



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2018 and 2017

(Unaudited)

Condensed Interim Consolidated Statement of Financial Position

(In U.S. Dollars)

	Note	Jun 30, 2018 (unaudited)	Dec 31, 2017 (audited)
ASSETS			
Current Assets:			
Cash		\$ 27,108,112	\$ 6,175,287
Receivables and prepaid assets	5	1,859,435	384,862
Notes receivable	5	-	11,066,605
Inventory	6	3,663,576	126,106
Biological assets	7	4,290,874	129,708
Other current assets		1,292,577	434,901
		\$ 38,214,574	\$ 18,317,469
Non-current Assets:			
Investments and non-current notes receivable	8	287,757	3,099,969
Investment in associate	9	2,412,245	2,189,815
Property, plant and equipment	10	20,621,372	10,285,599
Intangible assets	11	4,455,742	4,439,535
Goodwill	11	75,934,783	7,182,675
Other assets		240,677	306,409
TOTAL ASSETS		\$ 142,167,150	\$ 45,821,471
LIABILITIES AND EQUITY			
Current Liabilities:			
Payables and accrued liabilities		\$ 3,139,480	\$ 2,356,405
Interest payable		196,298	421,862
Current portion of long-term debt	12	1,896,963	1,031,262
Derivative liabilities	12	4,288,921	592,959
Financial liabilities	4	-	4,411,481
Other liabilities		466,747	378,531
		\$ 9,988,409	\$ 9,192,500
Non-current Liabilities:			
Long-term debt	12	29,627,400	13,567,430
Deferred tax liabilities	4	1,236,306	1,236,306
Total Liabilities		\$ 40,852,115	\$ 23,996,236
Shareholders' Equity:			
Share capital	13	124,699,970	32,681,399
Shares to be issued	4	2,160,661	113,226
Reserves	13	30,937,307	9,652,181
Accumulated deficit		(56,559,977)	(20,479,383)
Accumulated other comprehensive income (loss)		77,074	(142,188)
Total Shareholder's Equity		\$ 101,315,035	\$ 21,825,235
TOTAL LIABILITIES AND EQUITY		\$ 142,167,150	\$ 45,821,471

On behalf of the Board of Directors



Hadley Ford
Director



Julius Kalceovich
Director

See accompanying notes to the condensed interim consolidated financial statements

Condensed Interim Consolidated Statement of Loss and Comprehensive Loss

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

(Unaudited)

	Note	Three months ended Jun 30, 2018	Three months ended Jun 30, 2017	Six months ended Jun 30, 2018	Six months ended Jun 30, 2017
Sales		\$ 255,610	\$ -	\$ 480,686	\$ -
Cost of goods sold		(121,549)	-	(161,466)	-
Fair value adjustment on biological assets, net costs	7	1,278,436	-	3,885,540	-
Gross profit		1,412,497	-	4,204,760	-
Interest income		192,276	453,073	550,685	693,232
Other income		85,659	102,394	171,674	192,584
Total revenues		1,690,432	555,467	4,927,119	885,816
Operating expenses:					
Depreciation and amortization	10,11	647,225	86,212	1,128,019	183,626
Administrative and other expenses		1,343,400	467,467	2,661,621	923,269
Wages and salaries		3,000,396	395,441	4,484,587	760,026
Share-based compensation	13	2,250,306	522,411	4,004,631	850,455
Legal and professional fees		1,609,625	442,648	2,871,681	701,831
Consulting fees		1,275,475	389,943	2,196,332	807,196
Total operating expenses		10,126,427	2,304,122	17,346,871	4,226,403
Other items:					
Interest expense	12	(1,286,935)	(326,879)	(2,148,424)	(453,247)
Accretion expense	12	(10,390,905)	(388,365)	(13,261,961)	(552,239)
Change in fair value	12, 14	(15,295,712)	(28,109)	(8,169,342)	(61,277)
Profits from investment in associate	9	46,619	99,064	222,430	122,966
Foreign exchange loss		560	(158,678)	(28,357)	(158,907)
Other losses		(73,058)	-	(275,188)	-
Total other items		(26,999,431)	(802,967)	(23,660,842)	(1,102,704)
Net loss		\$ (35,435,426)	\$ (2,551,622)	\$ (36,080,594)	\$ (4,443,291)
Other comprehensive gains					
Foreign exchange gain on translation		(33,737)	(93,892)	219,262	(79,076)
Comprehensive loss		\$ (35,469,163)	\$ (2,645,514)	\$ (35,861,332)	\$ (4,522,367)
Loss per share - basic and diluted		\$ (0.61)	\$ (0.10)	\$ (0.66)	\$ (0.17)
Weighted average number of common shares outstanding - basic and diluted		58,436,017	27,367,115	54,596,188	27,269,147

See accompanying notes to the condensed interim consolidated financial statements

Condensed Interim Consolidated Statement of Changes in Equity

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

(Unaudited)

	Note	Number of Shares (Common)	Number of Shares (Class A)	Share Capital	Shares to be Issued	Option Reserves	Warrant Reserves	Convertible Debt Reserves	Accumulated Other Comprehensive Income	Accumulated Deficit	Shareholders' Equity
Balance - January 1, 2017		15,976,269	11,255,000	\$ 19,494,534	\$ -	\$ 1,202,353	\$ 3,500,580	\$ -	\$ 72,061	\$ (6,762,718)	\$ 17,506,810
Exercise of warrants	13	259,955	-	648,428	-	-	(252,192)	-	-	-	396,236
Share-based compensation	13	-	-	-	-	850,455	-	-	-	-	850,455
Warrants issued to consultants	-	-	-	-	-	-	5,058	-	-	-	5,058
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	48,387	-	126,644	-	-	-	(13,334)	-	-	113,310
Other comprehensive loss	-	-	-	-	-	-	-	-	(79,076)	-	(79,076)
Net loss	-	-	-	-	-	-	-	-	-	(4,443,291)	(4,443,291)
Balance - June 30, 2017		16,294,456	11,255,000	\$ 20,289,771	\$ -	\$ 2,052,808	\$ 3,253,446	\$ 1,764,529	\$ (7,015)	\$ (11,206,009)	\$ 16,147,530
Balance - January 1, 2018		26,337,355	11,255,000	\$ 32,681,399	\$ 113,226	\$ 4,101,302	\$ 3,852,131	\$ 1,698,748	\$ (142,188)	\$ (20,479,383)	\$ 21,825,235
Exercise of warrants	13	937,584	-	2,843,278	-	-	(772,980)	-	-	-	2,070,298
Exercise of stock options	13	100,000	-	307,444	-	(182,700)	-	-	-	-	124,744
Adjustment due to functional currency changes	13	-	-	-	-	-	16,781,989	-	-	-	16,781,989
Share-based compensation	13	-	-	-	-	3,991,769	-	-	-	-	3,991,769
Share issuance costs	-	-	-	(32,323)	-	-	-	-	-	-	(32,323)
Conversion of February 2017 Debentures	12	5,332,362	-	14,137,188	-	-	-	(1,474,819)	-	-	12,662,369
Conversion of Convertible Promissory Notes	12	182,669	-	300,000	-	-	-	-	-	-	300,000
Issuance of shares as settlement for interest payable	12	13,762	-	22,707	-	-	-	-	-	-	22,707
May 2018 financing	-	-	3,891,051	13,408,412	-	-	1,270,669	1,671,198	-	-	16,350,279
Conversion of Class A to Common Shares	-	150,000	(150,000)	-	-	-	-	-	-	-	-
GrowHealthy acquisition	4	12,103,172	-	38,393,337	-	-	-	-	-	-	38,393,337
Citiva acquisition	4	3,029,699	1,977,563	18,175,778	2,160,661	-	-	-	-	-	20,336,439
Share Issuance - Related party	13	23,500	-	124,550	-	-	-	-	-	-	124,550
Share Issuance - Consultants	13	42,400	-	224,720	-	-	-	-	-	-	224,720
FWR acquisition	4	56,819	-	113,226	(113,226)	-	-	-	-	-	-
Pilgrim acquisition	4	1,655,734	-	4,000,254	-	-	-	-	-	-	4,000,254
Other comprehensive loss	-	-	-	-	-	-	-	-	219,262	-	219,262
Net loss	-	-	-	-	-	-	-	-	-	(36,080,594)	(36,080,594)
Balance - June 30, 2018		49,965,056	16,973,614	\$ 124,699,970	\$ 2,160,661	\$ 7,910,371	\$ 21,131,809	\$ 1,895,127	\$ 77,074	\$ (56,559,977)	\$ 101,315,035

See accompanying notes to the condensed interim consolidated financial statements

Condensed Interim Consolidated Statement of Cash Flows

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

(Unaudited)

