



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 2018 and 2017

(Unaudited)

Condensed Interim Consolidated Statement of Financial Position

(In U.S. Dollars)

	Note	Sep 30, 2018 (unaudited)	Dec 31, 2017 (audited)
ASSETS			
Current Assets:			
Cash		\$ 15,646,665	\$ 6,175,287
Receivables and prepaid assets		2,671,143	384,862
Notes receivable	5	-	11,066,605
Inventory	6	5,382,930	126,106
Biological assets	7	5,523,415	129,708
Other current assets		1,475,239	434,901
		\$ 30,699,392	\$ 18,317,469
Non-current Assets:			
Investments and non-current notes receivable	8	344,411	3,099,969
Investment in associate	9	2,494,093	2,189,815
Property, plant and equipment	10	23,037,911	10,285,599
Intangible assets	11	4,520,702	4,439,535
Goodwill	11	75,934,783	7,182,675
Other assets		241,164	306,409
TOTAL ASSETS		\$ 137,272,456	\$ 45,821,471
LIABILITIES AND EQUITY			
Current Liabilities:			
Payables and accrued liabilities		\$ 2,885,089	\$ 2,356,405
Interest payable		28,889	421,862
Current portion of long-term debt	12	-	1,031,262
Derivative liabilities	14	1,816,420	592,959
Financial liabilities	4	-	4,411,481
Other liabilities		457,275	378,531
		\$ 5,187,673	\$ 9,192,500
Non-current Liabilities:			
Long-term debt	12	30,418,509	13,567,430
Deferred tax liabilities	4	1,236,306	1,236,306
Total Liabilities		\$ 36,842,488	\$ 23,996,236
Shareholders' Equity:			
Share capital	13	131,809,909	32,681,399
Shares to be issued	4, 18	2,734,411	113,226
Reserves	13	32,389,631	9,652,181
Accumulated deficit		(66,581,057)	(20,479,383)
Accumulated other comprehensive income (loss)		77,074	(142,188)
Total Shareholders' Equity		\$ 100,429,968	\$ 21,825,235
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 137,272,456	\$ 45,821,471

On behalf of the Board of Directors



Hadley Ford
Director



Julius Kalcevich
Director

See accompanying notes to the condensed interim consolidated financial statements

Condensed Interim Consolidated Statement of Loss and Comprehensive Loss

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

	Note	Three months ended Sep 30, 2018	Three months ended Sep 30, 2017	Nine months ended Sep 30, 2018	Nine months ended Sep 30, 2017
Sales		\$ 939,098	\$ -	\$ 1,419,784	\$ -
Cost of goods sold		(726,147)	-	(887,613)	-
Fair value adjustment on biological assets, net of costs	7	2,415,042	-	6,300,582	-
Gross profit		2,627,993	-	6,832,753	-
Other income:					
Interest revenue		8,280	570,010	558,965	1,263,242
Other revenue		127,020	118,102	298,694	310,686
Total other income		135,300	688,112	857,659	1,573,928
Operating expenses:					
Depreciation and amortization	10,11	668,399	94,297	1,796,418	277,923
Administrative and other expenses		1,854,719	347,584	4,516,340	1,270,853
Wages and salaries		2,778,707	657,791	7,263,294	1,417,817
Share-based compensation	13	1,676,252	762,989	5,680,883	1,613,444
Legal and professional fees		914,941	403,129	3,786,622	1,104,960
Consulting fees		928,461	165,460	3,124,793	972,656
Total operating expenses		8,821,479	2,431,250	26,168,350	6,657,653
Other items:					
Interest expense	12	(1,314,554)	(330,643)	(3,462,978)	(783,890)
Accretion expense	12	(2,065,858)	(388,500)	(15,327,819)	(940,739)
Change in fair value on instruments	12, 14	(1,018,455)	159,530	(9,187,797)	98,253
Profits from investment in associate	9	81,848	91,416	304,278	214,382
Foreign exchange gain (loss)		263,751	2,052	235,394	(156,855)
Other losses		90,374	-	(184,814)	-
Total other items		(3,962,894)	(466,145)	(27,623,736)	(1,568,849)
Net loss		\$ (10,021,080)	\$ (2,209,283)	\$ (46,101,674)	\$ (6,652,574)
Other comprehensive gains					
Foreign exchange gain on translation		-	(340,165)	219,262	(419,241)
Comprehensive loss		\$ (10,021,080)	\$ (2,549,448)	\$ (45,882,412)	\$ (7,071,815)
Loss per share - basic and diluted		\$ (0.15)	\$ (0.09)	\$ (0.76)	\$ (0.26)
Weighted average number of common shares outstanding - basic and diluted		67,776,311	27,563,504	60,640,223	27,397,957

