



iAnthus

# MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE YEARS ENDED  
DECEMBER 31, 2017 AND 2016

# 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 of April 29, 2018, should be read in conjunction with the consolidated financial statements of iAnthus for the years ended December 31, 2017 and 2016 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"), 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).



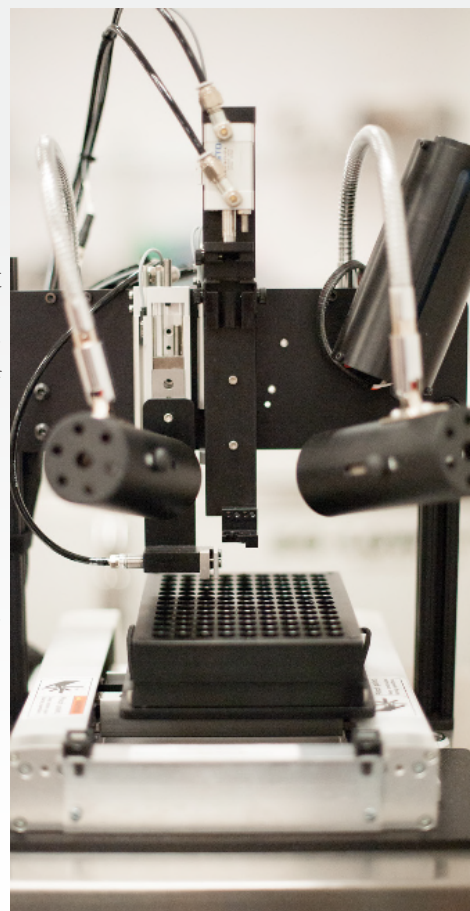
## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS



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”. 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 at 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.



## MESSAGE FROM CEO



*The past year has brought major developments for iAnthus, including acquisitions in the major east coast markets of Florida and New York, the continued buildout of a world-class operations team led by Carlos Perea (Chief Operating Officer), and the establishment of iAnthus as one of the cannabis industry's most well-known and well-funded companies.*

*Our vision is to create the most valuable network of cannabis operations and distribution in the United States. We have prioritized long-term, sustainable growth that provides immediate and future value to our investors, customers and industry partners. To that end, we have focused on building out state-of-the-art, highly automated cultivation facilities in Massachusetts, New York, and Florida that we anticipate will greatly reduce our future cultivation and production costs, while providing a superior and more consistent product to our patients and customers. Our dispensary locations in Florida, Massachusetts, and New York, have prioritized ease of access for our patients and customers and the designs have relied on their feedback and engagement. Our approach should result in dispensaries located in high traffic locations in densely populated areas and allow us to develop a loyal following of patients and customers with whom we will foster meaningful, long-term relationships.*

*As we look ahead to Fiscal Year 2018, iAnthus will continue to be opportunistic in building our network in high growth U.S. markets. The U.S. cannabis market still represents a vast untapped potential, and we plan to remain well-funded and flexible to create shareholder value through strategic opportunities when they arise. While we will not always want to be the first to market, we feel it is crucial to seize unique opportunities when they are available.*

*The past year has seen iAnthus solidify an unprecedented position in east coast states. By adding the markets of New York and Florida to our strong presence in Massachusetts and Vermont, we now have the licensed opportunity to sell cannabis to a population of over 48 million with very limited competition. We look forward to building on that elite presence throughout 2018, while continuing to establish ourselves as a best-in-class operator.*

*Hadley Ford, Chief Executive Officer*



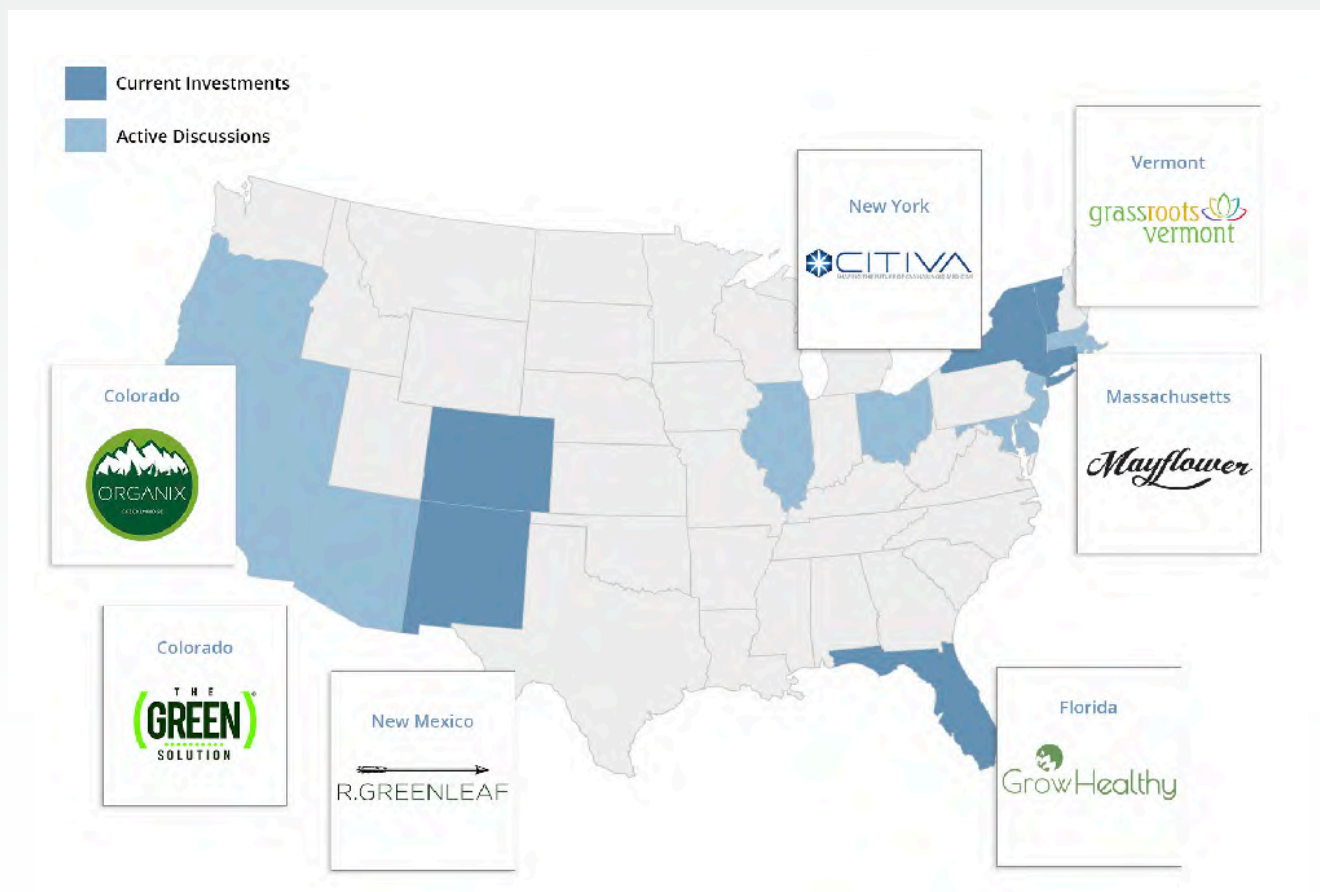
# COMPANY OVERVIEW



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 cannabis 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 seven operations and investments in six states:





