabilities	-	-	1,255,099	1,255,099	-	-	592,959	592,959

The Company's other investments is considered to be a Level 3 instrument because it is comprised of shares of a private company, 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 November 2017 financings are recorded at fair value and are estimated using the Black-Scholes option pricing model and is therefore considered to be a Level 3 measurement. Refer to Note 12.

15 Financial Instruments (cont.)

Changes in Level 3 financial assets and liabilities were as follows:

	GrowHealthy Preferred Shares		Derivative Liability	
Balance at December 31, 2016	\$	-	\$	889,992
Additions		3,000,000		-
Unrealized gains		-		(297,033)
Balance at December 31, 2017	\$	3,000,000	\$	592,959
Additions		-		12,259,520
Settlement in acquisitions (Note 4)		(3,000,000)		(473,708)
Revaluations on level 3 instruments		-		8,628,788
Reclassifications on currency change		-		(16,781,989)
Conversions		-		(2,933,810)
Foreign exchange impact		-		(36,661)
Balance at December 31, 2018	\$	-	\$	1,255,099

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.

	December 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt				
Convertible promissory notes	\$ -	\$ -	\$ 1,031,262	\$ 1,228,475
February 2017 Debentures	-	-	13,567,430	14,458,470
HY Notes	31,230,742	46,715,208	-	-
Total	\$ 31,230,742	\$ 46,715,208	\$ 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 and management.

Financial Risk Management

The Company is exposed to a variety of risks over the normal course of business. The Board of Directors mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its cash flow necessary to fund operations and development. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. This includes monitoring cash balances, subsidiary funding requirements and short-term obligations on a weekly basis.

Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash, loans and other receivables, and notes receivable. The risk exposure is limited to their carrying amounts at the statement of financial position date. The Company is constantly monitoring the status of its financial institutions and plans to open additional accounts at other institutions to mitigate credit risk.

Credit risk from the notes receivable arises from the possibility that principal and/or interest due may become uncollectible. The Company mitigates this risk by managing and monitoring the underlying business relationships along with the corresponding cash flow activity. Credit risk is further mitigated through entering strategic partnerships with the underlying businesses by means of conversion on company debt into equity ownership.

Market risk

a) Currency risk

- As the Company's operations are located in Canada and the United States, the Company is subject to currency transaction and translation risks;
- the Company holds cash in Canadian dollars and U.S. dollars. The Company raises capital in U.S. and Canadian capital markets and thus is exposed to fluctuations in the Canadian dollar relative to the U.S. dollar, specifically in relation to USD denominated liabilities;

15 Financial Instruments (cont.)

Financial Risk Management (cont.)

- as at December 31, 2018, the Company does not hold a material Canadian dollar balance. Hence if the Canadian dollar had strengthened or weakened by 5.0% in relation to the U.S. dollar, with all variables held constant, the assets of the Company would not have had a material increase or decrease; and
- as at December 31, 2018, the Company had no hedging agreements in place with respect to foreign exchange rates, however management monitors the Canadian and U.S. currency markets closely and continuously assesses the need to enter into currency hedging arrangements. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

b) Interest rate risk

- Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's notes receivables and debentures have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

The following table presents the Company's significant contractual obligations as at December 31, 2018:

	<1 Year	1-2 Years	3-5 Years	> 5 Years	Total
USD Denominated					
Payables and accrued liabilities	\$ 5,762,218	\$ -	\$ -	\$ -	\$ 5,762,218
Long-term debt	5,214,444	5,344,444	41,921,111	-	52,479,999
Total USD Denominated	\$ 10,976,662	\$ 5,344,444	\$ 41,921,111	\$ -	\$ 58,242,217
CAD Denominated					
Payables and accrued liabilities	\$ 489,801	\$ -	\$ -	\$ -	\$ 489,801
Total CAD Denominated	\$ 489,801	\$ -	\$ -	\$ -	\$ 489,801

16 Commitments and Contingencies

Commitments

As at December 31, 2018, the Company has contractual obligations to make the following payments:

