iAnthus Capital Holdings, Inc.

CONSOLIDATED FINANCIAL STATEMENTS

For the Years ended December 31, 2019 and 2018

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
iAnthus Capital Holdings, Inc.:

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of iAnthus Capital Holdings, Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "Financial Statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 2, the Company has incurred significant losses, is in default of certain debt obligations and needs to raise additional funds to meet its obligations and sustain its operations. As a result of the defaults, the Company is required to make additional payments that are described in Notes 10 and 20 above and beyond the principal and interest amounts due under certain notes payable. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management’s Discussion and Analysis, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis prior to the date of this auditors’ report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audits resulting in this independent auditors' report is Anson J. Augustine.

Marcum LLP

Marcum LLP

New York, NY
July 31, 2020

(in thousands of U.S. Dollars, except share and per share amounts)

Consolidated Statements of Financial Position

	Note		December 31, 2019		December 31, 2018
ASSETS					
Current Assets					
Cash	19	$	34,821	$	15,295
Restricted cash	19		-		5,272
Receivables and prepaid assets			7,610		3,847
Inventory	5		25,228		11,560
Biological assets	6		15,751		4,744
Other current assets			3,700		1,283
		$	87,110	$	42,001
Non-current Assets					
Long-term investments	7		2,852		2,632
Fixed assets	8		132,850		29,578
Other assets			2,682		234
Intangible assets	9		177,590		56,493
Goodwill	9		201,014		37,454
		$	516,988	$	126,391
TOTAL ASSETS		$	604,098	$	168,392
LIABILITIES AND EQUITY					
Current Liabilities					
Payables and accrued liabilities		$	25,396	$	6,509
Current portion of long-term debt	10, 20		10,847		-
Derivative liabilities	14		1,671		1,255
Current lease liabilities	11		5,328		-
Other current liabilities			937		553
		$	44,179	$	8,317
Non-current Liabilities					
Long-term debt	10, 20		130,667		31,231
Deferred tax liabilities	17		43,350		17,589
Non-current lease liabilities	11		19,799		-
Other liabilities			106		-
		$	193,922	$	48,820
Total Liabilities		$	238,101	$	57,137
Shareholders' Equity					
Share capital			659,790		158,365
Shares to be issued			1,531		2,130
Reserves			89,444		33,190
Accumulated deficit			(384,845)		(82,507)
Accumulated other comprehensive income			77		77
Total Shareholders' Equity		$	365,997	$	111,255
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$	604,098	$	168,392

On behalf of the Board of Directors

"Randy Maslow" *"Julius Kalcevich"*

Randy Maslow
Interim CEO and Director

Julius Kalcevich
CFO

See accompanying notes to the consolidated financial statements

(in thousands of U.S. Dollars, except share and per share amounts)

Consolidated Statements of Loss and Comprehensive Loss

	Note	2019	2018
Sales revenues		$ 78,382	$ 3,405
Cost of sales		(41,362)	(790)
Gross profit before fair value adjustments		37,020	2,615
Fair value adjustment on sale of inventory	21	(28,498)	(1,450)
Fair value adjustment on biological assets	6, 21	31,344	8,427
Gross profit		39,866	9,592
Operating expenses			
General and administrative		18,651	6,942
Salaries and employee benefits		34,714	10,724
Share-based compensation	13	20,484	7,522
Depreciation and amortization	8, 9	23,632	6,349
Professional fees		16,969	9,619
Acquisition-related costs	4	6,721	717
Impairment loss	9	234,284	-
Total operating expenses		355,455	41,873
Other items			
Other income		467	1,080
Interest expense		(14,662)	(4,794)
Accretion expense	10	(10,588)	(16,140)
Gain (loss) from change in fair value of financial instruments	14	36,476	(8,629)
Other gains (losses)		(383)	(1,264)
Total other items		11,310	(29,747)
Loss before income taxes		$ (304,279)	$ (62,028)
Income tax recovery	17	3,025	-
Net loss		$ (301,254)	$ (62,028)
Other comprehensive gains			
Foreign currency translation gain		-	219
Comprehensive loss		$ (301,254)	$ (61,809)
Loss per share - basic and diluted		$ (1.90)	$ (0.97)
Weighted average number of common shares outstanding - basic and diluted		158,214,225	63,858,945

See accompanying notes to the consolidated financial statements

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

Consolidated Statements of Changes in Equity

	Note	Common Shares (Units)	Class A Shares (Units)	Share Capital	Shares to be Issued	Option Reserves	Warrant Reserves	Convertible Debt Reserves	Accumulated Other Comprehensive Income	Accumulated Deficit	Shareholders' Equity
Balance – January 1, 2018		26,337,355	11,255,000	$ 32,681	$ 113	$ 4,101	$ 3,852	$ 1,699	$ (142)	$ (20,479)	$ 21,825
Acquisition of Florida entities	4	12,103,172	-	38,393	-	-	-	-	-	-	38,393
Acquisition of Citiva	4	3,041,689	1,977,563	18,206	2,130	-	-	-	-	-	20,336
Acquisition of FWR	4	1,655,734	-	4,000	-	-	-	-	-	-	4,000
Acquisition of Pilgrim		56,819	-	113	(113)	-	-	-	-	-	-
Financing in May 2018	10	-	3,891,051	13,409	-	-	1,271	1,671	-	-	16,351
Financing in October 2018	12	5,188,800	-	26,558		-	-	-	-	-	26,558
Issuance of shares to settle February 2017 Debentures	12	6,173,938	-	16,321	-	-	-	(1,699)	-	-	14,622
Issuance of shares to settle Convertible Promissory Notes	12	773,579	-	4,209	-	-	-	-	-	-	4,209
Issuance of shares as settlement for interest payable	12	40,440	-	91	-	-	-	-	-	-	91
Issuance of shares to settle outstanding obligations	12	65,900	-	349	-	-	-	-	-	-	349
Share issuance costs		-	-	(1,864)	-	-	-	-	-	-	(1,864)
Share-based compensation	13	-	-	-	-	7,531	-	-	-	-	7,531
Reclassification from functional currency changes	13	-	-	-	-	-	16,782	-	-	-	16,782
Exercise of stock options	12	140,046	-	331	-	(205)	-	-	-	-	126
Exercise of warrants		1,461,879	-	5,568	-	-	(1,813)	-	-	-	3,755
Conversion of Class A to Common Shares	13	1,682,910	(1,682,910)	-	-	-	-	-	-	-	-
Other comprehensive loss		-	-	-	-	-	-	-	219	-	219
Net loss		-	-	-	-	-	-	-	-	(62,028)	(62,028)
Balance – December 31, 2018		58,722,261	15,440,704	$ 158,365	$ 2,130	$ 11,427	$ 20,092	$ 1,671	$ 77	$ (82,507)	$ 111,255

	Note	Common Shares (Units)	Class A Shares (Units)	Share Capital	Shares to be Issued	Option Reserves	Warrant Reserves	Convertible Debt Reserves	Accumulated Other Comprehensive Income	Accumulated Deficit	Shareholders' Equity
Balance – January 1, 2019		58,722,261	15,440,704	$ 158,365	$ 2,130	$ 11,427	$ 20,092	$ 1,671	$ 77	$ (82,507)	$ 111,255
Acquisition of MPX	4	75,795,208	-	403,071	1,500	21,704	6,391	-	-	-	432,666
Acquisition of CBD For Life	4	2,443,181	-	7,989	31	-	-	-	-	-	8,020
Acquisition-related costs	4	170,000	-	904	-	-	-	-	-	-	904
Financing in March 2019	12	116,600	-	688	-	-	5,099	4,848	-	-	10,635
Financing in May 2019	12	15,548	-	75	-	-	2,900	4,207	-	-	7,182
Financing in September 2019	10	-	-	-	-	-	993	1,587	-	-	2,580
Financing in December 2019	10	-	-	-	-	-	1,664	2,170	-	-	3,834
Issuance of shares to settle Original Issue Discount Loan	10	11,617,044	-	50,080	-	-	-	-	-	-	50,080
Issuance of shares to settle outstanding obligations	12	818,881	-	4,460	(2,130)	-	-	-	-	(1,278)	1,052
Share issuance costs	12	-	-	(558)	-	-	-	-	-	-	(558)
Share-based compensation	13	-	-	-	-	20,484	-	-	-	-	20,484
Exercise of stock options	13	2,810,371	88,224	16,462	-	(12,259)	-	-	-	-	4,203
Exercise of warrants	13	3,605,170	-	18,254	-	-	(3,534)	-	-	-	14,720
Conversion of Class A to Common Shares	12	15,528,928	(15,528,928)	-	-	-	-	-	-	-	-
Impact from adoption of IFRS 16		-	-	-	-	-	-	-	-	194	194
Net loss		-	-	-	-	-	-	-	-	(301,254)	(301,254)
Balance – December 31, 2019		171,643,192	-	$ 659,790	$ 1,531	$ 41,356	$ 33,605	$ 14,483	$ 77	$ (384,845)	$ 365,997

See accompanying notes to the consolidated financial statements

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

Consolidated Statements of Cash Flows

		2019		2018
Operating activities				
Net loss	$	(301,254)	$	(62,028)
Adjustments to reconcile net loss to cash used in operations:				
Fair value adjustment on biological assets		(31,344)		(8,427)
Fair value adjustment on sale of inventory		28,498		1,450
Share-based compensation		20,484		7,522
Depreciation and amortization		23,632		6,349
Acquisition-related costs		6,721		717
Impairment loss		234,284		-
Interest income		(65)		(567)
Interest expense		14,662		4,794
Accretion expense		10,588		16,140
Change in fair value on financial instruments		(36,476)		8,629
Other gains (losses)		(361)		685
Shares issued to consultants		131		349
Loss on disposition of fixed assets		1,239		361
Deferred tax expense		(8,754)		-
Changes in non-cash working capital items		(7,834)		(4,269)
Net cash used in operating activities	$	(45,849)	$	(28,295)
Investing activities				
Purchase of fixed assets		(48,534)		(13,549)
Proceeds on disposition of fixed assets		312		-
Acquisition of intangible assets		(943)		(355)
Cash received from business acquisitions		3,153		20
Acquisition of subsidiaries		(2,164)		(18,228)
Acquisition-related costs		(5,817)		(717)
Proceeds from notes receivable		-		7,500
Other investments		-		1,017
Net cash used in investing activities	$	(53,993)	$	(24,312)
Financing activities				
Issuance of debt		116,150		39,608
Debt issuance costs		(2,063)		(2,637)
Repayment of debt		(39)		(20,000)
Issuance of share capital		920		43,883
Share issuance costs		(558)		(1,864)
Issuance of warrants		-		12,260
Exercise of warrants		9,355		2,656
Exercise of stock options		4,203		148
Interest paid		(9,334)		(4,993)
Interest paid on lease obligations		(4,058)		-
Payment on principal of lease obligations		(597)		-
Net cash generated from financing activities	$	113,979	$	69,061
Effect of exchange rate changes on cash held		117		(2,064)
Cash and restricted cash, beginning of the period		20,567		6,177
Net increase in cash		14,137		16,454
Cash and restricted cash, end of the period	$	34,821	$	20,567

Please refer to Note 19 for supplemental cash flow information.

See accompanying notes to the consolidated financial statements below.

1 Nature of Operations

iAnthus Capital Holdings, Inc. ("ICH", or "iAnthus"), together with its consolidated subsidiaries (the "Company") is a vertically-integrated developer, owner and operator of licensed cannabis cultivation, processing and dispensary facilities, and developer, producer and distributor of innovative branded cannabis and cannabidiol ("CBD") products in the United States. Through the Company's subsidiaries, licenses, interests and contractual arrangements, the Company has the capacity to operate dispensaries and cultivation/processing facilities, and manufacture and distribute cannabis across the states in which the Company operates in the U.S. Additionally, the Company distributes CBD products online and to retail locations across the United States.

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 OTCQX, part of the OTC Markets Group, under the ticker "ITHUF".

2 Basis of Preparation

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the years ended December 31, 2019 and December 31, 2018.

These consolidated financial statements were approved by the Board of Directors (the "Board") on July 31, 2020.

The Company's business activities, and the business activities of its subsidiaries, which operate in jurisdictions where the use of marijuana has been legalized under state and local laws, currently are illegal under U.S. federal law. The U.S. Controlled Substances Act classifies marijuana as a Schedule I controlled substance. Any proceedings that may be brought against the Company could have a material adverse effect on the Company's business plans, financial condition and results of operations.

Going Concern

These consolidated financial statements have been prepared using IFRS applicable to going concern, which assumes that the Company will be able to continue its operations and will be able to realize its assets and settle its liabilities in the normal course of business as they come due in the foreseeable future.

For the year ended December 31, 2019, the Company reported a net loss of $301,254, operating cash outflows of $45,849, and an accumulated deficit of $384,845 as at December 31, 2019, including an impairment loss on its goodwill balance of $234,284. 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.

Subsequent to December 31, 2019, due to liquidity constraints experienced by the Company, the Company did not make interest payments due to the lenders of the Company's Secured Notes and Unsecured Debentures (together the "Lenders") on March 31, 2020. This non-payment of interest triggered an event of default with respect to the Company's long-term debt. In addition, as a result of the default, the Company is required to make additional payments above and beyond the principal and accrued interest amounts due under the Secured Notes. Refer to Note 10 and Note 20 for additional information.

As a result, the Board formed a special committee comprising of independent, non-management directors of the Company (the "Special Committee") to, among other matters, explore and consider strategic alternatives available to the Company in light of the prospective liquidity requirements of the Company, the condition of the capital markets affecting companies in the cannabis industry, and the rapid change in the state of the economy and capital markets generally caused by the novel coronavirus known as COVID-19 ("COVID-19"), including but not limited to:

- renegotiation of existing financing arrangements and other material contracts, including any amendments, waivers, extensions or similar agreements with the Lenders to and/or stakeholders of the Company and/or its subsidiaries that the Special Committee determines are in the best interest of the Company and/or its subsidiaries;
- managing available sources of capital, including equity investments or debt financing or refinancing and the terms thereof;
- implementing the operational and financial restructuring of the Company and its subsidiaries and their respective businesses, assets and licensure and other rights; and
- implementing other potential strategic transactions.

2 Basis of Preparation (cont.)

Going Concern (cont.)

The Special Committee engaged Canaccord Genuity Corp. as its financial advisor to assist the Special Committee in analyzing various strategic alternatives to address its capital structure and liquidity challenges.

On June 22, 2020, the Company received notice from Gotham Green Admin 1, LLC (the "Collateral Agent"), as collateral agent holding security for the benefit of the holders of the Company's Secured Notes, with a demand for repayment (the "Demand Letter") under the Amended and Restated Secured Debenture Purchase Agreement dated October 10, 2019 (the "Purchase Agreement") of the entire principal amount, together with interest, fees, costs and other allowable charges that had accrued or might accrue in accordance with the Purchase Agreement and the other Transaction Agreements (as defined in the Purchase Agreement). The Collateral Agent also concurrently provided the Company with a Notice of Intention to Enforce Security (the "BIA Notices") under section 244 of the Bankruptcy and Insolvency Act (Canada) (the "BIA").

On July 10, 2020, the Company entered into the Restructuring Support Agreement (as defined below) to effect a proposed recapitalization transaction (the “Recapitalization Transaction”) with some of its Lenders as more fully discussed in Note 20 as well as to provide interim financing of $14,000. In connection with the Recapitalization Transaction, the Company and certain of its subsidiaries have entered into a restructuring support agreement (the "Restructuring Support Agreement") with all of the holders (the "Secured Lenders") of the 13% senior secured convertible debentures (the "Secured Notes") issued by iAnthus Capital Management, LLC, the Company's U.S. wholly-owned subsidiary, and certain holders (the "Unsecured Debentureholders") of the 8% convertible unsecured debentures (the "Unsecured Debentures") issued by the Company.

Subject to compliance with the Restructuring Support Agreement, the Secured Lenders and Initial Consenting Unsecured Debentureholders will forbear from further exercising any rights or remedies in connection with any events of default of the Company now or hereafter occurring under their respective agreements and will stop any current or pending enforcement actions respecting same, including as set forth in the Demand Letter.

Pursuant to the terms of the Restructuring Support Agreement, the Recapitalization Transaction will be implemented pursuant to arrangement proceedings (“Arrangement Proceedings”) commenced under the British Columbia Business Corporations Act, or, only if necessary, the Companies’ Creditors Arrangement Act (Canada) (“CCAA”). Completion of the Recapitalization Transaction through the Arrangement Proceedings will be subject to, among other things, requisite stakeholder approval of the Plan of Arrangement at meetings expected to be held in September 2020, such other approvals as may be required by the Supreme Court of British Columbia (the “Court”), approval by the Court of the Plan of Arrangement and the receipt of all necessary regulatory and stock exchange approvals (the “Requisite Approvals”). Pursuant to the terms of the Restructuring Support Agreement, if the Recapitalization Transaction is completed through CCAA Proceedings, then the Existing Shareholders (defined as the existing holders of Common Shares) will not receive a recovery.

Although no assurances can be given, management of the Company believes that potential financing transactions as discussed above should provide the necessary funding for the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Basis of Measurement

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

Functional Presentation Currency

These 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 fundraising in the U.S. dollar going forward. Therefore, the functional currency of the standalone ICH entity was 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.

