



iAnthus

# MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017



# MANAGEMENT'S DISCUSSION & ANALYSIS



The following Management's Discussion and Analysis ("MD&A") of the results of operations and financial condition of iAnthus Capital Holdings, Inc. (the "Company", "ICH" or "iAnthus"), prepared as at August 28, 2018, should be read in conjunction with the condensed interim consolidated financial statements of iAnthus for the three and six months ended June 30, 2018 and 2017 and accompanying notes thereto. Amounts are expressed in United States dollars unless noted otherwise.

This MD&A has been prepared in accordance with the MD&A disclosure requirements established under National Instrument 51-102 Continuous Disclosure Obligations ("NI 51-102") of the Canadian Securities Administrators. Additional information regarding iAnthus, as well as the Company's Annual Information Form ("AIF") for the year ended December 31, 2017, is available on the Company's website at [www.ianthuscapital.com](http://www.ianthuscapital.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com).

## 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 to achieve. 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. Such factors include, but are not limited to, the factors discussed in the section entitled "Risk Factors" of the December 31, 2017 year-end MD&A. 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.

Mayflower



grassroots  
vermont



GrowHealthy

# COMPANY OVERVIEW



iAnthus provides investors diversified exposure to best-in-class licensed cannabis cultivation, product manufacturing, and dispensary operations throughout the United States. 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 OTCQB, part of the OTC Markets Group, under the ticker "ITHUF".

iAnthus currently encompasses operations and investments in six states:



# SUMMARY OF OPERATIONS & INVESTMENTS



## OPERATIONS CONTROLLED BY THE COMPANY



<b>POPULATION <sup>(1)</sup></b>	20.0 Million	6.8 Million	0.6 Million	21.0 Million
<b>EQUITY OWNERSHIP</b>	100%	100%	100%	100% <sup>2</sup>
<b>COMPETITION <sup>(3)</sup></b>	1 of 10 Licenses	1 of ~35 Licenses	1 of 5 Licenses	1 of 14 Licenses
<b>2018 ESTIMATED MARKET SIZE <sup>(4)</sup></b>	\$219.0 Million	\$380.0 Million	\$22.0 Million	\$456.0 Million
<b>DISPENSARIES <sup>(5)</sup></b>	4 Dispensaries	3 Dispensaries	2 Dispensaries	30 Dispensaries
<b>CULTIVATION <sup>(5)</sup></b>	1 Cultivation Facility 39,500 sq ft	1 Cultivation Facility 36,000 sq ft	1 Cultivation Facility 6,900 sq ft	1 Cultivation Facility 200,000 sq ft
<b>ESTIMATED PRODUCTION CAPACITY (per annum)</b>	2,400kg	2,625kg	200kg	18,000kg

## OTHER INVESTMENTS

→  
R.GREENLEAF



<b>POPULATION <sup>(1)</sup></b>	2.1 Million	5.5 Million
<b>INVESTMENT</b>	24.6% Equity Interest	\$5.3 Million Investment
<b>2018 ESTIMATED MARKET SIZE <sup>(4)</sup></b>	\$199.0 Million	\$1.7 Billion
<b>FACILITIES</b>	1 Management Service Company	1 Dispensary 1 Cultivation Facility

(1) Populations according to the United States Census Bureau from [www.censusreporter.org](http://www.censusreporter.org) (2018)

(2) 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 licenses to provide medical cannabis from the Florida Department of Health

(3) Licenses currently issued in the applicable state

(4) Estimated 2018 market size according to The Arcview Group

(5) Refers to the maximum allowable number of dispensaries and cultivation facilities under current State legislation



## CORPORATE HIGHLIGHTS



### **iAnthus Receives \$50M Investment from Gotham Green Partners**

On May 14, 2018, the Company received a \$50M investment from Gotham Green Partners ("GGP"). Management believes this to be the largest investment to date by a single investor in a publicly traded U.S. cannabis operating company.

#### **Proceeds of Financing**

- Net cash proceeds to the Company of the GGP financing were approximately \$46M after deducting fees and structuring costs
- The proceeds of the financing will be allocated to cultivation and dispensary build-outs in the Company's key markets of New York and Florida, as well as potential geographic expansion consistent with the Company's strategic objectives

#### **Loan Repayment**

- On May 16, 2018, the Company used the proceeds from the GGP financing to repay the January 2018 loan facility from VCP Bridge, LLC, of \$20M plus accrued interest

#### **Conversion of Debentures**

- On July 16, 2018, the Company elected to convert all of the principal amount outstanding on the February 2017 debentures and unpaid accrued interest up to July 13, 2018, into common shares of the Company
- On August 16, 2018, the remaining balance of the February 2017 debentures and accrued interest were converted into common shares of the Company

# MASSACHUSETTS HIGHLIGHTS



## Boston Dispensary Opens

Mayflower's flagship dispensary in the Allston-Brighton neighborhood of Boston opened its doors to medical patients on July 19, 2018.

## Mayflower's First Harvest

- On April 20, 2018, Mayflower Medicinals Inc. ("Mayflower") completed its first harvest from its 36,000 square-foot state-of-the-art cultivation and processing facility in Holliston, MA
- At June 30, 2018, Mayflower had more than 4,000 plants in cultivation consisting of 38 different strains. This represents an increase of 59% in plant count since the beginning of the quarter

## Additional Dispensaries

- A lease was signed for a second dispensary in Lowell, MA, the fourth largest city in the Commonwealth
- Construction is expected to commence in October 2018

## Patient Home Delivery Program

- Delivery program was launched on June 25, 2018
- Mayflower expects to continue to expand the program state-wide



## FLORIDA HIGHLIGHTS



## Expanded Retail Footprint and State-wide Delivery Program

### Dispensary Footprint Expands

- The Company has recently executed leases for dispensary locations in West Palm Beach, Tampa, Orlando, Deerfield Beach, Brandon, Sarasota, and Miami
- GrowHealthy's flagship dispensary in the West Palm Beach area, as well as dispensaries in Tampa and Orlando, are expected to open in Q4 2018. It is expected that the Company will open two dispensaries per quarter thereafter

### Increased Delivery Options

- GrowHealthy currently utilizes its Lake Wales facility as its delivery hub and intends to add the Deerfield Beach dispensary location as its second hub in September 2018, allowing for improved delivery routes and shorter wait times for its patients across Florida
- Three additional delivery vans have been purchased and are being retrofitted for use. Once complete, GrowHealthy's fleet will increase to a total of five vans, allowing the Company to expand the frequency and geographic reach of its delivery program

### Lab Expansion

- GrowHealthy is currently in the process of expanding its current 890 square-foot lab space to 15,000 square feet, including a commercial kitchen and increased processing capabilities, allowing for a wider array of products including edibles, metered flower, capsules, and topicals. Construction is expected to be completed in 2019



## NEW YORK HIGHLIGHTS



### Ground-breaking at Warwick Facility

On July 31, 2018, the Company held a ground-breaking ceremony to commemorate the start of construction at the site of Citiva's future cultivation and processing facility in Warwick, NY, with Phase 1 encompassing 39,500 square-feet of modular design and employing cutting-edge grow technology.