	<1 Year	1-2 Years	3-5 Years	> 5 Years	Total
USD denominated					
Leases	\$ 2,681,341	\$ 5,107,023	\$ 5,063,509	\$ 6,779,375	\$ 19,631,248
Consultants and advisors	833,519	108,877	-	-	942,396
Construction contracts	3,471,582	-	-	-	3,471,582
Total USD denominated	\$ 6,986,442	\$ 5,215,900	\$ 5,063,509	\$ 6,779,375	\$ 24,045,226
CAD denominated					
Leases	\$ 63,205	\$ 394,368	\$ 98,592	\$ -	\$ 556,165
Consultants and advisors	3,358,750	-	-	-	3,358,750
Total CAD denominated	\$ 3,421,955	\$ 394,368	\$ 98,592	\$ -	\$ 3,914,915

The Company's commitments include consultants and advisors, as well as leases and construction contracts for offices, dispensaries and cultivation facilities in Vermont, Massachusetts, Florida, New York, and Canada. The Company has certain operating leases with renewal options ranging from one to two options, with each option extending the lease for an additional one to ten years. For the year ended December 31, 2018, an amount of \$1,654,746 was recognized as an expense in earnings in respect of operating leases (December 31, 2017 - \$253,928).

16 Commitments and Contingencies (cont.)

Contingencies

The Company has been named as a defendant in several legal actions and is subject to various risks and contingencies arising in the normal course of business. Management is of the opinion that the outcome of these uncertainties will not have a material adverse effect on the Company's financial position.

On March 26, 2019, MPX Biocetical Corporation ("MPX") received a demand letter from a corporate finance firm, with respect to alleged fees owed by MPX to the firm, claiming the right to receive approximately \$1.7 million and 3.0 million options of MPX. The events that allegedly gave rise to the claim occurred prior to the Company's closing of the MPX transaction in February 2019. The Company is currently reviewing the matter with counsel and has not yet determined the range of potential loss but is of the view that the actions do not present material financial risks to the Company.

In addition, there is a claim from a former consultant against MPX, with respect to alleged consulting fees owed by MPX to the consultant, claiming the right to receive approximately \$750,000. The events that allegedly gave rise to the claim occurred prior to the Company's closing of the MPX transaction in February 2019. The Company is currently reviewing the matter with counsel and has not yet determined the range of potential loss but is of the view that the actions do not present material financial risks to the Company.

17 Related Party Transactions

	December 31, 2018		December 31, 2017	
Due from RGA	\$	30,000	\$	30,000
Director's loans outstanding		391,267		398,565
Total due from related parties	\$	421,267	\$	428,565
Due to RGA and affiliates		31,192		81,056
Total due to related parties	\$	31,192	\$	81,056

Reynold Greenleaf & Associates, LLC

As described in Note 9, the Company is to be reimbursed \$30,000 from RGA, an entity owned by an individual with a familial relationship with an officer and director of the Company, Hadley Ford, in connection with certain legal fees and expenses from the financing. As at December 31, 2018, the reimbursement due from the RGA was \$30,000 (December 31, 2017 - \$30,000). The related party balance is presented in the "Other current assets" line on the 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 \$31,192 as at December 31, 2018 (December 31, 2017 - \$81,056). The related party balance is presented in the "Payables and accrued liabilities" line on the consolidated statement of financial position.

Other

As of December 31, 2018, the Company had a loan due from an officer and director of the Company, Hadley Ford, with a balance of \$391,267. The total loan facility is up to CAD\$500,000 (equivalent \$391,267) 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 December 31, 2018, was CAD\$18,670 (equivalent \$13,686) (December 31, 2017 - CAD\$4,247 or equivalent \$3,270). The related party balance is presented in the "Other current assets" line on the consolidated statement of financial position.