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

2 Basis of Preparation (cont.)

Basis of Consolidation

These consolidated financial statements incorporate the financial information of the Company and its subsidiaries. The accounts of subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. Intercompany transactions, balances and unrealized gains or losses on transactions are eliminated. The Company's subsidiaries and consolidated entities are presented below as at December 31, 2019:

Subsidiary	Jurisdiction	Interest
MPX Bioceutical ULC ("MPX ULC")[1]	Canada	100%
MPX Luxembourg SARL ("MPX Lux")[1]	Luxembourg	100%
ABACA, LLC ("ABACA")[1]	Arizona, USA	100%
Ambary, LLC ("Ambary")[1]	Arizona, USA	100%
Health For Life, Inc. ("Health for Life Arizona")[1]	Arizona, USA	100%
iAnthus Arizona, LLC ("iA AZ")	Arizona, USA	100%
S8 Management, LLC ("S8 Management")[1]	Arizona, USA	100%
S8 Rental Services, LLC ("S8 Rentals")[1]	Arizona, USA	100%
Soothing Options, Inc. ("Soothing Options")[1]	Arizona, USA	100%
The Healing Center Wellness Center, LLC ("Healing Center Wellness Center")[1]	Arizona, USA	100%
Bergamot Properties, LLC ("Bergamot")	Colorado, USA	100%
Scarlet Globemallow, LLC ("Scarlet")	Colorado, USA	100%
iAnthus Capital Management, LLC ("ICM")	Delaware, USA	100%
GHHIA Management, Inc. ("GHHIA")	Florida, USA	100%
GrowHealthy Properties, LLC ("GHP")	Florida, USA	100%
iAnthus Holdings Florida, LLC ("IHF")	Florida, USA	100%
McCrory's Sunny Hill Nursery, LLC ("McCrory's")	Florida, USA	100%
iA IT, LLC ("iA IT")	Illinois, USA	100%
Budding Rose, Inc. ("Budding Rose")[1]	Maryland, USA	100%
GreenMart of Maryland, LLC ("GreenMart of Maryland")[1]	Maryland, USA	100%
LMS Wellness, Benefit, LLC ("LMS")[1]	Maryland, USA	100%
Rosebud Organics, Inc. ("Rosebud")[1]	Maryland, USA	100%
Cannatech Medicinals, Inc. ("Cannatech")[1]	Massachusetts, USA	100%
Fall River Development Company, LLC ("FRDC")[1]	Massachusetts, USA	100%
IMT, LLC ("IMT")[1]	Massachusetts, USA	100%
Mayflower Medicinals, Inc. ("Mayflower")	Massachusetts, USA	100%
Pilgrim Rock Management, LLC ("Pilgrim")	Massachusetts, USA	100%
CGX Life Sciences, Inc. ("CGX")[1]	Nevada, USA	100%
CinG-X Corporation of America ("CinG-X America")[1]	Nevada, USA	100%
GreenMart of Nevada NLV, LLC ("GreenMart of NV")[1]	Nevada, USA	100%
iAnthus Northern Nevada, LLC ("iA Nevada")	Nevada, USA	100%
GTL Holdings, LLC ("GTL")	New Jersey, USA	100%
iA CBD, LLC ("iA CBD")	New Jersey, USA	100%
iAnthus New Jersey, LLC ("INJ")	New Jersey, USA	100%
Citiva Medical, LLC ("Citiva")	New York, USA	100%
iAnthus Empire Holdings, LLC ("IEH")	New York, USA	100%
FWR, Inc. ("FWR")	Vermont, USA	100%
Grassroots Vermont Management Services, LLC ("GVMS")	Vermont, USA	100%
Pakalolo, LLC ("Pakalolo")	Vermont, USA	100%

[1] Subsidiaries acquired in the MPX acquisition (Note 4).

During the fourth quarter of 2019, the Company dissolved S8 Industries, LLC, S8 Transportation, LLC, Tarmac Manufacturing, LLC, Tower Management Holdings, LLC, H4L Management East, LLC, and H4L Management North, LLC. These entities were acquired as part of the MPX acquisition.

Accounting Estimates and Judgements by Management

The preparation of these consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Refer to Note 21 for significant accounting policies, estimates, and judgements.

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

3 Segment Information

The Company divides its reportable operating segments primarily by geographic region. Following the MPX acquisition (Note 4), the Company's Chief Operating Decision Maker began to regularly review internal financial reporting and make decisions based on broader geographic regions. The Company now has three reportable operating segments: Eastern Region, Western Region, and Corporate. The Eastern Region includes the Company's operations in Florida, Maryland, Massachusetts, New York, New Jersey, Vermont, and its CBD business. The Western Region includes the Company's operations in Arizona, Colorado, Nevada, and New Mexico. The Corporate segment comprises items not separately identifiable to the other two operating segments and are not part of the measures used by the Company when assessing the operating segments' results. As a result of the changes in reportable segments in the period, the Company restated prior period comparatives and noted no changes in the previous results.

								As at December 31, 2019
		Eastern Region		Western Region		Corporate		Total
Statement of financial position								
Total assets	$	309,652	$	258,900	$	35,546	$	604,098
Total liabilities		(65,744)		(23,067)		(149,290)		(238,101)
Net assets	$	243,908	$	235,833	$	(113,744)	$	365,997
Other information								
Fixed assets	$	113,370	$	18,001	$	1,479	$	132,850
Goodwill		49,644		151,370		-		201,014
Other non-current assets		58,388		118,382		6,354		183,124
Total non-current assets	$	221,402	$	287,753	$	7,833	$	516,988

								Year ended December 31, 2019
		Eastern Region		Western Region		Corporate		Total
Statement of operations								
Sales revenues	$	44,749	$	33,633	$	-	$	78,382
Gross profit		32,138		7,728		-		39,866
Operating expenses		(116,508)		(174,734)		(64,213)		(355,455)
Other items		(2,945)		(565)		14,820		11,310
Income tax recovery (expense)		(5,587)		(1,316)		9,928		3,025
Net profit (loss)	$	(92,902)	$	(168,887)	$	(39,465)	$	(301,254)

								As at December 31, 2018
		Eastern Region		Western Region		Corporate		Total
Statement of financial position								
Total assets	$	141,490	$	4,374	$	22,528	$	168,392
Total liabilities		(22,106)		(249)		(34,782)		(57,137)
Net assets	$	119,384	$	4,125	$	(12,254)	$	111,255
Other information								
Fixed assets	$	27,431	$	1,908	$	239	$	29,578
Goodwill		37,454		-		-		37,454
Other non-current assets		56,391		2,281		687		59,359
Total non-current assets	$	121,276	$	4,189	$	926	$	126,391

								Year ended December 31, 2018
		Eastern Region		Western Region		Corporate		Total
Statement of operations								
Sales revenues	$	3,405	$	-	$	-	$	3,405
Gross profit		9,592		-		-		9,592
Operating expenses		(17,623)		(153)		(24,097)		(41,873)
Other items		(434)		964		(30,277)		(29,747)
Net profit (loss)	$	(8,465)	$	811	$	(54,374)	$	(62,028)

As at December 31, 2019 and 2018, substantially all of the Company's assets were located in the United States and substantially all of the Company's sales revenues were earned in the United States.

For the year ended December 31, 2019, no sales were made to any one customer that represented in excess of 10.0% of total sales as compared to 2018, during which the Company had two customers that each represented in excess 10.0% of the total sales. For the year ended December 31, 2018, the Company recorded revenues of $745 and $473, respectively from its top two customers.

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

4 Acquisitions and Business Combinations

Acquisition of MPX Bioceutical Corporation

On February 5, 2019, the Company completed the MPX acquisition and assumed certain debt instruments (see table below). The former MPX shareholders received 0.1673 common shares of iAnthus for each common share of MPX held and received additional common shares of a newly formed spin-out corporation, which holds all of the non-U.S. cannabis businesses of MPX.

Judgement was required to determine which entity was the acquirer in a merger of equals. In identifying the Company as the acquirer, the companies considered the voting rights of all equity instruments, the intended corporate governance structure of the combined company, the intended composition of senior management of the combined company and the size of each of the companies. In assessing the size of each of the companies, the companies evaluated various metrics. No single factor was the sole determinant in the overall conclusion that the Company is the acquirer for accounting purposes; rather, all factors were considered in arriving at the conclusion. As a result of the acquisition, the Company has expanded its national footprint and increased its retail and production capabilities. This transaction was accounted for as a forward acquisition as the resultant company is controlled by iAnthus.

Refer to Note 2 for the full list of entities acquired by the Company as part of the MPX acquisition.

The following table summarizes the final purchase price allocation:

Cash	$	4,058
Receivables and prepaid assets		545
Inventory		9,529
Biological assets		1,925
Other current assets		4,034
Fixed assets		42,173
Other non-current assets		300
Intangibles assets		127,280
Goodwill		394,354
		584,198
Deferred tax liability		(32,599)
Payables and accrued liabilities		(10,280)
Other current liabilities		(1,520)
Other non-current liabilities		(6,676)
Fair value of net assets acquired	$	533,123

The following table summarizes the total fair value of consideration:

Shares issued (Common shares - 75,795,208)	$	403,071
Stock options assumed		21,704
Warrants assumed - equity		6,391
Warrants assumed - derivative		20,350
Shares to be issued		1,500
Original issue discount loan ("OID Loan") assumed		68,453
Debt assumed		11,654
Fair value of consideration	$	533,123

The consideration was allocated to the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The consideration includes the assumption of stock options that MPX had previously issued, which became fully vested on the acquisition date, and the assumption of warrants that MPX had previously issued. The stock options assumed were valued using the Black-Scholes model and the warrants assumed were valued using the Black-Scholes model or the binomial model, depending on the underlying instrument.

At the date of acquisition, management allocated the initial purchase price based on the estimated fair value of the identifiable assets and liabilities assumed on the acquisition date. The purchase price allocation was subsequently finalized. The allocation of the consideration paid remains consistent with the initial valuation, apart from goodwill and intangible assets. The following table summarizes the final adjustments made to the provisional purchase price allocation:

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

4 Acquisitions and Business Combinations (cont.)

Acquisition of MPX Bioceutical Corporation (cont.)

	Provisional allocation at acquisition	Adjustments	Final
Net identifiable assets acquired	$ 14,000	$ (2,511)	$ 11,489
Intangibles	-	127,280	127,280
Goodwill	517,981	(123,627)	394,354
	$ 531,981	$ 1,142	$ 533,123

The intangibles recognized from the acquisition relate to licenses from various states and trademarks. The goodwill recognized from the acquisition is attributable to synergies expected from integrating MPX into the Company's existing business. The goodwill acquired is not deductible for tax purposes.

Sales revenues of $43,041 and net losses of $208,425 from the acquired operations are included in the consolidated statement of loss and comprehensive loss from the date of acquisition. Had the acquisition of MPX occurred on January 1, 2019, additional sales revenues of $3,149 and additional net losses of $2,894 would have been included in the consolidated statement of loss and comprehensive loss during the year ended December 31, 2019. From the date of acquisition, acquisition costs of $6,170, including 170,000 shares issued as part of broker fees, with a fair value of $904, were incurred and recognized as acquisition-related costs in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2019.

Acquisition of CBD For Life

On June 28, 2019, iAnthus acquired 100% of the assets and liabilities of CBD For Life, LLC ("CBD For Life") and transferred the acquired assets and liabilities to iA CBD. This acquisition constitutes a business combination and was completed in exchange for a combination of the Company's shares and cash. The transaction with CBD For Life is a related party transaction due to the fact that Elizabeth Stavola is an officer and director of iAnthus and an officer and significant shareholder of CBD For Life. Refer to Note 16.

The following table summarizes the preliminary purchase price allocation:

Receivables and prepaid assets	$ 659
Inventory	2,195
Related party receivables	778
Fixed assets	683
Other non-current assets	124
Intangible assets	6,660
Goodwill	3,448
	14,547
Deferred tax liability	(1,895)
Payables and accrued liabilities	(680)
Related party payables	(498)
Other current liabilities	(11)
Other non-current liabilities	(560)
Fair value of net assets acquired	$ 10,903

The following table summarizes the total preliminary fair value of consideration:

Shares issued (Common shares - 2,443,181)	$ 7,989
Shares to be issued (Common shares - 9,500)	31
Cash	2,164
Settlement of pre-existing relationships	719
Fair value of consideration	$ 10,903

The consideration has been allocated to the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The pre-existing relationships settled are comprised of the Company's related party balances receivable from CBD For Life that arose as a result of the funds that the Company had transferred to CBD For Life during the year. The fair values assigned to the consideration paid, net assets acquired, and the amount assigned to goodwill and intangible assets may be revised as additional information is received.

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

4 Acquisitions and Business Combinations (cont.)

Acquisition of CBD For Life (cont.)

At the date of acquisition, management allocated the initial purchase price based on the estimated fair value of the identifiable assets and liabilities assumed on the acquisition date. The goodwill recognized is attributable to the specialized assembled workforce, operating history and existing relationships with nation-wide suppliers and distributors of CBD For Life. The goodwill acquired is not deductible for tax purposes.

The Company is currently in the process of finalizing the purchase price allocation. For 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.

Sales revenues of $3,237 and net losses of $1,736 from the acquired operations are included in the consolidated statement of loss and comprehensive loss from the date of acquisition. Had the acquisition of CBD For Life occurred on January 1, 2019, additional sales revenues of $1,920 and additional net losses of $892 would have been included in the consolidated statement of loss and comprehensive loss during the year ended December 31, 2019. Acquisition costs of $551 were incurred and recognized as acquisition-related costs in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2019.

Acquisition of Florida Entities

On January 17, 2018, the Company entered into a series of merger and acquisition transactions resulting in the acquisition of 100.0% control of GHP and McCrory's (collectively "GrowHealthy"). McCrory's 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 7) were redeemed in exchange for $3,000 which was paid to the Company and reinvested at closing.

The transactions included the formation of IHF and GHHIA, two wholly owned subsidiaries of ICM together with the purchase of GHP and an option to acquire 100.0% of McCrory's for nominal consideration. On September 19, 2019, the Company exercised the option, for nominal consideration, in exchange for 100.0% of the membership interest in McCrory's was transferred to GHHIA.

The following table summarizes the purchase price allocation:

Prepaid expenses	$	117
Receivables		5,000
Inventory		1,177
Biological assets		709
Other assets		126
Fixed assets		981
Building and leasehold improvements		6,105
Land		1,294
Intangibles		38,810
Goodwill		15,223
		69,542
Deferred tax liability		(10,911)
Accounts payable and accrued liabilities		(356)
Fair value of net assets acquired	$	58,275

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

4 Acquisitions and Business Combinations (cont.)

Acquisition of Florida Entities (cont.)

Receivables of $5,000 pertains to a cash collateral Low-THC Performance Bond posted by the Company with the State of Florida. The bond has a one-year term and is renewable annually. On May 9, 2018 the Company received $5,000 from the State of Florida in relation to this bond.

The following table summarizes the total fair value of consideration:

Settlement of pre-existing investment in GrowHealthy	$	3,000
Cash paid		14,459
Shares issued – Common shares (12,103,172 shares)		38,393
Debt assumed		110
Settlement of pre-existing relationship with GHHIA		2,313
Fair value of consideration	**$**	**58,275**

At the date of acquisition, management allocated the initial purchase price based on the estimated fair value of the identifiable assets and liabilities assumed on the acquisition date. The pre-existing relationships settled were the Company's preferred shares in GrowHealthy, the Company's promissory note and related accrued interest with GrowHealthy.

Subsequently, the Company finalized the purchase price allocation and has adjusted the provisional values retrospectively to reflect changes to the assets and liabilities at the acquisition date. For 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 following table summarizes the final adjustments made to the provisional purchase price allocation:

		Provisional allocation at acquisition	Adjustments	Final
Net identifiable assets acquired	$	15,153	(10,911)	4,242
Intangibles		-	38,810	38,810
Goodwill		43,122	(27,899)	15,223
	$	**58,275**	**-**	**58,275**

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. The goodwill acquired is not deductible for tax purposes.

Sales revenues of $604 and net losses of $4,266 from the acquired operations are included in the consolidated statement of loss and comprehensive loss from the date of acquisition for the year ended December 31, 2018. Had the acquisition of GrowHealthy occurred on January 1, 2018, there would not have been a significant impact on the consolidated operating sales revenues and net earnings for the year ended December 31, 2018. Acquisition costs of $180 were incurred and recognized in acquisition related costs in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2018.

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 purchase price allocation upon consolidation on December 31, 2018:

Cash	$	20
Other assets		58
Leaseholds and equipment		166
Intangibles		16,780
Goodwill		15,048
		32,072
Deferred Tax Liability		(6,199)
Accounts payable and accrued liabilities		(1,118)
Fair value of net assets acquired	**$**	**24,755**

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

4 Acquisitions and Business Combinations (cont.)

Acquisition of Citiva (cont.)

The following table summarizes the total fair value of consideration:

Cash paid	$	3,600
Shares issued – Common shares (3,625,445 shares)		13,158
Shares issued – Class A shares (1,977,563 shares)		7,178
Assumed debt		230
Settlement of pre-existing relationship		589
Fair value of consideration	$	24,755

At the date of acquisition, management allocated the initial purchase price based on the estimated fair value of the identifiable assets and liabilities assumed on the acquisition date. The pre-existing relationships settled were the Company's promissory note and related accrued interest with Citiva.

Subsequently, the Company finalized the purchase price allocation and has adjusted the values retrospectively to reflect changes to the assets and liabilities at the acquisition date. For 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 following table summarizes the final adjustments made to the provisional purchase price allocation:

		Provisional allocation at acquisition	Adjustments	Final
Net identifiable assets acquired	$	(875)	(6,198)	(7,073)
Intangibles		-	16,780	16,780
Goodwill		25,630	(10,582)	15,048
	$	24,755	-	24,755

Goodwill has been recognized as a result of the specialized workforce at Citiva, including a management team that has existing relationships with a number of registered physicians in New York State. The goodwill acquired is not deductible for tax purposes.

