**IANTHUS CAPITAL HOLDINGS, INC.**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
(All amounts expressed in U.S. dollars, unless otherwise stated)

The following management discussion and analysis of the results of operations and financial condition ("MD&A") of iAnthus Capital Holdings, Inc. (the "Company" or "ICH", or "iAnthus"), prepared as of May 1, 2017, should be read in conjunction with the audited financial statements of iAnthus for the year ended December 31, 2016, and accompanying notes thereto. The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are expressed in United States dollars unless noted otherwise.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" ("NI 51-102") of the Canadian Securities Administrators. Additional information regarding iAnthus is available on our website at www.ianthuscapital.com or through the SEDAR website at www.sedar.com.

## FORWARD-LOOKING STATEMENTS

This MD&A contains certain statements that may constitute "forward-looking statements". Forward-looking statements include but are not limited to, statements regarding future anticipated business developments and the timing thereof, regulatory compliance, sufficiency of working capital, and business and financing plans. Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Forward-looking statements are typically identified by words such as: "believe", "expect", "anticipate", "intend", "estimate", "postulate" and similar expressions, or which by their nature refer to future events. The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance, and that actual results may differ materially from those in forward-looking statements as a result of various factors, including, but not limited to, the Company's ability to continue its projected growth, to raise the necessary capital or to be fully able to implement its business strategies.

## COMPANY OVERVIEW

iAnthus was incorporated in British Columbia, Canada, on November 15, 2013. On August 15, 2016, the Company completed the acquisition of all issued and outstanding equity interests of a private company, iAnthus Capital Management, LLC ("ICM"), through a reverse takeover arrangement ("the RTO"). Upon completion of the RTO, the shareholders of ICM obtained control of the consolidated entity. Under the purchase method of accounting, ICM was identified as the acquirer, and accordingly the entity is considered to be a continuation of ICM with the net assets of the Company at the date of the RTO deemed to have been acquired by ICM. The 2016 and 2015 comparative figures in the consolidated financial statements include the results of operations of ICM prior to the RTO date of August 15, 2016.

Marijuana remains illegal under U.S. federal law. It is a Schedule-I controlled substance. Even in those jurisdictions in which the use of medical marijuana has been legalized at the state level, its prescription is a violation of federal law. The United States Supreme Court has ruled in United States v. Oakland Cannabis Buyers' Coop. and Gonzales v. Raich that it is the federal government that has the right to regulate and criminalize cannabis, even for medical purposes. Therefore, federal law criminalizing the use of marijuana trumps state laws that legalize its use for medicinal purposes.

According to the Marijuana Policy Project, a pro-legalization group, medical marijuana is legal in 28 states and the District of Columbia, Puerto Rico and Guam. In addition, eight states and the District of Columbia have legalized recreational cannabis use. In 2013, the U.S. Department of Justice issued a memorandum (commonly referred to as the "Cole Memorandum") to the U.S. Attorneys offices (federal prosecutors) directing that federal prosecution of individuals and businesses that rigorously comply with state regulatory provisions in states that have strictly-regulated legalized medical or recreational cannabis programs be given low priority. This federal policy was reinforced by the passage of a federal omnibus spending bill in 2014 (the "2014 Spending Bill") that included the so-called Rohrabacher–Farr amendment which prohibits

the use of federal funds to interfere in the implementation of state laws legalizing cannabis and state medical marijuana laws. The Department of Justice, which encompasses the Drug Enforcement Agency, was subject to the 2014 Spending Bill.

The Rohrabacher–Farr amendment remained in the federal omnibus spending bill for the 2016 fiscal year that was signed into law by President Obama on December 18, 2015. In September 2016, the amendment was included in a short-term spending bill passed by Congress and signed into law, which allowed it to remain in effect through December 9, 2016 when it was again renewed pursuant to a further short-term spending bill until April 28, 2017.

The 2014 Spending Bill has been cited as evidence of the development of bi-partisan support in the U.S. Congress for legalizing the use of cannabis. However, it remains unclear whether the federal government will eventually repeal the federal prohibition on cannabis, and there is no assurance that the Rohrabacher–Farr amendment will be extended past April 28, 2017. Political and regulatory risks also exist due to the recent election of Donald Trump to the U.S. Presidency, and the appointment of Sen. Jeff Sessions to the post of Attorney General with effect from February 9, 2017. Mr. Trump's positions regarding marijuana are remain unclear. However, Sen. Sessions has been a consistent opponent of marijuana legalization efforts throughout his political career, and has publicly commented that the Justice Department will commit to enforcing federal laws on marijuana in an "appropriate way". It remains unclear what stance the Department of Justice under the new administration might take toward legalization efforts in U.S. states, but federal enforcement of the Controlled Substances Act and other applicable laws is possible.

Following the RTO, the Company, through its 100% owned subsidiary, iAnthus Capital Management, LLC, delivers a comprehensive solution for financing and managing licensed cannabis cultivators, processors and dispensaries throughout the United States of America.

The Company listed on the Canadian Securities Exchange (the "CSE") and began trading on September 7, 2016 under the ticker symbol "IAN".

The Company's registered office is located at 1055 West Georgia Street, Suite 1500, Vancouver, British Columbia, V6E 4N7, Canada.

**Reverse Takeover Transaction:**

On June 30, 2016, Genarca Holdings Ltd. signed an amended and restated share exchange agreement ("the Agreement") with ICM, iAnthus Transfer Corp., iAnthus Formation Corp. and their respective shareholders (together "the Sellers"), whereby Genarca Holdings Ltd. would acquire all of 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 fair value on August 15, 2016, is as follows:

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

**General Business Overview**

iAnthus was created to capitalize on the rapidly growing U.S. regulated cannabis (marijuana) market and the unique opportunity that exists for providing capital investment and expert management services ("value-added capital") to licensed cultivators, product manufacturers and dispensaries. 28 U.S. states and the District of Columbia have now legalized the cultivation and sale of cannabis for medical purposes. In addition, 8 states and the District of Columbia have completely legalized cannabis for both medical and recreational use by adults over the age of 21.