Key management compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. Compensation provided to key management is as follows:

	2018		2017	
Salaries and bonuses	\$	1,178,294	\$	1,086,711
Share-based payments		3,015,216		1,206,467
Directors' fees		58,000		37,317
Total	\$	4,251,510	\$	2,330,495

18 Income Taxes

Income tax expense is comprised of:

	2018	2017
Current tax expense (recovery)	755,330	-
Deferred tax expense (recovery)	(755,330)	-
Income tax expense (recovery)	\$ -	\$ -

The difference between the income tax expense for the year and the expected income taxes based on the statutory tax rate applied to the loss before income taxes arises as follows:

	2018	2017
Loss before income taxes	\$ (62,027,747)	\$ (13,716,665)
Statutory tax rates	21%	34%
Recovery based on statutory rates	(13,026,000)	(4,664,000)
State taxes	(40,000)	(1,009,000)
Change in tax rates	-	1,962,000
Non-deductible expenses	4,431,000	430,000
Impact of over provision from prior year	-	(110,000)
Tax attributes for which no benefit recognized	5,312,000	(265,000)
Other	(141,000)	16,000
Change in the unrecognized deferred tax assets	3,464,000	3,640,000
Income tax expense	\$ -	\$ -

As a result of tax legislation enacted in the U.S. at the end of 2017, the Federal U.S. corporate tax rate applicable to years subsequent to 2017 was substantially reduced from 34% to 21%. As at December 31, 2017, the Company's deferred tax assets and liabilities in respect of US operations were measured based on the 21% tax rate and as such, no tax expense impact results from the tax rate change in the current year. Deferred tax assets were not recognized in the prior year and there was no income tax expense impact as a result of the rate change in 2017.

The nature and tax effect of the taxable temporary differences giving rise to deferred tax assets and liabilities are summarized as follows:

	2018	2017
Net operating loss carry-forwards	\$ 7,488,000	\$ 3,124,000
Interest expense carry-forwards	5,043,000	-
Stock based compensation	2,412,000	785,000
Intangible assets	681,000	764,000
Property and Equipment	652,000	286,000
Other items	151,976	129,000
	16,427,976	5,088,000
Offset against deferred tax assets relating to inventory	(782,000)	-
Unrecognized deferred tax asset	(16,254,000)	(5,088,000)
Deferred tax assets (liabilities)	(608,024)	-
Intangibles resulting from acquisitions	(16,981,070)	(1,236,306)
Deferred tax liabilities	(16,981,070)	(1,236,306)
Net deferred tax liability	\$ (17,589,094)	\$ (1,236,306)

The deferred tax assets related to unused U.S. net operating losses were not recognized, as the recoverability is not considered to be probable. As of December 31, 2018, the Company has accumulated U.S. net operating losses for income tax purposes of \$27,265,000 and \$30,390,000 at Federal and State levels, respectively. These losses may be deducted in the calculation of taxable income in future years. Included in the total net operating losses are \$17,132,000 of Federal losses which can be carried forward indefinitely. The remainder of the losses will expire between the years 2028 to 2038.

Certain accumulated net operating losses are subject to an annual limitation from equity shifts, which constitute a change of ownership as defined under Internal Revenue Code ("IRC") Section 382. These rules will limit the utilization of the losses. As of December 31, 2018, the Company has not determined the effect of these limitations.

18 Income Taxes (cont.)

The effective Canadian Federal and British Columbia Provincial corporate tax rates are 15.0% and 11.0%, respectively.

The Canadian unused non-capital losses and other unused tax deductions for which no deferred tax asset has been recognized or disclosed in the consolidated financial statements are listed below:

	2018	2017
Unused non-capital losses	\$ 31,710,000	\$ 6,720,000
Financing and share issuance costs	1,751,000	1,097,000

The unused non-capital losses may be deducted in the calculation of taxable income if the Company is taxable in Canada in future years. These losses will expire between the years 2033 to 2038. The financing and share issuance costs represent amounts that are generally deducted for Canadian tax purposes on a straight-line basis over a five-year period.

19 Loss per Share

	2018	2017
Basic loss per share:		
Net loss for period	\$ (62,027,747)	\$ (13,716,665)
Average number of common shares outstanding during the period	63,858,945	28,607,628
Loss per share - basic	\$ (0.97)	\$ (0.48)
Diluted loss per share:		
Net loss for period	\$ (62,027,747)	\$ (13,716,665)
Average number of common shares outstanding during the period	63,858,945	28,607,628
Loss per share - diluted	\$ (0.97)	\$ (0.48)

¹All shares outstanding are non-dilutive due to the net loss for the period.