## SUMMARY OF OPERATIONS & INVESTMENTS

### OPERATIONS OF THE COMPANY

	POPULATION <sup>(1)</sup>	2018 ESTIMATED MARKET SIZE <sup>(2)</sup>	EQUITY OWNERSHIP	FACILITIES	COMPETITION <sup>(3)</sup>
CITIVA	19.9 Million	\$340.0 Million	100%	4 Dispensaries 1 Cultivation Facility	1 of 10 Licenses
Mayflower	6.9 Million	\$450.0 Million	100% <sup>5</sup>	3 Dispensaries 1 Cultivation Facility	1 of 30 Licenses
GrowHealthy	21.0 Million	\$380.0 Million	100%	25 Dispensaries <sup>4</sup> 1 Cultivation Facility <sup>4</sup>	1 of 13 Licenses
grassroots vermont	0.6 Million	\$20.0 Million	100%	2 Dispensaries 1 Cultivation Facility	1 of 5 Licenses

### OTHER INVESTMENTS

	POPULATION <sup>(1)</sup>	2018 ESTIMATED MARKET SIZE <sup>(2)</sup>	INVESTMENT AT DECEMBER 31, 2017	FACILITIES
THE GREEN SOLUTION	5.6 Million	\$1.6 Billion	\$7.5 Million Loan Asset	16 Dispensaries 1 Cultivation Facility
R.GREENLEAF	2.1 Million	\$110.0 Million	24.6% Equity Interest	1 Management Service Company
ORGANIX	5.6 Million	\$1.6 Billion	\$5.3 Million Investment	1 Dispensary 1 Cultivation Facility

(1) Populations according to the United States Census Bureau from [www.census.gov/data](http://www.census.gov/data) as of April 27, 2018

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

(3) Licenses currently issued in the applicable state

(4) 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 13 current licenses to provide medical cannabis from the Florida Department of Health

(5) The remaining 20% of this entity was acquired subsequent to December 31, 2017

## 2017 KEY HIGHLIGHTS



### **CAPITAL RAISES**

- CAD\$20.0 million debentures in February;
- \$3.0 million financed through bridge loans in October; and
- CAD\$12.0 million short-form prospectus offering and concurrent CAD\$4.5 million non-brokered private placement.

### **MASSACHUSETTS ACQUISITION**

- The Company acquired 80% of Pilgrim Rock Management, LLC ("Pilgrim"), which provides management, IP licensing, leasing and certain other services to Mayflower Medicinals, Inc ("Mayflower"), on December 31, 2017. Mayflower, a not-for-profit corporation, holds licenses to operate a cultivation and manufacturing facility and two Registered Marijuana Dispensaries ("RMDs"), with a third RMD application pending approval from the State. Mayflower received its Final Certificate of Registration on December 21, 2017 and was thereby authorized to begin cultivation operations. Pursuant to legislation passed in 2017, adult-use (recreational) cannabis sales are expected to commence in Massachusetts on July 1, 2018.

### **VERMONT ACQUISITION**

- On December 31, 2017, the Company acquired 100% of the sole member of FWR, Inc. ("FWR"), a Vermont not-for-profit corporation, doing business as Grassroots Vermont ("Grassroots"), which holds one of only five medical cannabis licenses issued by the state of Vermont. The Vermont medical cannabis statute was amended in July 2017 to permit each license holder to open a second retail location. Subject to regulatory approval, the Company plans to begin construction in Q3 2018 on a leased dispensary facility in Chittenden County.

### **KEY SENIOR MANAGEMENT HIRE**

- Appointment of Carlos Perea - Mr. Perea is a technology and operations veteran with more than 20 years of experience as a senior executive in venture capital-backed companies in complex and highly regulated markets.

### **FLORIDA INVESTMENT**

- In October 2017, the Company purchased 2,925,003 Class B Shares of GrowHealthy for a total purchase price of \$3.0 million pursuant to a Class B Share Purchase Agreement (the "Preferred Share Purchase"). The Preferred Share Purchase represented approximately 6.1% of the issued and outstanding equity shares of GrowHealthy.

### **GROWHEALTHY'S FIRST SALE**

- Prior to the opening of its future retail locations across Florida, GrowHealthy began delivery sales in November 2017.

## RECENT DEVELOPMENTS POST YEAR-END



### STRENGTHENED LIQUIDITY POSITION

- \$20.0 million debt issuance in January 2018.

### FLORIDA ACQUISITION

- In January 2018, the Company acquired substantially all of the assets of GrowHealthy including an option to acquire its affiliate, McCrory's, which holds one of only 13 current licenses to provide medical cannabis in Florida. As part of the transaction, the Company also acquired 100% of GHHIA Management, Inc. ("GHHIA"), which holds an exclusive 40-year license to manage the licensed cannabis operations of McCrory's. Florida is home to 21 million residents and the regulations allow each license holder to operate one cultivation facility and 25 medical cannabis dispensaries across the state.

### NEW YORK ACQUISITION

- Citiva Medical, LLC and Citiva, LLC (collectively known as "Citiva") were acquired by the Company in February 2018. Citiva Medical is the holder of one of only ten medical marijuana licenses in New York State. Construction on Citiva's state-of-the-art cultivation facility began in Q1 2018, and the Company expects its flagship dispensary, located across from Barclays Center in Brooklyn, NY, to open in Q4 2018.

### MAYFLOWER - PLANTS IN GROUND

- During the first weeks of 2018, Mayflower received and planted its first shipment of clones. The clones will accelerate the production process and the first harvest and production of finished derivative products is expected to be ready for market in May 2018.

### MASSACHUSETTS MINORITY INTEREST ACQUISITION

- On April 17, 2018, the Company acquired the remaining 20% of Pilgrim. Following the acquisition, the Company now owns 100% of Pilgrim and controls the sole member of Mayflower, which holds the Massachusetts licenses.

### MAYFLOWER DISPENSARY

- Mayflower's flagship dispensary in the Allston-Brighton neighborhood of Boston is expected to open in Q2 2018, and will be one of only two dispensaries operating within the Boston city limits.

### LEASES SIGNED

- The Company has executed leases in the following states:
  - **Massachusetts:** A second dispensary lease in another approved Massachusetts location, with a third dispensary application still pending state approval;
  - **Vermont:** A second dispensary lease located in Williston, pending state approval of the location;
  - **New York:** A second dispensary lease is still in the negotiation process, with two more to follow in 2018; and
  - **Florida:** Dispensary leases in West Palm Beach, Tampa Bay, and Orlando.



## THE LEGALIZATION AND STATE REGULATION 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 legal in twenty-nine (29) states as well as the District of Columbia and the territories of Guam and Puerto Rico. The medical use of cannabis in those states is generally protected from federal interference by what is referred to as the Rohrabacher amendment, a congressional budget amendment 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 Vermont and Washington D.C.

In August 2013, the DOJ issued a guidance memorandum (the "Cole Memorandum") to the U.S. Attorneys 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 parties (Democrats and Republicans), particularly those from states where adult and/or medical cannabis programs had been adopted under state law.



## THE LEGALIZATION AND STATE REGULATION OF CANNABIS IN THE U.S.



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 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 their 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. Senator Gardner subsequently announced that he will introduce a bipartisan bill in the U.S. Senate to adopt 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 licensed cannabis companies operating within the strict confines of state law is minimal. Refer to "Regulatory Environment: Issuers with United States Cannabis-Related Assets" for further discussion.