	Six months ended Jun 30, 2018	Six months ended Jun 30, 2017
Operating activities		
Net loss for the period	\$ (36,080,594)	\$ (4,443,291)
Adjustments for non-cash items:		
Fair value adjustment on biological assets	(3,451,702)	-
Interest income	(550,685)	(693,232)
Management fee income	-	(58,710)
Depreciation and amortization	1,128,019	183,626
Dispositions of fixed assets	357,472	-
Share-based compensation	4,004,631	850,455
Interest expense	2,148,424	453,247
Accretion expense	13,261,961	552,239
Profits from investment in associate	(222,430)	(122,966)
Fair value adjustments	8,169,340	61,277
Shares issued to consultants	349,270	-
Warrants issued to consultants	-	5,058
Foreign exchange gain/(loss)	28,357	-
Changes in non-cash working capital items:		
Receivables and prepaid expenses	3,604,094	(91,380)
Accounts payable and accrued liabilities	(1,095,439)	534,266
Other assets	(562,540)	-
Other liabilities	407,208	-
Inventory	(2,572,879)	-
Related party balances and other assets/liabilities	(46,166)	(65,358)
Net cash used in operating activities	(11,123,659)	(2,834,769)
Investing activities		
Investments in notes receivable	(181,094)	(7,725,000)
Cash and cash equivalents from acquisitions	19,642	-
Purchase of property, plant and equipment and intangible assets	(3,275,480)	(634,646)
Interest received	1,248,302	62,341
Cash used in acquisitions	(18,137,516)	-
Loan drawdowns	-	(3,528,965)
Proceeds from notes receivable	7,500,000	-
Investment in related parties	-	(1,117,453)
Net cash used in investing activities	(12,826,146)	(12,943,723)
Financing activities		
Proceeds from issuance of share capital, net	16,350,279	396,236
Exercise of stock options	124,744	-
Exercise of stock warrants	1,596,590	-
Proceeds from issuance of warrants	12,259,520	-
Share issuance costs	(32,323)	(820,845)
Repayment of long-term debt	(20,978,082)	-
Proceeds from issuance of long term debt	36,971,701	15,096,000
Interest paid	(2,363,972)	(54,921)
Net cash generated from financing activities	43,928,457	14,616,470
Net increase (decrease) in cash	19,978,652	(1,162,022)
Cash, beginning of the period	6,175,287	9,413,953
Effect of movements in exchange rates on cash held	954,173	212,675
Cash, end of the period	\$ 27,108,112	\$ 8,464,606

Note 17: Supplemental Cash Flow Information. See accompanying notes to the condensed interim consolidated financial statements

Notes to the Condensed Interim Consolidated Financial Statements

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

1. Nature of Operations

iAnthus Capital Holdings, Inc. (the “Company” or “ICH”, or “iAnthus”) provides investors diversified exposure to licensed cannabis cultivators, processors and dispensaries throughout the United States. iAnthus capitalizes on the rapidly growing U.S. regulated cannabis markets and the unique opportunity that exists for providing capital investment and expert management services to licensed cultivators, product manufacturers and dispensaries.

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

2. Basis of Preparation

Statement of Compliance

These condensed interim 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.

The condensed interim consolidated financial statements for the three and six months ended June 30, 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting. These condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company’s annual consolidated financial statements as at December 31, 2017. These condensed interim consolidated financial statements were approved by the Board of Directors on August 28, 2018.

Going Concern

These condensed interim consolidated financial statements have been prepared under the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue in the normal course of operations is dependent on its ability to raise capital sufficient to maintain operations and there are no assurances that the Company will be successful in achieving this goal. For the three and six months ended June 30, 2018, the Company reports a net loss of \$35,435,426 and \$36,080,594, operating cash outflows of \$4,065,285 and \$11,123,659 and, as of that date, an accumulated deficit amounting to \$56,559,977. 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 condensed interim consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. The Company continues to have access to equity and debt capital from public and private markets in Canada and the United States but there are no guarantees that such capital would be available.

Basis of Measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for the following: certain financial instruments, including derivatives, and biological assets.

Functional and Presentation Currency

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

Notes to the Condensed Interim Consolidated Financial Statements

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

2. Basis of Preparation (cont.)

Basis of Consolidation

These condensed interim 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%
Scarlet Globemallow, LLC ("Scarlet")	Colorado, USA	100%
Bergamot Properties, LLC ("Bergamot")	Colorado, USA	100%
Grassroots Vermont Management Services, LLC ("GVMS")	Vermont, USA	100%
FWR, Inc. ("FWR") ⁽¹⁾	Vermont, USA	100%
Pakalolo, LLC ("Pakalolo")	Vermont, USA	100%
Pilgrim Rock Management, LLC ("Pilgrim")	Massachusetts, USA	100%
Mayflower Medicinals, Inc. ("Mayflower") ⁽¹⁾	Massachusetts, USA	100%
iAnthus Florida Holdings, LLC ("IFH")	Florida, USA	100%
GrowHealthy Properties, LLC ("GHP")	Florida, USA	100%
GHHIA Management, Inc. ("GHHIA")	Florida, USA	100%
McCrary's Sunny Hill Nursery, LLC ("McCrary's") ⁽¹⁾	Florida, USA	100%
iAnthus Empire Holdings, LLC ("IEH")	New York, USA	100%
Citiva Medical, LLC ("Citiva")	New York, USA	100%

⁽¹⁾ Refer to Note 4 for discussion of acquisitions and analysis of the Company's controlling interest in these subsidiaries

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

Critical Estimates and Judgments by Management

The preparation of condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. The significant accounting policies as disclosed in the Company's annual consolidated financial statements as at December 31, 2017 have been applied consistently in the preparation of these condensed interim consolidated financial statements, except for the adoption of IFRS 9 and IFRS 15 (Note 19). Actual results may differ from these estimates.

Notes to the Condensed Interim Consolidated Financial Statements

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

3. Segment Information

The Company divides its reportable operating segments by state. At June 30, 2018, the Company has seven reportable operating segments: Massachusetts, Vermont, Florida, New York, Colorado, New Mexico, and Corporate. These segments operate in different jurisdictions with distinct operating and regulatory considerations. The Company's 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 six operating segments and are not part of the measures used by the Company when assessing the operating segments' results.

								June 30, 2018
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statement of financial position								
Total assets	\$ 22,130,812	\$ 2,448,667	\$ 62,998,430	\$ 27,411,343	\$ 1,983,821	\$ 2,412,245	\$ 22,781,832	\$ 142,167,150
Total liabilities	(1,687,638)	(528,563)	(195,042)	(644,704)	(252,543)	-	(37,543,625)	(40,852,115)
Net assets	\$ 20,443,174	\$ 1,920,104	\$ 62,803,388	\$ 26,766,639	\$ 1,731,278	\$ 2,412,245	\$ (14,761,793)	\$ 101,315,035
Other information								
Property, plant and equipment	\$ 8,455,412	\$ 199,641	\$ 8,612,457	\$ 1,218,958	\$ 1,933,888	\$ -	\$ 201,016	\$ 20,621,372
								Six months ended June 30, 2018
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statement of operations								
Gross profit	\$ 828,131	\$ 285,652	\$ 3,090,977	\$ -	\$ -	\$ -	\$ -	\$ 4,204,760
Other revenues	148	-	-	16,148	680,176	-	25,887	722,359
Operating expenses	(2,434,139)	(459,561)	(2,259,336)	(868,642)	(115,234)	-	(11,209,959)	(17,346,871)
Other items	-	(31,109)	-	-	-	222,430	(23,852,163)	(23,660,842)
Net profit (loss)	\$ (1,605,860)	\$ (205,018)	\$ 831,641	\$ (852,494)	\$ 564,942	\$ 222,430	\$ (35,036,235)	\$ (36,080,594)
								Three months ended June 30, 2018
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statement of operations								
Gross profit	\$ 715,952	\$ 7,831	\$ 688,714	\$ -	\$ -	\$ -	\$ -	\$ 1,412,497
Other revenues	148	-	-	16,148	256,205	-	5,434	277,935
Operating expenses	(1,466,098)	(289,872)	(1,474,134)	(452,927)	(60,299)	-	(6,383,097)	(10,126,427)
Other items	(155,407)	(1,491)	-	-	-	46,619	(26,889,152)	(26,999,431)
Net profit (loss)	\$ (905,405)	\$ (283,532)	\$ (785,420)	\$ (436,779)	\$ 195,906	\$ 46,619	\$ (33,266,815)	\$ (35,435,426)
								December 31, 2017
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statement of financial position								
Total assets	\$ 18,704,777	\$ 2,174,982	\$ -	\$ -	\$ 9,507,758	\$ 2,189,815	\$ 13,244,139	\$ 45,821,471
Total liabilities	(6,331,814)	(743,384)	-	-	(61,250)	-	(16,859,788)	(23,996,236)
Net assets	\$ 12,372,963	\$ 1,431,598	\$ -	\$ -	\$ 9,446,508	\$ 2,189,815	\$ (3,615,649)	\$ 21,825,235
Other information								
Property, plant and equipment	\$ 8,062,001	\$ 117,259	\$ -	\$ -	\$ 1,951,206	\$ -	\$ 155,133	\$ 10,285,599
								Six months ended June 30, 2017
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statement of operations								
Other revenues	\$ -	\$ -	\$ -	\$ -	\$ 782,123	\$ -	\$ 103,693	\$ 885,816
Operating expenses	-	-	-	-	(2,114,480)	-	(2,111,923)	(4,226,403)
Other items	-	-	-	-	(247,348)	122,966	(978,322)	(1,102,704)
Net loss	\$ -	\$ -	\$ -	\$ -	\$ (1,579,705)	\$ 122,966	\$ (2,986,552)	\$ (4,443,291)
								Three months ended June 30, 2017
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statement of operations								
Other revenues	\$ -	\$ -	\$ -	\$ -	\$ 58,589	\$ -	\$ 496,878	\$ 555,467
Operating expenses	-	-	-	-	(1,319,805)	-	(984,317)	(2,304,122)
Other items	-	-	-	-	(778,736)	99,064	(123,295)	(802,967)
Net loss	\$ -	\$ -	\$ -	\$ -	\$ (2,039,952)	\$ 99,064	\$ (610,734)	\$ (2,551,622)