Despite the burgeoning legal cannabis industry in the U.S., cannabis remains a Schedule I substance under the federal Controlled Substances Act of 1970. Capital scarcity is therefore expected to continue until cannabis is completely legalized by repeal of the federal prohibition on cannabis cultivation and sale. The high demand for legal cannabis and limited number of licenses under most state regulatory schemes combined with the artificially restricted availability of capital has created an environment for compelling investment opportunities.

**Description of Business**

The principal business activity of iAnthus is to provide financing and related management and advisory services to state-licensed operators engaged in the cultivation, manufacturing and dispensing of cannabis in states throughout the U.S. where medical and/or adult use cannabis is legal.

iAnthus is expected to generate returns from any or all of the revenue sources below:

- Interest income from debt financing structures;
- Dividend income (or other profit distributions) and capital appreciation from equity investments;
- Management and advisory fees from management service contracts with certain license holders which iAnthus has provided debt or equity financing; and
- Rental income.

*Management Services*

iAnthus is expected to provide advice and oversight in many areas of general business management. In addition to bringing value-added capital to transactions and relationships with investment targets, iAnthus works closely with cannabis industry leaders to augment its management services offering with expertise in cultivation, extraction, refining, analytical testing and dispensary operations. Through these relationships with other industry professionals, iAnthus can provide its local partners cannabis specific knowledge. In addition, iAnthus' strategic partners provide an additional channel for deal flow, increasing access to potential investment opportunities across the regulated landscape.

*Financing Structures*

iAnthus intends to provide debt or equity capital, sometimes as part of a syndicate, to existing holders or applicants for cannabis licenses. Such investments may include straight debt securities (secured or unsecured), convertible debt instruments, and/or common or preferred equity securities.

iAnthus expects to provide debt financings (typically to nonprofit entities in states where medical cannabis licenses may only be held by nonprofits) at interest rates currently prevailing in the U.S. cannabis market. Loans to such license holders will typically be secured by real estate and/or leasehold interests and collateral including cultivation, processing and dispensary equipment. iAnthus may also enter into management services agreement with the license holder, thereby enhancing the financial return on its investment.

In the majority of states where for-profit license holders are permitted, iAnthus may make direct equity investments in license applicants or existing license holders, working closely with the local operator on its strategy and operating plan, developing a financing and business plan, and coming to agreement on mutually-beneficial terms of an iAnthus equity investment.

## QUARTERLY HIGHLIGHTS

### Financing

On November 18, 2016, the Company closed a CAD$1.5 million non-brokered private placement at CAD$2.10 per unit and a CAD$20.0 million bought deal led by Canaccord Genuity Corp.

### Colorado Acquisition

On December 5, 2016, the Company, through its wholly-owned subsidiary, ICM, 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.

### New Mexico Investment

On October 12, 2016, the Company converted its loan to Reynold, Greenleaf and Associates ("RGA") into 229,774 Class A – Units, representing a 22.98% ownership stake in the company.

## KEY MILESTONES

### Approximately $9.0 Million Capital Raised Pre-IPO

During 2015, the Company raised $2.3 million at $1.00 per share.

On June 28, 2016, the Company raised $6.7 million at $1.25 per share.

### Go-Public Transaction

On September 7, 2016, the Company listed on theCSE and began trading under the ticker symbol "IAN".

**Massachusetts' Affiliate, Mayflower Medicinals, Inc. Received Two Provisional Licenses**

On September 27, 2016, the Company's affiliate Mayflower, received two provisional licenses in Massachusetts. Mayflower was the second company to receive a license in Boston, which has a population of approximately 700,000 people and is the largest city in Massachusetts.

**Closing of CAD$1.5 Million Non-Brokered Private Placement**

On November 18, 2016, the Company closed a CAD$1.5 million non-brokered private placement at CAD$2.10 per unit. Each unit is comprised of one common share of the Company (a "Common Share") and one-half of one Common Share purchase warrant (each whole Common Share purchase warrant, a "Warrant"). Each Warrant is exercisable to acquire one Common Share (a "Warrant Share") for a period of 12 months following the closing date of the private placement at an exercise price of CAD$3.00 per Warrant Share, subject to adjustment in certain events. 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.

**Closing of CAD$20 million Bought Deal**

On November 18, 2016, the Company announced that it had closed its previously announced offering of 9,525,000 units of the Company (the "Units") at a price of CAD$2.10 per Unit (the "Offering Price") for aggregate gross proceeds to the Company of $20,002,500 (the "Bought Deal Offering"). The Bought Deal Offering was completed by a syndicate of underwriters led by Canaccord Genuity Corp., as lead underwriter and sole bookrunner, and including Beacon Securities Limited (together, the "Underwriters"). Each Unit is comprised of one common share of the Company (a "Common Share") and one-half of one Common Share purchase warrant (each whole Common Share purchase warrant, a "Warrant"). Each Warrant is exercisable to acquire one Common Share (a "Warrant Share") until November 18, 2018 at an exercise price of CAD$3.00 per Warrant Share, subject to adjustment in certain events. 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.

**Business Combination**

On December 5, 2016, the Company, through its wholly-owned subsidiary, ICM, closed an agreement to acquire certain assets of 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 assets acquired include all real estate holdings of Organix's affiliate, DB Land Holdings, Inc., consisting of a 12,000 square foot cultivation facility in Denver, as well as all equipment and other tangible and intangible assets and all of the intellectual property of Organix, including its brands (the "Assets"). The Assets do not include any cannabis inventory and/or licenses to manufacture or sell cannabis.

*Organix Highlights:*

- Organix is the market leader in Breckenridge with an approximate 40% market share in 2016;
- Gross retail sales of approximately $4.4 million for calendar year 2016;
- Organix is uniquely positioned as the only store in Breckenridge with both medical and recreational retail licenses;
- Breckenridge is one of North America's premier ski and winter resort destinations, attracting more than two million winter tourists and one million summer tourists; and
- Valuable cultivation real estate with an estimated market value of approximately $2.0 million.