See accompanying notes to the condensed interim consolidated financial statements

Condensed Interim Consolidated Statement of Changes in Equity

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

(Unaudited)

	Note	Number of Shares (Common)	Number of Shares (Class A)	Share Capital	Shares to be Issued	Option Reserves	Warrant Reserves	Convertible Debt Reserves	Accumulated Other Comprehensive Income	Accumulated Deficit	Shareholders' Equity
Balance - January 1, 2017		15,976,269	11,255,000	\$ 19,494,534	\$ -	1,202,353	\$ 3,500,580	\$ -	72,061	\$ (6,762,718)	\$ 17,506,810
Financing in February 2017	12	-	-	-	-	-	-	1,880,093	-	-	1,880,093
Financing fees	12	-	-	-	-	-	-	(102,230)	-	-	(102,230)
Issuance of shares to settle February 2017 Debentures	12	238,708	-	655,077	-	-	-	(65,781)	-	-	589,296
Issuance of shares as settlement for interest payable	12	9,845	-	20,165	-	-	-	-	-	-	20,165
Share-based compensation	13	-	-	-	-	1,613,444	-	-	-	-	1,613,444
Issuance of warrants to consultants	-	-	-	-	-	-	5,058	-	-	-	5,058
Exercise of warrants	13	314,155	-	803,143	-	-	(279,979)	-	-	-	523,164
Other comprehensive loss	-	-	-	-	-	-	-	-	(419,241)	-	(419,241)
Net loss	-	-	-	-	-	-	-	-	-	(6,652,574)	(6,652,574)
Balance - September 30, 2017		16,538,977	11,255,000	\$ 20,972,919	\$ -	2,815,797	\$ 3,225,659	\$ 1,712,082	(347,180)	(13,415,292)	\$ 14,963,985
Balance - January 1, 2018		26,337,355	11,255,000	\$ 32,681,399	\$ 113,226	\$ 4,101,302	\$ 3,852,131	\$ 1,698,748	(142,188)	(20,479,383)	\$ 21,825,235
Acquisition of Florida Entities	4	12,103,172	-	38,393,337	-	-	-	-	-	-	38,393,337
Acquisition of Citiva	4	3,029,699	1,977,563	18,175,778	2,160,661	-	-	-	-	-	20,336,439
Acquisition of Mayflower and Pilgrim	4	1,655,734	-	4,000,254	-	-	-	-	-	-	4,000,254
Acquisition of FWR and Pakalolo	4	56,819	-	113,226	(113,226)	-	-	-	-	-	-
Financing in May 2018	12	-	3,891,051	13,408,412	-	-	1,270,669	1,671,198	-	-	16,350,279
Shares to be issued - subsequent financing	18	-	-	-	573,750	-	-	-	-	-	573,750
Issuance of shares to settle February 2017 Debentures	12	6,163,648	-	16,320,410	-	-	-	(1,698,748)	-	-	14,621,662
Issuance of shares to settle Convertible Promissory Notes	12	773,579	-	4,208,810	-	-	-	-	-	-	4,208,810
Issuance of shares as settlement for interest payable	12	50,729	-	90,977	-	-	-	-	-	-	90,977
Issuance of shares to settle outstanding obligations	13	65,900	-	349,270	-	-	-	-	-	-	349,270
Share issuance costs	-	-	-	(32,323)	-	-	-	-	-	-	(32,323)
Conversion of Class A to Common Shares	13	980,000	(980,000)	-	-	-	-	-	-	-	-
Reclassification from functional currency changes	13	-	-	-	-	-	16,781,989	-	-	-	16,781,989
Share-based compensation	13	-	-	-	-	5,690,346	-	-	-	-	5,690,346
Exercise of stock options	13	112,500	-	331,127	-	(205,024)	-	-	-	-	126,103
Exercise of warrants	13	1,082,515	-	3,769,232	-	-	(772,980)	-	-	-	2,996,252
Other comprehensive loss	-	-	-	-	-	-	-	-	219,262	-	219,262
Net loss	-	-	-	-	-	-	-	-	-	(46,101,674)	(46,101,674)
Balance - September 30, 2018		52,411,650	16,143,614	\$ 131,809,909	\$ 2,734,411	\$ 9,586,624	\$ 21,131,809	\$ 1,671,198	77,074	(66,581,057)	\$ 100,429,968