### Brooklyn, NY Dispensary

- In June 2018, the Company began construction on Citiva's flagship dispensary location in Brooklyn, NY, with an expected opening in Q4 2018
- The dispensary is located across from the Barclays Center, and is expected to be one of only three dispensaries in New York's most populous borough of 2.6 million residents

### Medical Outreach Program

- The Company has formed a medical outreach program to engage with the medical community in the state of New York
- The program will develop physician relationships, create patient and physician educational programs and materials, and build brand awareness for Citiva products

## VERMONT HIGHLIGHTS



### Grassroots Vermont Facility Upgrade and Expansion Continues

Following significant upgrades to its cultivation and processing facility in Brandon, VT, Grassroots Vermont has increased its plant count by 155%. The facility is now capable of producing up to 200kg of plant material annually.



### Second Dispensary

- A lease has been signed for an additional dispensary located in Williston, VT, pending state approval
- The 2,400 square-foot dispensary is located in Chittenden County, the most populous county in Vermont

### Additional Upgrades

- Grassroots Vermont plans to further expand the cultivation space in the existing facility in Brandon, which would double the current production capacity to 400kg
- Construction is expected to begin in Q4 2018

# 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-one (31) 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 Amendment<sup>1</sup>, 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 nine (9) states (Alaska, California, Colorado, Maine, Massachusetts, 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, 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, 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, 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 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 essentially adopts a federalist approach that permits 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, reinforces 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.

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<sup>1</sup> The "Rohrabacher Amendment" is also referred to as the "Leahy Amendment"



## MASSACHUSETTS UPDATE



In January 2018, Mayflower commenced cannabis cultivation and production at its 36,000 square-foot cultivation and manufacturing facility in Holliston, MA. Mayflower has received its final approval to sell in the Allston-Brighton neighborhood of Boston, has a provisional certificate of registration to operate a second dispensary in the Commonwealth of Massachusetts and is working with the City of Lowell, MA, to locate that second provisional certification of registration in Lowell. Additionally, Mayflower has an application for a third dispensary pending before the Massachusetts Department of Public Health ("DPH").

A significant inventory of cannabis clones was acquired and planted at the beginning of 2018, accelerating the production process and culminating with Mayflower's first harvest on April 20, 2018. iAnthus believes that the facility, with its state-of-the-art cannabis cultivation, commercial kitchen, and processing capabilities, is one of the most advanced in the United States. The systems implemented at the facility, including lighting, fertigation and environmental controls, consist of cutting edge automation allowing for high levels of production and quality while reducing labor and operating costs. The facility has the capacity to produce up to 2,625kg of plant material annually, which will be used in a wide assortment of products including flower, concentrates, and edibles. At the close of Q2 2018, Mayflower was cultivating 4,243 plants consisting of 38 strains, which represents a 59% increase in plant count over Q1 2018. The projected yield of the plants growing at June 30, 2018 is estimated to be valued at \$1.5 million on a wholesale basis. Mayflower launched its Patient Home Delivery Program on June 25, 2018, which now services the towns of Arlington, Boston, Brookline, Cambridge, Charleston, Chelsea, East Boston, Everett, Malden, Medford, Milton, Quincy, Revere, Somerville and Watertown. The Company intends to continue expansion of its delivery program throughout the Commonwealth.



## MASSACHUSETTS UPDATE



After receiving its final approval to sell from the DPH in Q2 2018, Mayflower executed a Host Community Agreement ("HCA") for medical and received its operating permit from the City of Boston. Subsequent to quarter end, Mayflower opened its flagship dispensary on July 19, 2018. Located in the Allston-Brighton neighborhood of Boston, the dispensary offers patients a full spectrum of medical cannabis products in the form of flower, tinctures, concentrates, oils and edibles. Mayflower is the second license holder to open a dispensary within the City of Boston and the 34th dispensary to open in Massachusetts, which has a population of approximately 6.7 million people. This has provided an attractive competitive landscape for Mayflower's market entry. Having already received a certificate of registration for a second dispensary in the Commonwealth of Massachusetts, another lease has been signed for a dispensary location in Lowell, MA. In Q2 2018, Mayflower signed a HCA with the City of Lowell, to operate a Registered Marijuana Dispensary ("RMD"), and is working through the City of Lowell regulatory process. Lowell is the fourth-largest city in Massachusetts and the second-largest in the Boston metropolitan statistical area. Lowell is also home to two universities and receives 2 million visitors annually. Construction of the 3,000 square-foot Lowell dispensary is expected to begin in Q4 2018. The Company is currently evaluating and negotiating locations for an expected third dispensary license from the Commonwealth.

The adult use program began in Massachusetts on July 1, 2018. Mayflower was granted Priority Certification, which permits RMDs to submit applications with priority status. Mayflower has signed an HCA with the Town of Holliston for an adult use permit for its cultivation and processing facility and will shortly begin the application process of applying for adult use cultivation and processing licenses. In parallel to the adult use cultivation and processing applications, Mayflower will submit its application for an adult use permit for its flagship dispensary in Boston. Management estimates that the current statewide medical market size is already well over \$100.0 million in annual revenue, and with a full adult use program in place the market size is estimated to grow to over \$1.0 billion in annual revenues by 2020.

Subsequent to the quarter end, on July 31, 2018, Mayflower was converted under Massachusetts law from a not-for-profit into a for-profit corporation, which is now 100% owned by the Company.



## FLORIDA UPDATE



The Company acquired substantially all of the assets of GrowHealthy on January 17, 2018. The consideration included \$17.5 million in cash (of which \$3.0 million was in the form of a credit for the redemption of the Company's pre-existing investment in GrowHealthy), and 12,103,172 shares of the Company at a fair value of \$38.4 million on the date of acquisition.