## MASSACHUSETTS ACQUISITION



On December 21, 2017, Mayflower received its Final Certificate of Registration and Certificate of Occupancy from Massachusetts regulators and local officials, allowing Mayflower to commence cannabis cultivation and production at its 36,000 square foot cultivation and manufacturing facility in Holliston, MA. The non-profit corporation, dedicated to providing medical cannabis products and services to qualified patients, has been awarded two provisional licenses to operate RMDs in Massachusetts, with a third RMD application pending before the Department of Public Health ("DPH") in Massachusetts.

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

On December 31, 2017, the Company entered into a binding agreement with VSH PR, Inc. ("VSH"), a Colorado corporation, that required the Company to acquire the remaining 20% ownership interest in Pilgrim in exchange for shares of the Company valued at \$4.0 million, at a price per share equal to the greater of (i) 90% of the 20-day volume weighted average trading price of iAnthus shares on the CSE immediately preceding the closing date or (ii) 85% of the closing price of iAnthus shares on the day immediately preceding the closing date. This obligation meets the definition of a financial liability and is measured at fair value through profit and loss. At December 31, 2017, the value is \$4,411,481. On April 17, 2018, the Company closed this transaction and acquired the remaining 20% ownership interest in Pilgrim, resulting in the Company's 100% ownership of Pilgrim. The Company acquired the 200,000 Class A-2 units of Pilgrim from VSH in exchange for 1,655,734 common shares of the Company. The common shares were issued pursuant to prospectus exemptions in Canada and are subject to a Canadian hold period expiring on August 17, 2018. This extinguishes the Company's financial liability relating to its obligation to purchase the remaining interest in Pilgrim.



## MASSACHUSETTS ACQUISITION



A significant inventory of cannabis clones was acquired and planted at the beginning of 2018 and the first delivery of finished products is expected to be ready for sale in May 2018. iAnthus believes that the facility, with its state-of-the-art cannabis cultivation, commercial kitchen, and processing capabilities, will be one of the most advanced in the United States. The systems implemented at the facility, including lighting, fertigation and environmental controls, consists of cutting edge automation allowing for high levels of production and quality while reducing labor and operating costs.

Mayflower's first retail dispensary is scheduled to open in Q2 2018. Located in the highly-desirable Allston-Brighton neighborhood of Boston, the dispensary is expected to be one of only two operating within Boston's city limits at the time of its opening. Having already received provisional licenses for two RMDs, a second dispensary lease has been signed in another Massachusetts location and construction is expected to begin in September 2018. The Company is currently evaluating and negotiating locations for its expected third dispensary.

The recreational cannabis program is expected to begin in Massachusetts in Q3 2018. Massachusetts passed legislation in 2017 to implement the recreational program, after a successful ballot initiative was passed by voters in November 2016. The new Cannabis Control Commission then adopted draft regulations in December 2017, providing for sales in the adult use program to commence July 1, 2018.



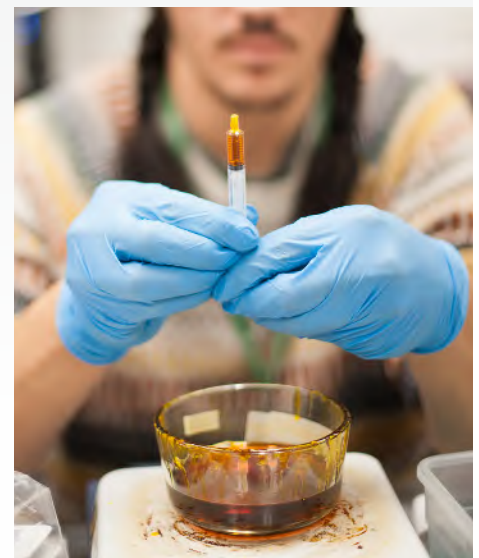
## VERMONT ACQUISITION



FWR, a Vermont non-profit corporation doing business as Grassroots Vermont, holds one of only five licenses in Vermont and currently occupies one dispensary and a 6,900 square foot cultivation and processing facility in Brandon, VT. In July 2017, the state amended its statute to allow each license holder to open one additional dispensary location.

Effective December 31, 2017, the Company acquired a 100% interest in the sole member of FWR. This acquisition was completed in exchange for a combination of cash and Company shares. In addition, the Company formed Grassroots Vermont Management Services, LLC ("GVMS"), a wholly-owned subsidiary that will provide lending facilities, intellectual property licensing, professional and management services, real estate and equipment leasing, and certain other services to FWR.

FWR plans to begin construction on its second location in Williston, VT, in Q3 2018 pending state approval of the location. FWR recently completed significant upgrades to its cultivation facility allowing for increased supply, improved yields, and enhanced product quality. These upgrades supported the launch of a statewide delivery service in Vermont.



## FLORIDA ACQUISITION



Post year-end, the Company acquired substantially all of the assets of GrowHealthy on January 17, 2018 for \$17.5 million in cash and \$30.5 million in iAnthus shares. GrowHealthy's affiliate, McCrory's, held one of only 13 current licenses to provide medical cannabis from the Department of Health ("DOH") in Florida. The acquisition included GHHA, now a 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 Florida license allows the Company to operate a cultivation and manufacturing facility license allows for up to 25 dispensaries throughout the state. Florida currently has a population of approximately 21.0 million residents.

The Company's state-of-the-art cultivation facility in Lake Wales 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 55 different strains of cannabis plants in its cultivation facility. GrowHealthy's flagship dispensary will be opened in the West Palm Beach area, with additional dispensaries currently under lease in Tampa Bay and Orlando. In addition to the brick-and-mortar locations, GrowHealthy already began delivery sales in November 2017 and expects to continue to expand its deliveries statewide.



## NEW YORK ACQUISITION



Post year-end, on February 1, 2018, the Company acquired 100% of Citiva for \$18.0 million consisting of \$3.6 million in cash and \$14.4 million in iAnthus shares. Citiva Medical is a holder of one often vertically integrated medical marijuana licenses issued by New York State, while Citiva is the owner of certain regulated cannabis industry assets and intellectual property. The New York license allows for a cultivation and manufacturing facility and up to four dispensary locations. The Company completed the purchase of 8.2 acres of land in Orange County in March of 2018 and has begun immediate build-out of phase one of the cultivation facility, with expected completion in Q2 2019. This initial phase of the build out will include 27,500 square feet of greenhouse space and a lab facility with the capabilities to produce 1,470kg of medical cannabis annually. The Company has also announced the leasing of its flagship dispensary in Brooklyn, where it will be one of three dispensaries in the city's most populous borough with 2.6 million residents. A second dispensary in Staten Island is currently under negotiations and the facility is expected to open in Q4 2018. The third and fourth dispensaries will be located in Dutchess County and Chemung County, with openings expected in 2019.



## SELECTED ANNUAL INFORMATION



The selected information presented below is derived from, and should be read in conjunction with, the December 31, 2017 and December 31, 2016 consolidated financial statements, which were prepared under IFRS.