In connection with the transaction, ICM formed Scarlet Globemallow, LLC and Bergamot Properties, LLC, 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 $4,670,175. 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 Marijuana Enforcement Division ("MED") approves transfer of the cultivation and selling license from the previous owners of Organix. On a preliminary basis, the Company has estimated that profits of $275,175 will be generated by Organix during the period and accordingly, total preliminary cash consideration amounts to $4,395,000, allocated as follows:

| | | |
|---|---|---|
| Land and building | $ | 1,500,000 |
| Equipment and leaseholds | | 466,689 |
| Right to residual cash flow | | 430,000 |
| Goodwill | | 1,998,311 |
| **Total purchase consideration** | **$** | **4,395,000** |

*MED approval process*
To effect a change of ownership of a Colorado marijuana business license or licenses (the "Licenses"), approvals are required from both the local jurisdiction in which the marijuana business is located (the "Local Jurisdiction") and the MED. The current owner of the Licenses must first request a change of ownership appointment from the MED, which can be scheduled anywhere from two weeks to three months from the date of such request, or such shorter or longer period of time as may reflect the MED's current workload. The current owner and proposed new owner must submit the required change of ownership materials to the Local Jurisdiction prior to the MED change of ownership appointment, as evidence of local application for the proposed change is a required component of the MED change of ownership application. On the date of the MED change of ownership appointment, the current owner of the Licenses and the proposed new owner meet with a MED investigator in person to submit all necessary applications and supplemental materials. If such applications and materials are accepted by the MED, the applicant(s) must pay the required application fee. The change of ownership request will then be reviewed by a number of MED personnel for compliance with all applicable rules and regulations. The MED has the discretion to request any additional materials or clarifications from the applicants during its review process. There is no statutory time frame in which the MED must provide an acceptance or rejection of the proposed change of ownership. Once its review is complete, the MED will notify the applicants of its decision in writing.

**Reynold, Greenleaf and Associates LLC**

During the current year, the Company provided a series of loans in the aggregate amount to $2,270,000 to RGA, a company which provides consulting and management services to companies operating in the medical cannabis industry in New Mexico. RGA has management agreements in place with three vertically-integrated, non-profit medical cannabis license holders and one for-profit manufacturer licensee. It currently manages a production facility, three cultivation operations with a total of 1,350 plants, and four clinic locations in Albuquerque. The clinics managed by RGA collectively constitute the market share leader for medical cannabis sales in the state

RGA is considered a related party by virtue of common directors. The loan bore interest at a rate of 20% and was payable at the maturity date, which was the earlier of (a) closing of an investment in RGA by ICM in excess of $1,000,000; (b) the one-year anniversary of the date of the loan; or (c) an event of default occurs.

On October 12, 2016 (the "Conversion Date") the Company converted the loans, plus accrued interest of $101,272, to Class A-1 Units of RGA. On the Conversion Date the total outstanding amount of $2,371,272 was converted into 229,774 Class A-1 Units priced at $10.32 per unit. At the Conversion Date and at December 31, 2016 the 229,774 Class A-1 Units represent 22.98% of the total equity of RGA.

## EVENTS AFTER THE REPORTING PERIOD

### Strategic Partnership and Credit Facility

On February 6, 2017, ICM entered into a strategic relationship with The Green Solution, LLC and certain of its affiliated Colorado entities (collectively, "TGS"). The strategic relationship includes an initial financing, by the Company to TGS, consisting of a $7,500,000 loan facility. In addition, TGS has entered into an advisory agreement to provide the Company with operational expertise and advice in support of the Company's investments in Massachusetts, Vermont, New Mexico and Colorado.

The loan facility has a term of one year, and interest on borrowings are payable at the rate of 14% during the first 4 months, escalating to 23% for the remaining 8 months. As of April 30, 2017, the total amount drawn down, including accrued interest is $7,644,029.

### Bought Deal Private Placement of 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 aggregate principal amount of unsecured convertible debentures (the "Convertible Debentures") at a price of CAD$1,000 per Convertible Debenture. The Convertible Debentures started bearing 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, which is exactly 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"). As of June 30, 2017, the Company may force the conversion of all of 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 be greater than CAD$4.50 for any 10 consecutive trading days.

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. Upon a change of control of the Company, holders of the Convertible Debentures have the right to require the Company to repurchase their Convertible Debentures, in whole or in part, on the date that is 30 days following the giving of notice of the change of control, at a price equal to 104% of the principal amount of the Convertible Debentures then outstanding plus accrued and unpaid interest thereon (the "Offer Price"). If 90% or more of the principal amount of the Convertible Debentures outstanding on the date of the notice of the change of control have been tendered for redemption, the Company will have the right to redeem all of the remaining Convertible Debentures at the Offer Price.

### Commencement of Construction on Holliston, Massachusetts Cannabis Cultivation and Processing Facility

On March 2, 2017, the Company announced the commencement of the construction on a state-of-the-art cannabis cultivation and processing facility in Holliston, Massachusetts for the benefit of Mayflower Medicinals, Inc. ("Mayflower"), a Massachusetts non-profit Registered Marijuana Dispensary license holder affiliated with the Company.

As of May 1, 2017, the Company has invested $3,748,318 in support of Mayflower’s operations and an incremental $6.6 million is expected to be invested to complete the entire build out of the cultivation and processing facility and three dispensaries. The incremental amount of required capital will be funded from iAnthus’ current cash position. It is anticipated that a newly-formed entity that is 79% owned by iAnthus will enter into a definitive agreement with Mayflower to provide financing, real estate and equipment leasing, intellectual property licensing, and certain management services in support of Mayflower’s mission to provide medical marijuana to qualified patients in Massachusetts.