Sales revenues of $Nil and net losses of $2,526, from the acquired operations are included in the consolidated statement of loss and comprehensive loss from the date of acquisition for the year ended December 31, 2018. Had the acquisition of Citiva occurred on January 1, 2018, there would not have been a significant impact on the consolidated operating sales revenues and net losses for the year ended December 31, 2018.

Acquisition costs of $52 were incurred and recognized in acquisition related costs in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2018.

Acquisitions of Mayflower and Pilgrim

On 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 upon acquisition to adopt a single-member not-for-profit structure, and designate Pilgrim as the sole member. 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 PR, Inc ("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 which is included in the change in fair value line in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2018.

On July 31, 2018, Mayflower was converted under Massachusetts law from a not-for-profit into a for-profit corporation, and on the same date became 100.0% owned by the Company.

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

5 Inventory

		December 31, 2019		December 31, 2018
Raw Materials				
Harvested cannabis	$	5,724	$	4,297
Supplies and other inventory items		3,111		999
Total raw materials	$	8,835	$	5,296
Work in Process				
Packaged cannabis, cannabis extracts, and consumables	$	3,743		3,405
Total work in process	$	3,743	$	3,405
Finished Goods				
Packaged cannabis	$	3,544	$	1,114
Cannabis extracts		2,090		1,389
Consumables		3,357		239
Other inventory items		3,659		117
Total finished goods	$	12,650	$	2,859
Total Inventory	$	25,228	$	11,560

For the year ended December 31, 2019, the Company recognized $41,362 (December 31, 2018 - $790) of inventory expensed to cost of goods sold and $28,498 (December 31, 2018 - $1,450) non-cash expense relating to the changes in fair value of inventory sold.

6 Biological Assets

As at December 31, 2017	$	130
Fair value adjustment on biological assets		6,977
Capitalized cultivation costs		1,450
Assets obtained upon acquisition of GrowHealthy		709
Transferred to inventory upon harvest		(4,522)
As at December 31, 2018	$	4,744
Fair value adjustment on biological assets		31,344
Capitalized cultivation costs		12,686
Assets obtained upon acquisition of MPX		1,925
Transferred to inventory upon harvest		(34,948)
As at December 31, 2019	$	15,751

The Company measures its biological assets at fair value less costs to sell. This is determined using a model which estimates the expected harvest yield per plant in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price per gram. The following unobservable inputs, all of which are classified as level 3 in the fair value hierarchy (Note 14), were used by management in the valuation of its biological assets:

- Yield per plant – represents the expected number of grams of dry cannabis expected to be harvested from each plant
- Selling price – determined using a combination of third-party cannabis spot price reports in addition to wholesale contract prices where applicable which, combined, are expected to approximate selling prices
- Stage of growth – represents the number of days remaining in cultivation prior to harvest

The following table quantifies the significant unobservable inputs, and also provides the impact of a 5.0% increase or decrease in each input on the fair value of biological assets as at December 31, 2019:

Unobservable Input	Weighted average	Sensitivity	Effect on fair value
Yield per plant	128g	+/- 5.0%	$977
Selling price per gram	$5.68	+/- 5.0%	$1,210

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

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 and as at December 31, 2019, on average, were 49.0% complete (December 31, 2018 – 40.4%).

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

6 Biological Assets (cont.)

The Company estimates the harvest yields for the plants at various stages of growth. As at December 31, 2019, management estimates that the Company's biological assets will yield approximately 3,586 kg of dried flower (December 31, 2018 – 1,207 kg).

7 Long-Term Investments

	Reynold, Greenleaf & Associates, LLC	GrowHealthy	Other	Total
As at December 31, 2017	$ 2,190	$ 3,000	$ 100	$ 5,290
Additions	134	-	231	365
Dividend receivable	(43)	-	-	(43)
Interest receivable	-	-	20	20
Settlement of pre-existing relationship	-	(3,000)	-	(3,000)
As at December 31, 2018	$ 2,281	$ -	$ 351	$ 2,632
Additions	244	-	-	244
Interest receivable	(89)	-	65	(24)
As at December 31, 2019	$ 2,436	$ -	$ 416	$ 2,852

Reynold, Greenleaf & Associates, LLC

During 2016, the Company provided funding in the aggregate amount of $2,270 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% ownership 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 *IAS 28 Investments in Associates and Joint Ventures* and the standard's corresponding equity method of accounting. No quoted market price exists for the investment. As part of the investment, RGA is required to reimburse the Company certain legal fees and expenses in the amount of $30. As at December 31, 2019, the reimbursement due from the RGA loan conversion was repaid (December 31, 2018 - $30).

During the year ended December 31, 2019, the Company's share of profit from RGA was $244 (December 31, 2018 - $134) based on the net income of RGA of $995 (December 31, 2018 – $545). As at December 31, 2019, the Company has a dividend receivable from RGA of $89 (December 31, 2018 - $43). The Company's investment in RGA at December 31, 2019, was $2,436 (December 31, 2018 - $2,281).

Presented below is the summarized financial position for RGA as at December 31, 2019 and 2018.

Summarized statement of financial position

	December 31, 2019	December 31, 2018
Current assets		
Cash	$ 584	$ 165
Other current assets	-	16
Total current assets	584	181
Non-current assets	4,029	3,519
Current Liabilities		
Current Liabilities	200	20
Other current liabilities	3	208
Total current liabilities	203	228
Net assets	$ 4,410	$ 3,472

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

7 Long-Term Investments (cont.)

Reynold, Greenleaf & Associates, LLC (cont.)

Summarized statement of comprehensive income (loss)

	For the year ended December 31, 2019	For the year ended December 31, 2018
Revenues		
Consulting income	$ 2,010	$ 2,484
Rental income	1,031	707
Interest income	373	315
Merchandise sales	86	-
Total revenues	3,500	3,506
Total expenses	2,505	2,961
Net comprehensive income (loss)	$ 995	$ 545

Citiva Jamaica, LLC

On February 1, 2018, the Company issued a $250 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, and Citiva and as at December 31, 2019, Citiva Jamaica had drawn down an amount of $231. 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 year ended December 31, 2019, the Company earned interest income of $65 (December 31, 2018 - $20).

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

8 Fixed Assets

	Buildings and improvements	Production equipment	Processing equipment	Sales equipment	Office equipment	Land	Construction in progress	Right of use assets	Total
Cost									
As at December 31, 2018	$ 20,266	$ 1,706	$ 586	$ 463	$ 1,006	$ 2,576	$ 5,979	$ -	$ 32,582
Transfers	6,976	403	185	6	(552)	-	(7,018)	-	-
Additions	13,041	2,335	748	433	1,192	858	33,299	9,028	60,934
Additions from acquisitions	10,613	777	2,748	145	1,887	1,717	17,565	7,404	42,856
Additions from IFRS 16 Implementation	-	-	-	-	-	-	-	13,384	13,384
Disposals and lease modifications	(480)	(24)	(24)	(1)	(22)	-	(1,858)	(2,129)	(4,538)
As at December 31, 2019	$ 50,416	$ 5,197	$ 4,243	$ 1,046	$ 3,511	$ 5,151	$ 47,967	$ 27,687	$ 145,218
Accumulated depreciation									
As at December 31, 2018	$ 2,207	$ 427	$ 109	$ 89	$ 172	$ -	$ -	$ -	$ 3,004
Depreciation	4,829	779	790	138	436	-	-	2,418	9,390
Transfers	4	(100)	101	6	(11)	-	-	-	-
Disposals and lease modifications	(5)	(16)	(5)	(1)	(13)	-	-	14	(26)
As at December 31, 2019	$ 7,035	$ 1,090	$ 995	$ 232	$ 584	$ -	$ -	$ 2,432	$ 12,368
Net book value									
As at December 31, 2018	$ 18,059	$ 1,279	$ 477	$ 374	$ 834	$ 2,576	$ 5,979	$ -	$ 29,578
As at December 31, 2019	$ 43,381	$ 4,107	$ 3,248	$ 814	$ 2,927	$ 5,151	$ 47,967	$ 25,255	$ 132,850

	Buildings and improvements	Production equipment	Processing equipment	Sales equipment	Office equipment	Land	Construction in progress	Right of use assets	Total
Cost									
As at December 31, 2017	$ 8,199	$ 996	$ 457	$ 56	$ 371	$ 750	$ 20	$ -	$ 10,849
Transfers	158	5	(203)	-	60	-	(20)	-	-
Additions	5,649	278	331	370	572	532	5,817	-	13,549
Additions from acquisition	6,260	454	315	42	18	1,294	162	-	8,545
Disposals and lease modifications	-	(27)	(314)	(5)	(15)	-	-	-	(361)
As at December 31, 2018	$ 20,266	$ 1,706	$ 586	$ 463	$ 1,006	$ 2,576	$ 5,979	$ -	$ 32,582
Accumulated depreciation									
As at December 31, 2017	$ 345	$ 117	$ 27	$ 56	$ 18	$ -	$ -	$ -	$ 563
Depreciation	1,847	310	113	33	154	-	-	-	2,457
Transfers	-	-	-	-	-	-	-	-	-
Disposals and lease modifications	15	-	(31)	-	-	-	-	-	(16)
As at December 31, 2018	$ 2,207	$ 427	$ 109	$ 89	$ 172	$ -	$ -	$ -	$ 3,004
Net book value									
As at December 31, 2017	$ 7,854	$ 879	$ 430	$ -	$ 353	$ 750	$ 20	$ -	$ 10,286
As at December 31, 2018	$ 18,059	$ 1,279	$ 477	$ 374	$ 834	$ 2,576	$ 5,979	$ -	$ 29,578

During the year ended December 31, 2019, the Company recognized a loss on the disposal of Fixed Assets of $1,239 (December 31, 2018 – $361). This is presented in general and administrative expenses on the consolidated statement of loss and comprehensive loss.

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

9 Intangible Assets and Goodwill

Intangible Assets

Cost		Licenses		Trademarks		Other		Total
As at December 31, 2017	$	4,120	$	-	$	320	$	4,440
Additions		-		-		355		355
Additions from acquisitions (Note 4)		55,590		-		-		55,590
As at December 31, 2018	$	59,710	$	-	$	675	$	60,385
Additions		-		-		1,399		1,399
Additions from acquisitions (Note 4)		98,180		34,620		1,140		133,940
As at December 31, 2019	$	157,890	$	34,620	$	3,214	$	195,724
Accumulated amortization								
As at December 31, 2017	$	-	$	-	$	-	$	-
Amortization		3,793		-		99		3,892
As at December 31, 2018	$	3,793	$	-	$	99	$	3,892
Amortization		9,981		3,995		266		14,242
As at December 31, 2019	$	13,774	$	3,995	$	365	$	18,134
Net carrying amount								
As at December 31, 2017	$	4,120	$	-	$	320	$	4,440
As at December 31, 2018		55,917		-		576		56,493
As at December 31, 2019	$	144,116	$	30,625	$	2,849	$	177,590

	Remaining Life at December 31, 2019		Carrying Amount at December 31, 2019		Carrying Amount at December 31, 2018
MPX Licenses	14 Years	$	92,180	$	-
Florida Licenses	13 Years		33,730		36,317
New York Licenses	13 Years		14,636		15,755
Other Licenses	13 Years		3,570		3,845
Trademarks	7-15 Years		30,625		-
Other	1-5 Years		2,849		576
		$	177,590	$	56,493

Goodwill

		December 31, 2019		December 31, 2018
Balance, beginning of period	$	37,454	$	7,183
Acquisition of MPX		394,354		-
Acquisition of CBD For Life		3,490		-
Acquisition of GrowHealthy		-		15,222
Acquisition of Citiva		-		15,049
Impairment Loss		(234,284)		-
Balance, end of period	$	201,014	$	37,454

The carrying amount of the Company's goodwill is tested at least annually for impairment on December 31, 2019. On each quarter end date, the Company assesses whether a triggering event has occurred, and it may be necessary to assess if an impairment might exist for a cash generating unit ("CGU") before the next annual testing date. The Company considers persistent and lasting decline in revenue, negative operating cash flows from CGUs, changes in internal strategic expansion plans, negative developments in the U.S. cannabis regulatory environment at the federal, state and local levels, and a significant continued decline in stock price, among other factors, as part of this assessment during each reporting period. The annual test for impairment involves determining the recoverable amount of the CGU to which goodwill and other intangibles are allocated and comparing this to the carrying value of the CGU.

The Company allocated all of its goodwill to CGUs representing cannabis operations in each state and CBD For Life as this is represents the lowest level at which management monitors goodwill. CGUs were determined to be one level below reportable segments. For each CGU, the Company determined the fair value less cost of disposal to estimate the recoverable amount using the income approach. The calculation of the fair value less cost of disposal discounted future cash flows was based on the following key assumptions:

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

9 Intangible Assets and Goodwill (cont.)

Goodwill (cont.)

- The cash flow projections are based on financial forecasts based on actual historical operating performance in conjunction with anticipated future growth opportunities through the opening of additional dispensaries and/or regulatory developments in the adult-use cannabis markets, which span a period of three to 14 years, up to the point of which a stable growth rate is expected for each CGU. Cash flows beyond the period covered by the financial forecasts are extrapolated using a perpetual growth rate;
- The terminal growth rate used is based on historical and projected consumer inflation, historical and projected economic indicators, and projected industry growth;
- The post-tax discount rate, which is reflective of an industry Weighted Average Cost of Capital, was estimated based on a risk-free rate derived from 20-year U.S. Treasury notes, equity and small stock premiums based on industry and company fundamentals, an additional premium incorporated to reflect the risk associated with economic forecasts, and after-tax cost of debt based on the Company's specific debt; and
- The tax rates used in determining future cash flows were those substantively enacted at the valuation date.

As a result of the continued decline in the Company’s stock price and market capitalization, the carrying value of the Company’s total net assets exceeded the Company’s market capitalization at December 31, 2019. For the year ended December 31, 2019, the Company recorded an impairment loss of $234,284 (December 31, 2018 - $Nil) to reduce goodwill allocated to each of its CGUs. Impairment loss recorded under each CGU did not exceed the value of goodwill allocated to that CGU, and therefore, no amount of impairment was allocated to other intangible and long-lived assets. The key assumptions used in determining the recoverable amount for each CGU and the impairment losses recognized were as follows:

	For the year ended December 31, 2019				
Cash Generating Unit	Discount rate	Terminal value growth rate	Fair value	Carrying value	Impairment Loss[3]
Vermont[1]	22.0%	3.0%	$ 5,900	$ 3,720	$ (312)
Massachusetts[1]	22.0%	3.0%	96,200	110,280	(26,734)
Florida[1]	22.0%	3.0%	79,700	89,909	(11,588)
New York[1]	22.0%	3.0%	21,300	36,590	(15,049)
Maryland	22.5%	3.0%	31,800	44,877	(18,948)
Arizona	22.5%	3.0%	180,136	257,558	(110,209)
Nevada	22.5%	3.0%	121,700	147,537	(50,484)
CBD For Life[2]	N/A	N/A	$ 13,328	$ 13,328	$ (960)

(1) The discount rate and terminal value growth rate applied in determining the recoverable amount of the CGU group ranged from 20.0% to 37.0% and 2.0% to 3.0%, respectively, for the year ended December 31, 2018.
(2) CBD For Life was excluded from annual impairment testing as the purchase price allocation was completed during the year ended December 31, 2019.
(3) In order to align the implied control premium with current general market conditions, an additional impairment loss of $76,270 was recorded as part of the total impairment loss of $234,284, for the year ended December 31, 2019

10 Long-Term Debt

	Secured Notes	Usecured Debentures and Other Debentures	OID Loan	Stavola Trust Note	Other	Total
As at December 31, 2017	$ -	$ 13,568	$ -	$ -	$ 1,031	$ 14,599
Fair value of financial liabilities issued	29,231	7,740	-	-	-	36,971
Accretion of balance	2,000	13,896	-	-	244	16,140
Repayment	-	(20,978)	-	-	-	(20,978)
Conversion to equity	-	(14,622)	-	-	(1,275)	(15,897)
Foreign exchange impact	-	396	-	-	-	396
As at December 31, 2018	$ 31,231	$ -	$ -	$ -	$ -	$ 31,231
Fair value of financial liabilities issued	50,038	41,176	-	-	400	91,614
Fair value of financial liabilities acquired	-	-	36,608	10,800	854	48,262
Accretion of balance	3,959	3,032	3,533	-	64	10,588
Repayment	-	-	-	-	(40)	(40)
Redemptions	-	-	(40,141)	-	-	(40,141)
As at December 31, 2019	$ 85,228	$ 44,208	$ -	$ 10,800	$ 1,278	$ 141,514

10 Long-Term Debt (cont.)

Secured Notes

Tranche One Secured Notes

On May 14, 2018, the Company issued $40,000 secured notes (the "Tranche One Secured Notes"), formerly referred to as high yield secured notes. The Tranche One Secured Notes have a maturity date of May 14, 2021, and the Company may elect to extend the maturity date by 12 months to May 14, 2022 (the "Extension"), provided the Company pays the lender an extension fee of $1,000 prior to the maturity date. The Tranche One Secured Notes bear interest at a rate of 13.0%, per annum, payable quarterly on the last business day of each fiscal quarter, beginning on June 29, 2018. In an event of default, the interest rate would increase by 3.0% to 16.0% per annum. Furthermore, the Company is required to pay an exit fee of $10,000 that accrues interest at a rate of 13% (the "Exit Fee") upon maturity of the Tranche One Secured Notes. However, the Exit Fee shall be forgiven and cancelled in full if, no later than five days prior to the maturity date, the Company pays the amounts outstanding at such time (other than the Exit Fee) in full. For the years ended December 31, 2019 and 2018, the Company has not accrued any amounts related to the Exit Fee as there was no event of default as at December 31, 2019 or 2018. Furthermore, the Company concluded that it was more likely than not that the noteholders will exercise the conversion option discussed below prior to maturity of Tranche One Secured Notes. In the absence of such exercise, full or partial, the Company is likely to repay any remaining amounts not converted into shares and due under the Secured Notes at least 5 business days prior to maturity in order to avoid payment of the Exit Fee. As at December 31, 2018, the Company held $5,272 restricted cash in escrow as part of the Tranche One Secured Notes which was released to the Company on March 5, 2019.