	2017	2016	2015
Total Revenue	\$2,407,229	\$391,652	\$45,566
Net Loss	(13,716,665)	(5,055,732)	(1,315,748)
Loss per share	(0.48)	(0.32)	(0.11)
Diluted Loss per share	(0.48)	(0.32)	(0.11)
Total assets	45,821,471	19,956,998	859,237
Total non-current liabilities	14,803,736	735,324	Nil

### PORTFOLIO EXPANSION ACROSS THE STATES

In the last three years, the Company has rapidly expanded its operations horizontally and vertically.

At the end of 2015, the Company had only small loans due from companies in Massachusetts and Vermont in its portfolio and acted as a provider of capital and advisory services to these companies. During 2016, the Company began to move into additional markets through its investments in Colorado and New Mexico, and the Company became increasingly involved in the operations of these companies. By the end of December 2017, the Company completed its acquisitions of the businesses in Massachusetts and Vermont, establishing its role as a vertically-integrated owner-operator in the U.S. cannabis sector. In the beginning of 2018, the Company added wholly-owned operations in New York and Florida to its portfolio, increasing its reach to markets across six states. In line with the expansions and increased activity within the Company, the total assets have substantially increased each year with the additional capital invested and assets acquired.

Over the last three years, the Company's revenues have increased from management fees, investment income and interest income as a result of the additional investments that have been made. Following the acquisitions of operations in Vermont and Massachusetts at December 31, 2017 and GrowHealthy and Citiva in early 2018, the Company is poised to begin recording revenues from cannabis sales.





## SELECTED ANNUAL INFORMATION



The sales revenue will be in line with the Company's shift from an investor to an owner and operator of vertically-integrated businesses in the sector.

With the increase in activity and involvement in operations, the expenses of the Company have also increased each year. In the past three years, the Company has built its portfolio, incurring operating expenses and expenses from financing. The increased expenses in this period prior to the Company's consolidation of sales revenue has resulted in net losses in each period.

### CAPITAL RAISES AND FINANCINGS

In addition to successfully raising over CAD\$16,000,000 (equivalent \$13,000,000) through equity offerings during the year, the Company has raised capital through debt financing in order to execute its strategy for expansion across the U.S. In 2016, the Company raised \$1,300,000 through issuing convertible promissory notes and in 2017, the Company raised CAD\$20,000,000 million (equivalent \$15,096,000). Both of these capital raises through the issuance of long-term debt had the impact of increasing the Company's non-current liabilities on its balance sheet.





## DISCUSSION OF OPERATIONS

### REVENUES

	2017	2016
Management fee income	\$150,576	\$67,461
Investment income	269,159	17,726
Interest income	1,978,727	306,465
Other income	8,767	-
<b>TOTAL</b>	<b>\$2,407,229</b>	<b>\$391,652</b>

The Company has experienced significant growth in revenues during the year. Management fees have increased primarily due to the increase in the balance of the loan with FWR. The fee is calculated at a base of 10% of revenues with an additional 1% charged for each \$50,000 increase in the loan drawdown above \$500,000. During the year, the loan receivable increased from \$550,000 to \$1,005,000, thereby resulting in increased management fees charged.

The investment income line records the Company's revenues from the lease of fixed assets held in the two wholly-owned subsidiaries, Scarlet Globemallow, LLC ("Scarlet") and Bergamot Properties, LLC ("Bergamot"). The assets were acquired in December 2016, therefore the 2016 consolidated statements included only one month of investment income versus the twelve months of income in the 2017 consolidated statements.

Interest income increased during the year as a result of the Company's increase in investments in new and existing loan facilities. The main driver for the increase in interest income is the \$7,500,000 promissory note issued to The Green Solution, LLC ("TGS") and certain of its affiliated Colorado entities. Additionally, the Company issued new debt financing to GrowHealthy and Citiva, and there were additional drawdowns on existing agreements with FWR, Mayflower and Pilgrim over the year.

## DISCUSSION OF OPERATIONS



### OPERATING EXPENSES

#### *Depreciation and Amortization*

Depreciation and amortization increased from \$7,747 in 2016 to \$144,187 in 2017. In December 2016, the Company acquired property and equipment in Colorado from the Organix, LLC ("Organix") transaction and acquired additional property and equipment in March 2017 in relation to the Colorado operation. The assets acquired include all real estate holdings as well as all equipment and other tangible and intangible assets and all intellectual property of Organix. Depreciation in 2016 was only the portion calculated for one month versus the twelve months of depreciation and amortization in 2017 on a larger asset base.

#### *Administrative and Other Expenses*

	2017	2016
Rent and office expenses	\$ 346,339	\$239,935
Regulatory fees	153,655	54,585
Travel and entertainment	494,184	154,684
Other	131,524	104,560
<b>TOTAL</b>	<b>\$1,125,702</b>	<b>\$553,764</b>

As the Company's activity has increased in 2017, all categories of administrative and other expenses have increased accordingly. Rent and office expenses have increased primarily as a result of the need to move to a larger office space in New York, where the majority of the Company's U.S. corporate employees are based. Regulatory fees include transfer agent fees which have increased in line with various financings and deal activity pursued by the Company over the year. Travel and entertainment 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*

	2017	2016
Wages and salaries	\$2,300,515	\$346,413
Share-based compensation	2,898,949	1,064,238
<b>TOTAL</b>	<b>\$5,199,464</b>	<b>\$1,410,651</b>

The Company's human capital has grown substantially in 2017. During the year, the Company has made additions to its management, operations and finance teams and has brought several functions in-house by establishing departments including human resources and marketing.

In 2016, the Company sourced the majority of its U.S. employees through Last Dance Ventures, LLC ("LDV"), a related party owned by two of the Company's officers. LDV was paid a monthly fee for these services and this was classified as a financial consulting fee. After the agreement was terminated during 2017, the employees of LDV were brought into the Company's payroll and their wages were included in the Company's wages and salaries expense.

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

### *Legal, Professional, and Consulting Fees*

	2017	2016
Legal fees	\$1,163,411	\$516,900
Audit and advisory fees	1,039,989	242,443
Consulting fees – financial	635,728	921,064
Consulting fees – promotional	423,732	183,991
Consulting fees – other	224,647	191,811
<b>TOTAL</b>	<b>\$3,487,507</b>	<b>\$2,056,209</b>



## DISCUSSION OF OPERATIONS



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

Legal fees for 2017 have increased as the Company has continued to require legal expertise in navigating the complex investment structuring and ensuring compliance with all levels of regulations. Audit fees were higher this year as the Company engaged its group auditor to conduct an annual audit as well as three quarterly reviews of the Company. Additionally, significant advisory fees were incurred in performing due diligence, tax consulting and valuations work for acquisitions and biological assets.

Financial consulting fees during the year have decreased as the Company brought the former LDV employees in-house as described in the preceding section in Wages and Share-based Compensation. Consulting fees for promotions, including investor relations and website development, increased during the year with the Company's increased activity in raising capital and investing.

### *Impairment Loss*

The Company recorded \$3,355,017 of impairment on assets during the year, of which \$2,553,485 was allocated to goodwill, \$382,538 fair value adjustments to intangibles and \$418,994 to equipment and leasehold improvement. The impairment was caused by the decrease in sales over 2017 in Organix, the licensed operating company in Colorado, in addition to the delay in the transfer of the cultivation and distribution license from Organix to Bellflower, LLC ("Bellflower") as originally planned for June 30, 2017. In addition, the projected revenues for 2017 of approximately \$4,000,000 at Organix were actually approximately \$3,000,000 in 2017. As a result, impairment was recognized on this asset based on the information available at December 31, 2017.