20 Supplemental Cash Flow Information and Capital Management

Supplemental Cash Flow Information

Income taxes paid during the year ended December 31, 2018, were \$23,042 (December 31, 2017 - \$35,306). Non-cash transactions for the year ended December 31, 2018, and December 31, 2017 were as follows:

	2018	2017
Supplemental Cash Flow Information:		
Shares issued for the settlement of the financial liabilities with VSH	\$ 4,000,254	\$ —
Shares issued for the settlement from the acquisition of Pakalolo	113,226	—
Shares issued for the settlement for conversion of debt instruments	15,896,662	2,250,586
Warrants issued for the settlement of the May 2018 financing	17,531,280	—
Non-cash consideration transferred for the acquisition of GrowHealthy	43,816,671	—
Non-cash consideration transferred for the acquisition of Citiva	21,155,630	—
Due to adjustments from functional currency changes	16,781,988	—
Warrants issued as settlement for the bridge loan	—	153,404
Non-cash consideration transferred for the acquisition of Mayflower	—	17,295,444
Non-cash consideration transferred for the acquisition of FWR	—	1,686,232

20 Supplemental Cash Flow Information and Capital Management (cont.)

Supplemental Cash Flow Information (cont.)

Non-cash working capital items for the year ended December 31, 2018, and December 31, 2017 were as follows:

	2018	2017
Changes in non-cash working capital:		
Receivables and prepaid expenses	\$ 1,616,537	\$ (9,682)
Accounts payable and accrued liabilities	2,277,298	532,852
Other assets	(441,718)	—
Other liabilities	(173,522)	—
Inventory	(5,947,183)	—
Related party balances and other assets/liabilities	(149,848)	(391,451)
	\$ (2,818,436)	\$ 131,719

Capital Management

Capital includes the Company's unrestricted cash balance of \$15,294,656 and restricted cash balance of \$5,272,222 at December 31, 2018 (December 31, 2017 – \$6,175,287 and \$Nil, respectively). Refer to Note 12 regarding restricted cash.

The Company's objectives when managing capital are:

- Ensuring the Company has sufficient liquidity to execute its strategy and fulfill its financial obligations;
- Maintaining compliance with all covenants and ensuring continued access to capital; and
- Optimizing the cost of capital while taking into consideration current and future risks and conditions.

In order to meet its objectives, the Company continually monitors its capital structure and forecasts the capital needs of new and existing investments within its portfolio. The Company may adjust its capital spending, issue or repay debt instruments, or issue or repurchase shares of the Company as necessary to meet its objectives.

The Company continues to have access to equity and debt financing from public and private markets in Canada and the United States and management expects this access to capital to continue to improve.

The Company has certain covenants in place as a result of the long-term debt it has issued (Note 12). During the years ended December 31, 2018, and December 31, 2017, the Company continued to be in compliance with all associated covenants relating to its historical financings. The Company does not have other externally imposed capital requirements.

21 Events After the Reporting Period

iAnthus and MPX Combination

On October 18, 2018, the Company and MPX signed an arrangement agreement pursuant to which the Company will combine with MPX. The arrangement agreement provides that existing MPX shareholders will be entitled to receive 0.1673 common shares of iAnthus for each common share of MPX held, representing a consideration of approximately CAD\$1.28 (equivalent \$0.98) per MPX common share. In addition, each MPX shareholder will receive common shares of the newly formed MPX International, which will hold all of the non-U.S. businesses of MPX. MPX International will apply to list on the Canadian Securities Exchange with the listing to occur contemporaneously with the closing of the transaction.

On February 5, 2019, the MPX transaction closed, and iAnthus acquired all of the issued and outstanding common shares of MPX. The Company issued 75,795,208 common shares to former MPX shareholders. As a result of the combination, the Company has increased its retail and production capabilities to further expand its national footprint.

The initial accounting for the business combination was incomplete at the time of authorizing the financial statements.

Concurrent with the MPX transaction, the Company assumed the obligation of MPX to issue common shares and warrants on the conversion of the MPX Luxembourg SARL's \$40.0 million principal amount of senior secured convertible debentures of MPX Luxembourg.

March 2019 Debentures

On March 18, 2019, the Company completed a private placement of \$35,000,000 of unsecured convertible debentures (the "March 2019 Debentures") and corresponding warrants of 2,177,291 to purchase common shares of the Company. Prior to April 26, 2019, an additional \$25,000,000 of debentures and 1,555,209 corresponding warrants can be issued.

