



# **CONSOLIDATED FINANCIAL STATEMENTS**

For the Years Ended December 31, 2017 and 2016



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BDO Canada LLP  
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## Independent Auditor's Report

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### To the Shareholders of iAnthus Capital Holdings, Inc.

We have audited the accompanying consolidated financial statements of iAnthus Capital Holdings, Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Consolidated Financial Statements

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

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of iAnthus Capital Holdings, Inc. as at December 31, 2017 and December 31, 2016 its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

#### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements, which indicates that the Company reports a net loss, has operating cash outflows and an accumulated deficit. These conditions, along with other matters as set forth in Note 2, indicate the existence of material uncertainties that may cast substantial doubt upon the Company's ability to continue as a going concern.

(signed) "BDO CANADA LLP"

Chartered Professional Accountants  
Vancouver, Canada  
April 29, 2018

## Consolidated Statement of Financial Position

(In U.S. Dollars)

	Note	2017	2016
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash		\$ 6,175,287	\$ 9,413,953
Receivables and prepaid assets		384,862	171,811
Notes receivable	5	11,066,605	99,647
Inventory	6	126,106	-
Biological assets	7	129,708	-
Other current assets		434,901	258,297
		<b>18,317,469</b>	<b>9,943,708</b>
<b>Non-current Assets:</b>			
Investments	8	3,099,969	2,681,754
Investment in associate	9	2,189,815	2,407,388
Property, plant and equipment	10	10,285,599	1,961,131
Intangible assets	11	4,439,535	-
Goodwill	11	7,182,675	2,553,486
Other assets		306,409	409,531
<b>TOTAL ASSETS</b>		<b>\$ 45,821,471</b>	<b>\$ 19,956,998</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities:</b>			
Payables and accrued liabilities		\$ 2,356,405	\$ 437,137
Interest payable		421,862	69,541
Current portion of long-term debt	12	1,031,262	-
Derivative liabilities	12	592,959	889,992
Financial liabilities	4	4,411,481	-
Other liabilities		378,531	318,194
		<b>9,194,500</b>	<b>1,714,864</b>
<b>Non-current Liabilities:</b>			
Long-term debt	12	13,567,430	735,324
Deferred tax liabilities	18	1,236,306	-
<b>Total Liabilities</b>		<b>23,996,236</b>	<b>2,450,188</b>
<b>Shareholders' Equity:</b>			
Share capital	13	32,681,399	19,494,534
Shares to be issued	4	113,226	-
Reserves	13	9,652,181	4,702,933
Accumulated deficit		(20,479,383)	(6,762,718)
Accumulated other comprehensive income (loss)		(142,188)	72,061
<b>Total Equity</b>		<b>21,825,235</b>	<b>17,506,810</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 45,821,471</b>	<b>\$ 19,956,998</b>

On behalf of the Board of Directors



**Hadley Ford**  
Director



**Julius Kalcevich**  
Director

See accompanying notes to the consolidated financial statements

## Consolidated Statement of Loss and Comprehensive Loss

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

	Note	2017	2016
<b>Revenues:</b>			
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 revenues</b>		<b>2,407,229</b>	<b>391,652</b>
<b>Operating expenses:</b>			
Depreciation and amortization	10, 11	144,187	7,747
Administrative and other expenses		1,125,702	553,764
Wages and salaries		2,300,515	346,413
Share-based compensation	13	2,898,949	1,064,238
Legal and professional fees		2,203,400	759,343
Consulting fees		1,284,107	1,296,866
Impairment loss	10, 11	3,355,017	-
<b>Total operating expenses</b>		<b>13,311,877</b>	<b>4,028,371</b>
<b>Other items:</b>			
Interest expense	12	(1,135,892)	(90,012)
Accretion expense	12	(1,352,791)	(200,809)
Change in fair value of derivative liability	12	325,556	(248,512)
Profits (losses) from investment in associate	9	(196,153)	36,116
Listing expense		-	(812,155)
Loss on settlement of debt		(165,444)	(6,623)
Debt issuance costs		-	(96,442)
Foreign exchange loss		(269,660)	(576)
Other gains (losses)		(17,633)	-
<b>Total other items</b>		<b>(2,812,017)</b>	<b>(1,419,013)</b>
<b>Net loss</b>		<b>\$ (13,716,665)</b>	<b>\$ (5,055,732)</b>
<b>Other comprehensive loss</b>			
Foreign exchange loss on translation		(214,249)	72,061
<b>Comprehensive loss</b>		<b>\$ (13,930,914)</b>	<b>\$ (4,983,671)</b>
<b>Loss per share - basic and diluted</b>		<b>\$ (0.48)</b>	<b>\$ (0.32)</b>
<b>Weighted average number of common shares outstanding - basic and diluted</b>		<b>28,607,628</b>	<b>15,976,269</b>

See accompanying notes to the consolidated financial statements

## Consolidated Statement of Changes in Equity

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

	Note	Number of Shares (Common)	Number of Shares (Class A)	Share Capital	Shares to be Issued	Option Reserves	Warrant Reserves	Convertible Debentures Reserves	Accumulated Other Comprehensive Income	Accumulated Deficit	Shareholders' Equity
<b>Balance – January 1, 2016</b>		-	12,244,515	\$ 1,957,393	\$ -	\$ 164,306	\$ -	\$ -	\$ -	\$ (1,706,986)	\$ 414,713
Private placement	13	-	4,093,550	5,356,000	-	-	-	-	-	-	5,356,000
Reverse takeover	17	600,001	-	750,001	-	-	-	-	-	-	750,001
Conversion of shares upon reverse takeover	17	5,083,065	(5,083,065)	-	-	-	-	-	-	-	-
Issuance of shares as settlement for interest payable	12	31,433	-	52,094	-	-	-	-	-	-	52,094
Private placement	13	10,240,520	-	13,419,767	-	-	2,487,550	-	-	-	15,907,317
Share issuance costs		-	-	(2,093,373)	-	-	775,182	-	-	-	(1,318,191)
Exercise of stock options		21,250	-	52,652	-	(26,191)	-	-	-	-	26,461
Share-based compensation	13	-	-	-	-	1,064,238	-	-	-	-	1,064,238
Warrants issued to consultants		-	-	-	-	-	42,418	-	-	-	42,418
Warrants issued on notes		-	-	-	-	-	195,430	-	-	-	195,430
Other comprehensive loss		-	-	-	-	-	-	-	72,061	-	72,061
Net loss		-	-	-	-	-	-	-	-	(5,055,732)	(5,055,732)
<b>Balance – December 31, 2016</b>		<b>15,976,269</b>	<b>11,255,000</b>	<b>19,494,534</b>	<b>\$ -</b>	<b>1,202,353</b>	<b>3,500,580</b>	<b>\$ -</b>	<b>72,061</b>	<b>\$ (6,762,718)</b>	<b>\$ 17,506,810</b>
Public placement	13	7,072,500	-	9,409,336	-	-	-	-	-	-	9,409,336
Private placement	12, 13	2,677,491	-	3,581,932	-	-	-	-	-	-	3,581,932
Share issuance costs	13	-	-	(1,414,508)	-	-	478,127	-	-	-	(936,381)
Exercise of warrants	13	314,155	-	803,143	-	-	(279,980)	-	-	-	523,163
Share-based compensation	13	-	-	-	-	2,898,949	-	-	-	-	2,898,949
Warrants issued for bridge loan	13	-	-	-	-	-	153,404	-	-	-	153,404
Convertible debentures financing	12	-	-	-	-	-	-	1,880,093	-	-	1,880,093
Financing fees	12	-	-	-	-	-	-	(102,230)	-	-	(102,230)
Issuance of shares as settlement for interest payable	12	9,845	-	20,165	-	-	-	-	-	-	20,165
Conversion of debentures	12	287,095	-	786,797	-	-	-	(79,115)	-	-	707,682
FWR acquisition	4	-	-	-	113,226	-	-	-	-	-	113,226
Other comprehensive loss		-	-	-	-	-	-	-	(214,249)	-	(214,249)
Net loss		-	-	-	-	-	-	-	-	(13,716,665)	(13,716,665)
<b>Balance – December 31, 2017</b>		<b>26,337,355</b>	<b>11,255,000</b>	<b>32,681,399</b>	<b>113,226</b>	<b>4,101,302</b>	<b>3,852,131</b>	<b>1,698,748</b>	<b>(142,188)</b>	<b>(20,479,383)</b>	<b>21,825,235</b>

See accompanying notes to the consolidated financial statements

## Consolidated Statement of Cash Flows

(In U.S. Dollars)