The Tranche One Secured Notes are convertible into common shares of the Company at the conversion rate of $3.08 per share (the "Conversion Option"). The holders of the Tranche One Secured Notes may elect to convert the outstanding principal and accrued unpaid interest, in part or in full, at any time following issuance. The Tranche One Secured Notes were issued with warrants to purchase, in aggregate, up to 6,670,372 shares of the Company at an exercise price of $3.60 per share ("Equity Warrants"), which expire May 14, 2021. If the Company elects the Extension for the Tranche One Secured Notes, the Extension also applies to the Equity Warrants.

Concurrent with the issuance of the Tranche One Secured Notes, $10,000 comprising 3,891,051 Units of the Company (the "Units") were issued, where each Unit comprises one Class A Convertible Restricted Voting share ("Class A Share") of the Company at $2.57 per share and a warrant to purchase one Class A Share of the Company at an exercise price of $3.86 per ("Share Warrants"). The Share Warrants expire on May 14, 2021.

At issuance, the Class A Shares were recorded at their fair value at $13,408, net of issuance costs. The fair value of the underlying host liability in the Tranche One Secured Notes was estimated to be $29,231, net of issuance costs. The residual consideration was allocated proportionately based on the fair values of the Equity Warrants, Share Warrants and the Conversion Option, resulting in recording $460, $811 and $1,671, net of issuance costs, respectively. Issuance costs of $4,419 were allocated to each of the instruments in proportion to the total proceeds allocated. The fair values of the Conversion Option, Equity Warrants and the Share Warrants were estimated using the Black-Scholes model, with a volatility of 88.3%, dividend yield of 0.0% and risk-free rate of 2.0%. The fair value of the debt host contract without the Conversion Option was determined using the present value of future cash outflows discounted at the estimated market borrowing rate for the Company. Subsequently, all Class A Shares were converted to common shares of the Company. Further details on the conversion are disclosed in Note 12.

During 2019, the noteholders waived the right to receive the cash interest payment due on September 30, 2019, electing instead to add the balance to the principal amount payable for Tranche One Secured Notes. The new higher principal amount is subject to the same terms as the original principal balance of Tranche One Secured Notes at issuance, including interest accrual, the Conversion Option, and maturity date. As a result of the waiver, interest payable decreased by $1,358 and the host liability increased by $1,191, with the residual of $167 being allocated to the Conversion Option. During the year ended December 31, 2019, interest expense of $5,317 (December 31, 2018 - $3,337) and accretion expense of $3,466 (December 31, 2018 - $2,000) was recognized in the consolidated statement of loss and comprehensive loss.

The terms of the Tranche One Secured Notes impose certain restrictions on the Company's operating and financing activities, including certain restrictions on the Company's ability to incur certain additional indebtedness, to grant liens, to make certain dividends and other payment restrictions affecting the Company's subsidiaries, to issue shares or convertible securities, and to sell certain assets. The terms also contain a financial covenant requiring the Company's asset value to be 1.75 times the total net debt at each quarter end and maintain a minimum cash balance of $1,000 while the Tranche One Secured Notes remain outstanding.

The financing is secured by all current and future assets of the Company and the rights of the remaining Lenders are subordinate to the Tranche One Secured Notes. As at December 31, 2019, the Company was in compliance with all covenants.

10 Long-Term Debt (cont.)

Secured Notes (cont.)

Tranche Two Secured Notes

On September 30, 2019, the Company issued an additional $20,000 of secured notes (the "Tranche Two Secured Notes"). The Tranche Two Secured Notes accrue interest at 13.0%, mature May 14, 2021, and are convertible into 10,582,011 shares of the Company at an exercise price of $1.89 per share ("Tranche Two Conversion Option"). The Tranche Two Secured Notes were issued with warrants to purchase, in aggregate, up to 5,076,142 shares of the Company at an exercise price of $1.97 per share ("Tranche Two Equity Warrants"). The Extension applicable to the Tranche One Secured Notes is also applicable to the Tranche Two Secured Notes. Tranche Two Equity Warrants expire on May 14, 2021 unless the Extension is exercised by the Company, in which case, they expire on May 14, 2022.

The host debt, classified as a liability, was allocated its fair value of $17,253, net of issuance costs. The residual consideration was allocated proportionately based on the fair values of the Tranche Two Equity Warrants and the Tranche Two Conversion Option, both of which are classified as equity, resulting in recording $993 and $1,420, respectively. Issuance costs of $334 were allocated to each of the instruments in proportion to the total proceeds. The fair values of the Tranche Two Conversion Option, and Tranche Two Equity Warrants were estimated using the Black-Scholes model, with a volatility of 78.4% to 78.7%, dividend yield of 0.0% and risk-free rate of 1.6%. The fair value of the debt host contract without the Tranche Two Conversion Option was determined using the present value of future cash outflows discounted at the estimated market borrowing rate for the Company.

During the year ended December 31, 2019, interest expense of $664 (December 31, 2018 - $Nil) and accretion expense of $401 (December 31, 2018 - $Nil) was recognized in the consolidated statement of loss and comprehensive loss.

All terms, restrictions, and covenants applicable to the Tranche One Secured Notes are also applicable to the Tranche Two Secured Notes. As at December 31, 2019, the Company was in compliance with all covenants.

Tranche Three Secured Notes

On December 20, 2019, the Company issued an additional $36,150 of secured notes (the "Tranche Three Secured Notes"). The Tranche Three Secured Notes accrue interest at 13.0%, mature May 14, 2021, and are convertible into 22,448,415 shares of the Company at an exercise price of $1.61 per share ("Tranche Three Conversion Option"). The Tranche Three Secured Notes were issued with warrants to purchase, in aggregate, up to 10,792,508 shares of the Company at an exercise price of $1.67 per share ("Tranche Three Equity Warrants"). The Extension applicable to the Tranche One Secured Notes is also applicable to the Tranche Three Secured Notes. Tranche Three Equity Warrants expire on May 14, 2021 unless the Extension is exercised by the Company, in which case, they expire on May 14, 2022.

The host debt, classified as a liability, was allocated its fair value of $31,594, net of issuance costs. The residual consideration was allocated proportionately based on the fair values of the Tranche Three Equity Warrants and the Tranche Three Conversion Option, both of which are classified as equity, resulting in recording $1,664 and $2,170, respectively. Issuance costs of $722 were allocated to each of the instruments in proportion to the total proceeds allocated to each. The fair values of the Tranche Three Conversion Option, and Tranche Three Equity Warrants were estimated using the Black-Scholes model, with a volatility of 72.0% to 74.6%, dividend yield of 0.0% and risk-free rate of 1.6% to 1.7%. The fair value of the debt host contract without the Tranche Three Conversion Option was determined using the present value of future cash outflows discounted at the estimated market borrowing rate for the Company.

During the year ended December 31, 2019, interest expense of $144 (December 31, 2018 - $Nil) and accretion expense of $92 (December 31, 2018 - $Nil) was recognized in the consolidated statement of loss and comprehensive loss.

All terms, restrictions, and covenants applicable to the Tranche One Secured Notes and Tranche Two Secured Notes are also applicable to the Tranche Three Secured Notes. As at December 31, 2019, the Company was in compliance with all covenants.

Subsequent to the year ended December 31, 2019, the Company defaulted on its interest obligations to the holders of the Secured Notes. Further details on the default are disclosed in Note 20.

Unsecured Debentures

March 2019 Debentures

On March 18, 2019, the Company completed a private placement of $35,000 of unsecured convertible debentures (the "March 2019 Debentures") and corresponding warrants to purchase 2,177,291 common shares of the Company at an exercise price of $6.43 per share from closing date until March 15, 2022 ("March 2019 Equity Warrants").

The March 2019 Debentures bear interest at a rate of 8.0%, per annum, payable quarterly on the last business day of each fiscal quarter, beginning on March 31, 2019. Interest is paid in cash, shares, or a combination of cash and shares, up to 50%, at the Company's election. The March 2019 Debentures mature on March 15, 2023.

10 Long-Term Debt (cont.)

Unsecured Debentures (cont.)

March 2019 Debentures (cont.)

The March 2019 Debentures are convertible into 5,912,159 common shares of the Company at $5.92 per share ("March 2019 Conversion Option"). The holders of the March 2019 Debentures may elect to convert the outstanding principal and accrued unpaid interest, in part or in full, at any time following issuance. The Company may force the conversion of the March 2019 Debentures into common shares of the Company at any time following July 16, 2019, if the daily volume weighted average trading price of the Company's common shares on the OTCQX is greater than $10.29 for any ten consecutive trading days.

At issuance, the March 2019 Equity Warrants were classified as equity and recognized at their fair value of $5,099, net of issuance costs. The fair values of the March 2019 Conversion Option, and March 2019 Equity Warrants were estimated using the Black-Scholes model, with a volatility of 74.7%, dividend yield of 0.0% and risk-free rate of 1.6%. The fair value of the debt host contract without the March 2019 Conversion Option was $23,710, determined using the present value of future cash outflows discounted at the estimated market borrowing rate for the Company. The host debt was classified as a liability. The residual consideration of $4,848 was allocated to the March 2019 Conversion Option and recorded in equity.

In relation to the issuance of debentures, the Company incurred fees of $1,343 which comprises $688 in common shares and $655 in cash. Issuance costs were allocated to each of the instruments in proportion to the total proceeds allocated to each.

During the year ended December 31, 2019, interest expense of $2,224 (December 31, 2018 - $Nil) and accretion expense of $1,912 (December 31, 2018 - $Nil) were recognized in the consolidated statement of loss and comprehensive loss.

The terms of the March 2019 Debentures impose certain restrictions on its operating and financing activities, including certain restrictions on the Company's ability to incur certain additional indebtedness at the subsidiary level. As at December 31, 2019, the Company was in compliance with all covenants.

May 2019 Debentures

On May 2, 2019, the Company completed a private placement of $25,000 of unsecured convertible debentures (the "May 2019 Debentures") and corresponding warrants to purchase 1,555,207 common shares of the Company at an exercise price of $6.43 per share from closing date until March 15, 2022 ("May 2019 Equity Warrants").

The May 2019 Debentures bear interest at a rate of 8.0%, per annum, payable quarterly on the last business day of each fiscal quarter, beginning on June 30, 2019. Interest is paid in cash, shares, or a combination of cash and shares, up to 50%, at the Company's election. The May 2019 Debentures mature on March 15, 2023

The May 2019 Debentures are convertible into 4,222,971 common shares of the Company at $5.92 per share ("May 2019 Conversion Option"). The holders of the May 2019 Debentures may elect to convert the outstanding principal and accrued unpaid interest, in part or in full, at any time following issuance. The Company may force the conversion of the May 2019 Debentures into common shares of the Company at any time following September 1, 2019, if the daily volume weighted average trading price of the Company's common shares on the OTCQX is greater than $10.29 for any ten consecutive trading days.

At issuance, the May 2019 Equity Warrants were classified as equity and recognized at their fair value of $2,900, net of issuance costs. The fair values of the May 2019 Conversion Option, and May 2019 Equity Warrants were estimated using the Black-Scholes model, with a volatility of 73.6%, dividend yield of 0.0% and risk-free rate of 1.6%. The fair value of the debt host contract without the May 2019 Conversion Option was $17,467, determined using the present value of future cash outflows discounted at the estimated market borrowing rate for the Company. The host debt was classified as a liability. The residual consideration of $4,207 was allocated to the May 2019 Conversion Option and recorded in equity.

In relation to the issuance of debentures, the Company incurred fees of $427 which comprises $75 in common shares and $352 in cash. Issuance costs were allocated to each of the instruments in proportion to the total proceeds allocated to each.

During the year ended December 31, 2019, interest expense of $1,333 (December 31, 2018 - $Nil) and accretion expense of $1,120, (December 31, 2018 - $Nil) were recognized in the consolidated statement of loss and comprehensive loss.

The terms of the May 2019 Debentures impose certain restrictions on its operating and financing activities, including certain restrictions on the Company's ability to incur certain additional indebtedness at the subsidiary level. As at December 31, 2019, the Company was in compliance with all covenants.

Subsequent to the year ended December 31, 2019, the Company defaulted on its interest obligations to the holders of the Secured Notes. This default triggered a cross-default on its interest obligations to the holders of the Debentures. Further details on the default are disclosed in Note 20.

10 Long-Term Debt (cont.)

Other Debentures

January 2018 Debentures

On January 17, 2018, the Company issued $20,000 in aggregate unsecured debentures (the “January 2018 Debentures”). The January 2018 Debentures, which were fully repaid in 2018, had a maturity date of January 17, 2019 and bore interest at a rate of 15.0% per annum, payable in cash at maturity. The January 2018 Debentures were issued with warrants to purchase, in aggregate, 10,036,130 common shares of the Company at $1.99 per share, with an expiry date of January 17, 2021.

At issuance, the fair value of the debt was determined using the present value of future cash outflows discounted at the estimated market borrowing rate for the Company. 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. At issuance, fair value of $12,260 was allocated to the warrants and residual consideration of $7,740 was allocated to the debt host. 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 consolidated statement of loss and comprehensive loss.

At issuance, the warrants were classified as a derivative liability. The derivative liability remeasured at fair value through profit or loss each reporting period using the Black-Scholes valuation model. On May 14, 2018, the date of the change in the Company’s functional currency, the warrants were remeasured at fair value and classified to equity. Fair value of the warrant derivatives on May 14, 2018 was estimated to be $17,531 and was determined using the modified assumptions used in the Black-Scholes model at issuance, with inputs for volatility of 1.0%, dividend yield of 0.0% and risk-free rate of 0.0%. There have been no further revaluations of these warrants at fair value since this change in classification.

The terms of the January 2018 Debentures imposed certain restrictions on its operating and financing activities, including certain restrictions on the Company’s ability to: incur certain additional indebtedness; grant liens; and declare or make certain dividends. The terms require the Company maintain a minimum cash balance of $1,000 while the January 2018 Debentures remained outstanding. In May 2018, the Company repaid the January 2018 Debentures, lifting the imposed restrictions, including permitting the Company to incur additional indebtedness.

The Company repaid the full principal amount and accrued interest totalling of $20,988 to the holders. In addition, the Company recognized $9,808 in accretion expense upon settlement of the notes due to the early redemption.

February 2017 Convertible Debentures

On February 28, 2017, the Company issued CAD$20,000 (equivalent to $15,096 at issuance) in aggregate principal amount of unsecured convertible debentures (the “February 2017 Debentures”) at a price of CAD$1 (equivalent to $1 at issuance) per convertible debenture.

The February 2017 Debentures, which were fully converted in 2018, bore 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 had a maturity date of February 28, 2019, 24 months from the Closing Date. Interest was payable in cash, shares, or a combination of cash and shares at the Company’s election. The Company had the option to redeem, either in whole or in part, the debentures at any time after February 28, 2018 at a price equal to the then outstanding principal amount of the February 2017 Debentures plus all accrued and unpaid interest up to and including the redemption date.

The February 2017 Debentures were convertible into shares of the Company at CAD$3.10 per share (“Conversion Price”). The holders of the February 2017 Debentures may elect to convert any part of the debentures in multiples of CAD$1, at any time following issuance of the debentures. Beginning June 29, 2017, the Company may force the conversion of all the principal amount of the then outstanding February 2017 Debentures at the Conversion Price on 30 days prior written notice should the daily volume weighted average trading price of the Company’s common shares exceed CAD$4.50 for any 10 consecutive trading days.

The February 2017 Debentures were subject to redemption, in whole or in part, by the Company at any time after 12 months upon giving holders not less than 30 and not more than 60 days' prior written notice, at a price equal to the then outstanding principal amount of the Convertible Debentures plus all accrued and unpaid interest up to and including the redemption date.

At issuance, the fair value of the liability component was estimated to be CAD$17,509 (equivalent $13,216 at issuance) and the residual of CAD$2,491 (equivalent $1,880 at issuance) was allocated as the fair value of the conversion option. Issuance costs of CAD$1,088 (equivalent $821) were allocated to each of the instruments in proportion to the total proceeds allocated to each.

During the year ended December 31, 2018, the Company issued 6,173,938 common shares for the conversion of CAD$19,142 (equivalent $14,622).

10 Long-Term Debt (cont.)

Other Debentures (cont.)

February 2017 Convertible Debentures (cont.)

On July 16, 2018, the Company elected to exercise its right 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 when the conversion was completed on August 15, 2018.

As at December 31, 2018, the debt host liability amounted to $Nil. During the year ended December 31, 2018, interest expense of $402 and accretion expense of $480 was recognized in the consolidated statement of loss and comprehensive loss related to the February 2017 Debentures.