### **OTHER ITEMS**

#### *Interest and Accretion Expense*

	2017	2016
Interest expense	\$1,135,892	\$90,012
Accretion expense	1,352,791	200,809
<b>TOTAL</b>	<b>\$2,488,683</b>	<b>\$290,821</b>

In order to finance its investments during the year, the Company issued CAD\$20,000,000 (equivalent \$15,096,000) convertible debentures in February 2017. The convertible debentures bear interest at 8% per annum, payable semi-annually until the maturity date of February 28, 2019. Interest expense and accretion expense were higher during 2017 as a result and are reflective of the Company's cost of debt financing.

## SUMMARY OF QUARTERLY RESULTS



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

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Revenue	\$833,301	\$688,112	\$555,467	\$330,349	\$107,058	\$177,111	\$72,599	\$34,884
Net loss	(7,078,907)	(2,209,283)	(2,551,622)	(1,876,853)	(1,452,993)	(2,172,726)	(894,428)	(535,585)
Net loss per share – basic	(0.25)	(0.09)	(0.10)	(0.07)	(0.09)	(0.18)	(0.06)	(0.04)
Net loss per share - diluted	(0.25)	(0.09)	(0.10)	(0.07)	(0.09)	(0.18)	(0.06)	(0.04)

### DISCUSSION OF FOURTH QUARTER PERFORMANCE

The fourth quarter of 2017 was one of significant capital raising and investment activity for the Company.

In November 2017, the Company closed two rounds of equity financing, one public and one private, raising over CAD\$16,000,000 (equivalent \$13,000,000). On November 21, 2017, the Company completed a public offering of 7,072,500 Common Shares at CAD\$1.70 per Common Share for gross proceeds to the Company of CAD\$12,023,250 (equivalent \$9,409,336). The Company also completed a non-brokered private placement at CAD\$1.70. The Company issued 2,182,491 Common Shares on November 21, 2017 and 495,000 Common Shares on November 27, 2017 for an aggregate 2,677,491 Common Shares and aggregate gross proceeds of CAD\$4,551,735 (equivalent \$3,574,193) pursuant to the non-brokered private placement.

During the fourth quarter, the Company continued to make additional investments in its existing debt instruments, including the loans to Mayflower and Pilgrim, FWR, Citiva, and GrowHealthy. The Company also made an equity investment in GrowHealthy when it purchased 2,925,003 Class B preferred shares for \$3,000,000 on October 12, 2017. The purchase represented approximately 6.1% of the issued and outstanding equity shares of GrowHealthy.

At the end of the quarter, the Company completed its acquisitions of Pilgrim and the sole member of FWR, resulting in the consolidation of these subsidiaries' assets and the assets of Mayflower and FWR in the Company's consolidated financial statements as at December 31, 2017. However, since the acquisitions were completed on December 31, the Company has not consolidated the subsidiaries' profit and losses in the 2017 consolidated statement of loss and comprehensive loss. The Company will begin consolidating its subsidiaries' results from operations beginning in Q1 2018 and will be able to reflect sales revenues in its consolidated financial statements.

As a result of the financings, investments and acquisitions completed during 2017, the Company's expenses increased as additional legal fees, professional fees, other consulting fees and regulatory fees were incurred over the quarter. Additionally, the Company continued to expand its human capital over the quarter, leading to increased wages and share-based compensation.

# SUMMARY OF QUARTERLY RESULTS



## SUBSEQUENT EVENTS

Subsequent to December 31, 2017, the Company closed its acquisitions of GrowHealthy in January 2018 and Citiva in February 2018. For the full discussion, refer to the Florida Acquisition and New York Acquisition sections.

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



# LIQUIDITY AND CAPITAL RESOURCES



## LIQUIDITY

The Company and the majority of its investments are in the development stage; therefore, funding requirements 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, and continues to have, robust access to equity and debt financing from the public and prospectus exempt (private placement) markets in Canada. 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; (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); (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) and (iv) in January 2018 (post year-end), the Company closed a non-brokered private placement of debentures for gross proceeds of \$20,000,000. If such financing were no longer available in the public markets in Canada due to changes in applicable law, then the Company expects that it would have access to raise financing privately.

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 debt covenants during the year. Management believes that the Company will continue to be able to meet all its covenants during the next fiscal year.

## CASH FLOWS

Cash was \$6,175,287 at the end of 2017, compared to \$9,413,953 at the end of 2016. The decrease in cash for the year ended December 31, 2017 is largely due to the significant cash outflows as a result of investing activities during the year as well as cash outflows from operating activities. This was partially offset by the funds raised through financing activities.

### *Cash Flow from Operating Activities*

Cash used in operating activities during the year was \$6,493,189 compared to \$3,394,659 in 2016. 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 legal fees, professional fees, consulting fees and salaries over the year.



## LIQUIDITY AND CAPITAL RESOURCES



### *Cash Flow from Investing Activities*

The Company's primary increase in cash usage arose from investing activities during the year. Cash used in investing activities during the year was \$23,049,813 compared to \$8,647,914 in 2016. During the year, the Company made the following significant investments:

- \$9.6 million investment in Mayflower and Pilgrim - acquired and consolidated at December 31, 2017
- \$0.5 million investment in FWR - acquired and consolidated at December 31, 2017
- \$5.2 million investment in GrowHealthy - \$ 3.0 million equity and \$2.2 million debt, acquired and consolidated in Q1 2018
- \$0.6 million investment in Citiva - acquired and consolidated in Q1 2018
- \$7.5 million debt investment in TGS
- \$0.7 million purchase of property, plant and equipment

The cash used in these investments was partially offset by the cash received for interest and management fees and the cash acquired through the business combinations of FWR and Mayflower.

### *Cash Flow from Financing Activities*

Cash generated from financing activities during the year was \$26,069,569 compared to \$21,243,907 in 2016. Significant sources of financing during the year include: CAD\$20,000,000 (equivalent \$15,096,000) from the issuance on convertible debentures in February; CAD\$12,023,250 (equivalent \$9,409,336) from the public offering in November; and CAD\$4,551,735 (equivalent \$3,574,193) from the non-brokered private placement in November.



# LIQUIDITY AND CAPITAL RESOURCES



## CONTRACTUAL OBLIGATIONS

The following table presents the Company's significant contractual obligations as at December 31, 2017.

	< 1 YEAR	1-2 YEARS	3-5 YEARS	> 5 YEARS	TOTAL
<b>USD DENOMINATED</b>					
Payables and accrued liabilities	\$1,766,534	\$-	\$-	\$-	\$1,766,534
Long-term debt	1,346,293	-	-	-	1,346,293
Operating leases	716,166	1,294,096	1,538,984	1,071,048	4,620,294
Commitments with consultants and advisors	161,405	96,955	-	-	258,360
<b>TOTAL USD DENOMINATED</b>	<b>\$3,990,398</b>	<b>\$1,391,051</b>	<b>\$1,538,984</b>	<b>\$1,071,048</b>	<b>\$7,991,481</b>
<b>CAD DENOMINATED</b>					
Payables and accrued liabilities	589,872	-	-	-	589,872
Long-term debt	1,531,033	19,870,153	-	-	21,401,186
Operating leases	72,000	24,000	-	-	96,000
Commitments with consultants and advisors	12,000	-	-	-	12,000
<b>TOTAL CAD DENOMINATED</b>	<b>\$2,204,905</b>	<b>\$19,894,153</b>	<b>\$-</b>	<b>\$-</b>	<b>\$22,099,058</b>

Long-term debt consists of Convertible Promissory Notes (U.S. dollar) and Convertible Debentures (Canadian dollar). Operating leases include rents for the Company's offices in Toronto and New York, as well as dispensaries and cultivation facilities in both Vermont and Massachusetts. Included as well are operational contracts comprising of accounting and computer services. Commitments with consultants and advisors incorporate contracts for investor relations, web design, marketing, and compliance.