	2017	2016
<b>Operating activities</b>		
Net loss for the period	\$ (13,716,665)	\$ (5,055,732)
Adjustments for non-cash items:		
Management fee income	(150,576)	(67,461)
Interest income	(1,978,727)	(306,465)
Depreciation and amortization	144,187	7,747
Share-based compensation	2,898,949	1,064,238
Interest expense	1,135,892	90,012
Accretion expense	1,352,791	200,809
Profits or losses from investment in associate	196,153	(36,116)
Non-cash loss on settlement of debt	165,444	6,623
Fair value movement on derivatives	(297,033)	248,512
Listing and issuance costs	-	908,597
Foreign exchange loss	269,660	71,889
Asset impairment	3,355,017	-
Changes in non-cash working capital items:		
Receivables and prepaid expenses	(9,682)	(387,565)
Accounts payable and accrued liabilities	532,852	127,391
Related party balances	(391,451)	(267,138)
<b>Net cash used in operating activities</b>	<b>(6,493,189)</b>	<b>(3,394,659)</b>
<b>Investing activities</b>		
Investments in notes receivable	(13,327,000)	(4,405,370)
Advances to investments acquired	(10,116,774)	-
Cash acquired through business combinations	477,650	-
Purchase of property, plant and equipment	(708,390)	(2,189)
Interest received	669,701	150,109
Impact of acquisitions	(45,000)	-
Purchase of Organix assets	-	(4,395,000)
Cash acquired in reverse takeover transaction	-	106,607
Costs incurred in reverse takeover transaction	-	(102,071)
<b>Net cash used in investing activities</b>	<b>(23,049,813)</b>	<b>(8,647,914)</b>
<b>Financing activities</b>		
Proceeds from issuance of share capital	12,140,116	21,289,220
Share issuance costs	(936,381)	(1,275,773)
Proceeds from issuance of long term debt	15,096,000	1,300,000
Long term debt issuance costs	(820,845)	-
Proceeds from issuance of short term debt	3,000,000	-
Repayment of short term debt	(1,652,880)	-
Interest paid	(756,441)	(69,540)
<b>Net cash generated from financing activities</b>	<b>26,069,569</b>	<b>21,243,907</b>
<b>Net increase (decrease) in cash</b>	<b>(3,473,433)</b>	<b>9,201,334</b>
Cash, beginning of the period	9,413,953	211,717
Effect of movements in exchange rates on cash held	234,767	902
<b>Cash, end of the period</b>	<b>\$ 6,175,287</b>	<b>\$ 9,413,953</b>

Note 19: Supplemental Cash Flow Information

See accompanying notes to the consolidated financial statements

## Notes to the Consolidated Financial Statements

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

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### 1. Nature of Operations

iAnthus Capital Holdings, Inc. (the “Company”, “ICH” or “iAnthus”) provides investors diversified exposure to 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 providing capital investment and professionally managed cannabis cultivation, processing and retail operators.

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

### 2. Basis of Preparation

#### Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee, effective for the Company’s reporting for the year ended December 31, 2017.

These consolidated financial statements were approved by the Board of Directors on April 29, 2018.

#### Going Concern

These consolidated financial statements have been prepared under the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue in the normal course of operations is dependent on its ability to raise financing sufficient to maintain operations and there are no assurances that the Company will be successful in achieving this goal. For the year ended December 31, 2017, the Company reports a net loss of \$13,716,665, operating cash outflows of \$6,439,189 and, as of that date, an accumulated deficit amounting to \$20,479,383. These material circumstances cast substantial doubt on the Company’s ability to continue as a going concern and ultimately on the appropriateness of the use of the accounting principles applicable to a going concern. These consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. The Company continues to have access to equity and debt 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 but there are no guarantees that such financing would be available.

#### Basis of Measurement

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

#### Functional and Presentation Currency

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

## Notes to the Consolidated Financial Statements

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

### 2. Basis of Preparation (cont.)

#### Basis of Consolidation

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

Subsidiary	Jurisdiction	Interest
iAnthus Capital Management, LLC ("ICM")	Delaware, USA	100%
iAnthus Formation Corp. ("IFC")	Delaware, USA	100%
iAnthus Transfer Corp. ("ITC")	Delaware, USA	100%
Scarlet Globemallow, LLC ("Scarlet")	Colorado, USA	100%
Bergamot Properties, LLC ("Bergamot")	Colorado, USA	100%
Pakalolo, LLC ("Pakalolo")	Vermont, USA	100%
Grassroots Vermont, Management Services, LLC ("GVMS")	Vermont, USA	100%
FWR, Inc. ("FWR") <sup>(1)</sup>	Vermont, USA	100%
Pilgrim Rock Management, LLC ("Pilgrim")	Massachusetts, USA	80%
Mayflower Medicinals, Inc. ("Mayflower") <sup>(1)</sup>	Massachusetts, USA	80%

<sup>(1)</sup> Refer to Note 4 for discussion of acquisitions and analysis of the Company's interest in FWR, Inc. and Mayflower Medicinals, Inc.

#### Critical Estimates and Judgments by Management

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. Actual results may differ from these estimates. Refer to Note 21.

### 3. Segment Information

The Company divides its reportable operating segments by state. At December 31, 2017, the Company has five reportable operating segments: Massachusetts, Vermont, Colorado, New Mexico, and Corporate. These segments operate in different jurisdictions with distinct operating and regulatory considerations. The Company's management regularly reviews internal financial reporting and makes decisions based on these segments.

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



## Notes to the Consolidated Financial Statements

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

### 3. Segment Information (cont.)

	<b>2017</b>					
	Massachusetts	Vermont	Colorado	New Mexico	Corporate	Total
<b>Statement of financial position</b>						
Total assets	\$ 18,704,777	\$ 2,174,982	\$ 9,507,758	\$ 2,189,815	\$ 13,244,139	\$ 45,821,471
Total liabilities	(6,331,814)	(743,384)	(61,250)	-	(16,859,788)	(23,996,236)
<b>Net assets</b>	<b>\$ 12,372,963</b>	<b>\$ 1,431,598</b>	<b>\$ 9,446,508</b>	<b>\$ 2,189,815</b>	<b>\$ (3,615,649)</b>	<b>\$ 21,825,235</b>
<b>Other information</b>						
Property, plant and equipment	\$ 8,062,001	\$ 117,259	\$ 1,951,206	\$ -	\$ 155,133	\$ 10,285,599
	Massachusetts <sup>(1)</sup>	Vermont <sup>(1)</sup>	Colorado	New Mexico	Corporate	Total
<b>Statement of operations</b>						
Revenues	\$ -	\$ -	\$ 1,513,491	\$ -	\$ 893,738	\$ 2,407,229
Operating expenses	-	-	(419,884)	-	(12,891,993)	(13,311,877)
Other items	-	-	(17,633)	(196,153)	(2,598,231)	(2,812,017)
<b>Net profit (loss)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,075,974</b>	<b>\$ (196,153)</b>	<b>\$ (14,596,486)</b>	<b>\$ (13,716,665)</b>

(1) No consolidated profits and losses as the acquisition of Massachusetts and Vermont segments occurred on December 31, 2017

	<b>2016</b>					
	Massachusetts	Vermont	Colorado	New Mexico	Corporate	Total
<b>Statement of financial position</b>						
Total assets	\$ -	\$ -	\$ 4,349,228	\$ 2,407,388	\$ 13,200,382	\$ 19,956,998
Total liabilities	-	-	(22,697)	-	(2,427,491)	(2,450,188)
<b>Net assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,326,531</b>	<b>\$ 2,407,388</b>	<b>\$ 10,772,891</b>	<b>\$ 17,506,810</b>
<b>Other information</b>						
Property, plant and equipment	\$ -	\$ -	\$ 1,961,131	\$ -	\$ -	\$ 1,961,131
	Massachusetts	Vermont	Colorado	New Mexico	Corporate	Total
<b>Statement of operations</b>						
Revenues	\$ -	\$ -	\$ 17,726	\$ -	\$ 373,926	\$ 391,652
Operating expenses	-	-	(11,981)	-	(4,016,390)	(4,028,371)
Other items	-	-	-	36,116	(1,455,129)	(1,419,013)
<b>Net profit (loss)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,745</b>	<b>\$ 36,116</b>	<b>\$ (5,097,593)</b>	<b>\$ (5,055,732)</b>

## Notes to the Consolidated Financial Statements

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

### 4. Acquisitions and Business Combinations

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

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

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

Additionally, the Company entered into a binding agreement with VSH PR, Inc. ("VSH"), that required the Company to acquire the remaining 20% ownership interest in exchange for shares of the Company valued at \$4 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 acquisition and 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 remaining units of Pilgrim from VSH in exchange for 1,655,734 common shares of the Company. This extinguishes the Company's financial liability relating to its obligation to purchase the remaining interest in Pilgrim.

The following table summarizes the preliminary purchase price allocation:

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

The following table summarizes the total fair value of consideration:

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

## Notes to the Consolidated Financial Statements

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

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### 4. Business Combinations (cont.)

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

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

In determining the fair value of the identifiable intangible assets acquired, the Company used an income-based approach, which involves estimating the future net cash flows and applies an appropriate discount rate to those future cash flows. The Company's preliminary estimates of expected future cash flows are based on significant management judgments. Refer to Note 21.

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

Acquisition costs of \$97,997 were incurred and recognized in legal and professional fees in the consolidated statement of loss and comprehensive loss.

Revenue and losses to be included in the consolidated statement of loss and comprehensive loss, assuming the acquisition of Mayflower and Pilgrim was completed on January 1, 2017, are \$Nil and \$2,737,914, respectively. The revenue and losses included in the consolidated statement of loss and comprehensive loss are \$Nil and \$Nil.

#### Acquisitions of FWR, Inc and Pakalolo, LLC

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

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

## Notes to the Consolidated Financial Statements

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

### 4. Business Combinations (cont.)

#### Acquisitions of FWR, Inc and Pakalolo, LLC (cont.)

The following table summarizes the preliminary purchase price allocation:

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

The following table summarizes the total fair value of consideration:

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

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

In determining the fair value of the identifiable intangible assets acquired, the Company used an income-based approach, which involves estimating the future net cash flows and applies an appropriate discount rate to those future cash flows. The Company's preliminary estimates of expected future cash flows are based on significant management judgments. Refer to Note 21.

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

Acquisition costs of \$35,716 were incurred and recognized in legal and professional fees in the consolidated statement of loss and comprehensive loss.

Revenue and losses to be included in the consolidated statement of loss and comprehensive loss, assuming the acquisition FWR and Pakalolo was completed on January 1, 2017, is \$990,768 and \$317,262, respectively. The revenue and losses included in the consolidated statement of loss and comprehensive loss is \$Nil and \$Nil, respectively.