Original Issue Discount Loan

Prior to the acquisition of MPX (Note 4), MPX issued a $40,000 OID Loan maturing on May 25, 2021 (the "Maturity Date"). The non-interest bearing OID Loan was convertible into units of MPX at the option of the holder at any time prior to the Maturity Date (the "OID Conversion Option"). As a result of the MPX acquisition, the loan agreement was amended by the Certificates of Adjustment such that following the MPX acquisition, the holders would receive shares and warrants of the Company in lieu of MPX shares and warrants, upon conversion. The Certificate of Adjustment determined a conversion ratio of CAD$4.42, a warrant exercise price of CAD$6.04, and an acceleration hurdle rate on the warrants of CAD$19.13. The OID Loan was also redeemable by the Company until the Maturity Date.

On the acquisition date, the Company recognized the host liability at fair value of $36,608 and the OID Conversion Option at a fair value of $31,845. During the year ended December 31, 2019, accretion expense of $3,533 (December 31, 2018 - $Nil), was recognized on the host liability in the consolidated statement of loss and comprehensive loss.

During the year ended December 31, 2019, the Company completed the redemption of the outstanding OID Loan. For the conversion of the OID Loan, the Company issued 11,617,044 shares and 5,808,517 warrants valued at $31,533 and $8,608, respectively. Refer to Note 12 and Note 13.

Stavola Trust Note

As part of the MPX acquisition (Note 4), the Company assumed a long-term note (the "Stavola Trust Note") of $10,800, payable to the Elizabeth Stavola 2016 NV Irrevocable Trust. This trust is for the benefit of a director and officer of the Company, Elizabeth Stavola, and is therefore a related party balance (Note 16). The Stavola Trust Note was originally issued at $10,000, and the balance was increased at the acquisition date by $800 as it became subordinate to the existing debt instruments of the Company when it was assumed during the MPX acquisition. The note has a maturity date of January 19, 2020, and an interest rate of 8.0%. Repayment of the note is secured by the assets of certain subsidiaries of the Company.

As this is a current liability, the face value of the note is equal to the fair value. For the year ended December 31, 2019, interest expense of $779 (December 31, 2018 – $Nil) was recognized in the consolidated statement of loss and comprehensive loss. Subsequent to the year ended December 31, 2019, the Stavola Trust Note was paid in full. Further details on the repayment are disclosed in Note 20.

11 Leases

The Company mainly leases office space and cannabis cultivation, processing and retail dispensary space. Leases with a term of less than 12 months, including any likely renewal terms, are not recorded on the balance sheet. All other leases are treated as right-of-use assets "ROU assets" representing the right to use the underlying leased asset and a lease liability representing an obligation to make lease payments. Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 5 years or more. The Company assumed that it was reasonably certain that the renewal options on its cannabis cultivation, processing and retail dispensary space would be exercised based on its current understanding of future business needs and level of investment in leasehold improvements, among other considerations.

The incremental borrowing rate used in the calculation of the lease liability is based on the rate available to the parent company as all borrowing activity is in the parent company. The Company's leases do not include options to purchase the leased properties. The depreciable life of assets and leasehold improvements are limited by the expected lease term. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants, see Note 21.

ROU assets

ROU assets that are related to lease properties are presented as fixed assets (Note 8).

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

11 Leases (cont.)

ROU assets (cont.)

		Right of Use Assets
As at January 1, 2019	$	13,384
Amortization charge for the year		(2,432)
Additions to right-of-use assets		16,432
Derecognition of right of use assets		-
Lease modifications		(2,129)
As at December 31, 2019	$	25,255

The following table summarizes the different components of ROU assets and lease liabilities included in the consolidated statement of loss and comprehensive loss:

			Year ended December 31, 2019
Operating lease cost [1]	General and administrative expenses	$	1,102
Amortization of lease assets	Depreciation and amortization		2,432
Interest on lease liabilities	Interest expense		4,058
Total lease cost		$	7,592

(1) Includes short-term leases and variable lease costs for the year ended December 31, 2019.

Lease Liabilities

The contractual maturities of lease liabilities are as follows:

2020		5,328
2021		5,292
2022		5,015
2023		4,897
2024		5,034
Thereafter		46,912
Total lease payments	$	72,478
Less: Interest expense		(47,351)
Total lease cost	$	25,127

The following table summarizes the classification of the Company's cash outflows on the consolidated statement of cash flows for the year ended December 31, 2019:

Lease cashflows included in operating activities	$	1,102
Lease cashflows included in financing activities		4,656
Total lease cash payments	$	5,758

12 Share Capital

Share Capital

Authorized: Unlimited common shares.

The Company's common shares are voting and dividend-paying. On September 24, 2019, the Company converted the remaining Class A Shares into common shares on a 1:1 basis. Following the conversion, there were no remaining Class A Shares outstanding.

The following is a summary of the common share and Class A Share issuances for the year ended December 31, 2019:

- 75,965,208 common shares of the Company were issued in relation to the MPX acquisition, including shares issued to settle acquisition-related costs;
- 2,443,181 common shares of the Company were issued in relation to the CBD For Life acquisition;
- 116,600 common shares of the Company were issued for fees in relation to the March 2019 Debentures;
- 15,548 common shares of the Company were issued for fees in relation to the May 2019 Debentures;
- 11,617,044 common shares of the Company were issued as a result of OID Loan conversion during the period;
- 818,881 common shares of the Company were issued to settle outstanding obligations, with share issuance costs of $558;

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

12 Share Capital (cont.)

Share Capital (cont.)

- 2,810,371 common shares and 88,224 Class A Shares of the Company were issued as a result of stock option exercises for cash proceeds of $4,203;
- 3,605,170 common shares of the Company were issued as a result of warrant exercises for cash proceeds of $9,384; and
- 15,528,928 common shares of the Company were issued as a result of the conversion of Class A Shares.

The following is a summary of the common share and Class A Share issuances for the year ended December 31, 2018:

- 6,173,938 common shares of the Company were issued as a result of conversions of the February 2017 Debentures;
- 814,019 common shares of the Company were issued in order to satisfy the accrued interest and conversion of the Convertible Promissory Notes;
- 1,461,879 common shares of the Company were issued as a result of warrant exercises during the period for cash proceeds of CAD $2,656 ($2,469 equivalent);
- 140,046 common shares of the Company were issued as a result of stock option exercises during the period for cash proceeds of CAD $179 ($148 equivalent);
- 1,682,910 common shares of the Company were issued as a result of Class A share conversions during the period;
- 65,900 common shares of the Company were issued in order to settle an outstanding obligation of $349;
- 5,188,800 common shares of the Company were issued in relation to the October 2018 equity financing;
- 16,857,414 common shares of the Company were issued in relation to acquisition activity during the year ended December 31, 2018;
- 1,977,563 Class A shares were issued in relation to acquisition activity; and
- 3,891,051 Class A shares in relation to the Tranche One Secured Notes formerly referred to as high yield secured notes.

On October 10, 2018, the Company closed its equity offering of 5,188,800 common shares of the Company at CAD$6.65 per common share for aggregate gross proceeds of CAD$34,506 (equivalent $26,558). The net proceeds were CAD$32,115 (equivalent $24,719) after deducting issuance costs of CAD$2,391 (equivalent $1,840).

Dilutive Securities

The following dilutive securities and the resulting common share equivalents were outstanding for years ended December 31, 2019 and 2018:

	2019	2018
Common Share Options	19,577,920	4,845,750
Class A Share Options	-	2,325,500
Warrants	49,236,082	20,933,995
Secured Notes	46,458,275	12,970,169
Debentures	10,135,130	-
MPX dilutive instruments[(1)]	407,876	-
Total Dilutive Securities	125,815,283	41,075,414

(1) Prior to the MPX Acquisition, MPX had instruments outstanding that were potentially dilutive and as a result of the MPX Acquisition, the Company assumed certain of these instruments.

13 Share-based Payments

Stock Options

In November 2015, ICM established the ICM 2015 Equity Compensation Plan (the "Plan"), which was subsequently amended on October 15, 2018. The Plan authorized the issuance of up to 2,000,000 Class A common shares. Options granted generally vest within 3 years, and typically have a life of 10 years. The option price under the Plan is determined at the sole discretion of management and the exercise price of all stock options shall be the higher of the closing price on the grant date, the closing price of the previous trading day before the grant date, or if and when appropriate, the five-day volume weighted average price. Following the Class A conversion, no new Class A Shares were issued under the Plan, and all existing Class A options are convertible into common shares.

The Company has 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 20.0% of the issued and outstanding common shares of the Company. The exercise price of each 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. As part of the MPX Acquisition (Note 4), the Company assumed the options outstanding at the date of acquisition under the MPX stock option plan (the "MPX Plan"). Following the acquisition, no new options were issued under the MPX Plan.

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

13 Share-based Payments (cont.)

Stock Options (cont.)

The following is a summary of stock options granted during the year ended December 31, 2019:

- 5,477,524 full share option equivalents were assumed as a result of the MPX acquisition;
- On April 23, 2019, 6,145,000 and 1,036,050 options were issued for employees and consultants, respectively, exercisable at $7.08. On June 6, 2019, these options were subsequently cancelled and reissued, exercisable at $5.35. As part of this grant, an additional 1,879,453 and 588,544 options were also issued to employees and consultants, respectively. On June 17, 2019, 3,110,728 and 294,272 options issued of the options modified on June 6, 2019, for employees and consultants, respectively, in addition to 2,385,150 options that were issued to employees, were cancelled. Subsequently, 5,495,878 and 294,272 options were re-issued on August 7, 2019, to employees and consultants, respectively, exercisable at $7.50. Of these options, 1,073,834 options are performance based, 1,311,316 options are time based, and 3,405,000 vested upon issuance. All options that were cancelled and reissued have been identified as replacement equity instruments for the options initially issued on April 23, 2019 and June 6, 2019, and thus in accordance with IFRS 2 Share-based payments, have been accounted for as a modification of the original grant of equity instruments. An incremental fair value expense of $5,029 has been recognized for the modification in the statement of profit and loss during the year ended December 31, 2019;
- 1,152,500 incentive stock options granted to employees and consultants on November 1, 2019, with a term of 10 years exercisable at CAD$2.27; and
- 584,300 incentive stock options granted to employees on December 6, 2019, with a term of 10 years exercisable at CAD$1.63.

The following is a summary of stock options granted during the year ended December 31, 2018:

- 1,886,000 incentive stock options granted to employees and consultants on March 2, 2018, with a term of 10 years exercisable at CAD$3.56;
- 570,000 incentive stock options granted to employees and consultants on June 4, 2018, with a term of 10 years exercisable at CAD$5.70; and
- 1,367,500 incentive stock options granted to employees and directors on December 7, 2018, with a term of 10 years exercisable at CAD$6.00.

The following table summarizes certain information in respect of option activity under the stock option plan:

	Number	Weighted Average Exercise Price (CAD)	Weighted Average Contractual Life
Options outstanding as at December 31, 2017	**3,816,000 $**	**2.15**	**9.12**
Granted	3,823,500	4.77	
Exercised	(168,750)	2.20	
Forfeited/Expired	(299,500)	3.06	
Options outstanding as at December 31, 2018	**7,171,250**	**3.51**	**8.84**
Granted [(1)]	16,863,371	5.46	
Exercised	(3,081,863)	2.18	
Forfeited/Expired	(1,374,838)	5.10	
Options outstanding as at December 31, 2019	**19,577,920 $**	**4.80**	**8.18**

[(1)] Any cancellations of options accounted for as a modification upon reissuance are presented on a net basis in accordance with IFRS 2 Share-Based Payments. During the year ended December 31, 2019, 12,971,200 of the 29,834,571 options granted were cancelled as part of the modifications.

The options outstanding and exercisable are as follows:

	Range of exercise prices (CAD)	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable
2015	$1.34	285,000	5.60	285,000
2016	$1.50 - $1.76	955,000	6.41	955,000
2017	$1.20 - $3.10	3,061,695	5.51	1,838,000
2018	$3.56 - $6.00	3,965,528	6.84	2,339,000
2019	$1.63 - $7.50	11,310,697	9.59	2,551,309
	$1.34 - $7.50	**19,577,920**	**8.18**	**7,968,309**

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

13 Share-based Payments (cont.)

Stock Options (cont.)

Under the ICH Plan, holders of the Company's stock options are entitled to a cashless exercise, whereby the Company will issue common shares net of the monetary value that would otherwise have been remitted to the Company by the option holder. As a result, the number of common shares issued is less than the number of options exercised.

During the year ended December 31, 2019, 3,081,863 stock options were exercised, which resulted in the issuance of 2,810,371 common shares, 88,224 Class A Shares, and 183,268 forfeited stock options attributable to cashless component of option exercises. As of December 31, 2019, all Class A Shares were converted to common shares.

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 year ended December 31, 2019	For the year ended December 31, 2018
Risk-free interest rate	1.5 - 1.7%	1.3 - 2.5%
Expected dividend yield	0.0%	0.0%
Expected volatility	77.0% - 82.0%	75.6% - 97.0%
Expected option life	7 years	7 years

The Company uses an expected volatility based on its historical trading data. The related share-based compensation expense for the year ended December 31, 2019, was $20,484 (December 31, 2018 - $7,522).

Warrants

The following table summarizes certain information in respect of the warrants for the Company's shares:

	Number	Weighted average exercise price (CAD)
Warrants outstanding as at December 31, 2017	**1,698,320**	**$ 2.06**
Granted	20,697,553	3.40
Exercised	(1,461,878)	2.16
Expired	-	-
Warrants outstanding as at December 31, 2018	**20,933,995**	**3.38**
Granted	34,643,090	4.14
Exercised	(3,605,170)	3.49
Expired	(2,735,833)	3.72
Warrants outstanding as at December 31, 2019	**49,236,082**	**$ 4.06**

The following is a summary of the activity of warrants during the year ended December 31, 2019:

- 9,233,425 full share equivalent warrants were inherited as part of the MPX acquisition on February 5, 2019, with exercise prices ranging from CAD $1.20 to CAD $6.93;
- 2,177,291 warrants were issued on March 18, 2019, with an exercise price of $6.43 in connection with the March 2019 Debentures. As at December 31, 2019, all warrants in connection with the March 2019 Debentures were outstanding;
- 1,555,207 warrants were issued on May 2, 2019, with an exercise price of $6.43 in connection with the May 2019 Debentures. As at December 31, 2019, all warrants in connection with the May 2019 Debentures were outstanding;
- 5,808,517 warrants were issued, with an exercise price of $6.04 in connection with the OID Loan conversion (refer to Note 10). As at December 31, 2019, all warrants in connection with the OID Loan conversion were outstanding;
- 5,076,142 warrants were issued on September 30, 2019, at an exercise price of $1.97 in connection with the Tranche Two Secured Notes. As at December 31, 2019, all warrants in connection with the Tranche Two Secured Notes were outstanding;
- 10,792,508 warrants were issued on December 20, 2019, at an exercise price of $1.67 in connection with the Tranche Three Secured Notes. As at December 31, 2019, all warrants in connection with the Tranche Three Secured Notes were outstanding;
- 3,605,170 warrants related to prior period debt issuances were exercised as at December 31, 2019 for gross proceeds of $973 and CAD$11,299 ($8,433 equivalent); and
- 2,735,833 warrants related to prior period debt issuances had expired as at December 31, 2019.

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

13 Share-based Payments (cont.)

Warrants (cont.)

The following is a summary of the activity of warrants during the year ended December 31, 2018:

- 10,036,130 warrants were issued on January 17, 2018, at an exercise price of $1.99 in connection with the January 2018 Debentures;
- 100,000 warrants were issued on April 3, 2018, at an exercise price of CAD$3.21 to an agent in connection with the Citiva acquisition;
- 6,670,372 warrants were issued on May 14, 2018, at an exercise price $3.60 in relation to the Tranche One Secured Notes. Concurrently, the Company issued 3,891,051 warrants at an exercise price of $2.57 in relation to 3,891,051 Class A shares; and
- 1,461,878 warrants were exercised as at December 31, 2018 for gross proceeds of $755 and CAD$2,177 ($1,693 equivalent).

With the change in functional currency on May 14, 2018 (Note 2), the classifications of the warrants issued in relation to the October 2017 financing, the November 2017 financing and the January 2018 financing were changed from equity to derivative liabilities. For the year ended December 31, 2018, as a result of this change in classification and subsequent revaluation on December 31, 2018, the Company recorded a loss of $1,604 in the Consolidated Statement of Loss and Comprehensive Loss within gain (loss) from change in fair value of financial instruments.

The Company used the following inputs to revalue warrant derivatives:

	For the year ended December 31, 2019	For the year ended December 31, 2018
Volatility	73.3 - 81.1%	77.5%
Risk-free rate	1.5- 1.7%	1.9%
Dividend yield	0.0%	0.0%

Full share equivalent warrants outstanding and exercisable are as follows:

	As at December 31, 2019		As at December 31, 2018	
Year of expiry	Units	Weighted average exercise price (CAD$)	Units	Weighted average exercise price (CAD$)
2019	- $	-	715,306 $	2.33
2020	-	-	-	-
2021	26,596,362	4.37	20,218,689	3.41
2022	20,854,908	3.62	-	-
2023	1,784,812	4.57	-	-
Warrants Outstanding	49,236,082 $	4.06	20,933,995 $	3.38

14 Financial Instruments

Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. 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).

During the years ended December 31, 2019, and 2018, there were no transfers between Level 1, Level 2 and Level 3 within the fair value hierarchy.

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 with due to and due from related parties (Note 10 and Note 16) are due within 12 months or payable on demand. Therefore, balances due to and due from related parties are considered current and short-term in nature, with a carrying value which approximates fair value.