Notes to the Condensed Interim Consolidated Financial Statements

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

4. Acquisitions and Business Combinations

Acquisition of Florida Entities

On January 17, 2018, the Company entered into a series of merger and acquisition transactions resulting in the acquisition of 100% control of GHP and McCrory's (collectively "GrowHealthy"). McCrory holds a medical marijuana license in the state of Florida. This acquisition was completed in exchange for a combination of cash and the Company's shares. As part of the acquisition, the Company's investment of 2,925,003 preferred shares in GrowHealthy (Note 8) were redeemed in return for \$3,000,000 paid to the Company at closing.

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

The following table summarizes the preliminary purchase price allocation:

	Preliminary
Prepaid expenses	\$ 116,970
Receivables	5,000,000
Inventory	1,177,235
Biological assets	709,464
Other assets	125,543
Fixed assets	981,347
Building and leasehold improvements	6,105,005
Land	1,293,505
Goodwill and intangibles	43,122,048
	58,631,117
Accounts payable and accrued liabilities	(356,009)
Fair value of net assets acquired	\$ 58,275,108

The \$5.0 million of receivables pertains to a cash collateral Low-THC Performance Bond posted by the Company with the State of Florida. On April 2, 2018, the Company received \$5.0 million from the Florida Department of Health in relation to this bond. The Company has recognized accrued interest of \$97,534 as of June 30, 2018 with respect to the bond. The bond included a term of one year, renewable annually, and accrued interest at prime plus 3%.

The following table summarizes the total fair value of consideration:

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

The consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The pre-existing relationships settled were the Company's preferred shares in GrowHealthy, the Company's promissory note and related accrued interest with GrowHealthy. 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. The Company has not completed the allocation of value between the identifiable intangible assets and the goodwill at this time. Furthermore, the amount to be allocated to deferred income tax liabilities has yet to be determined.

Goodwill has been recognized as a result of the specialized assembled workforce at GrowHealthy, their expertise in cultivation, and the existing number of registered patients.

Notes to the Condensed Interim Consolidated Financial Statements

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

4. Acquisitions and Business Combinations (cont.)

Acquisition of Florida Entities (cont.)

Revenues of \$90,779 and net earnings of \$831,641 from the acquired operations are included in the condensed interim consolidated statement of loss and comprehensive loss from the date of acquisition. Had the acquisition of GrowHealthy occurred on January 1, 2018, there would not have been a significant impact on the consolidated operating revenues and net earnings for the six months ended June 30, 2018. Acquisition costs of \$180,813 were incurred and recognized in legal and professional fees in the condensed interim consolidated statement of loss and comprehensive loss.

The purchase price allocation, specifically in respect of goodwill, intangibles and deferred income tax liabilities, has not been finalized as of the date of issuance of these condensed interim consolidated financial statements. As is customary in a business acquisition transaction, until the time of acquisition of control, the Company did not have full access to the relevant portions of GrowHealthy's books and records. Upon having sufficient time to review the relevant portions of books and records, as well as obtaining new and additional information about the related facts and circumstances as of the acquisition date, the Company will adjust the provisional amounts for identifiable assets acquired and liabilities assumed and thus finalize the purchase price allocation. Goodwill and intangibles are grouped together in the condensed interim consolidated statement of financial position; however, these items will be presented separately once the purchase price allocation is complete.

Acquisition of Citiva

On February 1, 2018, the Company completed its acquisition of Citiva, which holds a medical marijuana "Registered Organization" license issued by New York State. This acquisition was completed in exchange for a combination of cash and the Company's shares.

The following table summarizes the preliminary purchase price allocation:

		Preliminary
Cash	\$	19,642
Other assets		57,694
Leaseholds and equipment		166,124
Goodwill and intangibles		25,630,060
		<u>25,873,520</u>
Accounts payable and accrued liabilities		(1,117,890)
Fair value of net assets acquired	\$	24,755,630

The following table summarizes the total fair value of consideration:

Cash paid	\$	3,600,000
Shares issued - Common shares (3,029,699 shares)		10,996,467
Shares issued - Class A shares (1,977,563 shares)		7,177,678
Shares to be issued - Common shares (595,746 shares)		2,162,294
Assumed debt		230,000
Settlement of pre-existing relationship		589,191
Fair value of consideration	\$	24,755,630

The consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The pre-existing relationships settled were the Company's promissory note and related accrued interest with Citiva. 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.

Notes to the Condensed Interim Consolidated Financial Statements

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

4. Acquisitions and Business Combinations (cont.)

Acquisition of Citiva (cont.)

The Company has not completed the allocation of value between the identifiable intangible assets and the goodwill at this time. Furthermore, the amount to be allocated to deferred income tax liabilities has yet to be determined.

Goodwill has been recognized as a result of the specialized workforce at Citiva, including a management team whom have existing relationships with a number of registered physicians in the New York state.

Revenues of \$Nil and net losses of \$852,494, from the acquired operations are included in the condensed interim consolidated statement of loss and comprehensive loss from the date of acquisition. Had the acquisition of Citiva occurred on January 1, 2018, there would not have been a significant impact on the consolidated operating revenues and net earnings for the six months ended June 30, 2018. Acquisition costs of \$52,316 were incurred and recognized in legal and professional fees in the condensed interim consolidated statement of loss and comprehensive loss.

The purchase price allocation, specifically in respect of goodwill, intangibles and deferred income tax liabilities had not been finalized as of the date of issuance of these condensed interim consolidated financial statements. As is customary in a business acquisition transaction, until the time of acquisition of control, the Company did not have full access to the relevant portions of Citiva's books and records. Upon having sufficient time to review the relevant portions of books and records, as well as obtaining new and additional information about the related facts and circumstances as of the acquisition date, the Company will adjust the provisional amounts for identifiable assets acquired and liabilities assumed and thus finalize the purchase price allocation. Goodwill and intangibles are grouped together in the condensed interim consolidated statement of financial position; however, these items will be presented separately once the purchase price allocation is finalized.

Acquisition of Mayflower and Pilgrim

Effective December 31, 2017, the Company acquired an 80.0% interest in Pilgrim, the affiliated management services company that provides lending facilities, intellectual property licensing, professional and management services, real estate and equipment leasing, and certain other services to Mayflower. In addition, Mayflower's bylaws were amended 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 promissory note to and accrued interest receivable from Mayflower and related party receivable to Pilgrim in return for equity units of Pilgrim, amending the bylaws of Mayflower and operating agreement of Pilgrim to provide the Company power to direct the activities of both entities, executing service agreements between Pilgrim and Mayflower.

On April 17, 2018, the Company acquired the remaining 20.0% ownership interest in Pilgrim, resulting in the Company's 100.0% ownership of Pilgrim. The Company acquired the remaining units of Pilgrim from VSH in exchange for 1,655,734 common shares of the Company. This transaction extinguished the Company's financial liability relating to its obligation to purchase the remaining interest in Pilgrim and the Company recognized a fair value adjustment of \$411,228 which is included in the change in fair value line in the condensed interim consolidated statement of loss and comprehensive loss.

Notes to the Condensed Interim Consolidated Financial Statements

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

4. Acquisitions and Business Combinations (cont.)

Acquisition of Mayflower and Pilgrim (cont.)