## Notes to the Consolidated Financial Statements

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

### 4. Business Combinations (cont.)

#### Organix, LLC

On December 5, 2016, the Company closed an agreement to acquire certain assets of Organix, LLC (“Organix”), the owner and operator of a Colorado medical and adult-use marijuana operation with a cultivation facility in Denver and a fully integrated medical and adult-use dispensary located in the town of Breckenridge. The Company formed Scarlet and Bergamot, two wholly-owned subsidiaries, to hold the assets acquired from Organix. The transaction was accounted for as a business combination.

The total cash paid to the owners of Organix amounted to \$4,670,174. In accordance with the terms of the agreement, the consideration payable will be adjusted for profits or losses generated by Organix from December 5, 2016 to the date the state of Colorado’s Marijuana Enforcement Division (“MED”) approves the transfer of the cultivation and selling license from the previous owners of Organix to a third party. On a preliminary basis, the Company had estimated that profits of \$275,174 would be generated by Organix and, accordingly, the total preliminary consideration amounts of \$4,395,000 as of December 31, 2016. On finalization of the PPA, the estimated profits changed to \$150,000, with the difference of \$125,174 attributable to goodwill and thus the total consideration amounts was \$4,520,174.

The Company used various valuation techniques to estimate the fair value of the identifiable intangible assets acquired including income-based approaches which involved estimating future net cash flows and applying an appropriate discount rate to those future cash flows.

Goodwill has been primarily recognized from the expectation that Organix is to enter into a series of contracts post MED approval. This will provide the Company the right to future cash flows generated from Organix.

The Company has finalized the purchase prices allocation as follows:

Land and building	\$	1,500,000
Equipment and leaseholds		466,689
Goodwill		1,998,311
Right to residual cash flow		430,000
<b>Total preliminary consideration</b>		<b>4,395,000</b>
<i>Measurement period adjustment</i>		
Right to residual cash flow		(430,000)
Adjustment to goodwill during measurement period		555,174
<b>Total purchase consideration</b>	<b>\$</b>	<b>4,520,174</b>

The adjustments recognized during the measurement period were due to differences derived from the changes between the initial estimates and the reassessment of the cash inflows and outflows from the cash generating unit. As a result, the right to residual cash flow was reduced to zero as of December 31, 2017. (December 31, 2016 - \$430,000), with the difference of \$555,174 attributable to goodwill as described in Note 11.

The Company incurred closing costs of \$5,465 and legal expenses of \$103,703 in relation to this transaction which were expensed as incurred. Rental income of \$269,159 for the year ended December 31, 2017 were earned from Organix (December 31, 2016 - \$17,726).

## Notes to the Consolidated Financial Statements

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

### 5. Notes Receivable

	Note Due from The Green Solution, LLC	Note Due from Citiva Medical, LLC	Note Due from GrowHealthy Holdings, LLC	Current Portion of Note Due from FWR, Inc	Total
As at December 31, 2015	\$ -	\$ -	\$ -	\$ 39,507	\$ 39,507
Drawdowns	-	-	-	60,140	60,140
<b>As at December 31, 2016</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 99,647</b>	<b>\$ 99,647</b>
Transfer to Investments	-	-	-	(99,647)	(99,647)
Drawdowns	7,500,000	577,000	2,250,000	-	10,327,000
Interest Receivable	708,127	9,707	21,771	-	739,605
<b>As at December 31, 2017</b>	<b>\$ 8,208,127</b>	<b>\$ 586,707</b>	<b>\$ 2,271,771</b>	<b>\$ -</b>	<b>\$ 11,066,605</b>

#### Note Due from The Green Solution, LLC

On February 6, 2017, the Company issued a \$7,500,000 promissory note to The Green Solution, LLC and certain of its affiliated Colorado entities (collectively, "TGS"). TGS is a leading cultivator and dispenser of marijuana and marijuana-infused products in Colorado. The note had a term of 1 year and interest on borrowings were payable at the rate of 14% during the first 4 months, escalating to 23% for the remaining 8 months.

On February 5, 2018, the note was restructured. The amended terms specify that the principal payments and accrued interest at the payment dates are due February 13, 2018 (\$2,000,000), April 24, 2018 (\$2,000,000) and July 31, 2018 (\$3,500,000). The interest rate from the date of restructuring is 23% for the remainder of the loan term. Subsequent to year-end, the Company has received the first and second repayments of principal and accrued interest.

During the year, the Company earned interest income of \$1,244,333 (2016 - \$Nil) on the note. As of December 31, 2017, \$536,206 of the interest had been received.

#### Note Due from Citiva Medical, LLC

On August 18, 2017, the Company issued a \$500,000 promissory note to Citiva Medical, LLC ("Citiva NY"). The note was provided in connection with the Letter of Intent to acquire Citiva NY, which holds one of the ten vertically integrated medical marijuana licenses in New York State. The promissory note has a term of one year, subject to acceleration in certain events, and yields interest at 5% currently and at up to 20%, subject to certain events. On December 1, 2017, the facility limit was increased to \$577,000.

On February 1, 2018, iAnthus acquired a 100% interest in Citiva NY. Refer to Note 20 for more details on the transaction.

During the year, the Company earned interest income of \$9,707 (2016 - \$Nil) on the note.

#### Note Due from GrowHealthy Holdings, LLC

On September 14, 2017, the Company issued a \$2,000,000 promissory note to GrowHealthy Holdings, LLC ("GrowHealthy"). As part of the agreement, iAnthus was granted exclusive rights to negotiate a further strategic relationship with GrowHealthy. The note had a term of twelve months and a blended interest rate of 12.5% over the term, initiating at a 5.0% annual rate until January 31, 2018 and escalating to 20.0% for the remainder of the term. During the year, there was an additional draw down on the promissory note of \$250,000. On January 16, 2018, the facility limit was increased to \$2,500,000, and there were no implications for the overdrawn facility at year-end as the Company acquired 100% of GrowHealthy on January 17, 2018 (Note 20). During the year, the Company earned interest income of \$21,771 (2016 - \$Nil) on the note.

## Notes to the Consolidated Financial Statements

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

### 6. Inventory

Inventory as at December 31, 2017 and December 31, 2016 consisted of the following:

	<b>2017</b>		<b>2016</b>	
<b>Raw Materials</b>				
Harvested cannabis	\$	1,265	\$	-
Harvested trim		7,221		-
Supplies		15,224		-
<b>Total raw materials</b>	<b>\$</b>	<b>23,710</b>	<b>\$</b>	<b>-</b>
<b>Finished Goods</b>				
Consumables	\$	66,603	\$	-
Packaged cannabis		28,322		-
Extracts		7,471		-
<b>Total finished goods</b>	<b>\$</b>	<b>102,396</b>	<b>\$</b>	<b>-</b>
<b>Total Inventory</b>	<b>\$</b>	<b>126,106</b>	<b>\$</b>	<b>-</b>

### 7. Biological Assets

Biological assets as at December 31, 2017 and December 31, 2016 consisted of the following:

	<b>2017</b>		<b>2016</b>	
<b>Biological Assets</b>				
Opening balance	\$	-	\$	-
Assets obtained in acquisition of FWR, Inc		129,708		-
<b>Ending balance</b>	<b>\$</b>	<b>129,708</b>	<b>\$</b>	<b>-</b>

In determining the fair value of biological assets, management made several estimates, all of which represent Level 3 inputs on the fair value hierarchy:

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

These estimates are subject to volatility and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods. All plants are to be harvested as agricultural produce (i.e. medical cannabis) and as at December 31, 2017, on average, were 64% complete.

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

## Notes to the Consolidated Financial Statements

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

### 8. Investments

	GrowHealthy Holdings, LLC	Mayflower Medicinals, Inc	FWR, Inc	Other	Total
As at December 31, 2015	\$ -	\$ 205,270	\$ 220,493	\$ 99,969	\$ 525,732
Additions	-	1,801,583	229,860	-	2,031,443
Interest receivable	-	124,579	-	-	124,579
<b>As at December 31, 2016</b>	<b>\$ -</b>	<b>\$ 2,131,432</b>	<b>\$ 450,353</b>	<b>\$ 99,969</b>	<b>\$ 2,681,754</b>
Additions	3,000,000	1,604,445	455,000	99,969	5,154,445
Transfer from Notes Receivable	-	-	99,647	-	99,647
Interest receivable	-	672,223	22,694	-	694,917
Settlement on acquisition	-	(4,408,100)	(1,027,694)	-	(5,530,794)
<b>As at December 31, 2017</b>	<b>\$ 3,000,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 99,969</b>	<b>\$ 3,099,969</b>

#### GrowHealthy Holdings, LLC

On October 12, 2017, the Company purchased 2,925,003 Class B preferred shares of GrowHealthy for a total purchase price of \$3,000,000. The purchase represents approximately 6.1% of the issued and outstanding equity shares of GrowHealthy. On January 17, 2018, the Company completed a transaction to acquire a controlling interest in the GrowHealthy group of entities (Note 20). The Class B preferred shares were treated as a \$3,000,000 reduction in the purchase price paid by the Company.

At year-end, the Class B preferred shares were recorded as an investment at fair value through profit and loss. Management concludes that the fair value at December 31, 2017 was \$3,000,000 as this was implied by both transactions around year-end, the initial purchase price in October and the subsequent purchase price treatment in January.

### 9. Investment in Associate

During 2016, the Company provided a series of loans in an aggregate amount of \$2,270,000 to Reynold, Greenleaf & Associates, LLC ("RGA"), a company incorporated in the U.S. which provides consulting and management services to companies operating in the medical cannabis industry in New Mexico. On October 12, 2016 (the "Conversion Date"), the Company converted the loans, plus accrued interest of \$101,272, into Class A-1 Units of RGA at \$10.32 per unit resulting in a 24.60% interest in RGA. Additionally, the Company has the ability to exercise significant influence over RGA as it has more than 20% of the voting interests and can elect two of seven directors to the board of RGA. Accordingly, RGA is classified as an investment in associate and the Company has applied the equity method of accounting. No quoted market price exists for the investment.