See accompanying notes to the condensed interim consolidated financial statements

Condensed Interim Consolidated Statement of Cash Flows

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

(Unaudited)

	Nine months ended Sep 30, 2018	Nine months ended Sep 30, 2017
Operating activities		
Net loss for the period	\$ (46,101,674)	\$ (6,652,574)
Adjustments for non-cash items:		
Fair value adjustment on biological assets	(8,257,269)	-
Interest revenue	(558,965)	(1,263,242)
Other revenue	-	(104,362)
Depreciation and amortization	1,796,418	277,923
Share-based compensation	5,680,883	1,613,444
Interest expense	3,462,978	783,890
Accretion expense	15,327,819	940,739
Change in fair value on instruments	9,187,797	(98,253)
Profits from investment in associate	(304,278)	(214,382)
Foreign exchange loss	(235,394)	-
Dispositions of fixed assets	361,296	-
Shares issued to consultants	349,270	-
Warrants issued to consultants	-	5,058
Changes in non-cash working capital items	332,611	(165,937)
Net cash used in operating activities	\$ (18,958,508)	\$ (4,877,696)
Investing activities		
Additions to property, plant and equipment and intangible assets	(6,429,202)	(677,336)
Acquisitions of subsidiaries	(18,137,516)	-
Cash and cash equivalents from acquisitions	19,642	-
Investments in notes receivable	(231,094)	(9,350,000)
Proceeds from notes receivable	7,500,000	-
Investments in loans receivable	-	(6,533,411)
Investment in related parties	-	(1,267,453)
Interest received	1,248,302	639,485
Net cash used in investing activities	\$ (16,029,868)	\$ (17,188,715)
Financing activities		
Issuance of long term debt	36,971,701	15,096,000
Repayment of long-term debt	(20,000,000)	-
Issuance of share capital	17,899,029	523,164
Share issuance costs	(32,323)	(820,845)
Issuance of warrants	12,259,520	-
Exercise of warrants	1,900,633	-
Exercise of stock options	148,427	-
Interest paid	(3,678,417)	(725,187)
Net cash generated from financing activities	\$ 45,468,570	\$ 14,073,132
Net increase (decrease) in cash	10,480,194	(7,993,279)
Cash, beginning of the period	6,175,287	9,413,953
Effect of movements in exchange rates on cash held	(1,008,816)	380,609
Cash, end of the period	\$ 15,646,665	\$ 1,801,283

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

Notes to the Condensed Interim Consolidated Financial Statements

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

1. Nature of Operations

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

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

2. Basis of Preparation

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee.

The condensed interim consolidated financial statements for the three and nine months ended September 30, 2018, have been prepared in accordance with IAS 34 Interim Financial Reporting. These condensed interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company’s annual consolidated financial statements as at December 31, 2017. These condensed interim consolidated financial statements were approved by the Board of Directors on November 27, 2018.

Going Concern

These condensed interim consolidated financial statements have been prepared under the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company’s ability to continue in the normal course of operations is dependent on its ability to raise capital sufficient to maintain operations and there are no assurances that the Company will be successful in achieving this goal. For the three and nine months ended September 30, 2018, the Company reports a net loss of \$10,021,080 and \$46,101,674 operating cash outflows are \$18,958,508 and an accumulated deficit amounting to \$66,581,057 at September 30, 2018. These material circumstances cast substantial doubt on the Company’s ability to continue as a going concern and ultimately on the appropriateness of the use of the accounting principles applicable to a going concern. These condensed interim consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. The Company continues to have access to equity and debt capital from public and private markets in Canada and the United States but there are no guarantees that such capital would be available.