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
		18,704,777
Accounts payable and accrued liabilities		(537,825)
Deferred income tax liabilities		(871,508)
Fair value of net assets acquired	\$	17,295,444

The following table summarizes the total fair value of consideration:

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

The consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The pre-existing relationships settled were the Company's promissory note and related accrued interest with Mayflower and the Company's related party loan with Pilgrim. 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 19 for the Company's significant accounting policies.

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

Acquisition costs of \$97,997 were incurred and recognized in legal and professional fees in the consolidated statement of loss and comprehensive loss during the year ended December 31, 2017.

Notes to the Condensed Interim Consolidated Financial Statements

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

4. Acquisitions and Business Combinations (cont.)

Acquisitions of FWR and Pakalolo

Effective December 31, 2017, the Company acquired a 100.0% controlling interest in Pakalolo, the sole member of FWR, a Vermont not-for-profit corporation, which holds one of only five medical cannabis licenses issued by the state of Vermont. This acquisition was completed in exchange for a combination of cash and shares of the Company.

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

The following table summarizes the 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)
Fair value of net assets acquired	\$	1,686,232

The following table summarizes the total fair value of consideration:

Cash to be paid	\$	44,000
Shares issued – Common shares (56,819 shares)		113,226
Settlement of pre-existing relationship with FWR		1,270,075
Debt assumed		258,931
Fair value of consideration	\$	1,686,232

The consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The pre-existing relationships settled were the Company's promissory note and related accrued interest with FWR and related party balance outstanding with FWR. 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 19 for the Company's significant accounting policies.

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

Acquisition costs of \$35,716 were incurred and recognized in legal and professional fees in the consolidated statement of loss and comprehensive loss during the year ended December 31, 2017.

Notes to the Condensed Interim Consolidated Financial Statements

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

5. Notes Receivable

	Note Due from TGS	Note Due from Citiva	Note Due from GrowHealthy	Current Portion of Note due from FWR	Total
As at December 31, 2016	\$ -	\$ -	\$ -	\$ 99,647	\$ 99,647
Transfer to investments	-	-	-	(99,647)	(99,647)
Drawdowns	7,500,000	577,000	2,250,000	-	10,327,000
Interest receivable	708,127	9,707	21,771	-	739,605
As at December 31, 2017	\$ 8,208,127	\$ 586,707	\$ 2,271,771	\$ -	\$ 11,066,605
Interest receivable	540,175	2,484	-	-	542,659
Repayments	(8,748,302)	-	-	-	(8,748,302)
Settlement of pre-existing relationship	-	(589,191)	(2,271,771)	-	(2,860,962)
As at June 30, 2018	\$ -	\$ -	\$ -	\$ -	\$ -

Note Due from The Green Solution, LLC

On February 6, 2017, the Company issued a \$7,500,000 promissory note to The Green Solution, LLC and certain of its affiliated Colorado entities (collectively, "TGS"). TGS is a cultivator and dispenser of marijuana and marijuana-infused products in Colorado. The note had a term of 1 year and interest on borrowings were payable at the rate of 14.0% during the first 4 months, escalating to 23.0% for the remaining 8 months.

On February 5, 2018, near the date of maturity, the note was restructured. The amended terms 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 23.0% for the remainder of the loan term. Three separate payments of the principal plus accrued interest have been received by the Company on February 13, 2018, April 19, 2018, and June 13, 2018 for the amounts indicated.

At June 30, 2018, the loan receivable balance was \$Nil (December 31, 2017 - \$8,208,127). Interest earned during the three and six months ended June 30, 2018 was \$192,276 and \$550,685 (June 30, 2017 - \$288,785 and \$392,652).

6. Inventory

Inventory as at June 30, 2018 and December 31, 2017 consisted of the following:

	June 30, 2018	December 31, 2017
Raw Materials		
Harvested cannabis	\$ 730,255	\$ 1,265
Harvested trim	160,706	7,221
Supplies	159,755	15,224
Total raw materials	\$ 1,050,716	\$ 23,710
Work in Process		
Work in process - transferred in	1,103,184	-
Work in process - processing	660,984	-
Total work in process	\$ 1,764,168	\$ -
Finished Goods		
Consumables	\$ 133,307	\$ 66,603
Packaged cannabis	132,968	28,322
Extracts	582,417	7,471
Total finished goods	\$ 848,692	\$ 102,396
Total Inventory	\$ 3,663,576	\$ 126,106

Notes to the Condensed Interim Consolidated Financial Statements

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

7. Biological Assets

Biological assets as at June 30, 2018 and December 31, 2017 consisted of the following:

Biological Assets	
As at December 31, 2016	\$ -
Assets obtained in acquisition of FWR	129,708
As at December 31, 2017	\$ 129,708
Fair value adjustment on biological assets	5,029,264
Assets obtained in acquisition of GrowHealthy	709,464
Transferred to inventory upon harvest	(1,577,562)
As at June 30, 2018	\$ 4,290,874

Production costs of \$750,993 and \$1,143,725 were incurred for the three and six months ended June 30, 2018. This results in the corresponding fair value adjustment on biological assets of \$1,278,436 and \$3,885,540, respectively.

The Company values its biological assets at the end of each reporting period at fair value less costs to sell. Valuation models were used to determine the expected yield, fair value, and selling costs depending on the stage in the plants' life cycles. The significant estimates and assumptions used in determining the fair value of medical cannabis plants are as follows, all of which represent Level 3 inputs on the fair value hierarchy:

- harvest yield per plant by strain based on historical data;
- propagation cycle based on specific strain and historical data;
- costs remaining until harvest based on historical cultivation costs incurred; and
- days remaining until harvest based on historical growth cycles starting from the vegetating stage to the flowering stage.

These estimates are subject to volatility and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods. All of the plants are to be harvested as agricultural produce (i.e. medical cannabis) and as at June 30, 2018, on average, were 42.5% complete (December 31, 2017 – 64.0%).

The Company estimates the harvest yields for the plants at various stages of growth. As of June 30, 2018, management estimates that the Company's biological assets will yield approximately 832,481 grams of dried flower (December 31, 2017 – 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 Condensed Interim Consolidated Financial Statements

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

8. Investments and Non-Current Notes Receivable

	GrowHealthy Holdings, LLC	Mayflower	FWR	Citiva Jamaica, LLC	Other	Total
As at December 31, 2016	\$ -	\$ 2,131,432	\$ 450,353	\$ -	\$ 99,969	\$ 2,681,754
Additions	3,000,000	1,604,445	455,000	-	-	5,059,445
Transfer from Notes Receivable	-	-	99,647	-	-	99,647
Interest receivable	-	672,223	22,694	-	-	694,917
Settlement of pre-existing relationship	-	(4,408,100)	(1,027,694)	-	-	(5,435,794)
As at December 31, 2017	\$ 3,000,000	\$ -	\$ -	\$ -	\$ 99,969	\$ 3,099,969
Additions	-	-	-	181,094	-	181,094
Interest receivable	-	-	-	6,694	-	6,694
Settlement of pre-existing relationship (Note 4)	(3,000,000)	-	-	-	-	(3,000,000)
As at June 30, 2018	\$ -	\$ -	\$ -	\$ 187,788	\$ 99,969	\$ 287,757

Citiva Jamaica, LLC

On February 1, 2018, the Company issued a \$250,000 promissory note to Citiva Jamaica, LLC ("Citiva Jamaica"). The note was provided in connection with the merger agreement dated February 1, 2018, among ICH, IEH, Citiva (Note 4) and as at June 30, 2018, Citiva Jamaica had drawn down an amount of \$181,094. The note has a maturity date of February 1, 2021 and yields interest at 12.0% on or before February 1, 2019 and at 20.0% beginning February 2, 2019.

For the three and six months ended June 30, 2018 the Company earned interest income of \$4,710 and \$6,694.

9. Investment in Associate

During 2016, the Company provided funding in an aggregate amount of \$2,270,000 to Reynold, Greenleaf & Associates, LLC ("RGA"), a company incorporated in the U.S.A. which provides consulting and management services to companies operating in the medical cannabis industry in New Mexico. This resulted in a 24.6% interest in RGA. Additionally, the Company has the ability to exercise significant influence over RGA as it has more than 20.0% of the voting interests and can elect two of seven directors to the board of RGA. Accordingly, RGA is classified as an investment in associate and the Company has applied the equity method of accounting. No quoted market price exists for the investment.

As 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 June 30, 2018 the reimbursement due from the RGA loan conversion was \$30,000 (December 31, 2017 - \$30,000).

During the three months ended June 30, 2018, the Company's share of profit from RGA was \$46,619 based on the net income of RGA during the period of \$189,482 (June 30, 2017 - \$336,188). During the six months ended June 30, 2018, the Company's share of profit from RGA was \$222,430 based on the net income of RGA during the period \$904,049 (June 30, 2017 - \$417,305). The Company's investment in RGA at June 30, 2018 was \$2,412,245.