# LIQUIDITY AND CAPITAL RESOURCES



## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements at December 31, 2017 and December 31, 2016.

## SHARE CAPITAL

The following table presents the Company's share capital information as of April 29, 2018.

	NUMBER OUTSTANDING
Common Shares issued and outstanding	45,748,884
Class A Common Shares issued and outstanding	13,232,563
Options to purchase Common Shares	4,276,500
Options to purchase Class A Common Shares	1,125,500
Warrants	10,958,062
Debentures	2,950,978
Convertible promissory notes	590,909
Fully diluted shares outstanding	78,883,396
Escrowed shares	8,853,176



## ADDITIONAL INFORMATION



### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of 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. A discussion of the Company's accounting estimates and judgments can be found in Note 21 in the notes to the consolidated financial statements.

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

### CHANGES IN ACCOUNTING POLICIES

There were no new standards effective December 31, 2017 that had an impact on the Company's consolidated financial statements. The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards 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. These standards have been discussed in greater detail within Note 21 in the notes to the consolidated financial statements.

- *IFRS 7 Financial Instruments: Disclosure*
- *IFRS 9 Financial Instruments*
- *IFRS 15 Revenue from Contracts with Customers*
- *IFRS 16 Leases*

### 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:

#### *Liquidity risk and capital management*

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

The Company continues to have robust access to equity and debt financing from public and private markets in Canada. If such financing were no longer available in the public markets in Canada due to changes in applicable law, then the Company expects that it would have access to raise financing privately.

## ADDITIONAL INFORMATION



### *Credit risk*

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash, loans and other receivables, and notes receivable. The risk exposure is limited to their carrying amounts at the statement of financial position date. The risk for cash is mitigated by holding these instruments with highly rated Canadian financial institutions. The Company is constantly monitoring the status of American financial institutions and plans to open additional accounts at other institutions to mitigate credit risk. Credit risk from the notes receivable arises from the possibility that principal and/or interest due may become uncollectable. The Company mitigates this risk by managing and monitoring the underlying business relationships along with the corresponding cash flow activity. Credit risk is further mitigated through entering strategic partnerships with the underlying businesses by means of conversion on company debt into equity ownership.

### *Market risk*

#### a) Currency risk

As the Company's operations are located in Canada and the United States, the Company is subject to currency transaction and translation risks.

The Company holds cash in Canadian dollars and U.S. dollars. The Company raises capital in Canadian capital markets and thus is exposed to fluctuations in the Canadian dollar relative to the U.S. dollar, specifically in relation to U.S. dollar denominated liabilities.

As at December 31, 2017, the Company had no hedging agreements in place with respect to foreign exchange rates, however management monitors the Canadian and U.S. currency markets closely and continuously assesses the need to enter into currency hedging arrangements. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

#### b) Interest rate risk

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



## ADDITIONAL INFORMATION



### TRANSACTIONS WITH RELATED PARTIES

#### *Reynold Greenleaf & Associates, LLC ("RGA")*

iAnthus Capital Management, LLC ("ICM"), a wholly-owned subsidiary of the Company, converted its loan with RGA into Class A-1 units of RGA, a related party through a family relationship with one of the Company's officers, 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 December 31, 2017 and December 31, 2016, the reimbursement due from the RGA loan conversion was \$30,000. The related party balance is presented in the "Other current assets" line on the consolidated statement of financial position.

Effective December 31, 2017, the Company entered into a series of transactions, which acquired 100% interest in the sole member of FWR (refer to Note 4 in the notes to the consolidated financial statements). From its historical transactions, FWR had amounts due to RGA and its affiliates and as a result of the acquisition, the Company has included a due to related parties balance of \$81,056 as at December 31, 2017 (December 31, 2016 - \$Nil). The related party balance is presented in the "Payables and accrued liabilities" line on the consolidated statement of financial position.

#### *Last Dance Ventures, LLC*

	2017	2016
Due from RGA	\$30,000	\$30,000
Due from FWR	-	690,102
Due from Mayflower	-	2,131,432
Director's loans outstanding	398,565	30,000
Due from Last Dance Ventures, LLC	-	317,726
<b>TOTAL DUE FROM RELATED PARTIES</b>	<b>\$428,565</b>	<b>\$3,199,260</b>
Due to Last Dance Ventures, LLC	-	318,194
Due to RGA and affiliates	81,056	-
<b>TOTAL DUE TO RELATED PARTIES</b>	<b>\$81,056</b>	<b>\$318,194</b>

On October 1, 2015, the Company entered into an administrative services agreement with LDV, a related party owned by two of the Company's officers. LDV provided full time equivalent staff to perform certain accounting, business development, record keeping, tax filing and other operating functions. At December 31, 2017 and December 31, 2016, the amount due to LDV is \$Nil and \$318,194, respectively, and amount due from LDV is \$Nil and \$317,726, respectively. The related party balance receivable is presented in the "Other assets" line and the related party balance payable is presented in the "Payables and accrued liabilities" line on the consolidated statement of financial position. The rental costs were \$65,005 for the year ended December 31, 2017 (December 31, 2016 - \$107,323).

The agreement with LDV was canceled on September 6, 2017. The Company has brought the operating functions previously performed by LDV in-house. All outstanding balances due to and due from LDV have been fully settled as of December 31, 2017.

## ADDITIONAL INFORMATION



### *FWR*

On June 23, 2015, the Company entered into an agreement to provide management services to FWR, a related party through a family relationship with one of the Company's officers, Hadley Ford. The management fees are based on 10.0% of the fiscal year gross revenue of FWR and an additional 1.0% of the fiscal year gross revenues for each \$50,000 by which the aggregate amount drawn by FWR under the loan exceeds \$500,000 and commenced on July 1, 2015.

The amount due from FWR and affiliates was \$690,102 as of December 31, 2016. The related party balance is presented in the "Investments" line on the consolidated statement of financial position. Effective December 31, 2017, the Company entered into a series of transactions, which resulted in the acquisition of 100% in the sole member of FWR.

### *Mayflower*

On July 1, 2016, the Company entered into an agreement with Mayflower (the "Mayflower Loan Agreement"), to issue a secured promissory note for an amount not to exceed \$1,300,000 to fund Mayflower's license application fees to the State of Massachusetts and related expenses. On December 28, 2016, the parties entered into a First Amendment to the Mayflower Loan Agreement increasing the maximum amount available to be loaned to Mayflower by the Company up to, but not exceeding, a principal amount of \$4,000,000.

The amount due from Mayflower was \$2,131,432 as of December 31, 2016. The related party balance is presented in the "Investments" line on the consolidated statement of financial position.