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

14 Financial Instruments (cont.)

The following table summarizes the Company's financial instruments as at December 31, 2019:

	Amortized cost	Fair value through profit and loss	Total
Financial Assets			
Cash	$ 34,821	$ -	$ 34,821
Receivables and prepaid assets	7,610	-	7,610
Long-term investments	316	100	416
Financial Liabilities			
Payables and accrued liabilities	$ 25,396	$ -	$ 25,396
Long-term debt	141,514	-	141,514
Derivative liabilities	-	1,671	1,671

The following table summarizes the Company's financial instruments as at December 31, 2018:

	Amortized cost	Fair value through profit and loss	Total
Financial Assets			
Cash	$ 15,295	$ -	$ 15,295
Receivables and prepaid assets	3,847	-	3,847
Long-term investments	252	100	352
Financial Liabilities			
Payables and accrued liabilities	$ 6,509	$ -	$ 6,509
Long-term debt	31,231	-	31,231
Derivative liabilities	-	1,255	1,255

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:

	December 31, 2019				December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial Assets								
Long Term Investments - Other	$ -	$ -	$ 100	$ 100	$ -	$ -	$ 100	$ 100
Financial Liabilities								
Derivative liabilities	$ -	$ -	$ 1,671	$ 1,671	$ -	$ -	$ 1,255	$ 1,255

All derivatives are recorded at fair value using the Black-Scholes option pricing model and are Level 3 instruments. Derivative liabilities include warrants issued in connection with and assumed by the Company as part of the MPX acquisition (Note 4 and Note 13).

Changes in level 3 financial assets and liabilities were as follows:

	GrowHealthy Preferred Shares	Derivative Liabilities
Balance at December 31, 2017	$ 3,000	$ 593
Additions	-	12,260
Settlement in acquisitions (Note 4)	(3,000)	(474)
Revaluations on level 3 instruments	-	8,629
Reclassifications on currency change	-	(16,782)
Conversions/ Exercises	-	(2,934)
Foreign exchange impact	-	(37)
Balance at December 31, 2018	$ -	$ 1,255
Additions	-	52,195
Conversions/ Exercises	-	(15,303)
Revaluations on level 3 instruments	-	(36,476)
Balance at December 31, 2019	**$ -**	**$ 1,671**

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

14 Financial Instruments (cont.)

The table below is the summary of the Company's long-term debt instruments (Note 10) at carrying value and fair value:

	December 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt				
Debentures	44,208	44,836	-	-
Secured Notes	85,228	87,142	31,231	46,715
Stavola Trust Note	10,800	10,743	-	-
Other	1,278	920	-	-
Total	$ 141,514	$ 143,641	$ 31,231	$ 46,715

The secured notes were formerly referred to as high yield secured notes.

Financial Risk Management

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 liquidity risk, credit risk, market risk, and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors and management.

The Company is exposed to a variety of risks over the normal course of business. The Board of Directors mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its cash flow necessary to fund operations and development. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. This includes monitoring cash balances, subsidiary funding requirements and short-term obligations on a weekly basis. Refer to Note 2 for the Company's discussion on going concern and default on its long-term febt arrangements and Note 10 for amounts due under the Company's long-term debt obligations, including the Exit Fee.

Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash, loans and other receivables, and notes receivable. The risk exposure is limited to their carrying amounts at the statement of financial position date. The Company is constantly monitoring the status of its financial institutions and plans to open additional accounts at other institutions to mitigate credit risk.

Credit risk from the notes receivable arises from the possibility that principal and/or interest due may become uncollectible. The Company mitigates this risk by managing and monitoring the underlying business relationships along with the corresponding cash flow activity. Credit risk is further mitigated through entering strategic partnerships with the underlying businesses by means of conversion on company debt into equity ownership.

Market risk

- As the Company's operations are located in Canada and the United States, the Company is subject to currency transaction and translation risks;
- The Company holds cash in Canadian dollars and U.S. dollars. The Company raises capital in U.S. and Canadian capital markets and thus is exposed to fluctuations in the Canadian dollar relative to the U.S. dollar, specifically in relation to U.S. dollar denominated liabilities;
- As at December 31, 2019, the Company does not hold a material Canadian dollar balance. Hence if the Canadian dollar had strengthened or weakened by 5.0% in relation to the U.S. dollar, with all variables held constant, the assets of the Company would not have had a material increase or decrease; and
- As at December 31, 2019, the Company had no hedging agreements in place with respect to foreign exchange rates, however management monitors the Canadian and U.S. currency markets closely and continuously assesses the need to enter into currency hedging arrangements. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Interest rate risk

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

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

14 Financial Instruments (cont.)

The following table is a summary of the USD and CAD denominated obligations as of December 31, 2019:

	< 1 Year	1-2 Years	3-5 Years	> 5 Years	Total
USD Denominated					
Payables and accrued liabilities	$ 24,783	$ -	$ -	$ -	$ 24,783
Long-term debt	28,696	107,190	66,391	1,143	203,420
Total USD Denominated	$ 53,479	$ 107,190	$ 66,391	$ 1,143	$ 228,203

	< 1 Year	1-2 Years	3-5 Years	> 5 Years	Total
CAD Denominated					
Payables and accrued liabilities	$ 802	$ -	$ -	$ -	$ 802
Total CAD Denominated	$ 802	$ -	$ -	$ -	$ 802

15 Commitments and Contingencies

The Company has contractual obligations as of December 31, 2019, to make the following payments:

	< 1 Year	1-2 Years	3-5 Years	> 5 Years	Total
Finance Leases	$ 5,328	$ 5,292	$ 9,912	$ 51,946	$ 72,478
Service contracts	269	22	3	-	294
Consultants and advisors	186	-	-	-	186
Construction contracts	5,237	-	-	-	5,237
Total Commitments	$ 11,020	$ 5,314	$ 9,915	$ 51,946	$ 78,195

The Company's commitments include service contracts, consultants and advisors, as well as leases and construction contracts for offices, dispensaries and cultivation and processing facilities.

On September 19, 2019, the Company entered into an agreement to acquire a vertically licensed cannabis company based in Nevada. The acquisition is subject to regulatory approval and has not been consummated as of the date of this report.

Line of Credit to Zia Integrated, LLC

On May 23, 2019, the Company established a line of credit with Zia Integrated, LLC, ("Zia") a cannabis management and consulting firm based in Maryland, permitting Zia drawdowns of up to an aggregate of $15,000. For each drawdown made by Zia, a convertible promissory note will be issued between the Company and Zia. As of the date of filing of the consolidated financial statements, no drawdowns have been made on the line of credit and the principal amount on the convertible promissory note is $Nil.

Contingencies

The Company has been named as a defendant in several legal actions and is subject to various risks and contingencies arising in the normal course of business. Based on consultation with legal counsel, management is of the opinion that the outcome of these uncertainties will not have a material adverse effect on the Company's financial position, except as disclosed below.

The events that allegedly gave rise to the following claims occurred prior to the Company's closing of the MPX transaction in February 2019 are as follows:

- On March 26, 2019, MPX received a demand letter from a corporate finance firm, with respect to alleged fees owed by MPX to the firm. Subsequently, on September 20, 2019, the Company reached a settlement and agreed to pay $2,750 in consideration. This matter has been accounted for in accordance with IFRS 3 as a reduction in the goodwill acquired as part of the MPX acquisition. As of December 31, 2019, $2,000 was paid and the final payment of $750 was paid on January 30, 2020;
- There is a claim from a former consultant against MPX, with respect to alleged consulting fees owed by MPX to the consultant, claiming the right to receive approximately $500 and punitive damages;
- There is a claim from two former noteholders against ICH and MPX ULC, with respect to alleged payments of $1,250 made by the noteholders to MPX; and
- There is a claim against ICH, MPX ULC and MPX, with respect to a prior acquisition made by MPX in relation to a subsidiary that was not acquired by the Company as part of the MPX acquisition, claiming $3,000 in connection with alleged contractual obligations of MPX.

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

15 Commitments and Contingencies (cont.)

Contingencies (cont.)

In addition, the Company is currently reviewing the following matters with legal counsel and has not yet determined the range of potential losses:

There is a claim against the Company, for shares owed to prior shareholders of GrowHealthy Holdings, LLC ("GHH"), in relation to the Company acquiring substantially all the assets of GHH. Subsequent to December 31, 2019, the claim was amended to also include monetary damages for an unspecified amount.

On March 4, 2020, a security services firm filed a complaint against McCrory's, GHHIA, GHP, and IHF, collectively, claiming $950 in damages, as a result of an alleged breach of a contractual relationship by McCrory's, GHHIA, GHP, and IHF.

On April 19, 2020, Hi-Med LLC ("Hi-Med"), an unsecured lender and one of the Unsecured Debentureholders of the Company in the principal amount $5,000, filed a complaint against the Company. Hi-Med is seeking damages for an unspecified amount and other remedies against the Company, for among other things, alleged breaches of provisions of the Unsecured Debentures and the related Debenture Purchase Agreement. Refer to Note 10 for further discussion on the Unsecured Debentures.

On April 20, 2020, a shareholder filed a class action lawsuit against the Company, and is seeking damages for an unspecified amount against the Company for alleged false and misleading statements regarding certain proceeds from the issuance of long-term debt, that were held in escrow to make interest payments in the event of default on such long-term debt.

On July 13, 2020, the Company announced a proposed Recapitalization Transaction as discussed more fully in Note 20. Completion of the Recapitalization Transaction will be subject to, among other things, approval of the plan of arrangement (the "Plan of Arrangement") by the Secured Lenders, Unsecured Debentureholders and Existing Shareholders at meetings expected to be held in September 2020, such other approvals as may be required by the Supreme Court of British Columbia (the "Court"), approval of the Plan of Arrangement by the Court and the receipt of all necessary regulatory and stock exchange approvals. As such, no amounts have been accrued with respect to this Recapitalization Transaction.

On July 23, 2020, a proposed class action was issued in the Ontario Superior Court of Justice in Toronto against the Company, the Company's former CEO and the Company's CFO. The plaintiff seeks to certify the proposed class action on behalf of all persons, other than any executive level employee of the Company and their immediate families, who acquired the Company's common shares in the secondary market on or after May 30, 2019, and who held some or all of those securities until after the close of trading on April 5, 2020. Among other things, the plaintiff alleges statutory and common law misrepresentation, and seeks an unspecified amount of damages together with interest and costs. The certification motion and leave to proceed motion for a secondary market claim under the Securities Act (Ontario) have not yet been scheduled.

Subsequent to December 31, 2019, the Company filed a statement of claim against Oasis Investments II Master Fund Ltd. ("Oasis"), an Unsecured Debentureholder, in the Ontario Superior Court of Justice. In response to ICH's statement of claim, Oasis filed a defence and counterclaim, alleging that the Company breached certain debt covenants and seeking an order that the Company repay the debt instrument in the amount of $25,000 including interest and related fees. On July 13, 2020, in connection with the proposed Recapitalization Transaction, the Company has agreed to discontinue with prejudice its litigation claim which it made on February 27, 2020 against Oasis (regardless of whether the Recapitalization Transaction is consummated), and Oasis has agreed, while the Restructuring Support Agreement is in effect, not to take any steps in connection with its counterclaim against the Company. In addition, the Company and Oasis have agreed that the counterclaim by Oasis against the Company will be dismissed as a condition of closing of the Recapitalization Transaction.

Subsequent to December 31, 2019, the Company received demand letters (the "Demand Letters") from two former employees, claiming combined damages of $1,200. The Company is in the process of investigating the allegations set forth in the Demand Letters in the ordinary course. As of the date of filing the consolidated financial statements, it remains uncertain if any amount is owed to the former employees as part of the Demand Letters.

16 Related Party Transactions

Due from related parties as at December 31, 2017	$	348
Repayments made to related parties		50
Foreign exchange loss on due from related parties balance		(7)
Due from related parties as at December 31, 2018	$	391
Related party due to balance acquired		(9,533)
Payments to and on behalf of related parties		777
Repayments made to related parties		31
Payments received from related parties		(1,199)
Due from related parties as at December 31, 2019	$	(9,533)

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

16 Related Party Transactions (cont.)

As part of the MPX acquisition, the Company acquired the following significant related party balances:

- Related party receivables of $664 are due from companies owned by a director and officer of the Company, Elizabeth Stavola.
- The balance was $763 as at December 31, 2019 (December 31, 2018 – $Nil). The related party balances are presented in the other current assets line on the consolidated statement of financial position; and
- Related party term loan of $10,800, is due to a trust whose beneficiary is a director and officer of the Company, Elizabeth Stavola. Accrued interest on the loan as at December 31, 2019, was $Nil (December 31, 2018 - $Nil). The related party balance is included in the current portion of long-term debt line on the consolidated statement of financial position. Refer to Note 10 for further details on the Stavola Trust Note.

The CBD For Life acquisition is a related party transaction since Elizabeth Stavola was a director and officer of the Company at the time of the transaction and an officer and significant shareholder of CBD For Life. The consideration included the following amounts paid to individuals that are classified as related parties of the Company:

- $126 cash was paid and 118,850 common shares (with a fair value of $389) were issued to an individual related through a familial relationship to a director and officer of the Company, Elizabeth Stavola;
- $1,540 was paid and 9,500 shares are issuable to a trust whose beneficiary is a director and officer of the Company, Elizabeth Stavola;
- 6,469 common shares (with a fair value of $21) were issued to two individuals that are related through a familial relationship to a director and officer of the Company, Elizabeth Stavola;
- 36,969 common shares (with a fair value of $121) were issued to a director of the Company, Robert Galvin; and
- As part of the transaction, the Company also acquired a related party receivable of $778 and related party payable of $498 with CBD For Life. The balances for the receivable and payable were $Nil and $Nil, respectively, as at December 31, 2019 (December 31, 2018 – $Nil).

As at December 31, 2019, the Company had a loan due from a former director and officer of the Company, Hadley Ford ("Ford"), with a balance of $391 (December 31, 2018 - $391). The total loan facility is up to CAD$500 (equivalent $391) and the loan accrues, at the rate of 2.5%, interest due upon the maturity of the loan on June 30, 2020. Accrued interest on the loan as at December 31, 2019, was CAD$30 (equivalent $23) (December 31, 2018 - CAD$19 or equivalent $14). The related party balance is presented in the other current assets line on the consolidated statement of financial position. Subsequent to December 31, 2019, as part of Ford's termination agreement, the maturity date of the loan was extended to June 30, 2021 and, when repaid, the balance of the loan due is to be partially offset by compensation owed to Ford.

On December 21, 2019, a director and officer of the Company, Ford, was personally issued a loan by the managing member of Gotham Green Partners (the "Managing Member"), the entity which holds the Secured Notes issued by the Company (Note 10). As of the date of issuance of these financial statements, the Managing Member is also an insider of the Company as defined by applicable Canadian securities laws. The loan was non-interest bearing and was due on March 31, 2020. As of the date of issuance of these financial statements, the loan has not been repaid and remains outstanding. The Special Committee concluded, and the Board accepted, that the failure to disclose such personal loans to the Board was a breach of the Company's conflict policies and other obligations as an officer and director of the Company. Subsequent to December 31, 2019, the Board accepted Ford's resignation as a director and officer of the Company and as director and officer of the Company's subsidiaries.

Key Management Compensation

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

	2019	2018
Salaries, benefits and bonuses	$ 4,796	$ 1,178
Share-based payments	13,442	3,015
Directors' fees	86	58
Total	$ 18,324	$ 4,251

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

17 Income Taxes

Income tax expense is comprised of:

Current tax expense	$	5,729	$	755
Deferred tax recovery		(8,754)		(755)
Income tax recovery	$	(3,025)	$	-

The difference between the income tax recovery for the year and the expected income taxes based on the statutory tax rate applied to the loss before income taxes arises as follows:

		2019		2018
Loss before income taxes	$	(304,279)	$	(62,028)
Statutory tax rates		21%		21%
Recovery based on statutory rates		(63,899)		(13,026)
State taxes		340		(40)
Non-deductible expenses		54,835		4,431
Tax attributes for which no benefit recognized		4,183		5,312
Other		(2,736)		(141)
Change in the unrecognized deferred tax assets		4,252		3,464
Income tax recovery	$	(3,025)	$	-

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

		2019		2018
Net operating loss carry-forwards	$	17,345	$	7,488
Interest expense carry-forwards		6,083		5,043
Stock based compensation		6,353		2,412
Property and Equipment		1,415		652
Intangible assets		2,413		681
Other items		241		152
		33,850		16,428
Offset against deferred tax liabilities		(4,236)		(782)
Unrecognized deferred tax asset		(28,836)		(16,254)
Deferred tax assets		778		(608)
Intangibles resulting from acquisitions		(44,128)		(16,981)
Deferred tax liabilities		(44,128)		(16,981)
Net deferred tax balance	$	(43,350)	$	(17,589)

The deferred tax assets related to unused U.S. net operating losses were not recognized, as the recoverability is not considered to be probable. As of December 31, 2019, the Company has accumulated U.S. net operating losses for income tax purposes of $68,396 and $48,327 at Federal and State levels, respectively. These losses may be deducted in the calculation of taxable income in future years. Included in the total net operating losses are $16,116 of Federal losses which can be carried forward indefinitely. The remainder of the losses will expire between the years 2028 to 2039.

Certain accumulated net operating losses are subject to an annual limitation from equity shifts, which constitute a change of ownership as defined under Internal Revenue Code ("IRC") Section 382. These rules will limit the utilization of the losses. As of December 31, 2019, the Company has not determined the effect of these limitations. The effective Canadian Federal and British Columbia Provincial corporate tax rates are 15.0% and 12.0%, respectively. The Company's ability to use its net operating loss carryforwards could be limited and subject to annual limitations due to changes in control.