The Company's share of loss from RGA was \$196,153 and the share of profit was \$36,116 for the year ended December 31, 2017, and the period from October 12, 2016 to December 31, 2016, respectively. RGA's net loss for the year ended December 31, 2017 and net income for the period from October 12, 2016 to December 31, 2016 was \$737,630 and \$146,813, respectively. The Company's investment in RGA at December 31, 2017 was \$2,189,815.

During December 2017, RGA declared a dividend in the amount of \$21,420. The amount was paid on January 10, 2018.

As part of the conversion above, the Company is to be reimbursed \$30,000 from RGA relating to certain legal fees and expenses incurred for the conversion. At December 31, 2017 the reimbursement due from the RGA loan conversion was \$30,000 (December 31, 2016 - \$30,000).



## Notes to the Consolidated Financial Statements

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

### 9. Investment in Associate (cont.)

		2017		2016
Balance, beginning of year	\$	2,407,388	\$	-
Units acquired via conversion of loans		-		2,371,272
Profits (losses) from investment in associate		(196,153)		36,116
Dividends receivable		(21,420)		-
<b>Balance, end of year</b>	<b>\$</b>	<b>2,189,815</b>	<b>\$</b>	<b>2,407,388</b>

Presented below is the summarized financial information for RGA as at December 31, 2017 and for the period from October 12, 2016 to December 31, 2016.

#### Summarized financial information for associate

##### *Summarized statement of financial position*

		December 31, 2017		December 31, 2016
<b>Current assets</b>				
Cash	\$	46,006	\$	359,160
Other current assets		640,434		3,128,982
Total current assets		686,440		3,488,142
Non-current assets		2,953,082		704,787
<b>Current liabilities</b>				
Current liabilities		5,730		9,426
Other current liabilities		303,548		35,262
Total current liabilities		309,278		44,688
<b>Net assets</b>	<b>\$</b>	<b>3,330,244</b>	<b>\$</b>	<b>4,148,241</b>

##### *Summarized statement of comprehensive income (loss)*

		For the period ended December 31, 2017		For the period ended December 31, 2016
<b>Revenues</b>				
Consulting income	\$	2,297,726	\$	475,089
Rental income		528,000		68,900
Interest income		235,196		5,833
<b>Total revenues</b>		<b>3,060,922</b>		<b>549,822</b>
Total expenses		3,798,552		403,009
<b>Net income (loss)</b>	<b>\$</b>	<b>(737,630)</b>	<b>\$</b>	<b>146,813</b>

## Notes to the Consolidated Financial Statements

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

### 10. Property, Plant and Equipment

	Buildings and improvements	Production equipment	Processing equipment	Sales equipment	Office equipment	Land	Construction in progress	Total
<b>Cost</b>								
As at December 31, 2016	\$ 1,035,297	\$ 113,244	\$ 30,472	\$ 34,416	\$ 5,449	\$ 750,000	\$ -	\$ 1,968,878
Additions	569,698	21,879	-	23,920	110,526	-	-	726,023
Additions from acquisition (Note 4)	6,594,247	878,698	430,243	-	256,547	-	19,525	8,179,260
Disposals	-	(17,968)	(3,788)	(2,607)	(1,178)	-	-	(25,541)
<b>As at December 31, 2017</b>	<b>\$ 8,199,242</b>	<b>\$ 995,853</b>	<b>\$ 456,927</b>	<b>\$ 55,729</b>	<b>\$ 371,344</b>	<b>\$ 750,000</b>	<b>\$ 19,525</b>	<b>\$ 10,848,620</b>
<b>Accumulated depreciation</b>								
As at December 31, 2016	\$ 3,290	\$ 2,948	\$ 563	\$ 839	\$ 107	\$ -	\$ -	\$ 7,747
Depreciation	67,756	43,843	7,900	12,552	12,136	-	-	144,187
Disposals	-	(5,565)	(960)	(897)	(485)	-	-	(7,907)
Impairment losses	274,165	75,931	19,181	43,235	6,482	-	-	418,994
<b>As at December 31, 2017</b>	<b>\$ 345,211</b>	<b>\$ 117,157</b>	<b>\$ 26,684</b>	<b>\$ 55,729</b>	<b>\$ 18,240</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 563,021</b>
<b>Net book value</b>								
As at December 31, 2016	\$ 1,032,007	\$ 110,296	\$ 29,929	\$ 33,577	\$ 5,342	\$ 750,000	\$ -	\$ 1,961,131
<b>As at December 31, 2017</b>	<b>\$ 7,854,031</b>	<b>\$ 878,696</b>	<b>\$ 430,243</b>	<b>\$ -</b>	<b>\$ 353,104</b>	<b>\$ 750,000</b>	<b>\$ 19,525</b>	<b>\$ 10,285,599</b>

	Buildings and improvements	Production equipment	Processing equipment	Sales equipment	Office equipment	Land	Construction in progress	Total
<b>Cost</b>								
As at December 31, 2015	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	1,035,297	113,244	30,472	34,416	5,449	750,000	-	1,968,878
<b>As at December 31, 2016</b>	<b>\$ 1,035,297</b>	<b>\$ 113,244</b>	<b>\$ 30,472</b>	<b>\$ 34,416</b>	<b>\$ 5,449</b>	<b>\$ 750,000</b>	<b>\$ -</b>	<b>\$ 1,968,878</b>
<b>Accumulated depreciation</b>								
As at December 31, 2015	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation	3,290	2,948	563	839	107	-	-	7,747
<b>As at December 31, 2016</b>	<b>\$ 3,290</b>	<b>\$ 2,948</b>	<b>\$ 563</b>	<b>\$ 839</b>	<b>\$ 107</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,747</b>
<b>Net book value</b>								
As at December 31, 2015	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>As at December 31, 2016</b>	<b>\$ 1,032,007</b>	<b>\$ 110,296</b>	<b>\$ 29,909</b>	<b>\$ 33,577</b>	<b>\$ 5,342</b>	<b>\$ 750,000</b>	<b>\$ -</b>	<b>\$ 1,961,131</b>

## Notes to the Consolidated Financial Statements

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

### 11. Intangible Assets and Goodwill

#### Intangible Assets

	Licenses	Standard operating procedures	Website	Total
<b>Cost</b>				
As at January 1, 2016 and December 31, 2016	\$ -	\$ -	\$ -	\$ -
Additions from acquisition (Note 4)	4,120,000	317,000	2,535	4,439,535
<b>As at December 31, 2017</b>	<b>\$ 4,120,000</b>	<b>\$ 317,000</b>	<b>\$ 2,535</b>	<b>\$ 4,439,535</b>
<b>Accumulated depreciation and impairment losses</b>				
As at January 1, 2016 and December 31, 2016	\$ -	\$ -	\$ -	\$ -
Depreciation	-	-	-	-
<b>As at December 31, 2017</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net carrying amount</b>				
As at December 31, 2016	\$ -	\$ -	\$ -	\$ -
<b>As at December 31, 2017</b>	<b>\$ 4,120,000</b>	<b>\$ 317,000</b>	<b>\$ 2,535</b>	<b>\$ 4,439,535</b>

As a result of the acquisitions during the year, the Company recognized additional identifiable intangible assets from licenses and standard operating procedures in Massachusetts and Vermont. Refer to Note 4 for amounts of specifically identified intangibles and additional discussion.

#### Goodwill

	2017	2016
Balance, beginning of year	\$ 2,553,485	\$ -
Goodwill acquired in acquisition of Mayflower	6,681,513	-
Goodwill acquired in acquisition of FWR	501,162	-
Goodwill impairment of Organix	(2,553,485)	-
Goodwill acquired in business combination of Organix	-	1,998,311
Goodwill addition due to measurement period adjustment	-	555,174
<b>Balance, end of year</b>	<b>\$ 7,182,675</b>	<b>\$ 2,553,485</b>

Refer to Note 4 for a discussion of the goodwill acquired from the business combination of Organix, acquisition of Mayflower and acquisition of FWR.

#### Impairment losses of goodwill and intangible assets

As described in Note 21, an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The impairment is first allocated to reduce the carrying amount of goodwill, with the remaining losses then allocated to other assets in accordance with *IAS 36 Impairment of Assets*.

Goodwill was assessed for impairment by management as at December 31, 2017. As a result, the impairment losses for goodwill at December 31, 2017 was \$2,553,485 (December 31, 2016 - \$Nil). The carrying value of goodwill was reduced to zero as at December 31, 2017.

At December 31, 2017, the leaseholds and equipment related to the Colorado cash generating unit ("CGU") was impaired in amount of \$418,994. (December 31, 2016 - \$Nil). Refer to Note 10 for impairment losses recognized.

## Notes to the Consolidated Financial Statements

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

### 11. Intangible Assets and Goodwill (cont.)

#### Impairment losses of goodwill and intangible assets (cont.)

In addition, the fair value adjustments on the purchase price adjustment to Bellflower was a payable of \$232,537 at December 31, 2017 (December 31, 2016 – receivable of \$150,000), and the adjustment of \$382,537 was included in asset impairment. The impairment was caused by certain key factors: the delay in the transfer of the cultivation and distribution licenses from Organix to Bellflower which was originally expected in June 2017, the entrance of a major competitor into the market resulting in price wars, and the stabilization of the market after years of rapid expansion leading to a decline in sales growth.