**Purchase of Breckenridge Dispensary**

On March 3, 2017, Bergamot Properties LLC ("Bergamot"), a wholly-owned subsidiary of ICM, acquired from DB Land Holdings, Inc. a medical and recreational dispensary in the town of Breckenridge, Colorado for total consideration of $510,025. Organix currently leases the property from Bergamot.

**Grant of Stock Options**

On January 17, 2017, ICH granted incentive stock options, exercisable at CAD $2.91, to purchase up to an aggregate of 153,000 shares of the Company, to employees and consultants of the Company. All options are subject to any earlier termination in accordance with their terms and vest at a rate of 12.5% quarterly beginning on March 31, 2017.

On April 4, 2017, the Company granted incentive stock options, exercisable at CAD $3.10, to purchase up to an aggregate of 835,000 common shares, to consultants and employees of the Company. The total 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, to provide operational expertise and advice in support of the Company's investments around the U.S. TGS, through its affiliate TGS National Franchise, LLC ("TGS National Franchise") will also facilitate introductions to franchisee operators in multiple states across the U.S., presenting the Company with significant opportunities for additional financing and equity-based investment partnerships with TGS National Franchise's franchisee operators.

All stock options are exercisable for a period of 10 years, subject to any earlier termination in accordance with their terms. The 835,000 options have the following vesting periods:

- 565,000 options vest at a rate of 12.5% on June 30, 2017, and 12.5% quarterly thereafter; and
- 270,000 options vest at a rate of 25% on June 30, 2017, and 25% quarterly thereafter.

## SELECTED FINANCIAL INFORMATION

## ANNUAL RESULTS DISCUSSION

The following is a summary of selected financial information for the last three fiscal years.

| | **Year ending December 31, 2016** | **Year ending December 31, 2015** | **Period ending December 31, 2014** |
|---|---:|---:|---:|
| Net loss | $ (5,055,732) | $ (1,315,748) | $ (391,238) |
| Net loss per share (basic and diluted) | (0.32) | (0.11) | (0.04) |
| Cash | 9,413,953 | 211,717 | - |
| Total assets | 19,956,998 | 859,237 | 10,000 |
| Total liabilities | 2,450,188 | 444,524 | 478,768 |

Note that ICM was incorporated in September 18, 2014. The first financial statement prepared was as of December 31, 2014.

**Net Loss**

The Company incurred a net loss of $5,055,732 for the year ended December 31, 2016 compared to $1,315,748 for 2015. 2016 was the first major year of operations for the Company and there have been a number of accomplishments: raising substantial amounts of financing, becoming a listed CSE entity, and expanding into new geographic regions by partnering with strong, growing companies.

## Revenues

The primary sources of revenue in 2016 are management fees and interest income.

The management fees are calculated based on 10% of the fiscal year gross revenue of FWR Inc. ("FWR") and an additional 1% of the fiscal year gross revenues for each $50,000 by which the aggregate amount drawn by FWR under the loan exceeds $500,000. The increase in 2016 management fees is driven by the growth in FWR's gross revenues.

Interest income has increased during the year as a result of new debt financing issued and additional drawdowns on existing agreements. During the year, the Company issued a new secured promissory note to provide financing to Mayflower at an annual interest rate of 16%. The outstanding balance of the note at year end is $2,131,432 including accrued interest. There were also additional drawdowns on the Company's existing loan to FWR amounting to $290,000 during 2016.

Going forward, the Company expects both streams of revenue to increase as additional capital is deployed.

## Expenses

During the year, the Company has become a listed entity on the CSE and its level of activity has also increased substantially. As a result, the costs of operating as well as costs related to financing in 2016 have led to increased expenses. The major categories of expenses incurred during the year are listing costs, consulting fees and administrative expenses.

*Listing costs*

Listing on the CSE was a strategic decision and has allowed the Company to gain access to an important pool of investors. In order to become a listed entity on the CSE, the Company incurred listing costs of $812,155. As these costs are primarily non-recurring in nature, the Company does not predict significant listing costs going forward.

The Company's qualifying transaction to list on the CSE between Genarca Holdings Ltd. and ICM has been accounted for as a reverse acquisition that does not constitute a business combination. For accounting purposes, the legal subsidiary, ICM, has been treated as the acquirer and Genarca Holdings Ltd., the legal parent, has been treated as the acquiree.

| | **December 31, 2016** |
|---|---|
| Fair value of consideration paid in excess of net assets acquired | $ 710,084 |
| Legal costs | 102,071 |
| **Total** | **$ 812,155** |

*Consulting fees*

The most significant component of consulting fees was $816,664 for management fees to LDV. LDV provides full time equivalent staff to perform certain accounting, business development, recordkeeping, tax filing and other operating functions. The agreement provides for a monthly fee to cover the costs of these employees and also rent for office space from LDV. There were additional hires during 2016, and this accounts for the increase in consulting fees paid to LDV.

Other legal fees relate to structuring of the Company and of its contemplated and closed investments made during the year.

Other consulting fees have also increased as a result of increased activity during the year.

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Management fee | $ 816,664 | $ 166,385 |
| Business development | 57,534 | 84,703 |
| Financial consulting | 46,866 | - |
| IT consulting | 10,273 | - |
| Marketing | 104,907 | - |
| IR and other consulting | 139,120 | - |
| **Total** | **$1,175,364** | **$ 251,088** |

*Administrative and other expenses*

As 2016 was the Company's first major year of operations, there are a number of costs that were incurred in 2016 for activities that were not required in 2015. For example, transfer agent and regulatory fees given that the Company is publicly listed, engagement of public relations firms, and significant increased travel as the Company has expanded its portfolio to new geographies.

The Company issued $1,300,000 in convertible promissory notes in early 2016. Further discussed below in the Convertible Promissory Loan Notes section. No debt was issued in 2015.