Since a full analysis under Section 382 of the Internal Revenue Code has not been performed, the Company may realize a "more than 50% change in ownership" which could limit its ability to use its net operating loss carryforwards accumulated to date to reduce future taxable income and tax liabilities. Additionally, because United States tax laws limit the time during which net operating loss carryforwards may be applied against future taxable income and tax liabilities, the Company may not be able to take advantage of all or portions of its net operating loss carryforwards for federal income tax purposes.

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

17 Income Taxes (cont.)

The Canadian unused non-capital losses and other unused tax deductions for which no deferred tax asset has been recognized or disclosed in the consolidated financial statements are listed below:

	2019	2018
Unused non-capital losses	$ 77,051	$ 31,710
Financing and share issuance costs	2,205	1,751

The unused non-capital losses may be deducted in the calculation of taxable income if the Company is taxable in Canada in future years. These losses will expire between the years 2025 to 2039. The financing and share issuance costs represent amounts that are generally deducted for Canadian tax purposes on a straight-line basis over a five-year period.

18 Comprehensive Loss per Share

	2019	2018
Basic and diluted comprehensive loss per share:		
Comprehensive loss for period	$ (301,254)	$ (61,809)
Average number of common shares outstanding during the period	158,214,225	63,858,945
Comprehensive loss per share - basic and diluted[1]	$ (1.90)	$ (0.97)

[1]All shares outstanding are non-dilutive due to the net loss for the period.

19 Supplemental Cash Flow Information and Capital Management

Supplemental Cash Flow Information

Income taxes paid during the year ended December 31, 2019, were $1,578 (December 31, 2018 - $23).

Non-cash transactions for the years ended December 31, 2019 and 2018 were as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Supplemental Cash Flow Information:		
Shares issued for the conversion of the OID Loan	$ 50,080	$ -
Impact of IFRS 16 adoption (Note 21)	13,081	-
Non-cash consideration transferred for the acquisition of MPX (Note 4)	451,516	-
Non-cash consideration transferred for the acquisition of CBD For Life (Note 4)	8,020	-
Cashless exercise of MPX warrants recorded as derivatives	5,364	-
Non-cash consideration transferred from Tranche One Secured Notes	1,358	-
Cashless stock option exercises	939	-
Purchase of fixed assets not yet paid in cash	3,026	-
Non-cash consideration transferred for the acquisition of GrowHealthy	-	43,817
Non-cash consideration transferred for the acquisition of Citiva	-	21,156
Warrants issued for the settlement of the May 2018 financing	-	17,531
Adjustments resulting from functional currency changes	-	16,782
Shares issued for the settlement of financial liabilities	-	4,000
Shares issued for the settlement of the February 2017 Debentures	-	15,897
Shares issued for the settlement from the acquisition of Pakalolo	-	113

Non-cash working capital items for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Changes in non-cash working capital items:		
Receivables and prepaid assets	$ (2,632)	$ 1,617
Inventory	4,537	6,035
Biological assets	(12,686)	(13,433)
Related party balances	418	(150)
Other assets	(1,266)	(442)
Payables and accrued liabilities	(1,178)	2,277
Other liabilities	4,973	(173)
	$ (7,834)	$ (4,269)

19 Supplemental Cash Flow Information and Capital Management (cont.)

Capital Management

Capital includes the Company's unrestricted cash balance of $34,821 and restricted cash balance of $Nil at December 31, 2019 (December 31, 2018 – $15,295 and $5,272 respectively).

The Company's objectives when managing capital are:

- Ensuring the Company has sufficient liquidity to execute its strategy and fulfill its financial obligations;
- Maintaining compliance with all covenants and ensuring continued access to capital; and
- Optimizing the cost of capital while taking into consideration current and future risks and conditions.

In order to meet its objectives, the Company continually monitors its capital structure and forecasts the capital needs of new and existing investments within its portfolio. The Company may adjust its capital spending, issue or repay debt instruments, or issue or repurchase shares of the Company as necessary to meet its objectives.

The Company has historically had access to equity and debt financing from public and private markets in Canada and the United States. Management continues to assess the Company's access to capital. Refer to Note 2 for discussion on going concern.

The Company has certain covenants in place as a result of the long-term debt it has issued (Note 10). During the years ended December 31, 2019, and December 31, 2018, the Company was in compliance with all associated covenants relating to its historical financings. Refer to Note 20 for discussion of subsequent events related to these long-term debt instruments.

20 Events After the Reporting Period

Stavola Trust Note Repayment

On January 10, 2020, the Company repaid the outstanding principle of $10,800 and interest of $24 on the Stavola Trust Note, repaying the note in full.

Stock Option Grant

On April 1, 2020, the Company granted 135,000 stock options to employees and consultants at an exercise price of $0.82.

Legal Proceedings

Please refer to Note 15 of the Financial Statements for details.

COVID-19

Subsequent to December 31, 2019, the global emergence of the COVID-19 pandemic occurred. The impact of COVID-19 on the Company's business is currently unknown. The Company will continue to monitor guidance and orders issued by federal, state, and local authorities with respect to COVID-19. As a result, the Company may take actions that alter its business operations as may be required by such guidance and orders or take other steps that the Company determines are in the best interest of its employees, customers, partners, suppliers, shareholders, and stakeholders.

Any such alterations or modifications could cause substantial interruption to the Company's business and could have a material adverse effect on the Company's business, operating results, financial condition, and the trading price of common shares, and could include temporary closures of one or more of the Company's facilities; temporary or long-term labor shortages; temporary or long-term adverse impacts on the Company's supply chain and distribution channels; the potential of increased network vulnerability and risk of data loss resulting from increased use of remote access and removal of data from the Company's facilities. In addition, COVID-19 could negatively impact capital expenditures and overall economic activity in the impacted regions or depending on the severity, globally, which could impact the demand for the Company's products and services.

20 Events After the Reporting Period (cont.)

COVID-19 (cont.)

It is unknown whether and how the Company may be impacted if the COVID-19 pandemic persists for an extended period of time or it there are increases in its breadth or in its severity, including as a result of the waiver of regulatory requirements or the implementation of emergency regulations to which the Company is subject. The COVID-19 pandemic poses a risk that the Company or its employees, contractors, suppliers, and other partners may be prevented from conducting business activities for an indefinite period. Although the Company has been deemed essential and/or has been permitted to continue operating its facilities in the states in which it cultivates, processes, manufactures, and sells cannabis during the pendency of the COVID-19 pandemic, subject to the implementation of certain restrictions on adult-use cannabis sales in both Massachusetts and Nevada, which have since been lifted, there is no assurance that the Company's operations will continue to be deemed essential and/or will continue to be permitted to operate. The Company may incur expenses or delays relating to such events outside of its control, which could have a material adverse impact on its business, operating results, financial condition and the trading price of the common shares of the Company.

Special Committee Investigation

Subsequent to year end, the Special Committee (Note 2) completed an investigation into the actions of Ford, a director and officer of the Company. On April 27, 2020, the Board accepted the resignation of Ford in his capacity as a director and officer of the Company and as director and officer of the Company's subsidiaries, effective immediately.

Cease Trade Order ("CTO")

The Company did not file the following continuous disclosure documents (collectively, the "Annual Filings") prior to the filing deadline of June 15, 2020:

a) audited annual financial statements for the year ended December 31, 2019;
b) management's discussion and analysis relating to the audited financial statements for the year ended December 31, 2019; and
c) certification of the foregoing filings as required by National instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings.

As a result, the Company is subject to a CTO issued by the Ontario Securities Commission on June 22, 2020.

In addition, the Company did not file the following continuous disclosure documents (collectively, the "Interim Filings") prior to the filing deadline of July 14, 2020:

a) interim financial statements for the three months ended March 31, 2020;
b) management's discussion and analysis relating to the interim financial statements for the three months ended March 31, 2019; and
c) certification of the foregoing filings as required by National instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings.

The CTO affects trading in all securities of the Company by securityholders of the Company, in each jurisdiction in Canada in which the Company is a reporting issuer and will remain in effect until such time as the Company has filed both the Annual Filings and the Interim Filings.

Interim Financing

On July 13, 2020, the Company's wholly-owned U.S. subsidiary ("iAnthus SubCo") issued $14,737 in aggregate principal amount of secured debentures ("Interim Financing") to the Secured Lenders as contemplated in the Recapitalization Transaction. The secured debentures under the Interim Financing mature on July 13, 2025, are subject to a 5.0% original issue discount and accrue interest at a rate of 8.0% annually. Interest is to be paid in kind by adding the interest accrued on the principal amount on the last day of each fiscal quarter (the first such interest payment date being September 30, 2020), such amount thereafter becoming part of the principal amount and will accrue interest at a rate of 8.0%. Interest paid in kind will be payable on the date that all of the principal amount is due and payable. The iAnthus SubCo is not permitted to redeem, convert or prepay the Interim Financing prior to July 13, 2023 without prior written consent of the lender. Similar to the Secured Notes, the Interim Financing is secured by all current and future assets of the Company.

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

20 Events After the Reporting Period (cont.)

Event of Default and Financial Restructuring

Due to the liquidity constraints experienced by the Company subsequent to year end, the Company attempted to negotiate with the holders of the Secured Notes for temporary relief of the Company's interest obligations due March 31, 2020, however, the parties were unable to reach a satisfactory agreement. The Company did not make the March 31, 2020 interest payment totaling $4,404 to the Lenders. As a result, the Company is currently in default of the obligations under its long-term debt.

In the event of a default, all amounts, including interest and principal, become immediately due and payable to the holders of the Secured Notes and Unsecured Notes. Furthermore, as a result of the default, the Company is required to pay the Exit Fee as described in Note 10. Upon the payment of the Exit Fee by the Company, the noteholders of the Tranche One Secured Notes are required to transfer the 3,891,051 shares issued under the $10,000 equity financing that closed concurrently with the Tranche One Secured Notes. As of the date of this report, such shares have not been transferred to the Company. Refer to Note 10 for additional details pertaining to the Secured Notes and the Unsecured Notes.

On June 22, 2020, the Company received notice from the Collateral Agent holding security for the benefit of the holders of the Company's Secured Notes, with a demand for repayment under the Secured Notes Purchase Agreement of the entire principal amount, together with interest, fees, costs and other allowable charges that have accrued or may accrue. The Collateral Agent also concurrently provided the Company with BIA Notices under section 244 of the BIA. Pursuant to section 244 of the BIA, the Collateral Agent shall not enforce the security over the collateral granted by the Company until the expiry of 10 days after sending the BIA Notices unless the Company consents to an earlier enforcement of the security.

On July 13, 2020, the Company announced that it entered into a Restructuring Support Agreement with the Secured Lenders and a majority of the Unsecured Debentureholders to effect a proposed Recapitalization Transaction. Pursuant to the Recapitalization Transaction, the Secured Lenders, the Unsecured Debentureholders and the Existing Shareholders of the Company are to be allocated and issued, approximately, the amounts of Restructured Senior Debt (as defined below), Interim Financing, Preferred Equity (as defined below) and percentage of the pro forma common equity, as presented in the following table:

	Restructured Senior Debt[1]	Interim Financing[2]	Preferred Equity[4]	Pro Forma Common Equity[5,6]
Secured Lenders	$ 85,000	$ 14,000[3]	$ 5,000	48.625%
Unsecured Debentureholders	-	-	15,000	48.625%
Existing Shareholders	-	-	-	2.75%
Total	$ 85,000	$ 14,000	$ 20,000	100.00%

1. The principal balance of the Secured Notes will be reduced to $85,000, which will be increased by the amount of the Interim Financing; first lien, senior secured position over all assets of the Company; and non-convertible; payment in kind interest at an 8% annual interest rate; maturity date of five years after the consummation of the Recapitalization Transaction; and non-callable for three years (the "Restructured Senior Debt").
2. The Secured Lenders will provide $14,737 of Interim Financing to the iAnthus SubCo, on substantially the same terms as the Restructured Senior Debt, with a 5% original issue discount (principal to be grossed up). The Interim Financing will be funded to the iAnthus SubCo within three business days of execution of the Restructuring Support Agreement. In the event of proceedings commenced by the Company for approval of a plan of compromise and arrangement under the CCAA (the "CCAA Proceedings"), the Interim Financing amount will be increased by $1,000. The amounts of the Interim Financing advanced to the iAnthus SubCo is expected to be converted into and the principal balance will be added to the Restructured Senior Debt upon consummation of the Recapitalization Transaction.
3. Excluding original issue discount of 5%.
4. The preferred equity is non-convertible, has an 8% paid-in-kind cumulative dividend; a maturity date of five years after the consummation of the Recapitalization Transaction; is non-callable for three years; and is subordinate to the Restructured Senior Debt but senior to the Common Shares ("Preferred Equity").
5. Assuming the Recapitalization Transaction is completed pursuant to the Arrangement Proceedings. If the Requisite Approvals (including approval of the Existing Shareholders) are not obtained and the implementation of the Recapitalization Transaction is pursued pursuant to the CCAA Proceedings, the Common Shareholder Interest will be allocated equally to the Secured Lenders and the Unsecured Debentureholders, as separate classes, and the Existing Shareholders will not receive any recovery.
6. Following consummation of the Recapitalization Transaction, a to-be-determined amount of equity will be made available for management, employee, and director incentives, as determined by the New Board (as defined below); all existing warrants and options of the Company will be cancelled; and the Common Shares may be consolidated pursuant to a yet-to-be decided consolidation ratio.

20 Events After the Reporting Period (cont.)

Event of Default and Financial Restructuring (cont.)

The form of the Preferred Equity provided to the Secured Lenders and Unsecured Debentureholders and described herein is subject to tax planning and may instead be subordinated unsecured debt of the Company or other form of consideration that is agreed to by the Secured Lenders, each of the Initial Consenting Unsecured Debentureholders and the Company, on substantially similar economic terms.

Upon implementation of the Recapitalization Transaction, the board of directors (the "New Board") will be constituted as follows: (i) three nominees by the Secured Lenders; (ii) three nominees by the Initial Consenting Unsecured Debentureholders; and (iii) a new CEO as the seventh member of the New Board, to be agreed upon by the Secured Lenders' and Initial Consenting Unsecured Debentureholders' nominees.

Under the terms of the proposed Recapitalization Transaction, the Collateral, the Secured Lenders and the Initial Consenting Unsecured Debentureholders agree to forbear from further exercising any rights or remedies in connection with any events of default that now exist or may in the future arise under any of the purchase agreements in respect of the Secured Debentures and all other agreements delivered in connection therewith, the purchase agreements in respect of the Unsecured Debentures and all other agreements delivered in connection therewith, and any other agreement to which the Collateral Agent, Secured Lenders or Initial Consenting Unsecured Debentureholders are party with the Company (the “Defaults”), and shall take such steps as are necessary to stop any current or pending enforcement efforts in relation thereto. Upon consummation of the Recapitalization Transaction, the Collateral Agent, Secured Lenders and Initial Consenting Unsecured Debentureholders are expected to irrevocably waive all Defaults and take all steps required to withdraw, revoke and/or terminate any enforcement efforts in relation thereto.

Completion of the Recapitalization Transaction will be subject to, among other things, approval of the Plan of Arrangement by the Secured Lenders, Unsecured Debentureholders and Existing Shareholders at meetings expected to be held in September 2020, such other approvals as may be required by the Supreme Court of British Columbia (the “Court”), approval of the Plan of Arrangement by the Court and the receipt of all necessary regulatory and stock exchange approvals (collectively, the “Requisite Approvals”). If the Requisite Approvals are obtained, the Plan of Arrangement will bind all Secured Lenders, Unsecured Debentureholders and Existing Shareholders.

In the event that the Requisite Approvals are not obtained and the Court does not approve the Recapitalization Transaction, then the Recapitalization Transaction will be pursued pursuant to the CCAA Proceedings, provided that if the CCAA Proceedings are necessary, the Common Shareholder Interest shall be allocated equally to the Secured Lenders and the Unsecured Debentureholders, as separate classes, and the Existing Shareholders will not receive any recovery.

Mutual Termination of Acquisition

On July 31, 2020, the Company and WSCC, Inc. (“Sierra Well”) announced the mutual termination of the merger agreement previously announced in September 2019. As a result of the prolonged timeline to achieve the necessary conditions to close combined with the adverse market conditions surrounding the industry and broader economy, the Company and Sierra Well agreed that it was in the best of interest of both parties to terminate the transaction.

Previously, in September 2019, the Company, through its wholly owned subsidiary, iA Northern Nevada, Inc., entered into an agreement to acquire Sierra Well, subject to regulatory approval. Sierra Well operates two dispensaries, two cultivation facilities and one processing facility in Nevada.

Nevada Settlement

Subsequent to December 31, 2019, the Company intervened in the litigation to defend its interests in the Marijuana Retail Store licenses which were granted by the Nevada Department of Taxation (the “Nevada DOT”) and were the subject of the plaintiffs’ challenge. The Company, through its subsidiary, GreenMart of NV, currently has two Nevada medical cannabis establishment registration certificates, one for cultivation and one for product manufacturing. GreenMart of NV also currently has two Nevada adult-use licenses, one for cultivation and one for product manufacturing. In December 2018, GreenMart of NV was awarded four conditional adult-use dispensary licenses (“Marijuana Retail Store(s)”). The Nevada DOT award of conditional adult-use Marijuana Retail Store licenses is being challenged by several unsuccessful applicants in an action in Nevada state court. On July 30, 2020, the settling plaintiffs and settling intervenors filed a motion in opposition to this application. On July 31, 2020, the Court denied the non-settling plaintiffs’ application for a temporary restraining order preventing the effectiveness of the settlement agreement. Accordingly, GreenMart of NV’s transfer offer of its conditional dispensary license is now subject to fulfillment of the conditions set forth in the settlement agreement.