	June 30, 2018	March 31, 2018	December 31, 2017
Balance, beginning of period	\$ 2,365,626	\$ 2,189,815	\$ 2,407,388
Profits (losses) from investment in associate	46,619	175,811	(196,153)
Dividend receivable	-	-	(21,420)
Balance, end of period	\$ 2,412,245	\$ 2,365,626	\$ 2,189,815

Notes to the Condensed Interim Consolidated Financial Statements

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

10. Property, Plant and Equipment

	Buildings and improvements	Production equipment	Processing equipment	Sales equipment	Office equipment	Land	Construction in progress	Total
Cost								
As at December 31, 2017	\$ 8,199,241	\$ 995,854	\$ 456,927	\$ 55,729	\$ 371,343	\$ 750,000	\$ 19,525	\$ 10,848,619
Additions	1,647,050	159,641	252,567	101,318	195,150	532,574	327,831	3,216,130
Additions from acquisitions (Note 4)	6,260,080	453,976	315,010	41,875	18,105	1,293,607	163,334	8,545,988
Disposals	-	(26,313)	(314,488)	(1,250)	(15,421)	-	-	(357,472)
Transfers	158,213	4,873	(203,427)	-	59,866	-	(19,525)	-
As at June 30, 2018	\$ 16,264,584	\$ 1,588,031	\$ 506,589	\$ 197,673	\$ 629,043	\$ 2,576,181	\$ 491,165	\$ 22,253,265
Accumulated depreciation								
As at December 31, 2017	\$ 345,214	\$ 117,156	\$ 26,684	\$ 55,729	\$ 18,240	\$ -	\$ -	\$ 563,023
Depreciation	821,794	132,507	61,748	7,510	61,316	-	-	1,084,876
Disposals	-	-	(15,959)	-	(48)	-	-	(16,007)
As at June 30, 2018	\$ 1,167,009	\$ 249,663	\$ 72,473	\$ 63,240	\$ 79,508	\$ -	\$ -	\$ 1,631,892
Net book value								
As at December 31, 2017	\$ 7,854,031	\$ 878,696	\$ 430,243	\$ -	\$ 353,104	\$ 750,000	\$ 19,525	\$ 10,285,599
As at June 30, 2018	\$ 15,097,575	\$ 1,338,367	\$ 434,116	\$ 134,433	\$ 549,535	\$ 2,576,181	\$ 491,165	\$ 20,621,372
Cost								
As at December 31, 2016	\$ 1,035,297	\$ 113,244	\$ 30,472	\$ 34,416	\$ 5,449	\$ 750,000	\$ -	\$ 1,968,878
Additions	539,856	15,501	-	3,478	75,811	-	-	634,646
As at June 30, 2017	\$ 1,575,153	\$ 128,745	\$ 30,472	\$ 37,894	\$ 81,260	\$ 750,000	\$ -	\$ 2,603,524
Accumulated depreciation								
As at December 31, 2016	\$ 3,290	\$ 2,948	\$ 563	\$ 839	\$ 107	\$ -	\$ -	\$ 7,747
Depreciation	29,562	21,141	3,918	5,855	768	-	-	61,244
As at June 30, 2017	\$ 32,852	\$ 24,089	\$ 4,481	\$ 6,694	\$ 875	\$ -	\$ -	\$ 68,991
Net book value								
As at December 31, 2016	\$ 1,032,007	\$ 110,296	\$ 29,909	\$ 33,577	\$ 5,342	\$ 750,000	\$ -	\$ 1,961,131
As at June 30, 2017	\$ 1,542,301	\$ 104,656	\$ 25,991	\$ 31,200	\$ 80,385	\$ 750,000	\$ -	\$ 2,534,533

11. Intangible Assets and Goodwill

	Licenses	Standard operating procedures	Other	Total
Cost				
As at December 31, 2017	\$ 4,120,000	\$ 317,000	\$ 2,535	\$ 4,439,535
Additions	-	-	59,350	59,350
As at June 30, 2018	\$ 4,120,000	\$ 317,000	\$ 61,885	\$ 4,498,885
Accumulated amortization				
As at December 31, 2017	\$ -	\$ -	\$ -	\$ -
Amortization	-	35,750	7,393	43,143
As at June 30, 2018	\$ -	\$ 35,750	\$ 7,393	\$ 43,143
Net carrying amount				
As at December 31, 2017	\$ 4,120,000	\$ 317,000	\$ 2,535	\$ 4,439,535
As at June 30, 2018	\$ 4,120,000	\$ 281,250	\$ 54,492	\$ 4,455,742
Goodwill				
Balance, beginning of period		\$ 7,182,675	\$ 2,553,485	
Goodwill acquired in acquisition of Mayflower		-	6,681,513	
Goodwill acquired in acquisition of FWR		-	501,162	
Goodwill impairment of Organix		-	(2,553,485)	
Goodwill and intangible assets acquired in acquisition of GrowHealthy		43,122,048	-	
Goodwill and intangible assets acquired in acquisition of Citiva		25,630,060	-	
Balance, June 30, 2018		\$ 75,934,783	\$ 7,182,675	

Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited)

11. Intangible Assets and Goodwill (cont.)

The above values relating to the Citiva and GrowHealthy acquisitions include provisional amounts that are subject to adjustments throughout the measurement period. Refer to Note 4 for further details.

12. Long-Term Debt

	Convertible				
	Promissory Notes	Debentures	High Yield Notes	Bridge Loan	Total
As at December 31, 2016	\$ 735,324	\$ -	\$ -	\$ -	735,324
Fair value of financial liability at issuance	-	13,215,907	-	2,817,391	16,033,298
Financing costs at issuance	-	(718,615)	-	-	(718,615)
Accretion of balance	295,938	1,042,084	-	14,769	1,352,791
Repayment	-	-	-	(1,626,880)	(1,626,880)
Conversion to equity	-	(707,682)	-	(1,179,656)	(1,887,338)
Foreign exchange impact	-	735,736	-	(25,624)	710,112
As at December 31, 2017	\$ 1,031,262	\$ 13,567,430	\$ -	\$ -	14,598,692
Fair value of financial liability at issuance	-	7,740,480	29,231,221	-	36,971,701
Accretion of balance	201,983	12,663,798	396,179	-	13,261,960
Repayment	(300,000)	(20,978,082)	-	-	(21,278,082)
Conversion to equity	-	(12,662,369)	-	-	(12,662,369)
Foreign exchange impact	-	632,461	-	-	632,461
As at June 30, 2018	\$ 933,245	\$ 963,718	\$ 29,627,400	\$ -	31,524,363

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 date of August 2018.

The conversion feature is a derivative liability and is required to be separated from the debt host liability and valued independently. As the conversion feature is designated as fair value through profit or loss, it is revalued at each reporting date using the Black-Scholes valuation model. As at June 30, 2018, the Company used a volatility of 81.7%, dividend yield of 0.0% and risk-free rate of 1.8%. The fair value at June 30, 2018 was calculated to be \$593,544 (December 31, 2017 - \$592,959). For the six months ended June 30, 2018, the Company recognized an increase in fair value of \$585.

The residual value from the instrument was assigned to the debt host liability which is valued on an amortized cost basis. At June 30, 2018 the debt host liability amounted to \$933,245 (December 31, 2017 - \$1,031,262).

During the three and six months ended June 30, 2018, interest expense of \$34,186 and \$48,926 was accrued (June 30, 2017 - \$24,386 and \$50,581). During the three and six months ending June 30, 2018, accretion expense of \$75,573 and \$201,983 was accrued (June 30, 2017 - \$388,365 and \$552,239).

During the six months ending June 30, 2018, the Company issued 12,220 common shares in satisfaction of \$22,707 of accrued interest on the convertible promissory notes. In addition to this, the Company issued 183,360 common shares for equity conversions relating to the convertible promissory notes with a value of \$300,000.

February 2017 Convertible Debentures

On February 28, 2017, the Company entered into an agreement with a syndicate of underwriters led by Canaccord Genuity Corp., and including Beacon Securities Limited, pursuant to which the underwriters agreed to purchase, on a bought deal, private placement basis, a CAD\$20,000,000 (equivalent to \$15,096,000 at issuance) aggregate principal amount of unsecured convertible debentures (the "February 2017 Debentures") at a price of CAD\$1,000 (equivalent to \$755 at issuance) per convertible debenture. The February 2017 Debentures commenced to bear interest from February 28, 2017 (the "Closing Date") at 8.0% per annum, payable semi-annually on the last day of February and August of each year. The Convertible Debentures have a maturity date of February 28, 2019, 24 months from the Closing Date.

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12. Long-Term Debt (cont.)

February 2017 Convertible Debentures (cont.)