GrowHealthy's affiliate, McCrory's, holds one of only 14 licenses from the Florida Department of Health ("DOH") to provide medical cannabis in the state. The acquisition included GHHIA Management, Inc. ("GHHIA"), now a wholly-owned subsidiary of the Company, which holds an exclusive 40-year management contract to operate the medical cannabis business associated with the Medical Marijuana Treatment Center ("MMTC") license, together with an option to acquire 100% of McCrory's for a nominal consideration, subject to prior approval of the DOH. The MMTC license allows the Company to operate a cultivation and manufacturing facility and currently allows for up to 30 dispensaries throughout the state<sup>1</sup>.

The Company's state-of-the-art cultivation facility in Lake Wales, FL, is comprised of 200,000 square feet of space capable of producing 18,000kg of medical cannabis annually when fully built out. GrowHealthy is currently growing and processing in approximately 25,000 square feet of the facility. At the close of Q2, the cultivation facility housed 2,964 plants, representing 36 different strains. The projected yield of the plants growing at June 30, 2018 is estimated to be valued at \$2.2 million on a wholesale basis.



*Artistic rendering of dispensary*

The Company expects to open GrowHealthy's dispensaries in West Palm Beach, Orlando, and Tampa Bay during 2018, with additional dispensaries currently under lease in Deerfield Beach, Brandon, Miami, and Sarasota. In addition to the brick-and-mortar locations, GrowHealthy began delivery sales in November 2017 and recently acquired three additional delivery vans increasing the fleet to five vans to expand its deliveries statewide over the remainder of 2018.

Florida currently has a population of approximately 21.0 million residents. As of August 24, 2018, there were approximately 153,884 registered patients in Florida and the number of patients is growing rapidly, by approximately 2,800 patients per week. Florida is on a trajectory to become one of the largest medical cannabis markets in the U.S., representing a significant opportunity for GrowHealthy.

GrowHealthy will continue to build out its state-of-the-art cultivation facility and reach greater production capacities to adequately supply its dispensaries. The ten dispensary locations, once complete, will represent a combined retail space of 30,470 square feet.

<sup>1</sup>The maximum allowable number of dispensaries per license holder increases by five dispensaries per 100,000 patients in the registry.



## NEW YORK UPDATE



In May 2018, the Company completed the purchase of 8.5 acres of land in Warwick, NY, for Citiva's new cultivation and processing facility. The design of Phase 1 has been finalized, and following quarter end, on July 31, 2018, the Company held a groundbreaking ceremony to commemorate the start of construction for the new facility.

The initial phase is expected to be completed during the first half of 2019 and will represent approximately 39,500 square feet of modular cultivation and processing space. The facility will implement various high-end technologies and cultivation practices to maximize efficiencies and production, including a positive pressure air system, mobile containers, desiccant dehumidification systems, acrylic glazing, and a unified program for environmental, irrigation and lighting controls. These state-of-the-art processes will enable perpetual harvesting, with an estimated yearly production of 2,400 kg of medical cannabis. The remaining acreage can support future expansion of up to 125,000 square feet of total cultivation and processing space, and the development of further module phases will coincide with the expansion of market demand in New York State.



*Artistic rendering of dispensary*

## NEW YORK UPDATE



In Q1 2018, the Company announced execution of the lease for Citiva's flagship dispensary in Brooklyn, NY, which is expected to be one of only three dispensaries in the city's most populous borough of approximately 2.6 million residents. The 2,000 square-foot dispensary is located across from the Barclays Center, which is one of the most highly trafficked areas in Brooklyn. In June 2018, construction began at the Brooklyn location and the dispensary is expected to open in Q4 2018.

Leases for the remaining three New York dispensary locations in Staten Island, Dutchess County and Chemung County are currently under negotiation. The Staten Island location is expected to be the only dispensary on the island of approximately 500,000 residents and is slated to open in early 2019. The remaining two dispensaries are expected to open in Q1 and Q3 2019, respectively.

During the quarter, the Company continued to negotiate wholesale purchase contracts with other New York Registered Organizations ahead of the Warwick cultivation and processing facility becoming operational in 2019. Wholesale purchases of white-label and finished products will allow the Company to begin supply to its dispensaries when complete.

In Q2 2018, the Company formed a medical outreach program to engage with the medical community in New York State. The goal of the outreach program is to develop physician relationships, create patient and physician educational programs and materials, and build brand awareness for Citiva products in advance of dispensary openings.



## VERMONT UPDATE



FWR, Inc., a non-profit corporation doing business as Grassroots Vermont ("GRVT"), holds one of only five medical marijuana licenses in Vermont and currently occupies one dispensary and a 6,900 square-foot cultivation and processing facility in Brandon, VT. In July 2017, Vermont amended its medical marijuana law to open one additional dispensary location with prior state approval and subsequently, in January 2018, Governor Phil Scott signed legislation to make Vermont the ninth state to legalize recreational marijuana, effective July 1, 2018. Vermont is the first to do so through the legislative process. The commercial sale of adult use marijuana is currently under consideration by a task force appointed by the Governor in advance of the 2019 Vermont legislative session.

In Q1 2018, GRVT completed upgrades of its facilities, including the installation of a new commercial kitchen, enhanced processing capabilities and cultivation enhancements. The cultivation upgrades were comprised of improvements to environmental controls in vegetative drying rooms, upgrading lighting fixtures, and strengthening efficiencies by upgrading benching space.

Through maximizing cultivation efficiencies, GRVT increased its production capabilities and is now able to produce up to 200kg of raw materials annually. Total plant count has increased 155% since commencing construction in November 2017. GRVT plans to further expand the cultivation space in the existing facility with the goal of doubling current production capacity, which would increase total annual production capacity to 400kg. Construction is expected to begin in Q4 2018.

Pending state approval of the location, GRVT plans to begin construction on its second dispensary location in Williston, VT in Q4 2018. The expected 2,400 square-foot dispensary is located in Chittenden County, the state's most populous county with approximately one-third of the population of Vermont. It is also within a 5-mile radius of four of the five most populous municipalities in the state, including Burlington, South Burlington, Essex and Colchester.

As of June 30, 2018, GRVT was cultivating 25 different strains. In Q2 2018, GRVT continued to focus on introducing strains with more stable genetic characteristics, with the goal of improving yields and enhancing the quality of product for patients. GRVT recently completed its first full harvest from the newly upgraded rooms, which yielded 6.41kg of dry product, representing a 77% increase in yield compared to pre-construction in November 2017.