21 Significant Accounting Policies, Estimates and Judgements

Accounting Policies

Business combinations

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

Foreign currency translation

The presentation currency of the Company is the U.S. dollar. The exchange differences arising on translation for consolidation are recognized in other comprehensive gains. Transactions in foreign currencies are recorded at a rate of exchange approximating the prevailing rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated the functional currency at the foreign exchange rate in effect at that date. Realized and unrealized exchange gains and losses are recognized through profit and loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency translations for the years ended December 31, 2019 and 2018 were immaterial to the financial statements

Revenue from Contracts with Customers

Revenue is recognized by the Company in accordance with IFRS 15 *Revenue from Contracts with Customers*, which was adopted effective January 1, 2018. 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 obligation(s) 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 obligation(s) in the contract;
- recognize revenue when or as the Company satisfies the performance obligation(s).

Under IFRS 15, revenue from the sale of cannabis is generally recognized at a point in time when control over the goods have been transferred to the customer. Payment is typically due upon transferring the goods to the customer or within a specified time period permitted under the Company's credit policy. Revenue is recognized upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control upon delivery and acceptance by the customer.

Cost of sales

Cost of sales represents costs directly related to processing and distribution of the Company's products. Primary costs include raw materials, packaging, direct labor, overhead, and shipping and handling. Manufacturing overhead and related expenses include salaries, wages, employee benefits, utilities, and maintenance. The Company recognizes the cost of sales at the time the related sales revenues are recognized.

Cash and Restricted Cash

Cash is a liquid asset measured at fair value and consists of readily available cash deposits held within financial institutions. Restricted cash consists of cash deposits held within financial institutions that will be available within 12 months and is measured at fair value.

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

21 Significant Accounting Policies, Estimates and Judgements (cont.)

Accounting Policies (cont.)

Accounts Receivable

Allowances for doubtful accounts receivable are based on the Company's assessment of the collectability of specific customer balances, which is based upon a review of the customer's credit worthiness and past collection history. For trade accounts receivable that have characteristics of both a contractual maturity of one year or less, and arose from the sale of goods or services, the Company charges off the balance against the allowance for doubtful accounts when it is known that a provided amount will not be collected.

Biological Assets and Inventory

During the year ended December 31, 2019, the Company made a voluntary change in accounting policy to separately disclose the realized fair value amounts from biological assets included in the cost of inventory sold.

Previously, the Company's accounting policy was to include the fair value amounts from biological assets in cost of sales on the Consolidated Statement of Comprehensive Income or Loss. The Company believes that the revised policy provides reliable and more relevant disclosure of the costs incurred as a result of the sale of cannabis by separately disclosing the impact of fair value movements. The Company's new accounting policy regarding biological assets and inventory is as follows:

(a) Biological assets

The Company's biological assets consist of cannabis plants which are not yet harvested. Although biological assets are within the scope of IAS 41 *Agriculture*, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 *Inventories*. Direct costs include growing materials and labor while indirect costs include utilities and supplies used in the growing process. The indirect labor of individuals involved in the growing and quality control process are also included. Direct and indirect costs of biological assets are capitalized as they are incurred, and they are subsequently recorded in cost of sales in the consolidated statement of loss and comprehensive loss when the related product is sold. Gains or losses arising from changes in fair value less cost to sell are included in the results of operations of the related period.

(b) Inventory

Inventory is valued at the lower of cost and net realizable value. The direct and indirect costs of inventory initially include the fair value of the biological asset at the time of harvest. The direct and indirect costs of inventory initially include the costs to cultivate the biological assets at the time of harvest. They also include subsequent costs such as materials, labor, and overhead involved in processing, packaging, labeling, and inspection to turn raw materials into finished goods. All direct and indirect costs related to inventory are capitalized as they are incurred, and they are subsequently recorded within cost of sales on the consolidated statement of loss and comprehensive loss.

Realized fair value amounts from biological assets included in the cost of inventory sold are separately presented for cost of sales as fair value adjustment on sale of inventory in the consolidated statement of loss and comprehensive loss.

The following table is a quantification of the adjustments with respect to the revised accounting policy for the consolidated statement of loss and comprehensive loss:

	For the year ended December 31, 2019		For the year ended December 31, 2018	
	Previous policy	Revised policy	Previous policy	Revised policy
Sales revenues	$ 78,382	$ 78,382	$ 3,405	$ 3,405
Cost of sales	(69,860)	(41,362)	(2,240)	(790)
Gross profit before fair value adjustments	8,522	37,020	1,165	2,615
Fair value adjustment on sale of inventory	28,498	(28,498)	1,957	(1,450)
Fair value adjustment on biological assets	2,846	31,344	6,470	8,427
Gross profit	$ 39,866	$ 39,866	$ 9,592	$ 9,592

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

21 Significant Accounting Policies, Estimates and Judgements (cont.)

Accounting Policies (cont.)

The following table is a quantification of the adjustments with respect to the revised accounting policy for the consolidated statement of cash flows:

	For the year ended December 31, 2019		For the year ended December 31, 2018	
Operating activities	Previous policy	Revised policy	Previous policy	Revised policy
Fair value adjustment on biological assets	$ (31,344)	$ (31,344)	$ (8,427)	$ (8,427)
Fair value adjustment on sale of inventory	-	28,498	-	1,450
Changes in non-cash items	$ (7,834)	$ (7,834)	$ (4,269)	$ (4,269)

Investment in associate

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

The carrying value of investment in associate is assessed for indicators of impairment at each statement of financial position date.

Fixed Assets

Fixed assets are measured at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets:

Buildings	25 years
Leasehold improvements	5 years(1)
Production equipment	5 years
Processing equipment	5 years
Sales equipment	3-5 years
Office equipment	3-5 years

(1) Lesser of 5 years or the term of the lease

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

Construction in progress includes construction progress payments, deposits, engineering costs, and other costs directly related to the construction of cultivation, processing or dispensary facilities. Expenditures are capitalized during the construction period and construction in progress is transferred to the appropriate class of fixed assets when the assets are available for use, at which point the depreciation of the asset commences.

Intangible assets

Intangible assets with a finite life are stated at the amount initially recognized less accumulated amortization and accumulated impairment losses. Intangible assets with a finite life are amortized on a straight-line basis over the period of expected benefit. Intangible assets with an indefinite life are not amortized and are assessed annually for impairment, or more frequently if indicators of impairment arise.

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Licenses are amortized over 15 years, which better reflects the useful lives of the assets. The Company has applied this prospectively effective January 1, 2018. Trademarks are amortized over 7 to 15 years, and all other intangible assets with a finite life are amortized over 1 to 5 years.

Intangible assets with an indefinite life are not amortized and assessed annually for impairment, or more frequently if indicators of impairment arise.

21 Significant Accounting Policies, Estimates and Judgements (cont.)

Accounting Policies (cont.)

Goodwill

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

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

Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed. Refer to Note 9 for further discussion on the impairment of Goodwill that the Company has recognized for the year ended December 31, 2019.

Impairment of non-financial assets

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

The recoverable amount of an asset or CGU is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

Derivative liabilities

The Company's debt instruments contain a host liability and embedded warrant derivative liability. 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 consolidated 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.

Issuance costs are allocated to each instrument (the host liability and embedded warrant derivative liability) in the same proportion as the proceeds that are allocated to each instrument other than issuance costs directly related to an instrument are allocated to that instrument only. Issuance costs allocated to the debt host instrument are netted against the proceeds allocated to the debt host liability. Issuance costs allocated to an instrument classified as a derivative liability are expensed in the period that they are incurred in the consolidated statement of loss and comprehensive loss.

Contingent liabilities

The Company makes a provision for a liability when it is both probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company reviews these provisions in conjunction with any related provisions on assets related to the claims at least quarterly and adjusts these provisions to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other pertinent information related to the case.

The Company expenses legal costs relating to its lawsuits, claims and proceedings as incurred.

21 Significant Accounting Policies, Estimates and Judgements (cont.)

Accounting Policies (cont.)

Share capital

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

Share-based payments

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

Financial instruments

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

Under IFRS 9 *Financial Instruments*, financial instruments are initially measured at fair value, plus in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs. Subsequently, all assets within scope of IFRS 9 are measured at:

(i) Amortized cost;

(ii) Fair value through other comprehensive income (“FVOCI”); or

(iii) Fair value through profit or loss (“FVTPL”).

The classification is based on whether the contractual cash flows give rise to payments on specified dates that are solely payments of principal and interest (the “SPPI test”), and the objective of the Company’s business model is to hold assets only to collect cash flows, or to collect cash flows and to sell (the “Business Model test”). Financial assets are required to be reclassified only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

The Company follows the impairment requirements under IFRS 9, based on an expected credit loss model. The expected credit loss model applies to debt instruments recorded at amortized cost or at FVOCI, such as loans, debt, securities and trade receivables, lease receivables, and most loan commitments and financial guarantee contracts.

Income taxes

The Company uses the asset and liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases.

Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted and applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

The Company uses the asset and liability method to account for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases.

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

21 Significant Accounting Policies, Estimates and Judgements (cont.)

Accounting Policies (cont.)

Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted and applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

Reclassification

For the year ended December 31, 2019, the Company has reclassified certain balances in its consolidated statement of financial position and consolidated statement of loss and comprehensive loss for the year ended December 31, 2018. The Company has performed these reclassifications to provide clarity on certain comparative statement line items. These reclassifications have no impact on the total asset, total liabilities, and net loss or comprehensive loss of the Company. The following table represents the accounts that have been reclassified with the amounts for December 31, 2019.

Consolidated Statement of Financial Position

December 31, 2019	December 31, 2018		Amount
Long-term investments	Investments and non-current notes receivable	$	351
Long-term investments	Investment in associate	$	2,281
Payables and accrued liabilities	Interest payable	$	43

Consolidated Statement of Loss and Comprehensive Loss

December 31, 2019	December 31, 2018		Amount
Professional fees	Legal and professional fees	$	5,635
Professional fees	Consulting fees	$	4,701
Acquisition related costs	Legal and professional fees	$	717
Other losses	Profits (losses) from investment in associate	$	134
Other losses	Foreign exchange loss	$	(819)

Prior Period Revisions

The prior period condensed interim consolidated financial statements for the three months ended March 31, 2019 have been revised to correct an error in the Company's biological asset valuation and inventory costing model in the Eastern Region. These consolidated financial statements for the year ended December 31, 2019 are prepared based on the revised figures for the interim period.

Following are extracts of the Company's financial statements for the three months ended March 31, 2019 as previously filed as well as revised corrected amounts for financial statement line items impacted by the error:

	As at and for the three months ended March 31, 2019					
		As previously reported (unaudited)		With policy change [1] (unaudited)		With policy change and revision [2] (unaudited)
Inventory	$	22,882	$	22,882	$	17,966
Biological assets		8,524		8,524		8,710
Accumulated Deficit		(102,074)		(102,074)		(106,805)
Cost of sales	$	(9,080)	$	(7,882)	$	(8,646)
Gross profit before fair value adjustments		540		1,738		974
Realized fair value adjustment on biological assets		1,198		(1,198)		(1,837)
Unrealized fair value adjustment on biological assets		3,821		5,019		1,691
Gross profit		5,559		5,559		828
Net loss		(18,265)		(18,265)		(22,996)
Comprehensive loss		(18,265)		(18,265)		(22,996)
Loss per share - basic and diluted	$	(0.15)	$	(0.15)	$	(0.19)

21 Significant Accounting Policies, Estimates and Judgements (cont.)

Accounting Policies (cont.)

(1) As disclosed in the Company's condensed interim consolidated financial statements for the three and six months ended June 30, 2019, the Company made a voluntary accounting policy change that was retrospectively applied during the period.

(2) Revised for the error discussed in the above paragraphs.

IFRS 16 Leases

(a) Accounting Policy

Effective January 1, 2019, the Company adopted IFRS 16. The impact of the transition is shown below. The Company's accounting policy under IFRS 16 is as follows:

At commencement of a contract, the Company assesses whether a contract is, or contains, a lease by determining whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A ROU asset and lease liability is recognized at the lease commencement date. The lease liability is initially measured at the present value of all future lease payments that have not been paid as of the commencement date of the lease, discounted using the Company's incremental borrowing rate, in the absence of a readily identifiable rate of interest implicit to the lease.

The ROU asset is initially measured at cost, which is calculated as the initial amount of the lease liability, with an adjustment for any initial direct costs incurred, plus adjustments for any lease payments made in advance of the commencement date, and less any lease incentives received. Subsequent to initial recognition, the ROU asset is depreciated on a straight-line basis over the term of the lease, with inclusion for any options to extend that the Company reasonably expects to exercise. ROU assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*.

The lease liability is subsequently measured at amortized cost using the effective interest method whereby the balance is increased by interest expense and decreased by lease payments. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

The Company has included the carrying value of ROU assets under fixed assets (Note 8) on the statement of financial position, and the carrying value of the lease liability within other liabilities as at December 31, 2019.

(b) Impact of Transition to IFRS 16

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach. Under the elected modified retrospective approach, there is no requirement to restate comparative information. Therefore, the Company recognized the cumulative effect of initially applying IFRS 16 as an adjustment to retained earnings as at January 1, 2019.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases and applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 *Leases* and IFRIC 4 were not reassessed to determine if a lease existed. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019. The Company has also elected to apply the practical expedient to account for leases for which the lease terms end within 12 months of the date of initial application as short-term leases. The Company has elected to not recognize ROU assets and lease liabilities for leases that have a lease term of 12 months or less or for leases of low-value assets, and instead recognizes the lease payments on a straight-line basis over the term of the lease as an expense.

For leases that were classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments discounted at the incremental borrowing rate as at January 1, 2019. ROU assets were measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the incremental borrowing rate as at January 1, 2019. The weighted average discount rate applied is 20.0%.

For leases that were classified as finance leases under IAS 17, the carrying amount of the ROU assets and the lease liabilities as at January 1, 2019 were determined as the carrying amount of the lease assets and lease liabilities under IAS 17 immediately before that date.

On transition to IFRS 16 as at January 1, 2019, the Company recognized an additional $13,384 of ROU assets and $13,081 of lease liabilities, with the difference resulting from adjustments to the ROU asset for lease payments made in advance of the commencement date. The current portion of lease liabilities is included in other current liabilities and the non-current portion is included in other liabilities on the consolidated statement of financial position. The impact on retained earnings as at January 1, 2019, was an increase of $194. The Company's portfolio of leases primarily consists of cultivation, processing, and dispensary facilities. The weighted-average remaining term on leases as at January 1, 2019, was 13.4 years.

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

21 Significant Accounting Policies, Estimates and Judgements (cont.)

Adoption of New Accounting Standards (cont.)

IFRS 16 Leases (cont.)

The following table reconciles the Company's financial statement line items from IAS 17 to IFRS 16 as at January 1, 2019:

Measurement of lease liabilities		
Gross lease liabilities at January 1, 2019		37,194
Interest expense (discounted using an incremental borrowing rate of 20.0%)		(24,113)
Lease liabilities at January 1, 2019	$	13,081

IFRIC 23 Uncertainty Over Income Tax Treatments

On June 7, 2017, the IASB introduced IFRIC 23 *Uncertainty Over Income Tax Treatments*, with the objective of clarifying the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The Company has adopted IFRIC 23 as of January 1, 2019, with no impact on its consolidated financial statements.

New Accounting Standards Issued but Not Yet Effective

Revised Conceptual Framework

In March 2018, the International Accounting Standards Board issued its revised Conceptual Framework for Financial Reporting. The revised Conceptual Framework does not constitute a substantial revision from previous guidance but provides additional guidance on topics not previously covered such as presentation and disclosure. This amendment is effective on January 1, 2020. The Company intends to adopt this amendment in its consolidated financial statements for the annual period beginning January 1, 2020. The adoption of the revised Conceptual Framework for Financial Reporting is not expected to have a material impact on the consolidated financial statements.

Significant Accounting Estimates

The preparation of consolidated financial statements requires management to apply judgement and make estimates that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period.

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations with regard to future events that are believed to be reasonable under the circumstances. However, actual outcomes may differ from these estimates.

Biological assets

Management is required to make several estimates in calculating the fair value less costs to sell of biological assets and harvested cannabis inventory. These estimates include estimating the yield per plant, selling price, and stage of growth.

Property, plant and equipment

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

Business combinations

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

Lease Liabilities

For the measurement of lease liabilities, the Company considers significant factors that would impact the decision to exercise extension options, or not exercise termination options in lease arrangements. Extensions and termination options are only included by the Company in the determination of lease term if it is deemed to be reasonably certain of exercising an extension or not exercising a termination option. These assessments are reviewed in the circumstance of a significant event that would impact the assessment.

21 Significant Accounting Policies, Estimates and Judgements (cont.)

Significant Accounting Judgements

Going concern

Each reporting period, management exercises judgement in assessing whether there is a going concern issue by reviewing the Company's performance, resources and future obligations. Refer to Note 2 for discussion on going concern

Business combinations

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

Impairment

Management is required to use judgement in determining the grouping of assets to identify their CGUs for the purposes of testing fixed assets for impairment. Judgement is further required to determine appropriate groupings of CGUs for the level at which goodwill and intangible assets are tested for impairment. The Company performs an annual impairment test for goodwill, and indefinite life intangible assets in the fourth quarter for each of the CGUs whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to dispose all or a portion of a reporting unit. Refer to Note 9 for further discussion on the impairment of Goodwill that the Company has recognized for the year ended December 31, 2019.