At issuance, the fair value of the liability component was estimated to be CAD\$17,509,150 (equivalent to \$13,215,907 at issuance) and the residual of CAD\$2,490,850 (equivalent to \$1,880,093 at issuance) was allocated as the fair value of the conversion feature. The market rate of interest assumed in estimating the fair value of the debt host liability was estimated to be 15.0%. Issuance costs of CAD\$1,087,500 were allocated proportionately with CAD\$952,060 (equivalent to \$718,615) as a debit against the liability component and CAD\$135,440 (equivalent to \$102,230) as a debit against the equity component.

During the six months ended June 30, 2018, the Company issued 5,333,216 common shares for the conversion of CAD\$16,533,000 (equivalent to \$12,662,369). For the year ending December 31, 2017, the Company issued 287,095 common shares for the conversion of CAD\$890,000 (equivalent to \$786,797) of the February 2017 Debentures.

During the three and six months ended June 30, 2018, interest expense of \$140,268 and \$426,224 (June 30, 2017 – \$302,493 and \$402,666) and accretion expense of \$158,270 and \$467,938 (June 30, 2017 – \$318,096 and \$416,749) was recognized. As at June 30, 2018, the debt host liability amounts to \$7,988,219 (December 31, 2017 – \$13,567,430).

On July 16, 2018, the Company elected to exercise its right under the indenture governing the Company's 8.0% unsecured convertible debentures to convert all of the principal amount outstanding of the debentures and unpaid accrued interest up to July 13, 2018 into common shares of the Company. Pursuant to the terms of the indenture, the Company determined that on the conversion, holders of debentures will receive, for each CAD\$1,000 of debentures and outstanding interest, approximately 322 common shares. As of August 16, 2018, the remaining total of CAD\$2,671,487 (equivalent \$2,090,973) of debentures and interest outstanding has been converted into approximately 861,770 common shares.

January 2018 Debentures

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

The warrants are a derivative liability as the exercise price is in USD for shares of the Company which trades on the CSE in CAD\$. As the derivative liability is classified as fair value through profit or loss, it is revalued at each reporting date using the Black-Scholes valuation model. As of May 14, 2018, on the date on the change in functional currency, the classification of the warrants has changed to equity and revaluations will no longer be completed for this instrument.

As neither fair value measurement is evidenced by a quoted price in an active market for an identical asset or liability, the initial loss on recognition has not been recognized in the condensed interim consolidated statement of loss and comprehensive loss. The Black-Scholes valuation model used to calculate the fair value of the derivative was calibrated so that the fair value is equal to the intrinsic value solving for the unobservable inputs. On issuance, fair value of \$12,259,520 was allocated to the warrant derivative and a residual amount of \$7,740,480 was allocated to the debt host.

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

On May 16, 2018, the Company repaid the full principal amount and accrued interest of \$20,978,082 for the January 2018 Debentures. The Company recognized \$9,807,616 in accretion expense on settlement of the repayment.

Notes to the Condensed Interim Consolidated Financial Statements

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

12. Long-Term Debt (cont.)

High Yield Notes

On May 14, 2018, the Company issued \$40,000,000 high yield secured notes (the "HY Notes") to Gotham Green Partners ("GGP"). The HY Notes accrue interest at 13%, have a three-year maturity, and are convertible into shares of the Company at \$3.08 per share. The HY Notes were issued with warrants to purchase, in aggregate, up to 6,670,372 shares of the Company at \$3.60 per share. Concurrently with the issuance of the HY Notes, \$10,000,000 comprised of 3,891,051 Units of the Company (the "Units") were issued where each Unit comprises of one Class A Share of the Company at \$2.57 per share and a warrant to purchase one share of the Company at a price of \$3.86 per share.

At issuance, the Class A Shares were recorded their fair value at \$13,408,412, net of issuance costs. Using a market rate of interest of 24.4%, the fair value of the underlying host liability in the HY Notes was estimated to be \$29,231,221, net of issuance costs. The residual consideration was allocated proportionately based on the fair values of the warrants on equity, warrants on debt and conversion feature, resulting in recording \$460,119, \$810,551 and \$1,671,198, net of issuance costs, respectively. These fair values were estimated using the Black-Scholes model, with inputs as volatility of 88.3%, dividend yield of 0.0% and risk-free rate of 2.0%. Issuance costs of \$4,418,500 were allocated to each of the components proportionately.

During the three and six months ended June 30, 2018, interest expense of \$678,889 and accretion expense of \$396,179 was recognized. As at June 30, 2018, the host liability amounts to \$29,627,400 (December 31, 2017 – \$Nil).

The terms of the HY Notes and corresponding Units contain several financial and non-financial covenants. For the six months ended June 30, 2018, the Company is in compliance with all covenants.

Notes to the Condensed Interim Consolidated Financial Statements

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

13. Share Capital

Share Capital

Authorized: Unlimited common shares and Class A common shares.

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

Share Issuances

During the six months ended June 30, 2018, the Company issued common shares to facilitate several corporate transactions, including: acquisitions, conversions of securities, payment of consultants, settlement of debts, and payment of acquisition transaction costs.

On April 10, 2018, the Company issued 56,819 common shares to the principal of FWR, a related party, as part of the consideration of the FWR acquisition completed on December 31, 2017.

On April 10, 2018, the Company issued 160,000 common shares to an agent as payment for services rendered pertaining to the Citiva acquisition.

On April 17, 2018, the Company issued 1,655,734 common shares to settle the financial liability to purchase the remaining 20% of Pilgrim.

On May 3, 2018, the Company issued 1,723,271 common shares as part of the consideration in the Citiva acquisition.

On June 25, 2018, the Company issued 150,000 common shares to an officer of the Company as a result of a conversion of Class A common shares.

On June 26, 2018, the Company issued 65,900 common shares; 23,500 of which were issued in order to settle an outstanding debt with a related party, while the remaining 42,400 shares were issued as payment to a consultant.

Throughout the six month period ended June 30, 2018, 5,333,216 common shares were issued as a result of conversions of debentures.

Stock Options

In November 2015, ICM established the ICM 2015 Equity Compensation Plan (the "Plan"). The Plan authorized the issuance of up to 2,000,000 Class A common shares. Options granted generally vest over 1 to 2 years, and typically have a life of 10 years. The option price under the Plan is determined at the sole discretion of management, but in no case, will it be less than 100.0% of the fair market value of a share on the date prior to the grant date.

On August 15, 2016, upon closing of the reverse takeover ("RTO"), the Company adopted a rolling stock option plan (the "ICH Plan"), in which the maximum number of common shares which can be reserved for issuance under the ICH Plan is 10.0% of the issued and outstanding common shares of the Company. 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.

Notes to the Condensed Interim Consolidated Financial Statements

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

13. Share Capital (cont.)

Stock Options (cont.)

On April 2, 2018, an agent exercised 100,000 stock options at an exercise price of CAD\$1.50, which resulted in cash proceeds of CAD\$150,000 (equivalent \$117,105).

On June 4, 2018, ICH granted incentive stock options to employees and consultants of the Company, exercisable at CAD\$5.70, to purchase up to an aggregate of 570,000 shares of the Company.

On June 12, 2018, 7,500 stock options with an exercise price of CAD\$1.50 were exercised for cash proceeds of CAD\$11,250 (equivalent \$7,639), and 29,500 stock options were cancelled as the result of employee termination.

The continuity of stock options is as follows:

	June 30, 2018		March 31, 2018	
	Number	Weighted Average Exercise Price (CAD)	Number	Weighted Average Exercise Price (CAD)
Options outstanding, beginning	5,509,500	\$ 2.60	3,823,500	\$ 2.15
Granted	570,000	5.70	1,886,000	3.56
Exercised	(107,500)	1.50	-	-
Expired/Cancelled	(107,000)	2.80	(200,000)	3.10
Options outstanding, ending	5,865,000	\$ 2.92	5,509,500	\$ 2.60

	Outstanding Options			Exercisable Options	
	Number outstanding	Range of exercise prices (CAD\$)	Weighted average remaining contractual life (years)	Number exercisable	Range of exercise prices (CAD\$)
2015	345,000	\$1.34	7.41	345,000	\$1.34
2016	1,023,000	\$1.50 - \$1.76	7.91	1,017,597	\$1.57 - \$1.76
2017	2,058,000	\$2.25 - \$3.10	9.20	1,329,531	\$2.25 - \$3.10
2018	2,439,000	\$3.56 - \$5.70	9.74	671,000	\$3.56 - \$5.70
	5,865,000	\$1.34 - \$5.70	9.10	3,363,128	\$1.34 - \$5.70

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:

	For the six months ended June 30, 2018	December 31, 2017
Risk-free interest rate	0.74 - 2.16%	1.33% - 1.81%
Expected dividend yield	0%	0%
Expected volatility	94.54% - 98.11%	94.82% - 96.14%
Expected option life	7 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 7 years (December 31, 2017 - 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.