Effective December 31, 2017, the Company entered into a series of transactions, which resulted in the acquisition of 80% interest in Pilgrim.

### *Other*

As of December 31, 2017, the Company had a loan due from a director with a balance of CAD\$500,000 (equivalent \$398,565). The total loan facility is up to CAD\$500,000 (equivalent \$398,565) and the loan accrues 2.5% interest due upon the maturity of the loan in June 2020. The loan is repayable on demand. No director loan existed as at December 31, 2016. Interest accrued on the loan for the year ended December 31, 2017 was CAD\$4,247 (equivalent \$3,270) (December 31, 2016 - \$Nil).

## RISK FACTORS



### *Laws and regulations affecting the Cannabis industry are constantly changing*

The constant evolution of laws and regulations affecting the cannabis industry could detrimentally affect the Company's operations. U.S. local, state and federal cannabis laws and regulations, along with Canadian securities laws, are broad in scope and subject to changing interpretations. These changes may require the Company to incur substantial costs associated with legal and compliance fees and ultimately require the Company to alter its business plan. Furthermore, violations of these laws, or alleged violations, could disrupt its business and result in a material adverse effect on operations. The Company cannot predict the nature of any future laws, regulations, interpretations or applications, and it is possible that regulations may be enacted that will be directly applicable to its business.

### *Completion of future acquisitions*

Any future acquisitions are subject to conditions, which may include, without limitation, satisfactory completion of the Company's due diligence, negotiation and finalization of formal legal documents, debt financing and approval from the Company's board of directors. As a result, there can be no assurance that the Company will complete any acquisitions. If the Company does not complete such acquisitions, it may be subject to a number of risks, including: (i) the price of its securities may decline to the extent that the current market price reflects a market assumption that these acquisitions will be completed; (ii) certain costs related to each such acquisition, such as legal, accounting and consulting fees, must be paid even if an acquisition is not completed; and (iii) there is no assurance that such suitable opportunities will be available to the Company in the future or at all.

### *Competition*

The Company will face competition from other companies, some of which may have longer operating histories, more financial resources and experience than the Company. Increased competition by larger and well-financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company. Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. To remain competitive, the Company will require research and development, marketing, sales and support.

The Company may not have sufficient resources to maintain research and development, marketing, sales and support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.



## RISK FACTORS



*The Company may incur significant tax liabilities under section 280E of the Internal Revenue Code of 1986, as amended (the "Tax Code")*

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

### *Insurance coverage*

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

### *Risks inherent in an agricultural business*

Cannabis is an agricultural product which comes with inherent risks, such as insects, plant diseases and similar agricultural risks. Although the products are usually grown indoors under climate-controlled conditions, with monitoring, there can be no assurance that natural elements will not have a material adverse effect on them.

### *Vulnerability to rising energy costs*

Medical cannabis growing operations consume considerable energy, making the Company potentially vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

## RISK FACTORS



### *Unfavorable publicity or consumer perception*

The Company believes the medical and recreational cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of its products. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical and recreational cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for medical and recreational cannabis and on the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical and recreational cannabis in general, or associating the consumption of medical cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise hindering market growth and state adoption due to inconsistent public opinion and perception of the medical and recreational cannabis industry. Public opinion and support for medical and recreational cannabis has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical cannabis as opposed to legalization in general).

### *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*

The concepts of "medical cannabis" and "retail cannabis" do not exist under United States federal law. The CSA classifies "marijuana" as a Schedule I drug. 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 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 remains illegal under United States federal law. Although the Company believes its business activities are compliant with applicable United States state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under United States federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

## RISK FACTORS



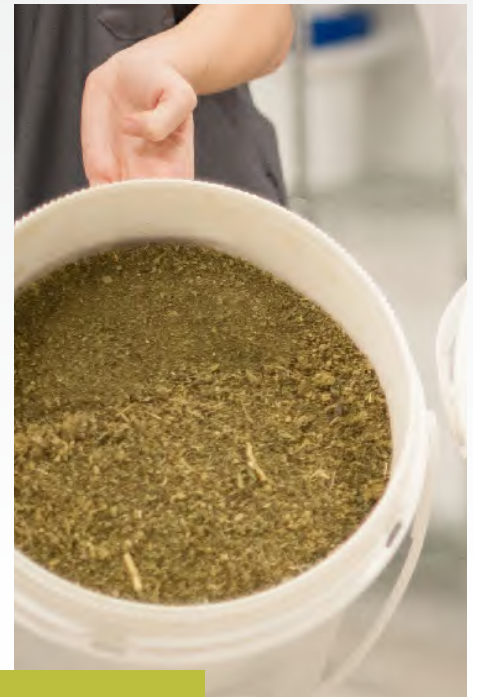
### *The Company requires additional financing*

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.

If additional funds are raised through further issuances of equity or debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

The Company currently raises its equity and debt financing from the public markets in Canada. If such equity and/or debt financing was no longer available in the public markets in Canada due to changes in applicable law, then the Company expects that it would be able to raise equity and/or debt financing privately.

Commercial banks, private equity firms and venture capital firms have approached the industry cautiously to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and projects similar to 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 upon future profitability.





iAnthus

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



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

In accordance with Staff Notice 51-352, the Company will evaluate, monitor and reassess the disclosure contained herein, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation.

As a result of the Company’s investments in certain United States entities (as described herein), the Company is subject to Staff Notice 51-352 and accordingly provides the following disclosure.

### *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, FWR, TGS, Citiva Medical, 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 material 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 December 31, 2017:

Balance Sheet Line Item	Percentage which Relates to Investments/Holdings with U.S. marijuana-related activities
Receivables and prepaid assets	60%
Notes receivable	100%
Inventory and biological assets	100%
Other current assets	8%
Investments and investments in associates	100%
Property, plant and equipment	98%
Intangible assets and goodwill	100%
Other assets	57%
Payables and accrued liabilities	58%
Interest payable	0%
Derivative liabilities	0%
Financial liabilities	100%
Other liabilities	93%
Long-term debt	0%
Deferred tax liabilities	0%

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, twenty-nine states, Washington D.C. and Puerto Rico have legalized medical marijuana, and nine states and Washington D.C. have legalized 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.

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



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 (post year-end) the Cole Memorandum was revoked by Attorney General Jeff Sessions, a longtime 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. The Company's outside U.S. legal counsel continuously monitors all U.S. Attorney comments related to regulated medical and adult-use cannabis laws to assess various risks and enforcement priorities within each jurisdiction. Dozens of U.S. Attorneys across the country have affirmed that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence.

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.

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



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.

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.



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



### *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".

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".

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".

### *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 (currently the "Leahy Amendment") to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The Leahy Amendment was included in the FY 2018 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.

## NATURE OF INVESTMENTS IN THE UNITED STATES



### *Investment in Massachusetts*

In 2017, the Company acquired an 80% controlling interest in Pilgrim, the affiliated management company that will provide intellectual property licensing, professional and management services, real estate and equipment leasing, and certain other services to Mayflower, a not-for-profit license holder 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.

Mayflower received final authorization from the DPH and began operations at the Holliston, Massachusetts cannabis cultivation and processing facility upon the completion of the construction. The first harvest took place on April 20, 2018 and the first dispensary is slated to open in May of 2018. The Company anticipates that Mayflower will ultimately operate out of four locations – one cultivation and manufacturing facility totaling 36,000 square feet, and three retail locations. The space will be dedicated to cultivation, manufacturing cannabis infused products and cannabis concentrates, such as vaporizer pen cartridges.