The March 2019 Debentures mature on March 15, 2023 and accrue interest at a rate of 8% annually, payable on a quarterly basis.

The March 2019 Debentures are convertible at \$5.92 per common share, which would convert into an aggregate of 5,912,160 common shares of the Company. At any time, following July 16, 2019, the Company may force the conversion of the March 2019 Debentures into common shares if the daily volume weighted average trading price of the Company's common shares on the OTCQX is greater than \$10.29 for any ten consecutive trading days.

Each warrant entitles the holder to acquire one common share of the Company at an exercise price of \$6.43 per common share from the closing date until March 15, 2022.

Warrants Exercised

Subsequent to year-end, 3,142,188 warrants were exercised and resulted in the issuance of an equal amount Common Shares. The proceeds from the exercised warrants totals \$8,135,254.

22 Significant Accounting Policies, Estimates and Judgements

Significant Accounting Policies

Business combinations

Business combinations are accounted for using the acquisition method as of the date when control transfers to the Company. The Company measures goodwill as the excess of the sum of the fair value of the consideration transferred over the net identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. Transaction costs that the Company incurs in connection with a business combination are expensed as incurred.

Foreign currency translation

The presentation currency of the Company is the U.S. dollar. The exchange differences arising on translation for consolidation are recognized in other comprehensive loss. Transactions in foreign currencies are recorded at a rate of exchange approximating the prevailing rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated the functional currency at the foreign exchange rate in effect at that date. Realized and unrealized exchange gains and losses are recognized through profit and loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

22 Significant Accounting Policies, Estimates and Judgements (cont.)

Significant Accounting Policies (cont.)

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized on the statements of financial position at the time the Company becomes a party to the contractual provisions of the financial instrument.

Management has applied the new IFRS 9 guidance and notes the adoption does not have a material impact on the Company's consolidated financial statements. Refer to Note 15 for changes in classifications and amounts of financial instruments from IAS 39 to IFRS 9.

Under IFRS 9, financial instruments are initially measured at fair value, plus in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs. Subsequently, all assets within scope of IFRS 9 are measured at:

- (i) Amortized cost;
- (ii) Fair value through other comprehensive income ("FVOCI"); or
- (iii) Fair value through profit or loss ("FVTPL").

The classification is based on whether the contractual cash flows give rise to payments on specified dates that are solely payments of principal and interest (the "SPPI test"), and the objective of the Company's business model is to hold assets only to collect cash flows, or to collect cash flows and to sell (the "Business Model test"). Financial assets are required to be reclassified only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

The impairment requirements under IFRS 9 are based on an expected credit loss model, replacing the IAS 39 incurred loss model. The expected credit loss model applies to debt instruments recorded at amortized cost or at FVOCI, such as loans, debt, securities and trade receivables, lease receivables, and most loan commitments and financial guarantee contracts.

Reclassification

For the year-ended December 31, 2018, the Company has reclassified certain revenue items in its Consolidated Statement of Loss and Comprehensive Loss for the year ended December 31, 2017. The following table represents the revenue accounts that have been reclassified. There was no impact on previously reported net loss.

December 31, 2018	December 31, 2017	Amount
Other income	Management fee income	\$ 150,576
Other income	Investment income	\$ 269,159
Other income	Interest income	\$ 1,978,727
Other income	Other income	\$ 8,767

Revenue from Contracts with Customers

The IASB replaced IAS 18 Revenue, in its entirety with IFRS 15 Revenue from Contracts with Customers. The Company adopted IFRS 15 using the modified retrospective approach where the cumulative impact of adoption will be recognized in retained earnings as of January 1, 2018 and comparatives will not be restated.

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 obligation(s) in the contract to transfer goods or provide distinct services to a customer;

22 Significant Accounting Policies, Estimates and Judgements (cont.)

Significant Accounting Policies (cont.)

- 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 obligation(s) in the contract;
- recognize revenue when or as the Company satisfies the performance obligation(s).

Under IFRS 15, revenue from the sale of cannabis are generally recognized at a point in time when control over the goods have been transferred to the customer. Payment is typically due upon transferring the goods to the customer or within a specified time period permitted under the Company's credit policy.