## COLORADO UPDATE



Located in the popular ski-town of Breckenridge, CO, Organix, LLC ("Organix") has a local market share estimated to be greater than 35%. Colorado is one of the nine states in the U.S. that has legalized both recreational and medical marijuana.

Key highlights at Organix for the quarter include:

- Sales increased by approximately 37% from \$521,896 Q2 2017 to \$715,695 in Q2 2018;
- The number of transactions increased by 120% in the month of June 2018 in comparison to May 2018, the highest increase of month-over-month traffic in Organix' history; and
- Overall revenues increased by 27% from \$1,575,673 in the first six months of 2017 to \$2,004,472 in the same period in 2018.

Current state regulatory restrictions prevent iAnthus from consolidating the financial results of Organix. However, pending legislation in Colorado being passed and signed into law, may permit the Company to consolidate the financial results of Organix in the future.



# SUMMARY OF QUARTERLY RESULTS



	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Sales revenue	\$ 255,610	\$ 225,076	\$ -	\$ -
Other revenue	277,935	444,424	833,301	688,112
Net loss	(35,435,426)	(645,168)	(7,078,907)	(2,209,283)
<b>Net loss – Adjusted<sup>1</sup></b>	<b>(9,748,809)</b>	<b>(4,900,482)</b>	<b>(6,879,072)</b>	<b>(1,980,313)</b>
Loss per share	(0.61)	(0.01)	(0.25)	(0.09)
Loss per share – Adjusted <sup>1</sup>	(0.17)	(0.11)	(0.26)	(0.10)
Diluted loss per share	(0.61)	(0.01)	(0.25)	(0.09)
<b>Diluted loss per share – Adjusted<sup>1</sup></b>	<b>(0.17)</b>	<b>(0.11)</b>	<b>(0.26)</b>	<b>(0.10)</b>
Total assets	142,167,150	123,994,199	45,821,471	30,932,980
Total non-current liabilities	30,863,706	1,236,306	14,803,736	13,437,035

<sup>1</sup> Non-GAAP measure: These figures are adjusted to remove the effects of the revaluation of derivative instruments and financial liabilities as reported in the "Change in fair value" line item and to remove the effects of the accretion on settlement of the January 2018 debentures as reported in the "Accretion expenses" line item shown in the interim consolidated statement of profit or loss as this line is a non-cash, accounting loss movement on the revaluation on instruments and may not provide a full representation of the quarterly activities of the Company. Refer to Non-GAAP Measures for additional measures.

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

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Revenue	\$ 533,545	\$ 669,500	\$ 833,301	\$ 688,112	\$ 555,467	\$ 330,349	\$ 107,058	\$ 177,111
Net loss	(35,435,426)	(645,168)	(7,078,907)	(2,209,283)	(2,551,622)	(1,876,853)	(1,452,993)	(2,172,726)
Net loss per share – basic	(0.61)	(0.01)	(0.25)	(0.09)	(0.1)	(0.07)	(0.09)	(0.18)
Net loss per share - diluted	(0.61)	(0.01)	(0.25)	(0.09)	(0.1)	(0.07)	(0.09)	(0.18)

# SUMMARY OF QUARTERLY RESULTS



The Company continues to recognize cannabis sales revenues through its operations in Vermont and Florida, which have in aggregate increased by 14% since the previous quarter. The Company expects sales revenues to continue to increase as dispensaries open, delivery programs continue to expand, and additional products are brought to market. This expectation is particularly evident in Massachusetts, where the Company opened its first dispensary in July 2018 and sales have begun.

During the quarter, the Company completed its landmark financing with GGP, raising net proceeds of \$46.0 million. The Company used proceeds from the financing to repay the January 2018 debentures and to continue to fund the expansion and build-out of its cultivation facilities and dispensaries.

The Company continues to experience increases in total assets as facilities are built out and dispensaries are opened. Increases during the quarter are attributed to a substantial injection of cash from the GGP financing, increases in receivables, prepaid expenses and inventory, as well as additions to leasehold improvements in Citiva's and Mayflower's facilities.





# DISCUSSION OF OPERATIONS



## SALES REVENUES & GROSS PROFITS

The following represents the cannabis sales revenues and gross profits generated by each subsidiary for the three months ended June 30, 2018:

	For three months ended June 30, 2018			
	Vermont	Massachusetts	Florida	Total
Sales revenues	\$180,502	\$112	\$74,996	\$255,610
Cost of goods sold	(\$83,517)	(\$25)	(\$38,007)	(\$121,549)
<b>Gross profit before fair value adjustment on biological assets</b>	\$96,985	\$87	\$36,989	\$134,061
Fair value adjustment on biological assets, net costs	(\$89,154)	\$715,865	\$651,725	\$1,278,436
<b>Gross Profit</b>	<b>\$7,831</b>	<b>\$715,952</b>	<b>\$688,714</b>	<b>\$1,412,497</b>

The following represents the cannabis sales revenues and gross profits generated by each subsidiary for the six months ended June 30, 2018:

	For six months ended June 30, 2018			
	Vermont	Massachusetts	Florida	Total
Sales revenues	\$389,795	\$112	\$90,779	\$480,686
Cost of goods sold	(\$119,194)	(\$25)	(\$42,247)	(\$161,466)
<b>Gross profit before fair value adjustment on biological assets</b>	<b>\$270,601</b>	<b>\$87</b>	<b>\$48,532</b>	<b>\$319,220</b>
Fair value adjustment on biological assets, net costs	\$15,051	\$828,044	\$3,042,445	\$3,885,540
<b>Gross Profit</b>	<b>\$285,652</b>	<b>\$828,131</b>	<b>\$3,090,977</b>	<b>\$4,204,760</b>

The sales revenues, cost of goods sold, gain on fair value of biological assets and gross profit were \$Nil for the three and six months ended June 30, 2017.

# DISCUSSION OF OPERATIONS



The Company consolidates the financial statements of the operations in Vermont, Massachusetts, Florida and New York. This leads to the recognition of cannabis sales revenues, costs of goods sold and gains on fair value of biological assets in all segments, except for New York, where operations will begin later this year. Cannabis sales revenues, cost of goods sold and gains on fair value of biological assets did not exist for the Company as of the three and six months ended June 30, 2017, as these entities were not controlled by the Company at that time.

## *Massachusetts*

Mayflower recognized a significant gain on the transformation of biological assets from the growth of the plants at the cultivation facility.