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Advertising and promotion | $ 121,502 | $ 31,771 |
| Audit and accounting | 239,241 | 76,340 |
| Insurance | 104,561 | - |
| Interest expense | 239,935 | - |
| Transfer agent and regulatory | 54,585 | - |
| Travel and entertainment | 154,684 | 75,158 |
| Rent | - | 67,152 |
| Other | - | 27,064 |
| **Total** | **$ 914,508** | **$ 277,485** |

## QUARTERLY RESULTS DISCUSSION

The following is a summary of selected financial information for the quarters in the last three fiscal years.

| | December 31, 2014* | March 31, 2015 | June 30, 2015 | September 30, 2015 | December 31, 2015 | March 31, 2016 | June 30, 2016 | September 30, 2016 | December 31, 2016 |
|---|---|---|---|---|---|---|---|---|---|
| Revenues | - | 416 | 3,819 | 36,819 | 28,126 | 45,546 | 81,350 | 184,277 | 80,479 |
| Income/(loss) | (391,238) | (126,025) | (387,560) | (200,539) | (601,625) | (535,586) | (863,987) | (830,175) | (2,825,984) |
| EPS | (0.04) | (0.01) | (0.03) | (0.02) | (0.05) | (0.05) | (0.05) | (0.05) | (0.18) |
| Total assets | 10,000 | 1,470,719 | 1,208,984 | 1,100,701 | 859,237 | 1,836,259 | 1,453,765 | 6,118,317 | 19,956,998 |
| Non-current liabilities | - | - | - | - | - | 703,576 | 424,642 | 1,097,143 | 735,324 |

**ICM was incorporated in September 18, 2014. The first financial statement prepared was as of December 31, 2014.*

**Net Loss**

With the reverse takeover and listing in the third quarter, the fourth quarter was the first quarter of substantial operations. The following are the substantial contributors to the fourth quarter loss:

Share based compensation expense increased approximately $400,000 as the Company issued 338,000 options at the end of the third quarter.

Legal expenses of $103,703 and additional professional fees related to the Company's acquisition of Organix. Consulting fees increased due to increased deal due diligence and contemplated investments and/or acquisitions.

Due to the Company's listing on the CSE, the Company also incurred significantly increased expenses due to the engagement of external advisors.

**Revenues**

The loan to RGA was converted to an equity investment in RGA early in the fourth quarter. As a result, this decreased the interest earned on the RGA loan, and this was the primary change in revenue between the third and fourth quarter. RGA is accounted for as an investment in associate, and the Company's share of RGA's profits after conversion is $36,116. This figure is included under Other items rather than Revenues in the Consolidated Statements of Loss and Other Comprehensive Income or Loss.

## LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2016, the Company had working capital of $8,354,019 (December 31, 2015 – $69,888) and cash of $9,413,953 (December 31, 2015 - $211,717).

The chart below highlights the Company's cash flows for the year ended December 31, 2016 and 2015.

| Net cash provided by (used in): | For the Years Ended | | | |
|---|---|---|---|---|
| | | **December 31, 2016** | | **December 31, 2015** |
| Operating activities | $ | (3,284,783) | $ | (1,259,611) |
| Investing activities | $ | (8,784,915) | $ | (563,595) |
| Financing activities | $ | 21,271,029 | $ | 2,034,923 |

**Cash resources/ working capital requirements:**

The Company constantly monitors and manages its cash flow to assess the liquidity necessary to fund operations. As at December 31, 2016, the Company had $9,413,953 cash on hand, compared to $211,717 at December 31, 2015. Cash on hand increased $9,202,236 throughout the year. The increase in cash is primarily due to the bought deal financing on November 18, 2016.

Working capital provides funds for the Company to meet its operational and capital requirements. As at December 31, 2016, the Company maintained working capital of $8,354,019. Management expects the Company to have adequate funds available on hand to meet the Company's planned growth and expansion of business over the next 12 months.

**Capital assets and investments spending:**

During 2016, the Company invested $8,784,915 in both capital assets and investments. Of this amount, $4,395,000 related to the OGX transaction, $2,270,000 was issued to RGA, and the remainder was loaned to FWR and Mayflower.

**Financial covenants:**
The current covenant related to convertible promissory notes requires that the Company to maintain minimum cash balance of $500,000. As at December 31, 2016, the Company was in compliance with this covenant.

**Financing activities:**
An increase in cash flow received from financing activities derived from capital raised through both brokered and non-brokered private-placements before public offering. The total capital raised through brokered and non-brokered private-placements were approximately $18.9 million and $2.4 million respectively. Management expects to raise more capital in the future as the Company is in a growth stage.

## OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

The Company has a sublease agreement for office space rental in Canada that expires April 30, 2019. ICM has a lease agreement for office space rental in the U.S. that expires May 31, 2022.

The Company does not maintain any off-balance sheet arrangements.

## RELATED PARTY BALANCES

Related party balances are as follows:

| | | December 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Due from RGA | $ | 30,000 | $ | - |
| Due from director | | 30,000 | | - |
| Due from Last Dance Ventures, LLC, owned by officers of ICM | | 317,726 | | - |
| Due from FWR, owned by a family member related to an officer of ICM | | 690,102 | | 307,960 |
| Due from Mayflower Medicinals, Inc., controlled by an officer of ICM | | 2,131,432 | | - |
| **Total Due from related parties** | **$** | **3,199,260** | **$** | **307,960** |
| Due to Last Dance Ventures, LLC, owned by officers of ICM | | 318,194 | | 132,930 |
| **Total due to related parties** | **$** | **318,194** | **$** | **132,930** |

As described in the note 16, related party transactions in the financial statements, ICM converted its loan with RGA into Class A-1 Unit Securities of RGA. As part of that transaction ICM is to be reimbursed $30,000 from RGA in connection with certain legal fees and expenses incurred for the conversion. As of December 31, 2016, the reimbursement due from the RGA loan conversion is $30,000. Additionally, as of December 31, 2016, the Company has a receivable due from a director of $30,000. A receivable due from FWR was $48,297 as of December 31, 2016.

ICM utilizes the services and office space of Last Dance Ventures, LLC (“LDV”), a related party owned by managers Hadley Ford and Randy Maslow. Such services are allocated based upon management's estimate. The rental costs are $107,323 and $67,152 for the years ended December 31, 2016 and 2015, respectively.