Revenue is recognized upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control upon delivery and acceptance by the customer, the timing of which is consistent with the Company's previous revenue recognition policy under IAS 18.

Based on the Company's assessment, the adoption of this new standard had no impact on the amounts recognized in its consolidated annual financial statements.

During the year ended December 31, 2018, the Company generated revenue from the sale of cannabis products through its subsidiaries, GrowHealthy, Mayflower, FWR, and Citiva. The Company also generated interest income from its promissory notes issued to TGS.

The adoption of IFRS 15 did not have a material impact on the Company's consolidated financial statements.

Cash and Restricted Cash

Cash is a liquid asset measured at fair value. Restricted cash consists of cash deposits held within financial institutions that will be available within 12 months and is measured at fair value.

Inventory

Inventory is valued at the lower of cost and net realizable value. The direct and indirect costs of inventory initially include the fair value of the biological asset at the time of harvest. They also include subsequent costs such as materials, labor, and overhead involved in packaging, labeling, and inspection. All direct and indirect costs related to inventory are capitalized as they are incurred and they are subsequently recorded within cost of goods sold on the statement of comprehensive loss at the time of sale, except for the realized fair value amounts included in inventory sold which are recorded as a separate line on the statement of comprehensive loss.

Biological assets

The Company's biological assets consist of cannabis plants which are not yet harvested. Although biological assets are within the scope of IAS 41, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2. Direct costs include growing materials and labor while indirect costs include utilities and supplies used in the growing process. The indirect labor of individuals involved in the growing and quality control process are included, in addition to overhead costs such as security and other utilities to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are subsequently recorded in cost of goods sold on the Statement of Comprehensive Loss when the related product is sold. Gains or losses arising from changes in fair value less cost to sell are included in the results of operations of the related period.

Management has made this accounting policy change in response to the Canadian Securities Administrators ("CSA") Staff Notice 51-357 *Staff Review of Reporting Issuers in the Cannabis Industry*, to retrospectively capitalize cultivation costs in order to improve the comparability of the Company's financial statements and to enhance the relevance and comparability of financial information presented. The capitalized cultivation costs through retrospective application amounted to \$5,133,808 for the period ending December 31, 2018 which concurrently increased the unrealized gain by the same amount. There were no cultivation costs recognized in 2017; therefore, the retrospective impact is \$Nil.

22 Significant Accounting Policies, Estimates and Judgements (cont.)

Significant Accounting Policies (cont.)

Investment in associate

The Company holds an interest in an associate. Associates are entities over which the Company exercises significant influence, defined as the power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. The Company accounts for associates using the equity method of accounting. Interests in associates accounted for using the equity method are initially recognized at cost. Subsequent to initial recognition, the carrying value of the Company's interest in an associate is adjusted for the Company's share of comprehensive income or loss and distributions of the associate.

The carrying value of investment in associate is assessed for indicators of impairment at each statement of financial position date.

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets:

Buildings	25 years
Leasehold improvements	5 years ⁽¹⁾
Production equipment	5 years
Processing equipment	5 years
Sales equipment	5 years
Office equipment	5 years

⁽¹⁾ Lesser of 5 years or the term of the lease

An asset's residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment. Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognized in profit or loss.

Intangible assets

Intangible assets with a finite life are stated at the amount initially recognized less accumulated amortization and accumulated impairment losses. Intangible assets with a finite life are amortized on a straight-line basis over the period of expected benefit. Intangible assets with an indefinite life are not amortized and are assessed annually for impairment, or more frequently if indicators of impairment arise.

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Upon finalizing the purchase price allocations, all licenses were reclassified from indefinite to finite life intangibles. Licenses are amortized over 15 years, which better reflects the useful lives of the assets. The Company has applied this prospectively effective January 1, 2018. All other intangible assets with a finite life are amortized over 3 years.

Goodwill

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the CGU or CGUs which are expected to benefit from the synergies of the combination.

Goodwill is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

22 Significant Accounting Policies, Estimates and Judgements (cont.)

Significant Accounting Policies (cont.)

Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

Impairment of non-financial assets

The carrying amount of the Company's non-financial assets is reviewed at each financial reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized when the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognized in profit and loss for the period.