Mayflower launched its Patient Home Delivery Program near the end of Q2 2018. This allowed Mayflower to recognize sales revenues and cost of goods sold for the first time. With the first dispensary opening subsequent to quarter end, on July 19, 2018, the Company expects to record increasing sales revenues for the remainder of the year.

## *Florida*

GrowHealthy had a cultivation facility and processing facility operating throughout the quarter and recognized gains on the transformation of biological assets from the growth of the plants at the cultivation facility. GrowHealthy did not have a dispensary open as of June 30, 2018 but is expecting to open three dispensaries in Florida in the current year. GrowHealthy continues to expand sales through the state-wide delivery program and once the dispensaries open, the sales revenues for GrowHealthy are expected to increase significantly.

## OTHER REVENUES

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Sales Revenues	\$ 255,610	\$ -	\$ 480,686	\$ -
Investment Income	-	102,394	-	192,584
Interest income	192,276	453,073	550,685	693,232
Other income	85,659	-	171,674	-
<b>TOTAL</b>	<b>\$ 533,545</b>	<b>\$ 555,467</b>	<b>\$ 1,203,045</b>	<b>\$ 885,816</b>

# DISCUSSION OF OPERATIONS



The sales revenues line records the Company's revenues from management fees and the lease of fixed assets held in the two wholly-owned subsidiaries, Scarlet Globemallow, LLC ("Scarlet") and Bergamot Properties, LLC ("Bergamot"). Investment revenues increased from cannabis sales recognized during the quarter.

Interest income was recognized during the year as a result of the Company's loan facilities. The main driver of interest income was the \$7,500,000 credit facility issued to The Green Solution, LLC ("TGS") and certain of its affiliated Colorado entities. The loan repayments began in February 2018 and the loan was fully repaid by June 13, 2018. This decrease in principal led to a decrease in interest income in Q2 2018 versus Q1 2018.

## OPERATING EXPENSES

### *Depreciation and Amortization*

Following the acquisitions in Florida, New York, Vermont and Massachusetts, the Company's depreciable asset base increased significantly. The assets acquired include all real estate holdings, equipment and other tangible and intangible assets and all intellectual property.

Depreciation and amortization increased from \$86,212 in the three months ended June 30, 2017 to \$647,225 in the same period in 2018. Depreciation and amortization increased from \$183,626 in the six months ended June 30, 2017 to \$1,128,019 in the same period in 2018.

### *Administrative and Other Expenses*

The Company began consolidating the financial results of its subsidiaries in 2018, and consequently the administrative and other expenses have increased from \$467,467 in the three month period ending June 30, 2017 to \$1,343,400 in the same period in 2018 and from \$923,269 in the six month period ending June 30, 2017 to \$2,661,621 in the same period in 2018. This reflects the incremental administrative costs associated with operating the acquired subsidiaries.

The acquisitions have led to significant increases in expenditures, including rent expenses, utility fees, insurance expenses, IT and other technology expenses, research and development, repairs and maintenance, and state regulatory fees.

Additionally, the Company has had increases in regulatory and filing fees in line with various financings and deal activity pursued by the Company over the quarter. Travel expenses increased as the Company explored various financing and investment opportunities across the U.S. It is expected that, as the Company continues to expand its portfolio across the U.S., site visits to the various current and potential investments will continue to increase.



# DISCUSSION OF OPERATIONS



## *Wages and Share-based Compensation*

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Wages and salaries	\$ 3,000,396	\$ 395,441	\$ 4,484,587	\$ 760,026
Share-based compensation	2,250,306	522,411	4,004,631	850,455
<b>TOTAL</b>	<b>\$ 5,250,702</b>	<b>\$ 917,852</b>	<b>\$ 8,489,218</b>	<b>\$ 1,610,481</b>

The Company's human capital continues to grow substantially as operations are launched in Massachusetts, Florida and New York, resulting in increased payroll expenses. During the second quarter, the headcount for staff in the cultivation facility and dispensaries at Mayflower doubled as the operation expanded and prepared to open its first dispensary in July 2018. The headcount for GrowHealthy also increased significantly with increased cultivation activity and deliveries.

At the corporate level, the Company has made additions to its management, operations and finance teams and has brought several functions in-house by establishing new departments, including human resources and marketing. The Company has also built its knowledge and expertise by bringing on experts in cultivation and extraction in-house.

In line with these additions to wages and salaries throughout the Company, the share-based compensation expense has increased as the Company has issued employee stock options as part of its compensation packages to attract top talent in a competitive and highly specialized job market.

## *Legal, Professional and Consulting Fees*

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Legal fees	\$ 785,043	\$ 304,493	\$ 1,577,953	\$ 563,676
Audit and advisory fees	824,582	138,155	1,293,728	138,155
Consulting fees – financial	494,277	233,208	798,963	529,551
Consulting fees – promotional	374,038	109,279	677,192	168,476
Consulting fees - other	407,160	47,456	720,177	109,169
<b>TOTAL</b>	<b>\$ 2,885,100</b>	<b>\$ 832,591</b>	<b>\$ 5,068,013</b>	<b>\$ 1,509,027</b>

# DISCUSSION OF OPERATIONS



As the Company's footprint continues to grow in size and complexity, the services of external consultants have become increasingly important to the Company.

Legal fees for the three and six months ending June 30, 2018 have increased compared to the same period in 2017 as the Company has continued to require legal expertise in navigating complex investment structuring, in particular for the acquisitions in Florida and New York, and ensuring compliance with state and local regulations in expanded jurisdictions. As the Company's operations have grown and have become increasingly complex, audit related fees were higher this year. Additionally, significant advisory fees were incurred related to due diligence, tax consulting and valuation work performed in connection with the acquisitions and biological assets.

## OTHER ITEMS

### *Interest and Accretion Expense*

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Interest expense	\$ 1,286,935	\$ 326,879	\$ 2,148,424	\$ 453,247
Accretion expense	10,390,905	388,365	13,261,961	552,239
<b>TOTAL</b>	<b>\$ 11,677,840</b>	<b>\$ 715,244</b>	<b>\$ 15,410,385</b>	<b>\$ 1,005,486</b>

On May 16, 2018, the Company repaid the full principal amount and accrued interest of \$20,978,082 for the January 2018 debentures. The Company recognized \$9,807,616 in accretion expense on settlement of the repayment. This is a one-time increase in accretion expense and is non-cash in nature and accretion will reduce to stabilized levels in future periods. It is due to the early repayment of the January 2018 debentures and is not expected to recur in subsequent quarters.