On June 23, 2015, ICM 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 which are based on 10% of the fiscal year gross revenue of FWR and an additional 1% of the fiscal year gross revenues for each $50,000 by which the aggregate amount drawn by FWR under the loan exceeds $500,000, commenced on July 1, 2015. Management fee income amounted to $67,461 and $24,345 for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016, and 2015, the management fee receivable from FWR was $91,805 and $24,345 and is not expected to be collected within 12 months, and therefore, is classified as non-current. The agreement also provides for the reimbursement by FWR of certain expenses incurred by ICM on behalf of FWR, which amounted to $35,383 and $23,615

for the years ended December 31, 2016 and 2015, respectively, and is shown as a reduction in administrative management fee. As of December 31, 2016, and 2015, the reimbursement receivable from FWR was $48,297 and $23,615, respectively, and is expected to be repaid within 12 months, and therefore, is classified as current.

On October 1, 2015, ICM entered into an administrative services agreement with LDV. LDV provides full time equivalent staff to perform certain accounting, business development, recordkeeping, tax filing and other operating functions. The agreement provides for a monthly fee. For the years ended December 31, 2016 and 2015, ICM incurred administrative management fees of $840,000 and $190,000, respectively. As of December 31, 2016, and 2015, the amount due to LDV is $318,194 and $132,930, respectively, and the amount due from LDV is 317,726 and $nil, respectively. These amounts are expected to be repaid within 12 months, and therefore classified as current.

**Loan due from Mayflower Medicinals, Inc.**

On July 1, 2016, the Company entered into an agreement (the "Mayflower Loan Agreement") with Mayflower Medicinals, Inc. ("Mayflower"), 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 USD$3,000,000. Mayflower is a not-for-profit entity operating in the cannabis industry in Massachusetts and it is controlled by an officer of ICM. The total amount of the secured promissory note includes previously advanced amounts of $929,579 including accrued interest as of July 1, 2016 at an interest rate of 2%.

As of December 31, 2016, the total amount advanced under the promissory note amounted to $2,131,432 including accrued interest. Starting July 1, 2016, the note bears interest at a rate of 16%, compounded daily and payable on a quarterly basis, starting one year after Mayflower commences sales of licensed products to patients (the "First Payment Date").

The maturity date is 7 years after the First Payment Date, and therefore the note is classified as non-current. Interest income on the note amounted to $123,536 and $1,043 for the years ended December 31, 2016 and 2015, respectively.

**Loan due from FWR Inc.**

On June 23, 2015, ICM issued a secured promissory note to FWR Inc. ("FWR") for an amount not to exceed $915,000. The note bears interest at a rate of 20%, compounded and payable on a monthly basis. The principal payments for the note began on July 15, 2016 and the loan matures on June 15, 2020. On July 15, 2016, ICM entered into a temporary forbearance agreement with FWR whereby both parties agreed to postpone the principal payments until October 15, 2016. On October 26, 2016, the Company entered into a second temporary forbearance agreement with FWR whereby both parties agreed to postpone the principal payment until January 15, 2017. Subsequent to year-end, FWR and the Company have extended the forbearance of the principal payments. As of the issuance date of these financial statements, the principal payments are due May 15, 2017. As of December 31, 2016, the total amount advanced under the secured promissory note was $550,000 (2015 - $260,000) of which $99,647 (2015 - $39,507) is classified as current and $450,353 (2015 - $220,493) is classified as non-current. Interest income on the note amounted to $83,882 and $21,221 for the years ended December 31, 2016 and 2015, respectively.

## CONVERTIBLE PROMISSORY LOAN 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 conversion prices ranging from $1.00 to $1.65 per share contingent on certain milestones being met, bear interest at 8.0% per annum and have maturity dates that are one to three years from the date of execution of the RTO (Note 5).

The Notes do not have redemption, retraction, purchase for cancellation, surrender, sinking or purchase fund provisions. The Notes have a covenant requiring that, the Company maintain a minimum cash balance of $500,000, while the Notes remain outstanding and less than 80% of the original principal amount of the Notes have been converted by the payee. As of 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 share of the Company at an exercise price of $1.75. The fair value of the warrants of $195,446 at inception was determined using the Black-Scholes model. The warrant value is allocated to both the notes in the loan balance and to the conversion option derivative which is expensed as debt issuance cost. Debt issuance cost expense of $96,442 is included in the consolidated statement of comprehensive loss.

The conversion feature is a derivative liability and is required to be separated from the debt host liability and valued independently. In estimating the fair value of the derivative liability on initial recognition the Company used the Black-Scholes method, calculating a fair value of $541,480. As the financial instrument is designated as fair value through profit or loss it is revalued at each reporting date. As at December 31, 2016 the value of the derivative liability increased to $889,992 with the fair value movement being recognized in the statement of comprehensive loss.

The residual value from the instrument is assigned to the debt host liability which is valued on an amortized cost basis. During the year ended December 31, 2016 interest expense of $290,821 was recognized in the statement of comprehensive loss and as at December 31, 2016 the debt host liability amounts to $735,324.

On September 23, 2016, the Company issued 15,956 common shares with a fair value of $24,240 in satisfaction of the accrued interest due on the convertible promissory note of $19,945. As part of the conversion, a loss on settlement of debt of $4,295 was recorded.

On December 6, 2016, $25,000 of the promissory note was converted into 15,477 common shares of the Company with a fair value of $27,854 in satisfaction of $25,000 of principal and $526 of interest accrued on the convertible promissory note. As part of the conversion, a loss on settlement of debt of $2,328 was recorded.