The Company's impairment analysis involved the use of an income-based approach as well as an appraisal over the real estate performed by independent third parties, to corroborate CGU valuations. The Colorado CGU contains all real estate, growing equipment and other assets. The recoverable amount is measured at the higher the fair value less costs to sell and value-in-use. Management determined that the recoverable amount is measured at the value-in-use. The key assumptions used in estimating the value-in-use involved a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and b) applying the pre-tax discount rate; management determined a discount rate of 32.1% was appropriate giving consideration for the time value of money and the risk of the industry's business environment. The fair value less costs to sell for the real estate supports the carrying value of \$1,951,205 at December 31, 2017.

### 12. Long-Term Debt

	Convertible Promissory Notes	Convertible Debentures	Bridge Loan	Total
As at December 31, 2016	\$ 735,324	\$ -	\$ -	\$ 735,324
Fair value of financial liability at issuance	-	13,215,907	2,817,391	16,033,298
Financing costs at issuance	-	(718,615)	-	(718,615)
Accretion of balance	295,938	1,042,084	14,769	1,352,791
Repayment	-	-	(1,626,880)	(1,626,880)
Conversion to equity	-	(707,682)	(1,179,656)	(1,887,338)
Foreign exchange impact	-	735,736	(25,624)	710,112
<b>As at December 31, 2017</b>	<b>\$ 1,031,262</b>	<b>\$ 13,567,430</b>	<b>\$ -</b>	<b>\$ 14,598,692</b>

	Convertible Promissory Notes	Convertible Debentures	Bridge Loan	Total
As at December 31, 2015	\$ -	\$ -	\$ -	\$ -
Fair value of financial liability at issuance	559,515	-	-	559,515
Accretion of balance	200,809	-	-	200,809
Conversion to equity	(25,000)	-	-	(25,000)
<b>As at December 31, 2016</b>	<b>\$ 735,324</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 735,324</b>

## Notes to the Consolidated Financial Statements

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

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### 12. Long-Term Debt (cont.)

#### Convertible Promissory Notes

In February 2016, the Company issued two unsecured convertible promissory notes (the "Notes") for a total principal amount of \$1,300,000. The Notes, which are convertible at prices ranging from \$1.00 to \$1.65 per share contingent on certain milestones being met, bear interest at 8% per annum and have maturity dates that are one to three years from the date of execution of the reverse takeover ("RTO") (Note 17).

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

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

The conversion feature is a derivative liability it provides the note holder with terms that are different from existing shareholders and potentially results in the issuance of a varying number of shares. As such, the derivative liability is required to be separated from the debt host liability and valued independently. As the conversion feature is designated as fair value through profit or loss, it is revalued at each reporting date. Applying the Black-Scholes option pricing model, the Company applied a volatility of 81.7%, dividend yield of 0.0% and risk-free rate of 1.7%, resulting in an estimate of fair value at December 31, 2017 of \$592,959 (December 31, 2016 - \$889,992). The Company used the historical volatility of its stock in computing the volatility used in the Black-Scholes model. For the year ended December 31, 2017, the Company recognized a change in fair value of \$297,033 (December 31, 2016 - \$248,512).

The residual value from the instrument was assigned to the debt host liability, which is valued on an amortized cost basis. At December 31, 2017 the debt host liability amounted to \$1,031,262 (December 31, 2016 - \$735,324).

For the year ended December 31, 2017, interest expense of \$101,999 was accrued (December 31, 2016 - \$90,012) and accretion expense of \$295,938 was recognized (December 31, 2016 - \$200,809).

In 2017, the Company issued 9,845 common shares in satisfaction of \$20,165 of accrued interest on the convertible promissory notes. In 2016, the Company issued 31,433 common shares in satisfaction of \$52,094 of accrued interest on the convertible promissory note.

#### Convertible Debentures

On February 28, 2017, ICH entered into an agreement with a syndicate of underwriters led by Canaccord Genuity Corp., and including Beacon Securities Limited, pursuant to which the underwriters agreed to purchase, on a bought deal, private placement basis, a CAD\$20,000,000 (equivalent to \$15,096,000 at issuance) aggregate principal amount of unsecured convertible debentures (the "Convertible Debentures") at a price of CAD\$1,000 (equivalent to \$755 at issuance) per Convertible Debenture. The Convertible Debentures commenced to bear interest from February 28, 2017 (the "Closing Date") at 8% per annum, payable semi-annually on the last day of February and August of each year. The Convertible Debentures have a maturity date of February 28, 2019, 24 months from the Closing Date.

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

## Notes to the Consolidated Financial Statements

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

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### 12. Long-Term Debt (cont.)

#### Convertible Debentures (cont.)

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

At issuance, the fair value of the liability component was estimated to be CAD\$17,509,150 (equivalent \$13,215,907 at issuance) and the residual of CAD\$2,490,850 (equivalent to USD\$1,880,093 at issuance) was allocated as the fair value of the conversion feature. The market rate of interest assumed in estimating the fair value of the debt host liability was estimated to be 15%. Issuance costs of CAD\$1,087,500 were allocated proportionately with CAD\$952,060 (equivalent \$718,615) as a debit against the liability component and CAD\$135,440 (equivalent \$102,230) as a debit against the equity component.

During 2017, interest expense of \$1,007,662 (December 31, 2016 - \$Nil) and accretion expense of \$1,042,084 (December 31, 2016 - \$Nil) was recognized. As at December 31, 2017 the debt host liability amounts to \$13,567,430 (December 31, 2016 - \$Nil).

During 2017, the Company issued 287,095 common shares for the conversion of CAD\$890,000 (equivalent \$707,682) of the convertible debentures.

#### Bridge Loan

On October 11, 2017, the Company issued promissory notes with a total principal amount of \$3,000,000. The notes had a 1-year maturity and accrued interest at the rate of 8%. Accrued interest of \$26,231 and the principal were repaid in full on November 21, 2017. Cash of \$1,652,880 was repaid and the remaining \$1,373,778 was applied to the Company's private placement completed in November 2017 (Note 13) in exchange for 1,033,000 Common Shares at CAD\$1.70 per common share.

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

### 13. Share Capital

#### Share Capital

Authorized: Unlimited common shares and Class A common shares.

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

During 2016, the Company raised additional capital through the issuance of 4,093,550 Class A shares yielding proceeds amounting to \$5,356,000 less share issuance costs of \$88,779.

Upon completion of the RTO (Note 17), the Company issued a total of 11,255,000 Class A common and 5,083,065 common replacement shares to the previous shareholders of ICM and a further 600,001 common shares to the previous shareholders of ICH.

## Notes to the Consolidated Financial Statements

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

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### 13. Share Capital

#### Share Capital (cont.)

On November 18, 2016, the Company closed a CAD\$20,002,500 bought deal offering and a CAD\$1,502,592 non-brokered private placement through the issuance of 9,525,000 units and 715,520 units, respectively, at CAD\$2.10 per unit. Each unit consisted of one common share and one half of a warrant. Each full warrant is exercisable into one common share at an exercise price of CAD\$3.00. The warrants are subject to a 30-day forced exercise provision if the Company's daily volume weighted average share price is greater than CAD\$4.00 for 15 consecutive trading days. Finder's fees of 7% of the gross proceeds raised plus broker warrants to purchase up to an additional 7% of the number of units sold in the offering were paid to Canaccord Genuity Corp.

#### *Public Offering and Private Placement*

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

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

The fair value of the warrants issued was determined to be \$478,127 by applying the Black-Scholes option pricing model. The Company applied a volatility of 83.6%, dividend yield of 0.0% and risk-free rate of 1.46%.

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

#### **Stock Options**

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

Upon closing of the RTO (Note 17), the Company adopted a rolling stock option plan (the "ICH Plan"), in which the maximum number of common shares which can be reserved for issuance under the ICH Plan is 10% of the issued and outstanding common shares of the Company. 1,300,000 options issued by ICM under the ICM 2015 Equity Compensation Plan were assumed by the ICH Plan. The exercise price of each option ("Option") shall not be less than the closing price of the common shares on the trading day immediately preceding the day on which the Option is granted, less any discount permitted by the CSE.

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

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

## Notes to the Consolidated Financial Statements

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

### 13. Share Capital

#### Stock Options (cont.)

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

The continuity of stock options is as follows:

	Number	Weighted average exercise price (\$CAD)
Balance as at December 31, 2015	387,500	\$ 1.34
Issued	1,313,000	1.65
Expired	(21,250)	1.68
Cancelled/Forfeited/Expired	(141,250)	(1.58)
<b>Balance as at December 31, 2016</b>	<b>1,538,000</b>	<b>1.57</b>
Issued	2,453,000	2.55
Expired	(175,000)	2.64
<b>Balance as at December 31, 2017</b>	<b>3,816,000</b>	<b>\$ 2.15</b>

The options outstanding and exercisable are as follows:

	Outstanding Options			Exercisable Options	
	Number outstanding	Range of exercise prices (CAD\$)	Weighted average remaining contractual life (years)	Number exercisable	Range of exercise prices (CAD\$)
<i>2017</i>	1,278,000	\$ 1.34 - 1.64	7.97	1,200,610	\$ 1.34 - 1.64
<i>2017</i>	2,538,000	\$ 1.66 - 3.10	9.12	1,333,720	\$ 1.66 - 3.10
<i>2016</i>	1,538,000	\$ 1.34 - 1.68	9.31	961,575	\$ 1.34 - 1.68

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

	2017	2016
Risk-free interest rate	1.33% - 1.81%	0.74% - 0.96%
Expected dividend yield	0.00%	0.00%
Expected volatility	94.82% - 96.14%	97.01% - 154.54%
Expected option life	10 years	10 years

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



## Notes to the Consolidated Financial Statements

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

### 13. Share Capital

#### Stock Options (cont.)

The related compensation expense for the year ended December 31, 2017, and December 31, 2016 was \$2,898,949 and \$1,064,238, respectively.