On May 14, 2018, the Company issued \$40,000,000 high yield secured notes (the "HY Notes") to GGP. The HY Notes accrue interest at 13%, have a three-year maturity, and are convertible into shares of the Company at \$3.08 per share.

## CAPITAL RAISES AND FINANCINGS

### *GGP \$50.0 million financing*

On May 14, 2018, the Company issued \$40,000,000 HY Notes to GGP. The HY Notes accrue interest at 13%, 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 AND CAPITAL RESOURCES



## LIQUIDITY

The Company and the majority of its subsidiaries are in the development stage and funding requirements therefore fluctuate from period to period. Management constantly monitors and manages its cash flow to assess the liquidity necessary to fund 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: (i) 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); (ii) 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; (iii) in November of 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\$4,551,735 (equivalent \$3,574,193); (iv) in January 2018, the Company closed a non-brokered private placement of debentures for gross proceeds of \$20,000,000, which on May 16, 2018 has been fully repaid including accrued interest of \$978,082; (v) in May 2018, the Company received a \$50,000,000 investment from GGP, in the form of high-yield senior secured notes and Class A Shares. If such financing were no longer available in the public markets due to changes in applicable law, the Company expects that it would have access to raise financing privately. However, there are no guarantees that such financing would be available.



Commercial banks, private equity firms and venture capital firms have approached the cannabis 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 the Company's projects. Although there has been an increase in the amount of private financing 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. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing 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 period. Management believes that the Company will continue to be able to meet all its covenants through the balance of this fiscal year.

See Note 2 to our condensed interim consolidated financial statements relating to our Going Concern disclosure



# LIQUIDITY AND CAPITAL RESOURCES



## CASH FLOWS

Cash was \$27,108,112 at June 30, 2018, compared to \$6,175,287 at December 31, 2017. The increase in cash is 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 six months ended June 30, 2018 was \$11,123,659 compared to \$2,834,769 during the six months ended June 30, 2017. The increase was a result of the overall increase in the level of activity and complexity in the operations of the Company. Significant cash outflows from operating activities were 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 six months ended June 30, 2018 was \$12,826,146 compared to \$12,943,723 during the six months ended June 30, 2017.

During the six months ended June 30, 2018, the Company made the following significant investments:

- \$14.5 million – cash used in the acquisition of GrowHealthy's assets in January 2018;
- \$3.6 million – cash used in the acquisition of Citiva in February 2018;
- \$3.3 million – purchase of plant, property, and equipment; and
- \$0.2 million – promissory note issued to Citiva Jamaica LLC.

During the six months ended June 30, 2018, 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 six months ended June 30, 2018 was \$43,928,457 compared to \$14,616,470 during the six months ended June 30, 2017. Significant sources of financing during the six months ended June 30, 2018 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; and
- \$1.6 million from the exercise of warrants from previous rounds of financing.

# LIQUIDITY AND CAPITAL RESOURCES



## CONTRACTUAL OBLIGATIONS

The following table presents the Company's significant contractual obligations as at June 30, 2018.

	< 1 YEAR	1-2 YEARS	3-5 YEARS	> 5 YEARS	TOTAL
<b>USD DENOMINATED</b>					
Payables and accrued liabilities	\$ 2,902,009	\$ -	\$ -	\$ -	\$ 2,902,009
Long-term debt	5,257,778	5,272,222	44,578,889	-	55,108,889
Operating leases	1,791,815	2,985,408	2,586,561	3,753,867	11,117,651
Consultants and advisors	554,988	90,685	-	-	645,673
<b>TOTAL USD DENOMINATED</b>	<b>\$ 10,506,590</b>	<b>\$ 8,348,315</b>	<b>\$ 47,165,450</b>	<b>\$ 3,753,867</b>	<b>\$ 69,774,222</b>
<b>CAD DENOMINATED</b>					
Payables and accrued liabilities	\$ 237,567	\$ -	\$ -	\$ -	\$ 237,567
Operating leases	269,184	418,368	197,184	-	884,736
Consultants and advisors	82,000	-	-	-	82,000
<b>TOTAL CAD DENOMINATED</b>	<b>\$ 588,751</b>	<b>\$ 418,368</b>	<b>\$ 197,184</b>	<b>\$ -</b>	<b>\$ 1,204,303</b>

Long-term debt consists of Convertible Promissory Notes (USD) and Convertible Debentures (USD and CAD). The Company's contractual obligations include consultants, advisors and leases for the Company's offices in Toronto and New York, as well as dispensaries, cultivation facilities, vehicles, and computer software in Massachusetts, New York, Florida and Vermont.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements at June 30, 2018.

# LIQUIDITY AND CAPITAL RESOURCES



## SHARE CAPITAL

The following table presents the Company's share capital information as at August 28, 2018.

	NUMBER OUTSTANDING
Common Shares issued and outstanding	51,634,219
Class A Common Shares issued and outstanding	16,893,614
Options to purchase Common Shares	3,534,500
Options to purchase Class A Common Shares	1,200,000
Class A Convertible Restricted Voting Share Options	1,125,500
Warrants	21,344,659
High yield notes	12,970,169
Fully diluted shares outstanding	108,702,661

## ADDITIONAL INFORMATION



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

The critical accounting estimates and judgements are disclosed in full in the Company's consolidated financial statements and accompanying management's discussion and analysis as at December 31, 2017.

### 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 19 in the notes to the condensed interim consolidated financial statements.

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

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 19 in the notes to the condensed interim consolidated financial statements.

- *IFRS 16 Leases*

### FINANCIAL INSTRUMENTS

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

The financial instruments and related risk management strategies are disclosed in full in the Company's consolidated financial statements and accompanying management discussion and analysis as at December 31, 2017. The instruments and risk management strategies remain unchanged for the current quarter.

### NON-GAAP MEASURES

To increase clarity for readers, the Company has included the following non-GAAP measure for non-cash losses.

Depreciation and amortization	\$	(1,128,019)
Share-based compensation		(4,004,631)
Accretion expense		(13,261,961)
Change in fair value		(8,169,342)
Profits from investment in associate		222,430
Foreign exchange loss		(28,357)
Foreign exchange loss on translation		219,262
<b>Non-cash losses</b>	<b>\$</b>	<b>(26,150,618)</b>



# ADDITIONAL INFORMATION



## 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 into Class A-1 units of RGA, owned by William Ford, a related party through a familial relationship with one of the Company's officers, Hadley Ford. As part of that transaction, the Company is to be reimbursed \$30,000 from RGA in connection with certain legal fees and expenses incurred as a result of the conversion. As of June 30, 2018, the reimbursement due from the RGA loan conversion was \$30,000.