The recoverable amount of an asset or CGU is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment.

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.

Leased assets

The Company leases some items of property, plant and equipment. A lease of property, plant and equipment is classified as a capital lease if it transfers substantially all the risks and rewards incidental to ownership to the Company. A lease of property, plant and equipment is classified as an operating lease whenever the terms of the lease do not transfer substantially all of the risks and rewards of ownership to the lessee. Lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits are consumed.

Share capital

Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded in reserves over the vesting periods are recorded as share capital. Share capital issued for non-monetary consideration is recorded at an amount based on fair market value of the shares on the date of issue.

22 Significant Accounting Policies, Estimates and Judgements (cont.)

Significant Accounting Policies (cont.)

Share-based payments

The Company has an employee stock option plan. Equity-settled share-based payments to employees are measured at the fair value of the stock options at the grant date and recognized in expense over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of options is determined using the Black-Scholes option pricing model which incorporates all market vesting conditions. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are transferred to deficit in the year of forfeiture or expiry. Upon the exercise of stock options, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

Income taxes

The Company uses the asset and liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases.

Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted and applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

Significant Accounting Estimates

The preparation of consolidated financial statements requires management to apply judgement and make estimates that affect the reported amounts of assets and liabilities at the date of the 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.

Biological assets

Management is required to make a several estimates in calculating the fair value less costs to sell of biological assets and harvested cannabis inventory. These estimates include estimating the yield per plant, selling price, and stage of growth.

Property, plant and equipment

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

Business combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may determine the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets acquired and any changes in the discount rate applied.

22 Significant Accounting Policies, Estimates and Judgements (cont.)

Significant Accounting Estimates (cont.)

Share-based payments

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and warrants. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of options, volatility of the Company's future share price, risk free rate, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

Fair value of financial instruments

The individual fair values attributed to the different components of a financing transaction, notably investment in equity securities, derivative financial instruments, convertible debt and loans, are determined using valuation techniques. The Company uses judgement to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgement and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market. The assumptions regarding the derivative liabilities are disclosed in Note 15.

Impairment

Long-lived assets, including property, plant and equipment and intangible assets are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Significant Accounting Judgments

Going concern

Each reporting period, management exercises judgement in assessing whether there is a going concern issue by reviewing the Company's performance, resources and future obligations.

Business combinations

Judgement is required to determine when the Company gains control of an investment. This requires an assessment of the relevant activities of the investee, being those activities that significantly affect the investee's returns, including operating and capital expenditure decision-making; financing of the investee; the appointment, remuneration and termination of key management personnel; and when decisions in relation to those activities are under the control of the Company or require unanimous consent from the investors. Difficulties surrounding the control of acquired entities exists within the cannabis industry, due to certain state legislative requirements to structure cannabis license holders as not-for-profit entities.

Impairment

Management is required to use judgement in determining the grouping of assets to identify their CGUs for the purposes of testing fixed assets for impairment. Judgement is further required to determine appropriate groupings of CGUs for the level at which goodwill and intangible assets are tested for impairment. The Company has determined that each reportable segment is a separate CGU for purposes of fixed asset impairment testing (Note 3). The Company performs an annual impairment test for goodwill, and indefinite life intangible assets in the fourth quarter for each of the CGUs whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to dispose all or a portion of a reporting unit.

22 Significant Accounting Policies, Estimates and Judgements (cont.)

Significant Accounting Judgments (cont.)

Recent Accounting Pronouncements

The following section discusses the new standards effective for reporting periods commencing January 1, 2019 and 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.

The Company intends to apply this standard on a modified retrospective basis, where the cumulative effect of initially applying the standard is recognized as an adjustment to the opening balance of retained earnings and comparative balances are not restated. As management is still finalizing the impact of the new standard, the Company anticipates the recognition of approximately \$20.0 million in right-of-use assets and corresponding lease liabilities. Should differences arise between the right-of-use asset and lease liability, net of deferred tax impacts, they will be recorded in opening retained earnings.

The Q1 2019 interim condensed consolidated financial statements are expected to include the effects of applying this new standard.



iAnthus

Shareholder Information

Stock Exchange Listing

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