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 and/or other advisors in connection with Massachusetts's 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's 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's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issues with a "direct" involvement in the United States cultivation or distribution industry

The applicable regulations in the State 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.

## NATURE OF INVESTMENTS IN THE UNITED STATES



### (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 labeling 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.

## NATURE OF INVESTMENTS IN THE UNITED STATES



### *Investment in Vermont*

In 2017, the Company acquired 100% of Pakalolo, LLC, the sole member of FWR, a not-for-profit license holder in Vermont.

As a not-for-profit corporation, FWR does not have equity owners. Ms. Alexandra Ford serves as one of the three board members that oversee FWR. Ms. Ford is the sister of Hadley Ford (a director and officer of the Company).

On January 22, 2018, Vermont Governor Phil Scott signed the State's recreational bill into law and is the first recreational marijuana law to be passed by a state legislature. This law will take effect on July 1, 2018 and allow adults 21 and older to possess up to an ounce of marijuana and have up to two plants.

For the purposes of Staff Notice 51-352, the assets held by the Company's subsidiary, FWR, 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 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., FWR). The Company and its investee (FWR) are in compliance with Vermont's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issues with a "direct" involvement in the United States cultivation or distribution industry.

The applicable regulations in the 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.

## NATURE OF INVESTMENTS IN THE UNITED STATES



### (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 labeled. 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 record of cannabis inventory from seed-to-sale, including detailed records regarding the cultivation of cannabis inventory (e.g., harvest dates, drying completion dates, and packaging dates) and the sale of such cannabis inventory.

## NATURE OF INVESTMENTS IN THE UNITED STATES



### *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, (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 companies. 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.

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

New Mexico has authorized the cultivation, possession and distribution of marijuana by certain licensed New Mexico marijuana businesses. The New Mexico Department of Health regulates New Mexico's marijuana regulatory program. The Company is advised by legal counsel 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, ICM, acquired certain assets of Organix, the owner and operator of a Colorado medical and adult-use cannabis operation with a cultivation facility in Denver, Colorado and a medical and adult-use dispensary located in the town of Breckenridge, Colorado. The assets acquired include all real estate holdings of Organix's affiliate, DB Land Holdings, Inc. ("DB"), consisting of a 12,000 square foot cultivation facility in Denver, as well as all equipment and other tangible and intangible assets and all of the intellectual property of Organix, including its brands (the "Organix Assets"). 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 foregoing assets are held by Scarlet and Bergamot.

## NATURE OF INVESTMENTS IN THE UNITED STATES



In a related transaction, Bellflower, a Colorado limited liability company, 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. Upon completion of the Bellflower Transaction, the Company, through Scarlet and Bergamot, provides a broad range of real estate, financing, intellectual property licensing and professional services to Bellflower. 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.

### *TGS*

On February 6, 2017, the Company entered into a strategic relationship with TGS, an operator of 12 retail stores and a number of cultivation and processing facilities in the State of Colorado.

The strategic relationship includes a loan facility of \$7,500,000 (the "TGS Loan Facility") which has a term of one year. Interest on borrowings are payable at the rate of 14% during the first four months, escalating to 23% for the remaining eight months.

In addition, TGS has entered into an advisory agreement to provide the Company with operational expertise and advice in support of the Company's investments in Massachusetts, Vermont, New Mexico and Colorado. TGS, through its affiliate TGS National, has agreed to facilitate introductions to franchisee operators in multiple states across the United States, presenting the Company with significant opportunities for additional financing and equity-based investment partnerships with TGS National's franchisee operators.

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

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 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, and its investee (TGS) are in compliance with Colorado's marijuana regulatory program.

## NATURE OF INVESTMENTS IN THE UNITED STATES



### *Investment in New York*

On February 1, 2018, the Company acquired 100% of Citiva for \$18.0 million made up of \$3.6 million in cash and \$14.4 million in iAnthus shares. The license held by Citiva Medical 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 million people in a state where only 10 licenses have been granted.

Citiva continues to execute on its operating plan, having executed a signed lease on a flagship 2,000 square-foot dispensary in Brooklyn, located in high traffic area directly across from Barclays Center. The dispensary is expected to be one of only three competitors operating within Brooklyn, a borough of 2.6 million residents. Citiva has also been engaged in negotiation with multiple registered organizations to access to wholesale product, as well as negotiations related to leasing agreements for dispensaries in Staten Island, Dutchess County and Chemung County.

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.

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 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 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 (Citiva Medical). iAnthus and its investee (Citiva Medical) are in compliance with New York's marijuana regulatory program.

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 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 registered organization ("RO"). ROs are required to manufacture, transport, distribute and dispense marijuana for certified medical use. To the extent required by New York's marijuana regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such New York marijuana businesses. The Company and its investee (Citiva) are in compliance with New York's marijuana regulatory program. In addition to the foregoing description, Staff Notice 51-352 also requires additional disclosure for issuers with a "direct" involvement in the United States cultivation and distribution industry. The additional disclosure is set forth as follows:



## NATURE OF INVESTMENTS IN THE UNITED STATES



### (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) 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) 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 time line demonstrating the estimated time frame 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.

## NATURE OF INVESTMENTS IN THE UNITED STATES



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.

### (viii) 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.

## NATURE OF INVESTMENTS IN THE UNITED STATES



### *Investment in Florida*

On January 17, 2018, the Company acquired a controlling interest in GrowHealthy and certain related subsidiaries. The Company previously acquired approximately six percent (6%) of GrowHealthy in a preferred share purchase in October 2017, however these shares were redeemed as part of the final stage of the acquisition in January 2018.

GrowHealthy and its affiliate, McCrory's, comprise one of just thirteen (13) current Florida Medical Marijuana Treatment Centers licensed to provide medical cannabis under Florida's medical marijuana law. The Acquisition includes GHHIA, 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 Department of Health in Florida.

The license held by McCrory's allows for one cultivation facility and up to 25 dispensaries in the State, which has a growing population of 21.0 million residents.

The state-of-the-art cultivation facility located in Lake Wales, has built-out 25,000 square feet for cultivation and processing purposes. An additional 175,000 square feet are available for continued cultivation build-out capable of producing 18,000kg of medical cannabis annually when fully built out.

The flagship dispensary was announced in West Palm Beach, which is expected to open in 2018. Two additional dispensaries are to be opened in Tampa and Orlando.

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 GrowHealthy.

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 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 (GrowHealthy) 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 the State of Florida are summarized below.

## NATURE OF INVESTMENTS IN THE UNITED STATES



### (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. 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 2 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 odor mitigation; and (iii) back-up systems for all cultivation and processing systems.

## NATURE OF INVESTMENTS IN THE UNITED STATES



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 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 3 years.

### *Investment in Maryland*

The Company holds a non-material preferred stock position in 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 direct interest in only one license in the United States; specifically, a 65% interest in one dispensary license in the State of Maryland. Such dispensary is not operational yet 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.

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

### (i) Registration and Certification

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

## NATURE OF INVESTMENTS IN THE UNITED STATES



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 systems 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.

## NATURE OF INVESTMENTS IN THE UNITED STATES



### (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 odor 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, labeling, 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.