Effective December 31, 2017, the Company entered into a series of transactions which resulted in the acquisition of 100% of the sole member of FWR, a non-profit corporation (refer to Note 4 in the notes to the consolidated financial statements). As a result of previous 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 \$48,667 as at June 30, 2018.

### *Other*

As at June 30, 2018, the Company had a loan due from a director 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 quarter ended June 30, 2018 was CAD\$10,445 (equivalent \$8,102).

On June 26, 2018, the Company had repaid a loan payable to an executive of Citiva with a balance of \$20,000. The repayment consisted of converting the loan in exchange of shares for the company. As at June 30, 2018 the balance is \$Nil.

	June 30, 2018		December 31, 2017	
Due from RGA	\$	30,000	\$	30,000
Director's loans outstanding		391,267		398,565
<b>TOTAL DUE FROM RELATED PARTIES</b>	<b>\$</b>	<b>421,267</b>	<b>\$</b>	<b>428,565</b>
Due to RGA and affiliates		48,667		81,056
<b>TOTAL DUE TO RELATED PARTIES</b>	<b>\$</b>	<b>48,667</b>	<b>\$</b>	<b>81,056</b>

# SUBSEQUENT EVENTS



## SUBSEQUENT EVENTS

### *Conversion of CAD\$20.0 million debentures*

On July 16, 2018, the Company elected to exercise its right under the indenture governing the Company's 8.0% unsecured convertible debentures 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. On August 15, 2018, the holders of the convertible promissory notes converted the outstanding principal balance into common shares of the Company, which resulted in the issuance of 590,910 common shares. The holders of the notes also elected to receive their final interest payment in the form of common shares, which resulted in the issuance of an additional 3,234 common shares.

### *Promissory note conversion*

On August 15, 2018, the holders of the convertible promissory notes converted the outstanding principal balance into common shares of the Company, which resulted in the issuance of 318,181 common shares. The holders of the notes also elected to receive their final interest payment in the form of common shares, which resulted in the issuance of an additional 3,234 common shares.







iAnthus





# REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



iAnthus

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.

### ***Compliance with Applicable State Law in the United States***

Each investee complies with applicable U.S. state licensing requirements as follows: (1) each investee 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 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 investee that is a license holder (specifically, Mayflower, GRVT, Citiva, and McCrory’s) 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. To the knowledge of the Company, no investee has experienced any non-compliance and no investee is subject to any notices of violation by its respective regulatory authority.



# REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



## ***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 balance sheet that pertain to U.S. cannabis activity as at June 30, 2018:

<b>Balance Sheet Line Item</b>	<b>Percentage which Relates to Investments/Holdings with U.S. marijuana-related activities</b>
Receivables and prepaid assets	40%
Notes receivable	0%
Inventory and biological assets	100%
Other current assets	22%
Investments and investments in associates	100%
Plant, property and equipment	98%
Intangible assets and goodwill	100%
Other assets	92%
Payables and accrued liabilities	52%
Interest payable	0%
Derivative liabilities	0%
Financial liabilities	0%
Other liabilities	94%
Long-term debt	0%
Deferred tax liabilities	0%

<b>Income Statement Line Item</b>	<b>Percentage which Relates to Investments/Holdings with U.S. marijuana-related activities</b>
Gross profit	100%
Other revenues	2%
Operating expenses	35%
Other items	0%

# REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



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.

## ***United States Federal Overview***

In the United States, thirty-one (31) states, Washington D.C. and Puerto Rico have legalized medical marijuana, and nine states and Washington D.C. have legalized "adult use" or "recreational" marijuana. At the federal level, however, cannabis 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, cannabis related practices or activities including, without limitation, the manufacture, importation, possession, use, or distribution of cannabis, remain illegal under United States federal law.

Although federally illegal, the U.S. federal government's approach to enforcement of such laws has at least until recently trended toward non-enforcement. On August 29, 2013, the 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 revoked by 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 substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority.

In addition to his revocation of the Cole Memorandum, 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 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 emphasizes that marijuana is a Schedule I controlled substance, and reiterates 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 is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes 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.

# REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



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

Robert C. Troyer is the U.S. Attorney for the District of Colorado. On January 4, 2018, Mr. Troyer issued the following statements: "Today the Attorney General rescinded the Cole Memo on marijuana prosecutions and directed that federal marijuana prosecution decisions be governed by the same principles that have long governed all of our prosecution decisions. The United States Attorney's Office in Colorado has already been guided by these principles in marijuana prosecutions—focusing in particular on identifying and prosecuting those who create the greatest safety threats to our communities around the state. We will, consistent with the Attorney General's latest guidance, continue to take this approach in all of our work with our law enforcement partners throughout Colorado."

(2) Florida

Maria Chapa Lopez is the U.S. Attorney for the Middle District of Florida, Christopher P. Canova is the U.S. Attorney for the Northern District of Florida and Benjamin G. Greenberg is the U.S. Attorney for the Southern District of Florida. Ms. Lopez, Mr. Canova and Mr. Greenberg 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."

(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.

# REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



## (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." 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." It is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memorandum. While initial fears of a nationwide "crackdown" have not yet materialized, considerable uncertainty remains.

Regardless, marijuana remains a Schedule I controlled substance at the federal level, and neither the Cole Memorandum nor its rescission 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.



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However, 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 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 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 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, currently, the "Leahy 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. The Leahy Amendment was included in the FY 2018

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budget passed on March 23, 2018, meaning that, the Leahy Amendment is still in effect as of today's date and will remain in effect until September 30, 2018, when FY 2019 begins.

## ***Investment in Massachusetts***

In 2017, the Company acquired an 80% controlling interest in 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 RMD licenses in Massachusetts. The remaining 20% of Pilgrim was acquired in April 2018, which gave the Company a 100% ownership of Pilgrim, which in turn is the sole member of 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 final authorization from 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 towns of Arlington, Boston, Brookline, Cambridge, Charleston, Chelsea, East Boston, Everett, Malden, Medford, Milton, Quincy, Revere, 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. The Company has received a provisional license for a second RMD, signed a lease for a second dispensary location in Lowell, and has signed a Host Community Agreement with the City of Lowell. The Company intends to diligently pursue a Special Permit at its Lowell site.

For the purposes of Staff Notice 51-352, the assets held by the Company's subsidiaries, Pilgrim and Mayflower, are classified as "direct" involvement in the United States cultivation or distribution industry.