#### Warrants

The continuity of warrants for the Company is as follows:

	Number	Weighted average exercise price (\$CAD)
Balance as at December 31, 2015	-	\$ -
Granted	6,104,200	2.86
<b>Balance as at December 31, 2016</b>	<b>6,104,200</b>	<b>2.86</b>
Granted	1,060,562	2.07
Exercised	(314,155)	2.23
Expired	(5,152,287)	3.00
<b>Balance as at December 31, 2017</b>	<b>1,698,320</b>	<b>\$ 2.06</b>

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

During the first quarter, 12,500 warrants exercised at CAD\$3.00 per share in total proceeds of CAD\$37,500 (equivalent \$28,817). Total proceeds from warrants exercised were CAD\$249,600 (equivalent \$192,643) during the second and third quarter, with 50,000 of warrants exercised at CAD\$1.74 per share, and 54,200 of warrants exercised at CAD\$ 3.00 respectively. As part of the November 2016 bought deal offering, the Company issued broker warrants that are exercisable at CAD\$2.10 per unit. Each unit consists of one common share and one-half warrant, with each full warrant exercisable for one share at an exercise price of CAD\$3.00. During 2017, 197,455 broker's warrants were exercised at CAD\$2.10 per share (equivalent \$301,703) and the exercise granted one half warrant per unit exercised, resulting in 98,727 warrants granted at CAD\$3.00 per share.

During the year, 5,152,287 warrants expired. Additionally, \$5,058 was recognized in the warrant reserve for the portion of the 50,000 warrants issued to ProActive Capital Resources Group in 2016 for the services performed in the first quarter of 2017.

## Notes to the Consolidated Financial Statements

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

### 13. Share Capital

#### Warrants (cont.)

Full share equivalent warrants outstanding and exercisable are as follows:

Year of expiry	2017		2016	
	Number outstanding	Weighted average exercise price (CAD\$)	Number outstanding	Weighted average exercise price (CAD\$)
2017	-	\$ -	5,778,442	\$ 3.00
2018	460,727	2.10	275,758	2.10
2019	1,237,593	1.70 - 2.65	50,000	1.70 - 2.65

### 14. Financial Instruments

#### Fair Value

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

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

There were no transfers between levels during the year ended December 31, 2017.

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

The promissory notes receivable from TGS, Citiva and GrowHealthy were initially recognized at fair value and are subsequently measured on an amortized cost basis. This approximates fair value as a market rate of interest has been applied to the majority of the loans and the credit risk of the counterparty to the loan has not changed. During the fourth quarter of 2017, an amendment to the agreement and corresponding note receivable from TGS was filed which resulted in a revision to the re-payment schedule.

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

## Notes to the Consolidated Financial Statements

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

### 14. Financial Instruments (cont.)

#### Fair Value (cont.)

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

	Fair value through profit and loss	Available for- sale financial assets	Loans and receivables	Other financial liabilities	Total
<b>Financial Assets</b>					
Cash	\$ -	\$ -	\$ 6,175,287	\$ -	\$ 6,175,287
Receivables and prepaids	-	-	384,862	-	384,862
Notes receivable	-	-	11,066,605	-	11,066,605
Investments	3,000,000	99,969	-	-	3,099,969
<b>Financial Liabilities</b>					
Payables and accrued liabilities	\$ -	\$ -	\$ -	\$ 2,356,405	\$ 2,356,405
Convertible debentures	-	-	-	13,567,430	13,567,430
Convertible promissory notes	-	-	1,031,262	-	1,031,262
Derivative liability	592,959	-	-	-	592,959
Financial liability - VSH	4,411,481	-	-	-	4,411,481

The following table summarizes the Company's financial instruments as at December 31, 2016:

	Fair value through profit and loss	Available for- sale financial assets	Loans and receivables	Other financial liabilities	Total
<b>Financial Assets</b>					
Cash	\$ -	\$ -	\$ 9,413,953	\$ -	\$ 9,413,953
Receivables and prepaids	-	-	171,811	-	171,811
Notes receivable	-	-	99,647	-	99,647
Investments	-	99,969	2,581,785	-	2,681,754
<b>Financial Liabilities</b>					
Payables and accrued liabilities	\$ -	\$ -	\$ -	\$ 437,137	\$ 437,137
Convertible promissory notes	-	-	735,324	-	735,324
Derivative liability	889,992	-	-	-	889,992

## Notes to the Consolidated Financial Statements

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

### 14. Financial Instruments (cont.)

#### Fair Value (cont.)

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

	Level 1		Level 2		Level 3		Total
<b>Financial Assets</b>							
Preferred Shares – GrowHealthy	\$	-	\$	-	\$	3,000,000	\$ 3,000,000
Investment in 4Front Ventures, Inc.	\$	-	\$	-	\$	99,969	\$ 99,969
<b>Financial Liabilities</b>							
Financial liability - VSH	\$	-	\$	4,411,481	\$	-	\$ 4,411,481
Derivative liability	\$	-	\$	-	\$	592,959	\$ 592,959

The Company's equity investments in 4Front Ventures, Inc. ("4Front") and GrowHealthy, presented as investments in the financial statements, are considered to be Level 3 instruments. They are shares of private companies, thus there is no active market for the shares and no observable market data or inputs, therefore management has approximated fair value to be equal to cost less any provisions for impairment and management does not believe there to be any impairment on this investment at December 31, 2017.

For the investment in GrowHealthy, management has looked to two transactions to determine the fair value at year-end: the purchase of the investment in October 2017 at \$3,000,000 and the subsequent acquisition of GrowHealthy, during which these shares were exchanged for a \$3,000,000 reduction in the purchase price (see Note 20). After assessment, the Company has determined that the fair value of the investment in GrowHealthy at December 31, 2017 is \$3,000,000.

The financial liability related to the obligation to acquire the remaining 20% of Pilgrim from VSH is recorded at fair value. This is calculated based on the prices as described in Note 4 and a discount rate derived from inputs other than quoted prices and is therefore considered to be a Level 2 measurement.

The derivative liability in the conversion feature related to the convertible promissory note is recorded at fair value estimated using the Black-Scholes option pricing model and is therefore considered to be a Level 3 measurement. Refer to Note 12.

During the periods ended December 31, 2017 and December 31, 2016 there were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy.

Changes in level 3 financial assets and liabilities for December 31, 2017 were as follows:

	GrowHealthy Preferred Shares		Derivative Liability	
Opening balance	\$	-	\$	889,992
Additions		3,000,000		-
Unrealized gains		-		(297,033)
Ending balance	\$	3,000,000	\$	592,959

## Notes to the Consolidated Financial Statements

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

### 14. Financial Instruments (cont.)

#### Fair Value (cont.)

Changes in level 3 financial assets and liabilities for December 31, 2016 were as follows:

	<b>Derivative Liability</b>	
Opening balance (December 31, 2015)	\$	-
Additions		641,480
Change in fair value		248,512
Ending balance	\$	889,992

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

	<b>December 31, 2017</b>		<b>December 31, 2016</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
<b>Long-term debt</b>				
Convertible promissory notes	\$ 1,031,262	1,228,475	\$ 735,324	1,113,432
Convertible debentures	13,567,430	14,458,470	-	-
<b>Total</b>	<b>\$ 14,598,692</b>	<b>15,686,945</b>	<b>\$ 735,324</b>	<b>1,113,432</b>

#### Financial Instruments - Risk

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*

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

## Notes to the Consolidated Financial Statements

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

### 14. Financial Instruments (cont.)

#### Financial Instruments – Risk (cont.)

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
Financial liability - VSH	4,411,481	-	-	-	4,411,481
<b>Total USD denominated</b>	<b>\$ 7,524,308</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,524,308</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
<b>Total CAD denominated</b>	<b>\$ 2,210,905</b>	<b>\$ 19,870,153</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 21,991,058</b>

#### 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 uncollectible. The Company mitigates this risk by managing and monitoring the underlying business relationships along with the corresponding cash flow activity. Credit risk is further mitigated through entering strategic partnerships with the underlying businesses by means of conversion on company debt into equity ownership. Subsequent to year-end the notes receivable in relation to Citiva and GrowHealthy have been converted, while the remainder of the note receivable from TGS is expected to be fully received by July 2018.

#### Financial Instruments Risk (cont.)

##### Capital Management

The Company has been successful at raising capital through a combination of debt and equity instruments to finance the execution of its strategy for expansion across the States. In 2016, the Company raised \$1,300,000 through issuing convertible promissory notes and in 2017, the Company raised CAD\$20,000,000 (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.

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. Regardless, the Company has continued to be in compliance with all associated covenants relating to these various capital raises.

## Notes to the Consolidated Financial Statements

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

### 14. Financial Instruments (cont.)

#### 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 USD denominated liabilities.

As at December 31, 2017, if the Canadian dollar had strengthened or weakened by 5% in relation to the U.S. Dollar, with all variables held constant, the Net Assets of the Company could possibly have increased or decreased by approximately \$490,000 (December 31, 2016 - \$227,000).

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 receivables and debentures have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

### 15. Commitments

The Company has contractual obligations to make the following payments.