The related share-based compensation expense for the three and six months ended June 30, 2018 was \$2,250,306 and \$4,004,631, respectively (June 30, 2017 - \$522,411 and \$850,455).

Notes to the Condensed Interim Consolidated Financial Statements

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

13. Share Capital (cont.)

Warrants

The continuity of warrants for the Company is as follows:

	Number	Weighted average exercise price (\$CAD)
Balance as at December 31, 2017	1,698,320	\$ 2.06
Granted ⁽¹⁾	10,040,000	2.27
Exercised	(780,258)	1.94
Balance as at March 31, 2018	10,958,062	\$ 2.26
Granted ⁽²⁾	10,661,423	4.72
Exercised	(157,326)	1.70
Balance as at June 30, 2018	21,462,159	\$ 3.48

⁽¹⁾ Warrants granted pertain to the January 2018 Debentures.

⁽²⁾ 10,561,423 warrants were issued in connection with the GGP financing; of these 3,891,051 were issued in connection with the \$10.0 million of units, of which each was comprised of one Class A share and one warrant to purchase one common share at an exercise price of \$3.86 per share. 100,000 warrants were issued in connection with the acquisitions in January 2018 with an exercise price of CAD\$3.21. The remaining 6,670,372 warrants were issued in connection with the \$40.0 million of high yield notes, which have an exercise price of \$3.60 per share.

With the change in functional currency on May 14, 2018, the classifications of the warrants issued in relation to the October 2017 financing, the November 2017 financing and the warrants issued in relation to the January acquisitions were changed from equity to derivative liabilities. As at May 14, 2018, the warrant derivatives were revalued using the Black-Scholes model, with inputs as volatility of 88.3%, dividend yield of 0.0% and risk-free rate of 1.6%. This resulted in a value of \$1,770,166, with a loss of \$1,020,873 recognized on the revaluation.

During the six-month period ended June 30, 2018, 157,326 warrants were exercised at a price of \$1.70 by agents of the Company. As at June 30, 2018, the warrant derivatives were revalued, with inputs as volatility of 89.3%, dividend yield of 0.0% and risk-free rate of 1.9%. This resulted in a value of \$2,101,077, with a loss of \$1,825,490 recognized on the revaluation for the three and six months ended June 30, 2018

Full share equivalent warrants outstanding and exercisable are as follows:

Year of expiry	June 30, 2018		December 31, 2017	
	Number outstanding	Weighted average exercise price (CAD\$)	Number outstanding	Weighted average exercise price (CAD\$)
2018	—	—	460,727	2.10
2019	760,736	2.26	1,237,593	2.07
2020	100,000	3.21	-	-
2021	20,601,423	3.77	-	-
	21,462,159	\$2.26	1,698,320	2.07

The following dilutive securities and the resulting common share equivalents were outstanding as at June 30, 2018:

Common Share Options	3,539,500
Class A Share Options	2,325,500
Warrants	21,462,159
Convertible Debentures	831,303
Convertible Promissory Notes	590,909
High Yield Notes	12,970,169
Total Dilutive Securities	41,719,540

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14. Financial Instruments

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

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

There were no transfers between levels during the six months ended June 30, 2018.

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

The classification of the Company's financial instruments is as follows at June 30, 2018:

Financial Assets

Cash	Amortized cost
Receivables and prepaids	Amortized cost
Notes receivable (current)	Amortized cost
Investments – GrowHealthy Preferred Shares	Fair value through profit and loss
Investments – 4Front	Fair value through profit and loss

Financial Liabilities

Payables and accrued liabilities	Amortized cost
Interest payable	Amortized cost
January 2017 Debentures	Amortized cost
February 2018 Debentures	Amortized cost
Convertible promissory notes	Amortized cost
High Yield Notes	Amortized cost
Derivative liability	Fair value through profit and loss
Financial liability - VSH	Fair value through profit and loss

Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited)

14. Financial Instruments (cont.)

The following table summarizes the Company's financial instruments as at June 30, 2018:

	Amortized cost	Fair value through profit and loss	Total
Financial Assets			
Cash	\$ 27,108,112	\$ -	\$ 27,108,112
Receivables and prepaid assets	1,859,435	-	1,859,435
Investment - 4Front	-	99,969	99,969
Citiva Jamaica promissory note	181,094	-	181,094
Financial Liabilities			
Payables and accrued liabilities	\$ 3,139,480	\$ -	\$ 3,139,480
Interest payable	196,298	-	196,298
February 2017 Debentures	963,718	-	963,718
Convertible promissory notes	933,245	-	933,245
HY Notes	29,627,400	-	29,627,400
Derivative liabilities	-	4,288,921	4,288,921

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

	Amortized cost	Fair value through profit and loss	Total
Financial Assets			
Cash	\$ 6,175,287	\$ -	\$ 6,175,287
Receivables and prepaid assets	384,862	-	384,862
Notes receivable (current)	11,066,605	-	11,066,605
Investment - 4Front	-	99,969	99,969
Investment - Preferred shares in GrowHealthy	-	3,000,000	3,000,000
Financial Liabilities			
Payables and accrued liabilities	\$ 2,356,405	\$ -	\$ 2,356,405
Interest payable	421,862	-	421,862
January 2017 Debentures	13,567,430	-	13,567,430
Convertible promissory notes	1,031,262	-	1,031,262
Derivative liability	-	592,959	592,959
Financial liability - VSH	-	4,411,481	4,411,481

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

	June 30, 2018				December 31, 2017			
	Carrying Value	Level 2	Level 3	Total	Carrying Value	Level 2	Level 3	Total
Financial Assets								
Preferred Shares - GrowHealthy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,000,000	\$ 3,000,000
Investment in 4Front	\$ -	\$ -	\$ 99,969	\$ 99,969	\$ -	\$ -	\$ 99,969	\$ 99,969
Financial Liabilities								
Financial Liability - VSH	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,411,481	\$ -	\$ 4,411,481
Derivative liabilities	\$ -	\$ -	\$ 4,288,921	\$ 4,288,921	\$ -	\$ -	\$ 592,959	\$ 592,959

The Company's equity investment in 4Front, presented as Investments in the condensed interim consolidated financial statements, is considered to be Level 3 instruments because it is comprised of shares of private companies, thus there is no active market for the shares and no observable market data or inputs.

Notes to the Condensed Interim Consolidated Financial Statements

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

14. Financial Instruments (cont.)

The derivative liabilities related to the convertible promissory note and the warrants relating to the November 2017 financings are 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 June 30, 2018 and December 31, 2017 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 were as follows:

	GrowHealthy Preferred Shares		Derivative Liability	
Balance at December 31, 2017	\$	3,000,000	\$	592,959
Additions		-		12,259,520
Settlement in acquisitions (Note 4)		(3,000,000)		(473,708)
Revaluations on level 3 instruments		-		8,580,568
Reclassifications on currency change		-		(16,781,989)
Foreign exchange impact		-		111,571
Balance at June 30, 2018	\$	-	\$	4,288,921

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

	June 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt				
Convertible promissory notes	\$ 933,245	\$ 1,044,654	\$ 1,031,262	\$ 1,228,475
February 2017 Debentures	963,718	1,858,932	13,567,430	14,458,470
High-Yield Notes	29,627,400	34,430,621	-	-
Total	\$ 31,524,363	\$ 37,334,207	\$ 14,598,692	\$ 15,686,945

The Company thoroughly examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include foreign currency risk, interest rate risk, credit risk, and liquidity risk. Where material, these risks are reviewed and monitored by the Board of Directors.

The key risks and risk management strategies are disclosed in full in the Company's consolidated financial statements and associated management's discussion and analysis as at December 31, 2017 and are available on www.sedar.com and should be reviewed in detail by all readers. The risks and risk management strategies remain unchanged for the period ended June 30, 2018.

	< 1 Year	1-2 Years	3-5 Years	> 5 Years	Total
USD Denominated					
Payables and accrued liabilities	\$ 2,902,009	\$ -	\$ -	\$ -	\$ 2,902,009
Long-term debt	5,257,778	5,272,222	44,578,889	-	55,108,889
Total USD Denominated	\$ 8,159,787	\$ 5,272,222	\$ 44,578,889	\$ -	\$ 58,010,898
CAD Denominated					
Payables and accrued liabilities	\$ 237,567	\$ -	\$ -	\$ -	\$ 237,567
Long-term debt	-	-	-	-	-
Total CAD Denominated	\$ 237,567	\$ -	\$ -	\$ -	\$ 237,567

Notes to the Condensed Interim Consolidated Financial Statements

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

15. Commitments

The Company has contractual obligations to make the following payments.