## OUTSTANDING SHARE DATA

The following share capital data is as of May 1, 2017.

| | Balance |
|---|---|
| Common shares issued and outstanding | 15,988,769 |
| Class A shares issued and outstanding | 11,255,000 |
| Options | 2,526,000 |
| Warrants | 6,104,200 |
| Debentures | 7,224,340 |
| Fully diluted shares outstanding | 43,098,309 |
| Escrowed Shares | 5,625,212 |

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The financial instruments of the Company are measured as follows:

- The carrying values of cash, receivables, due to/from related parties and accounts payable and accrued liabilities approximate their fair values because of the short-term nature of these financial instruments.
- The promissory note receivable and loan to Mayflower Medicinals, Inc. were initially recognized at fair value and are subsequently measured on an amortized cost basis.
- The carrying value of the investment in 4 Front Ventures, Inc. is equivalent to its cost and is considered to be Level 3 as observable market data does not exist.
- The Company's convertible promissory loan note and related derivative liability are allocated using their respective fair values using the Black-Scholes method and are therefore considered to be a Level 2 measurement.

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 three 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).

The classification and respective fair value of financial instruments, as at December 31, 2016 and 2015 is shown in the table below:

| **AT DECEMBER 31, 2016** | **Loans and receivable** | **FVTPL** | **AFS** | **Other financial liabilities** | **Total** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash | $ 9,413,953 | $ - | $ - | $ - | $ 9,413,953 |
| Receivables | 85,771 | - | - | - | 85,771 |
| Due from related parties | 517,828 | - | - | - | 517,828 |
| Investment in 4Front | - | - | 99,969 | - | 99,969 |
| Promissory note receivable | 550,000 | - | - | - | 550,000 |
| Loan to Mayflower | 2,131,432 | - | - | - | 2,131,432 |
| **Total financial assets** | 12,698,984 | - | 99,969 | - | 12,798,953 |
| | | | | | |
| **Financial liabilities** | | | | | |
| Account payable and accrued liabilities | $ - | $ - | $ - | $ 506,679 | $ 506,679 |
| Convertible promissory note | - | - | - | 735,324 | 735,324 |
| Due to related parties | - | - | - | 318,194 | 318,194 |

| | | | | | |
|---|---|---|---|---|---|
| Derivative liability on note | - | 889,992 | - | - | 889,992 |
| **Total financial liabilities** | - | 889,992 | - | 1,560,197 | 2,450,189 |

| **AT DECEMBER 31, 2015** | | | | | |
|---|---|---|---|---|---|
| | **Loans and Receivable** | **FVTPL** | **AFS** | **Other Financial Liabilities** | **Total** |
| **Financial assets** | | | | | |
| Cash | $ 211,717 | $ - | $ - | $ - | $ 211,717 |
| Receivables | 52,821 | - | - | - | 52,821 |
| Due from related parties | 24,345 | - | - | - | 24,345 |
| Investment in 4Front | - | - | 99,969 | - | 99,969 |
| Promissory note receivable | 260,000 | - | - | - | 260,000 |
| Loan to Mayflower | 206,313 | - | - | - | 206,313 |
| **Total financial assets** | 755,196 | - | 99,969 | - | 855,165 |

| | | | | | |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Account payable and accrued liabilities | $ - | $ - | $ - | $ 311,594 | $ 311,594 |
| Convertible promissory note | - | - | - | - | - |
| Due to related parties | - | - | - | 132,930 | 132,930 |
| Derivative liability on note | - | - | - | - | - |
| **Total financial liabilities** | - | - | - | 444,524 | 444,524 |

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, liquidity risk, and price risk. Where material, these risks are reviewed and monitored by the Board of Directors.

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility.

*Market risk*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

*Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's significant interest-bearing loans and borrowings are all at fixed interest rates, therefore the interest rate risk is limited to potential changes on the cash held with financial institutions in Canada and in the United States of America. As interest on these balances is negligible, the Company consider interest rate risk to be immaterial.

*Equity price risk*

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company has shares in the private companies RGA and 4FrontVentures and has determined that there is not a significant amount of equity price risk.

*Credit risk*

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments, which are potentially subject to credit risk for the Company, consist primarily of cash, receivables from related parties, other receivables and promissory notes receivable. The carrying amount of these financial assets represents the maximum credit exposure at December 31, 2016.

Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand. Credit risk exposure is limited through maintaining cash with high-credit quality financial institutions and management considers this risk to be minimal for all cash assets based on changes that are reasonably possible at each reporting date. Each related party and the counterparty for the notes receivable have been considered to determine whether they pose a significant credit risk. Since the counterparties with large outstanding balances have high growth potential in revenues and do not have other significant debt outstanding, they have been assessed to have an acceptable level of credit risk.

Based on the aging of the other receivables presented below, all receivables apart from the notes and loan receivable described above, are under 30 days. Therefore, management does not believe the Company is exposed to significant credit risk.

| | **December 31, 2016** | **December 31, 2015** |
|---|---|---|
| 1-30 days | $ 85,771 | $ 52,821 |
| 31-90 days | - | - |
| 91+ days | $ 2,681,432 | - |
| **Total** | **$ 2,767,203** | **$ 52,821** |

*Currency risk*

The Company has operations in Canada and the United States and is subject to foreign currency fluctuations. The Company's operating expenses are incurred in Canadian and U.S. dollars, and the fluctuation of the Canadian dollar in relation to these other currencies will have an impact upon the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company's exposure to foreign currency risk arises due to fluctuations between the Canadian and U.S. dollars.

The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

At December 31, 2016, the Company's Canadian dollar-denominated monetary assets and monetary liabilities in U.S. dollar equivalents are as follows:

| | | **CAD denominated amounts (in U.S. dollar equivalents)** |
|---|---|---|
| Cash | $ | 8,533,281 |
| Receivables | | 44,937 |
| Prepaid expenses | | 50,768 |
| Due from related parties | | 911,033 |
| Accounts payable | | (54,108) |
| **Net exposure** | | **9,485,911** |
| **Effect of +/- 10% change in currency** | | **948,591** |

The following shows the impact on net income for the year ending December 31, 2016.

| | | CAD denominated amounts (in U.S. dollar equivalents) |
|---|---|---|
| Revenues | $ | 2,017 |
| Operating expenses | | (619,108) |
| Listing expenses | | (102,071) |
| **Net exposure on net income (loss)** | | **719,162** |
| **Effect of +/- 10% change in currency** | | **71,916** |

*Liquidity and funding risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash is invested in business accounts and is available on demand. Funding risk is the risk that the Company may not be able to raise appropriate financing in a timely manner and on terms acceptable to management. There are no assurances that such financing will be available when, and if, the Company requires additional equity financing.