Massachusetts has authorized the cultivation, possession and distribution of cannabis by certain licensed Massachusetts cannabis businesses. The Massachusetts Department of Public Health regulates Massachusetts' cannabis regulatory 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.

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

## (i) Registration and Certification

The DPH grants 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

A license holder must be available for inspection by the DPH upon request. A license holder must 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.

## (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. Certain 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.

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## ***Investment in Vermont***

In 2017, the Company acquired 100% of Pakalolo, LLC, ("Pakalolo") the sole member of FWR, Inc., a not-for-profit license holder in Vermont doing business as Grassroots Vermont ("GRVT").

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; the Vermont legislature is expected to consider such legislation in its 2019 session.

For the purposes of Staff Notice 51-352, the assets held by the Company's subsidiary, GRVT, are classified as "direct" involvement in the United States cultivation or distribution industry.

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 the DPS-issued license.



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## (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.

### ***Investment in 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 three cultivation operations in Albuquerque, New Mexico totaling 13,200 square feet and four dispensary locations, also in Albuquerque, 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.

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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.

## ***Investments in Colorado***

### ***Organix***

On December 5, 2016, the Company, through its wholly-owned subsidiary, Scarlet Globemallow, LLC ("Scarlet"), acquired certain assets of Organix, LLC ("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"). The purchase price of the Organix Assets was \$4,520,175, subject to certain purchase price adjustments to be determined over a portion of the 2017 fiscal year. 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.

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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, the Company's subsidiaries, Scarlet and Bergamot, are in compliance with Colorado's marijuana regulatory program.

## ***Investment in 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 dispensary locations. 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.

Citiva continues to execute on its business plan, having started construction on a flagship 2,000 square-foot dispensary in Brooklyn, located in a highly-trafficked area directly across from the Barclays Center. The dispensary is expected to be one of only three dispensaries operating in Brooklyn, a borough of 2.6 million residents. Citiva has also been engaged in negotiations with other Registered Organizations to gain access to wholesale product, as well as negotiations related to leasing agreements for dispensaries in Staten Island, Dutchess County and Chemung County.

During the quarter, the Company formed a medical outreach program to educate physicians in the State of New York on Citiva product offerings and create brand awareness in advance of the dispensary openings.

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. 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.

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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% 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.



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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 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 Department.

#### (vi) Testing

The 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 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.

### ***Investment in 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.

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GrowHealthy and its affiliate, McCrory's Sunny Hill Nursery, LLC ("McCrory's"), comprise one of just fourteen (14) Florida MMTCs licensed to provide medical cannabis under Florida's medical marijuana law. The acquisition also included GHIA, 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.

The Company's state-of-the-art cultivation facility in Lake Wales, FL, is comprised of 200,000 square feet of space capable of producing 18,000kg of medical cannabis annually when fully built out. GrowHealthy is currently growing and processing in approximately 25,000 square feet of the facility.

A lease has been signed for a flagship dispensary in the West Palm Beach area, which facility is expected to open in 2018. The next three dispensaries are planned for Tampa Bay, Orlando and Deerfield Beach, and leases have been executed for each of these locations.

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 GHIAA.

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 licenses that are in good standing to cultivate, possess and/or distribute marijuana in Florida in compliance with Florida's marijuana regulatory program. To the extent required by Florida's marijuana regulatory program, the Company has fully disclosed and/or registered 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 an "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. 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.

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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 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

MMTC's 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

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description of personal qualifications and experience with chain of custody or other tracking mechanisms. In addition, MMTC's 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. These transportation manifests will be retained for a period of at least three years.

## ***Investment in 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 approximately 0.3% of 4Front's issued and outstanding shares.

The Company understands that 4Front, through various subsidiaries, holds a 65% 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. 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



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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.

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## (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.

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## ***Risk Factors***

Many factors could cause the Company's actual results, performance and achievements to differ materially from those expressed or implied by the forward-looking statements and forward-looking information, including without limitation, the following factors, which are discussed in greater detail under the heading "Risk Factors" in the

Company's AIF for the year ended December 31, 2017 filed with securities regulators and available on [www.sedar.com](http://www.sedar.com), which risk factors are incorporated by reference into this document, and should be reviewed in detail by all readers.

The risk factors described or incorporated by reference in this MD&A 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 purchasers could lose all or part of their investment.

- The Company's business activities, while believed to be compliant with applicable state and local law of the United States, are illegal under United States federal law.
- There is uncertainty surrounding the Trump Administration and Attorney General Jeff Sessions and their influence and policies in opposition to the cannabis industry as a whole.
- The Company's investments in the United States are subject to applicable anti-money laundering laws and regulations.
- The Company's investments in the United States may be subject to heightened scrutiny.
- Laws and regulations affecting the Company's industry are constantly changing.
- The Company relies on third-party suppliers, manufacturers and contractors, which due to the uncertain regulatory landscape for regulating cannabis in Canada and the United States, may elect, at any time, to decline or withdraw services necessary for the Company's operations.
- The application of certain rules of the United States Tax Code may cause the Company, which as of the date of this MD&A is a Canadian corporation, to be taxed as a United States corporation for United States federal tax purposes.
- The completion of any potential acquisition will be subject to conditions, and as a result, there can be no assurance that the Company will complete any acquisitions.
- The Company will face competition from other companies, some of which may have longer operating histories, more financial resources and experience than the Company.
- The cash flows of the Company are dependent upon the operation of investee companies, which may create risk.
- The Company may invest in securities of a private companies which may be considered illiquid securities.
- The market price of the Company's common shares is volatile and may not accurately reflect the long-term value of the Company.
- A positive return in an investment in the Company's common shares is not guaranteed.
- The Company may issue additional securities in the future, which may dilute a shareholder's holdings in the Company.

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- The Company will require 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.
- Although the Company anticipates it will continue to have positive cash flow from operating activities, the Company cannot assure that it will achieve sufficient revenues from sales to maintain profitability or positive cash flow from operating activities.
- The Company is a holding company and essentially all of its assets are the capital stock of its subsidiaries. As a result, investors in the Company are subject to the risks attributable to its subsidiaries.
- The Company's insurance coverage is subject to limits and exclusions and may not be adequate, sufficient, or generally available in the future at premiums that will be commercially justifiable.
- The Company is subject to the risks inherent in an agricultural business.
- The Company is vulnerable to rising energy costs.
- The Company's business may be subject to unfavorable publicity or consumer perception.