	< 1 Year	1-2 Years	3-5 Years	> 5 Years	Total
USD denominated					
Operating leases	\$ 1,791,815	\$ 2,985,408	\$ 2,586,561	\$ 3,753,867	\$ 11,117,651
Consultants and advisors	554,988	90,685	-	-	645,673
Total USD denominated	\$ 2,346,803	\$ 3,076,093	\$ 2,586,561	\$ 3,753,867	\$ 11,763,324
CAD denominated					
Operating leases	\$ 269,184	\$ 418,368	\$ 197,184	\$ -	\$ 884,736
Consultants and advisors	82,000	-	-	-	82,000
Total CAD denominated	\$ 351,184	\$ 418,368	\$ 197,184	\$ -	\$ 966,736

The Company's commitments include consultants and advisors and leases for the Company's head offices in Toronto and New York, as well as offices, dispensaries and cultivation facilities in Vermont, Massachusetts, Florida, and New York.

16. Related Party Transactions

	June 30, 2018	December 31, 2017
Due from RGA	\$ 30,000	\$ 30,000
Director's loans outstanding	391,267	398,565
Total due from related parties	\$ 421,267	\$ 428,565
Due to RGA and affiliates	48,667	81,056
Total due to related parties	\$ 48,667	\$ 81,056

Reynold Greenleaf & Associates, LLC

As described in Note 9, the Company is to be reimbursed \$30,000 from RGA in connection with certain legal fees and expenses from financing. As at June 30, 2018, the reimbursement due from the RGA was \$30,000 (December 31, 2017 - \$30,000). The related party balance is presented in the "Other current assets" line on the condensed interim consolidated statement of financial position. RGA is a related party because the owner of RGA has family relations with a Director of the Company.

On December 31, 2017, the Company acquired control of FWR (Refer to Note 4). From its historical transactions, FWR had amounts due to RGA and its affiliates and as a result of the acquisition, the Company has included a due to related parties balance of \$48,667 as at June 30, 2018 (December 31, 2017 - \$81,056). The related party balance is presented in the "Payables and accrued liabilities" line on the condensed interim consolidated statement of financial position.

Other

As of June 30, 2018, the Company had a loan due from a director with a balance of \$391,267. The total loan facility is up to CAD\$500,000 (equivalent \$391,267) and the loan accrues 2.5% interest due upon the maturity of the loan. The loan is repayable on demand and is expected to be repaid within the next 12 months. Interest accrued on the loan for the quarter ended June 30, 2018 was CAD\$10,445 (equivalent \$8,102) (December 31, 2017 - CAD\$4,247 or equivalent \$3,270). The related party balance is presented in the "Other current assets" line on the condensed interim consolidated statement of financial position.

On June 26, 2018, the Company repaid a loan payable with a balance of \$20,000 to an executive of Citiva in exchange for shares of the Company. As of June 30, 2018, the balance is \$nil.

Notes to the Condensed Interim Consolidated Financial Statements

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

17. Supplemental Cash Flow Information

Non-cash transactions excluded from the June 30, 2018 condensed interim consolidated statement of cash flows are: \$4,000,253 shares issued for the settlement of the financial liabilities with VSH; \$113,226 shares issued for settlement of shares to be issued from the acquisition of Pakalolo; \$300,000 of shares issued as settlement for conversion of convertible promissory notes; \$5,445,791 of shares issued as settlement for conversion of February 2017 Debentures; \$43,816,671 non-cash consideration transferred for the acquisition of GrowHealthy' \$21,155,630 non-cash consideration transferred for the acquisition of Citiva; and \$16,781,988 due to adjustments from functional currency changes.

Non-cash transactions excluded from the June 30, 2017 condensed interim consolidated statement of cash flows are: \$20,165 of shares issued as settlement for interest payable and \$126,644 of shares issued as settlement for debenture conversion.

18. Events After the Reporting Period

Convertible Debentures – Full Conversion

On July 16, 2018, the company elected to exercise its right to convert all of the principal amount of the February 2017 debentures and outstanding interest into common shares of the Company. On August 16, 2018, the estimated remaining total of CAD\$2,671,487 (equivalent \$2,090,973) debentures and interest outstanding have been converted to approximately 861,770 common shares. The Company does not intend to issue fractional common shares where a cash payment equal to the fractional interest amount was made instead.

Promissory Note Conversion

On August 15, 2018, the holders of the convertible promissory notes converted the outstanding principal balance into common shares of the Company, which resulted in the issuance of 590,910 common shares. The holders of the notes also elected to receive their final interest payment in the form of common shares, which resulted in the issuance of an additional 3,234 common shares.

Notes to the Condensed Interim Consolidated Financial Statements

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

19. Significant Accounting Policies

Accounting Policies

The significant accounting policies as disclosed in the Company's annual consolidated financial statements as at December 31, 2017 have been applied consistently in the preparation of these condensed interim consolidated financial statements with the following exceptions:

Revenue

Revenue is recognized by the Company in accordance with IFRS 15. Through application of the standard, the Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

In order to recognize revenue under IFRS 15, the Company applies the following five (5) steps:

- Identify a customer along with a corresponding contract.
- Identify the performance obligations in the contract to transfer goods or provide distinct services to a customer.
- Determine the transaction price the Company expects to be entitled to in exchange for transferring promised goods or services to a customer.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when (or as) the Company satisfies a performance obligation.

Derivative warrant financial liability

The Company's debenture liability contains a host liability and an embedded warrant derivative that arises due to the warrant being priced in a currency that is different to the functional currency of the entity issuing the instrument. The host liability is initially measured at fair value and subsequently measured at amortized cost. The embedded warrant derivative is initially measured at fair value and is subsequently measured at fair value with changes recognized in the statement of loss and comprehensive loss.

In cases where the fair value of the instruments recognized exceeds the transaction price the Company recognizes a gain or loss on initial recognition to the extent the fair value is evidenced by a quoted price in an active market for an identical asset or liability. Where fair value is not supported by a quoted price in an active market for an identical asset or liability, no such gain or loss is recognized.

Significant accounting estimates and judgements

The preparation of condensed interim 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 condensed interim consolidated financial statements and reported amounts of expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations with regard to future events that are believed to be reasonable under the circumstances. However, actual outcomes may differ from these estimates.

The significant accounting estimates and judgments as disclosed in the Company's annual consolidated financial statements as at December 31, 2017 have been applied consistently in the preparation of these condensed interim consolidated financial statements.

Notes to the Condensed Interim Consolidated Financial Statements

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19. Significant Accounting Policies (cont.)

Recent accounting pronouncements

The following section discusses the new standards effective for reporting periods commencing January 1, 2018:

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 and has been adopted by the Company as well as applied retrospectively. Refer to Note 14 for changes in classifications and amounts of financial instruments from IAS 39 to IFRS 9.

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 contain features that would violate the SPPI test.

Measurement of unlisted equity investments: The Company currently measures its equity investments at fair value through profit or loss.

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.

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 adoption of IFRS 9 does not have a material impact on the Company's condensed interim consolidated financial statements

IFRS 15 Revenue from Contracts with Customers

	Sales Revenue	Management Fees
Contract existence	A contract exists between a medical patient and the Company once a sale transaction occurs	Management services agreements exist between the Company and the managed entities
Performance obligations	Provide the patient with the prescribed quantity of medical cannabis product as prescribed	The Company provides the managed entity with business and consulting services for the duration of the agreement. Services include administrative services, regulatory filings, banking, record keeping, payroll services, human resource functions, maintenance of vendor relationships, and maintenance of patient environment and experiences
Transaction price	Transaction price is equal to the displayed retail selling price less any applicable discounts	Transaction price is equal to the fees as set forth in each respective Statement of Work

Notes to the Condensed Interim Consolidated Financial Statements

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

19. Significant Accounting Policies (cont.)

Recent accounting pronouncements (cont.)

	Sales Revenue	Management Fees
<i>Allocation of transaction price</i>	The entirety of the transaction price is allocated to the Company's obligation to provide the cannabis products to the customer	The transaction price is allocated evenly across each of the services provided to the managed entities
<i>Satisfaction of performance obligation</i>	All performance obligations are satisfied once the cannabis products have been provided to the customer	All services are considered to be one performance obligation, regardless if some services are not utilized during certain periods covered under the contract. As such, the performance obligation is considered to be satisfied on a monthly basis at which time revenue equal to the contract value divided by duration of the contract (in months) is recognized

During the six months ended June 30, 2018, the Company generated revenue from the sale of cannabis products through its subsidiaries, GrowHealthy and Grassroots Vermont.

The Company also generated management fee revenue from its management service agreement with FWR, interest income from its promissory notes issued from FWR and TGS.

The adoption of IFRS 15 does not have a material impact on the Company's condensed interim consolidated financial statements

The following new standards are not yet in effect and have not been adopted by the Company.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, 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.