		<b>&lt; 1 Year</b>		<b>1-2 Years</b>		<b>3-5 Years</b>		<b>&gt; 5 Years</b>		<b>Total</b>
<b>USD denominated</b>										
Operating leases	\$	716,166	\$	1,294,096	\$	1,538,984	\$	1,071,048	\$	4,620,294
Consultants and advisors		161,405		96,955		-		-		258,360
<b>Total USD denominated</b>	<b>\$</b>	<b>877,571</b>	<b>\$</b>	<b>1,391,051</b>	<b>\$</b>	<b>1,538,984</b>	<b>\$</b>	<b>1,071,048</b>	<b>\$</b>	<b>4,878,654</b>
<b>CAD denominated</b>										
Operating leases	\$	72,000	\$	24,000	\$	-	\$	-	\$	96,000
Consultants and advisors		12,000		-		-		-		12,000
<b>Total CAD denominated</b>	<b>\$</b>	<b>84,000</b>	<b>\$</b>	<b>24,000</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>108,000</b>

The Company's commitments include consultants and advisors and leases for the Company's offices in Toronto and New York, as well as dispensaries and cultivation facilities in both Vermont and Massachusetts. Rental expenses incurred during the year amounted to \$253,928.

## Notes to the Consolidated Financial Statements

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

### 16. Related Party Transactions

	<b>2017</b>		<b>2016</b>	
Due from RGA	\$	30,000	\$	30,000
Due from FWR		-		690,102
Due from Mayflower		-		2,131,432
Director's loan outstanding		398,565		30,000
Due from Last Dance Ventures, LLC		-		317,726
<b>Total due from related parties</b>	<b>\$</b>	<b>428,565</b>	<b>\$</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>\$</b>	<b>81,056</b>	<b>\$</b>	<b>318,194</b>

#### Reynold Greenleaf & Associates, LLC

As described in Note 9, ICM converted its loan with RGA into Class A-1 Units of RGA, a related party through a family relationship with one of the Company's officers, 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 control of the sole member of FWR (Refer to Note 4). From its historical transactions, FWR had amounts due to RGA and its affiliates and as a result of the acquisition, the Company has included a due to related parties balance of \$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.

#### 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% of the sole member of FWR (Note 4).



## Notes to the Consolidated Financial Statements

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

### 16. Related Party Transactions (cont.)

#### 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 to up to, but not to exceed, principal of \$4,000,000. Mayflower was a related party based on its relationships with the Company as described in Note 4.

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.

The Company entered into a series of transactions effective December 31, 2017, which resulted in the acquisition of 80% interest in Pilgrim (Note 4).

#### 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 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). The related party balance is presented in the “Other current assets” line on the consolidated statement of financial position.

#### Key management compensation

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

	<b>2017</b>		<b>2016</b>	
Salaries and bonuses	\$	1,086,711	\$	286,224
Share-based payments		1,206,467		432,915
Directors’ fees		37,317		12,089
	<b>\$</b>	<b>2,330,495</b>	<b>\$</b>	<b>731,228</b>

## Notes to the Consolidated Financial Statements

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

### 17. Reverse Takeover Transaction

On June 30, 2016, Genarca Holdings Ltd. signed an amended and restated Share Exchange Agreement with iAnthus Capital Management (ICM), iAnthus Transfer Corp., iAnthus Formation Corp. and their respective shareholders, whereby Genarca Holdings Ltd. would acquire all the issued and outstanding shares of the Sellers, in exchange for shares in the resulting entity.

On August 4, 2016, Genarca Holdings Ltd was renamed iAnthus Capital Holdings, Inc. and on August 15, 2016, the Company completed the acquisition of ICM in exchange for the issuance of 11,255,000 Class A Common Shares and 5,083,065 Common Shares of the Company.

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

The assets acquired and liabilities assumed are stated at their fair values. The net assets of the Company at their fair values on August 15, 2016, were as follows:

<b>Identifiable net assets</b>	
Cash	\$ 106,607
Accounts receivable	2,594
Accounts payable and accrued liabilities	(69,284)
<b>Identifiable net assets</b>	<b>39,917</b>
<b>Consideration</b>	
600,001 shares issued at \$1.25 per share	750,001
	<b>750,001</b>
<b>Fair value of consideration paid in excess of net assets acquired</b>	
Transaction costs related to the acquisition	710,084
Charge related to public company listing	102,071
	<b>\$ 812,155</b>

## Notes to the Consolidated Financial Statements

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

### 18. Income Taxes

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

	<b>2017</b>	<b>2016</b>
Loss before income taxes	\$ (13,716,665)	\$ (5,055,732)
Statutory tax rates	35.00%	35.00%
Recovery based on statutory rates	(4,800,000)	(1,770,000)
State taxes	(994,000)	-
Change in tax rates	2,113,000	-
Non-deductible expenses	442,000	741,000
Impact of over provision from prior year	(149,000)	-
Tax attributes for which no benefit recognized	(268,000)	-
Other	16,000	126,000
Change in the unrecognized deferred tax assets	3,640,000	903,000
<b>Deferred income tax expense (recovery)</b>	<b>\$ -</b>	<b>\$ -</b>

The effective Canadian Federal and British Columbia Provincial corporate tax rate is 15.00% and 11.00%, respectively.

The Company revalued its deferred tax assets in respect of its Canadian operations to reflect the increase in the British Columbia Provincial tax rate from 11.00% to 12.00% for years subsequent to December 31, 2017. Therefore, the combined future tax rate is now 27.00% (2016 – 26.00%). No tax expense impact results of this change as the deferred tax assets are not recognized.

As a result of tax legislation enacted in the U.S. at the end of 2017, the federal U.S. corporate tax rate applicable to years subsequent to 2017 was substantially reduced from 34.00% to 21.00%. No tax expense impact results as the deferred tax assets are not recognized.

## Notes to the Consolidated Financial Statements

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

### 18. Income Taxes (cont.)

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

	2017	2016
Net operating loss carry-forwards	\$ 3,124,000	\$ 791,000
Stock based compensation	785,000	365,000
Property and equipment	286,000	-
Intangible assets	764,000	-
Other items	129,000	99,000
	<b>5,088,000</b>	<b>1,255,000</b>
Offset against deferred tax liabilities		
Unrecognized deferred tax asset	(5,088,000)	(1,255,000)
<b>Deferred tax assets</b>	<b>-</b>	<b>-</b>
Intangibles resulting from acquisitions	<b>(1,236,306)</b>	<b>-</b>
Offset against deferred tax assets	<b>-</b>	<b>-</b>
<b>Deferred tax liabilities</b>	<b>(1,236,306)</b>	<b>-</b>
<b>Net deferred tax balance</b>	<b>\$ (1,236,306)</b>	<b>\$ -</b>

The deferred tax assets related to the temporary differences were not recognized, as its recoverability is not considered to be probable. The Company has accumulated U.S. net operating losses of \$10,805,000 and \$12,321,000 at a Federal and State level up to December 31, 2017 for income tax purposes, which may be deducted in the calculation of taxable income in future years. These losses will expire between the years 2027 to 2037.

### 19. Supplemental Cash Flow Information

Non-cash transactions, excluded from the December 31, 2017 consolidated statement of cash flows, include: \$20,165 of shares issued as settlement for interest payable, \$707,682 of shares issued as settlement for debenture conversion, \$1,522,739 of shares issued as settlement for bridge loan, \$153,404 warrants issued on bridge loans, \$17,295,444 non-cash consideration transferred for acquisition of Mayflower, \$1,686,232 non-cash consideration transferred for acquisition of FWR.

Non-cash transactions, excluded from the December 31, 2016 consolidated statement of cash flows, include: \$750,001 of shares issued in the RTO transaction and \$52,094 of shares issued as settlement for interest payable.

For the years ending December 31, 2017 and 2016, no income taxes have been paid by the Company.

## Notes to the Consolidated Financial Statements

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

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### 20. Events After the Reporting Period

#### Acquisitions

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

##### *GrowHealthy Holdings, LLC*

On January 17, 2018, the Company announced that it has acquired through merger and acquisition transactions substantially all of the assets of GrowHealthy and certain related subsidiaries (all transactions together, the "Acquisition", and all assets of GrowHealthy and its subsidiaries collectively, the "Business"). iAnthus previously acquired approximately six percent (6%) of GrowHealthy in a preferred share purchase in October 2017.

GrowHealthy and its affiliate, McCrory's Sunny Hill Nursery, LLC ("McCrory's") comprise one of just thirteen (13) current Florida Medical Marijuana Treatment Centers ("MMTCs") licensed to provide medical cannabis under Florida's medical marijuana law. The Acquisition includes GHIAA Management, Inc., 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 (the "License"), together with an option to acquire 100% of McCrory's for a nominal consideration, pending approval of the Florida Department of Health.

The total consideration paid for the Acquisition was \$17,500,000 in cash and \$30,500,000 was satisfied in iAnthus common shares at a price per share of \$2.52. The cash portion of the consideration for the Acquisition includes the purchase by the Company of the rights to a \$5,000,000 performance bond posted with the state in connection with the issuance of the License. Contemporaneously with the closing of the Acquisition, the Company's 2,925,003 preferred shares in GrowHealthy were redeemed in return for \$3,000,000 paid to the Company at closing.

##### *Citiva Medical, LLC*

On February 1, 2018, the Company announced that it has acquired Citiva NY, which holds one of the ten vertically integrated medical marijuana "Registered Organization" licenses issued by New York State, and Citiva, LLC, the owner of certain regulated cannabis industry assets and intellectual property.

Pursuant to the transaction, iAnthus acquired 100% of Citiva NY and Citiva, LLC for approximately \$18.0 million, consisting of \$3.6 million payable in cash and \$14.4 million satisfied in iAnthus shares, at a deemed price per share of \$2.57.

##### *Full Acquisition of Pilgrim Rock Management, LLC*

On April 17, 2018, the Company acquired the remaining 20% ownership interest in Pilgrim. Following the acquisition, the Company now owns 100% 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.

## Notes to the Consolidated Financial Statements

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

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### 20. Events After the Reporting Period (cont.)