The following is an analysis of the contractual maturities of the Company's non-derivative financial liabilities as at December 31, 2016:

| | | Within one year | | Between one and five years | | More than five years |
|---|---|---|---|---|---|---|
| Accounts payables and accrued liabilities | $ | 506,679 | $ | - | $ | - |
| Due to related parties | | 318,194 | | - | | - |
| Convertible promissory note | | - | | 735,324 | | - |
| | **$** | **824,873** | **$** | **735,324** | **$** | **-** |

*Capital risk management*

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue opportunities to deliver solutions for financing, developing and managing state-licensed cannabis cultivators and dispensaries throughout the United States. The Company has the ability to raise new capital through equity issuances and/or through operations. In the management of capital, the Company includes the components of shareholders' equity as well as cash. The Company prepares annual estimates of expected expenditures and monitors actual expenditures compared to the estimates to ensure that there is sufficient capital on hand to meet ongoing obligations.

The Company is not exposed to any externally imposed capital requirements, nor were there changes in the Company's approach to capital management during the year.

## NEW ACCOUNTING PRONOUNCEMENTS

*IFRS 7 Financial instruments: Disclosure*
Amended to require additional disclosures on transition from IAS 39 to IFRS 9. Effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The Company does not expect significant impact on its financial statements from the adoption of this new standard.

*IFRS 9 Financial Instruments*
IFRS 9 reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement 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, with early application permitted. The Company

expects this standard to have a significant effect on financial reporting and is currently assessing the extent of the impact of this new standard.

IFRS *15 Revenue from Contracts with Customers*
The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts, and 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 January 1, 2018. The Company expects greater impact of this standard as the Company enters into new revenue arrangements.

IFRS *16 Leases*
The new standard will replace IAS 17 Leases and eliminates the classification of leases as either operating or finance leases by the leasee. The treatment of leases by the leasee will require capitalization of all leases resulting accounting treatment similar to finance leases under IAS 17 Leases. The new standard will result in an increase in lease assets and liabilities for the leasee. Under the new standard, the treatment of all lease expense is aligned in the statement of earnings with depreciation, and an interest component recognized for each lease, in line with finance lease accounting under IAS 17 Leases. IFRS 16 will be applied prospectively for annual periods beginning on January 1, 2019. Based on current operations, the Company does not expect this standard to have significant financial reporting implications.

## RISK AND UNCERTAINTIES

Through the principal business activity of the Company, it is exposed to a number of risks and uncertainties that are not uncommon to other companies in the same business.

### Conflicts of Interest

Certain directors of the Company also serve as directors and/or officers of other companies involved in other business ventures. Consequently, there exists the possibility for such directors to be in a position of conflict. Any decision made by such directors involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with the Company and such other companies. In addition, such directors will declare, and refrain from voting on, any matter in which such directors may have a conflict of interest.

### Negative Operating Cash Flows

As the Company is in the early start-up stage it may continue to have negative operating cash flows. Without the injection of further capital and the development of revenue streams from its business, the Company may continue to have negative operating cash flows until it can realize stable cash flow from operations.

### Risks Related as a Going Concern

The ability of the Company to continue as a going concern is uncertain and dependent upon its ability to achieve profitable operations, obtain additional capital and receive continued support from its members. Management of the Company will have to raise capital through private placements or debt financing and proposes to continue to do so through future private placements and offerings. The outcome of these matters cannot be predicted at this time.

### Passive Foreign Investment Company

There is a risk that the Company is a passive foreign investment company (“PFIC”). If the Company is a passive foreign investment company, its shareholders in the U.S. are likely subject to adverse U.S. tax consequences. Under U.S. federal income tax laws, if a company is a PFIC for any year, it could have adverse U.S. federal income tax consequences to a U.S. shareholder with respect to its investment in the Company’s shares. The Company earns significant royalty and franchise revenue which may be treated as passive income unless the royalty and franchise revenue is derived in the active conduct of a trade or

business. Assessing whether royalty or franchise revenue received by the Company and its subsidiaries is derived in the active conduct of a trade or business involves substantial factual and legal ambiguity.

Therefore, whether the Company is a PFIC is unclear, and the Company believes there is a significant risk that the Company will be considered a PFIC currently or in the future. The Company has not yet made a determination as to whether the Company is a PFIC, and even if the Company were to make determinations of its PFIC status, there can be no assurances that the U.S. Internal Revenue Service will agree with such determinations. Furthermore, because PFIC determinations are made annually, it is possible that the Company will meet the requirements to be treated as a PFIC in one or more years, but not meet such requirements in other years. U.S. shareholders should consult their own tax advisors regarding the potential adverse tax consequences to owning PFIC stock, and whether they are able to and should make any elections or take other actions to mitigate such potential adverse tax consequences.

**Cannabis-related Practices or Activities are Illegal Under U.S. Federal Laws**

The concepts of "medical cannabis" and "retail cannabis" do not exist under U.S. federal law. The Federal Controlled Substances Act classifies "marihuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for the use of the drug under medical supervision. As such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under U.S. federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

**Dividends**

The Company does not anticipate paying any dividends on the common shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

**Reliance on Key Personnel and Advisors**

The Company relies heavily on its officers. The loss of their services may have a material adverse effect on the business of the Company. There can be no assurance that one or all of the employees of, and contractors engaged by, the Company will continue in the employ of, or in a consulting capacity to, the Company or that they will not set up competing businesses or accept positions with competitors. There is no guarantee that certain employees of, and contractors to, the Company who have access to confidential information will not disclose the confidential information.