#### Convertible Debentures

On January 17, 2018, the Company issued \$20,000,000 aggregate principal amount of unsecured debentures, with a maturity date of one year (the "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 amount was reserved by price reservation. The Debentures were purchased by a private U.S. investment group.

#### Stock Options

On March 2, 2018, the Company has granted 1,886,000 incentive stock options, exercisable at CAD\$3.56 per stock option (the "Exercise Price"), to advisory board members, consultants and employees of the Company.

All stock options are exercisable for a period of 10 years, subject to any earlier termination in accordance with their terms. The 1,886,000 stock options have the following vesting periods:

- 5,000 options vest at a rate of 100% on May 31, 2018;
- 522,500 options vest at a rate of 25% on March 31, 2018, and 25% quarterly thereafter and;
- 1,358,500 options vest at a rate of 12.5% on March 31, 2018, and 12.5% quarterly thereafter.

The 1,886,000 stock options were granted under the Company's common share stock option plan and are each exercisable to acquire one common share of the Company at the Exercise Price.

## Notes to the Consolidated Financial Statements

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

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### 21. Significant Accounting Policies

#### Accounting Policies

The significant accounting policies of the Company are as follows:

##### *Business combinations*

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

##### *Foreign currency translation*

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

##### *Financial instruments*

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

*Initial measurement of financial assets and financial liabilities:* Financial assets and liabilities are recognized at fair value upon initial recognition plus any directly attributable transaction costs when not subsequently measured at fair value through profit or loss.

*Subsequent measurement:* Measurement in subsequent periods is dependent on the classification of the financial instrument. The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held to maturity, available for sale, and other financial liabilities.

##### *Financial assets*

*Fair value through profit or loss:* Assets classified as fair value through profit or loss are either held for trading or are designated as such upon initial recognition. Such assets are measured at fair value, and changes therein are recognized in profit or loss.

*Loans and receivables:* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value and subsequently on an amortized cost basis using the effective interest method, less any impairment losses.

*Available for sale:* Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any other financial asset categories. They are initially and subsequently measured at fair value and the changes in fair value, other than impairment losses are recognized in other comprehensive income (loss) and

## Notes to the Consolidated Financial Statements

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

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### 21. Significant Accounting Policies (cont.)

#### Accounting Policies (cont.)

##### *Financial assets (cont.)*

presented in the fair value reserve in shareholders' equity. When the financial assets are sold or an impairment write-down is required, losses accumulated in the fair value reserve recognized in shareholders' equity are reclassified to profit or loss.

##### *Financial liabilities*

*Other financial liabilities:* Subsequent to initial recognition, the Company's financial liabilities classified as other financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in profit and loss. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired. The Company's derivative financial liabilities are stated at fair value with changes recognized through profit and loss.

*Compound financial instruments:* The Company's convertible debentures have a host liability and an embedded equity conversion feature. These instruments, are initially measured at fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. The fair value of the liability component is determined by using a present value calculation and the equity component is then assigned the residual amount. Present value is calculated by discounting the contractual stream of future cash flows at the rate of interest that would apply to an identical financial instrument without the conversion option. As there are limited peer companies, no such instruments have been identified, and thus judgment has been applied in estimating the appropriate market interest rate for a similar instrument.

##### *Inventory*

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Inventories of harvested cannabis are transferred from biological assets into inventory at their fair value at harvest less costs to sell, which is deemed to be their cost. Any additional processing costs to the raw materials harvested are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. Supplies are initially valued at cost.

##### *Biological assets*

The Company's biological assets consist of cannabis plants which are not yet harvested. These biological assets are measured at fair value less costs to sell and costs to complete. At the point of harvest, the biological assets are transferred to inventory at fair value less costs to sell and costs to complete. Gains or losses arising from changes in fair value less cost to sell are included in the results of operations of the related period.

##### *Investment in associate*

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



## Notes to the Consolidated Financial Statements

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

### 21. Significant Accounting Policies (cont.)

#### Accounting Policies (cont.)

##### *Property, plant and equipment*

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets, except in the year of acquisition, when half of the rate is used as follows:

Buildings	25 years
Leasehold improvements	5 years
Production equipment	5 years
Processing equipment	5 years
Sales equipment	5 years
Office equipment	5 years

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

##### *Intangible assets*

Intangible assets with an indefinite life are not amortized and assessed annually for impairment, or more frequently if indicators of impairment arise. Licenses held by the operating companies are necessary for the business to continue. Therefore, they are treated as indefinite life intangible assets and no amortization is taken on the licenses. Any costs incurred in renewing the licenses are expensed. Below reasons support management's assessment that the current licenses held, should be treated as indefinite life intangible:

- The licenses are tied to specific locations once the licenses are fully approved
- The initial application must go through several stages to reach approval such as:
  - Submitting an application of intent;
  - Preparing a management and operation profile; and
  - Developing a sitting profile.
- Subsequent to the above major steps and prior to opening, an inspection must also be passed where the physical locations are inspected in relation to the original architectural plans and the standard operating procedures.

Intangible assets with a finite life are stated at the amount initially recognized less accumulated amortization and accumulated impairment losses. Intangible assets with a finite life are amortized on a straight-line basis over the period of expected benefit. Current standard operating procedures are amortized on a straight-line basis over the estimated useful life of 2-5 years. The estimated useful life is determined for each entity based on the level of maturity of the business and the tenure of the market. As it is expected that operating procedures will need more significant revisions in the early stages of a business, a longer life is used in entities that have historical operations and where markets for medical and recreational sales are more mature.

## Notes to the Consolidated Financial Statements

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

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### 21. Significant Accounting Policies (cont.)

#### Accounting Policies (cont.)

##### *Goodwill*

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

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

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

##### *Impairment of non-financial assets*

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

The recoverable amount of an asset or CGU is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

##### *Leased assets*

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

## Notes to the Consolidated Financial Statements

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

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### 21. Significant Accounting Policies (cont.)

#### Accounting Policies (cont.)

##### *Share capital*

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

##### *Revenue*

Revenues from management fees, investment income and interest income are recognized as they are accrued.

##### *Share-based payments*

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

##### *Income taxes*

The Company uses the asset and liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

#### Significant accounting estimates and judgments

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

## Notes to the Consolidated Financial Statements

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

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### 21. Significant Accounting Policies (cont.)

#### Significant accounting estimates and judgments (cont.)

##### *Significant estimates*

**Biological assets:** Management is required to make a number of estimates in calculating the fair value less costs to sell of biological assets and harvested cannabis inventory. These estimates include a number of assumptions such as estimating the stage of growth of the cannabis, harvesting costs, sales price, and expected yields.

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

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

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

**Fair value of financial instruments:** The individual fair values attributed to the different components of a financing transaction, notably investment in equity securities, derivative financial instruments, convertible debt and loans, are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market. The assumptions regarding the derivative liabilities are disclosed in note 14.

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

## Notes to the Consolidated Financial Statements

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

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### 21. Significant Accounting Policies (cont.)

#### Significant accounting estimates and judgments (cont.)

##### *Significant judgments*

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

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

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

#### Recent accounting pronouncements

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 do not have a significant impact to the Company have been excluded herein.

##### *IFRS 7 Financial instruments: Disclosure*

Amended to require additional disclosures on transition from IAS 39 to IFRS 9. This amendment is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The Company has provided additional discussion of IFRS 9 in the following section and therefore concludes that its financial statements for the year ending December 31, 2017 are prepared in accordance with the amended standard.

## Notes to the Consolidated Financial Statements

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

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### 21. Significant Accounting Policies (cont.)

#### Recent accounting pronouncements (cont.)

##### *IFRS 9 Financial Instruments*

IFRS 9 Financial Instruments ("IFRS 9") reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

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

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

*Measurement of unlisted equity investments:* The Company already measures its equity investments at fair value through profit or loss. There is no impact to the Company's financial statements.

*Option to record gains/losses of investments through OCI:* IFRS 9 allows entities to record the fair value fluctuations on equity investments through other comprehensive income. The Company will elect to continue to record its fair value fluctuations on equity investments in profit and loss. There is no impact to the Company's financial statements.

*Impairment of receivables:* IFRS 9 introduces a new expected credit loss methodology for assessing impairment of receivables, which estimates potential losses based on forward looking information, rather than incurred loss events. The Company has applied the new methodology and assessed its notes receivable outstanding at December 31, 2017 for impairment as follows:

- Note due from TGS – Subsequent to year-end, the note was restructured to extend the repayment terms. The interest rate for the duration of the loan period is 23%. Management has performed a quantitative analysis and determined that the discounted cash flows from the note after restructuring exceed those of the original terms.
- Note due from Citiva NY – At year-end, the Company expected to complete its acquisition of Citiva NY shortly and did not expect any credit losses on this receivable. In February 2018, the Company acquired 100% of the equity interest in Citiva NY (Note 20) and the receivable is eliminated on a consolidated basis going forward.
- Note due from GrowHealthy – At year-end, the Company expected to complete its acquisition of GrowHealthy shortly and did not expect any credit losses on this receivable. In January 2018, the Company acquired 100% of the equity interest in GrowHealthy (Note 20) and the receivable is eliminated on a consolidated basis going forward.

## Notes to the Consolidated Financial Statements

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

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### 21. Significant Accounting Policies (cont.)

#### Recent accounting pronouncements (cont.)

##### *IFRS 15 Revenue from Contracts with Customers*

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

At December 31, 2017, the Company does not earn revenue from contracts with customers. The Company does not foresee that it will enter into revenue contracts with customers unless its subsidiaries decide to enter into wholesale agreements with other operating companies in the same state in the future.

##### *IFRS 16 Leases*

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