Basis of Measurement

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

Functional and Presentation Currency

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

Notes to the Condensed Interim Consolidated Financial Statements

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

2. Basis of Preparation (cont.)

Basis of Consolidation

These condensed interim consolidated financial statements incorporate the financial information of the Company and its subsidiaries. The accounts of subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. Intercompany transactions, balances and unrealized gains or losses on transactions are eliminated. The Company's subsidiaries and its interests in each are presented below as at September 30, 2018:

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

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

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

Critical Estimates and Judgments by Management

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

Notes to the Condensed Interim Consolidated Financial Statements

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

3. Segment Information

The Company divides its reportable operating segments by state. At September 30, 2018, the Company has seven reportable operating segments: Massachusetts, Vermont, Florida, New York, Colorado, New Mexico, and Corporate. These segments operate in different jurisdictions with distinct operating and regulatory considerations. The Company's management regularly reviews internal financial reporting and makes decisions based on these segments.

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

								September 30, 2018
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statement of financial position								
Total assets	\$ 23,389,909	\$ 3,231,804	\$ 65,435,868	\$ 28,490,634	\$ 2,030,148	\$ 2,494,093	\$ 12,200,000	\$ 137,272,456
Total liabilities	(1,590,034)	(620,961)	(880,893)	(401,529)	(258,511)	-	(33,090,560)	(36,842,488)
Net assets	\$ 21,799,875	\$ 2,610,843	\$ 64,554,975	\$ 28,089,105	\$ 1,771,637	\$ 2,494,093	\$ (20,890,560)	\$ 100,429,968
Other information								
Property, plant and equipment	\$ 8,256,072	\$ 405,570	\$ 10,174,486	\$ 2,041,750	\$ 1,920,913	\$ -	\$ 239,120	\$ 23,037,911
								Nine months ended September 30, 2018
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statement of operations								
Gross profit	\$ 1,535,226	\$ 1,036,417	\$ 4,261,110	\$ -	\$ -	\$ -	\$ -	\$ 6,832,753
Other revenues	-	-	-	-	755,116	-	102,543	857,659
Operating expenses	(3,674,718)	(866,416)	(4,291,845)	(1,315,134)	(149,815)	-	(15,870,422)	(26,168,350)
Other items	(1,837)	(32,186)	-	(4,026)	-	304,278	(27,889,965)	(27,623,736)
Net profit (loss)	\$ (2,141,329)	\$ 137,815	\$ (30,735)	\$ (1,319,160)	\$ 605,301	\$ 304,278	\$ (43,657,844)	\$ (46,101,674)
								Three months ended September 30, 2018
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statement of operations								
Gross profit	\$ 707,095	\$ 750,765	\$ 1,170,133	\$ -	\$ -	\$ -	\$ -	\$ 2,627,993
Other revenues	(148)	-	-	(16,148)	74,940	-	76,656	135,300
Operating expenses	(1,240,579)	(406,855)	(2,032,509)	(446,492)	(34,581)	-	(4,660,463)	(8,821,479)
Other items	(1,837)	(1,077)	-	(4,026)	-	81,848	(4,037,802)	(3,962,894)
Net profit (loss)	\$ (535,469)	\$ 342,833	\$ (862,376)	\$ (466,666)	\$ 40,359	\$ 81,848	\$ (8,621,609)	\$ (10,021,080)
								December 31, 2017
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statement of financial position								
Total assets	\$ 18,704,777	\$ 2,174,982	\$ -	\$ -	\$ 9,507,758	\$ 2,189,815	\$ 13,244,139	\$ 45,821,471
Total liabilities	(6,331,814)	(743,384)	-	-	(61,250)	-	(16,859,788)	(23,996,236)
Net assets	\$ 12,372,963	\$ 1,431,598	\$ -	\$ -	\$ 9,446,508	\$ 2,189,815	\$ (3,615,649)	\$ 21,825,235
Other information								
Property, plant and equipment	\$ 8,062,001	\$ 117,259	\$ -	\$ -	\$ 1,951,206	\$ -	\$ 155,133	\$ 10,285,599
								Nine months ended September 30, 2017
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statement of operations								
Other revenues	\$ -	\$ -	\$ -	\$ -	\$ 985,864	\$ -	\$ 588,064	\$ 1,573,928
Operating expenses	-	-	-	-	(297,008)	-	(6,360,645)	(6,657,653)
Other items	-	-	-	-	-	214,382	(1,783,231)	(1,568,849)
Net loss	\$ -	\$ -	\$ -	\$ -	\$ 688,856	\$ 214,382	\$ (7,555,812)	\$ (6,652,574)
								Three months ended September 30, 2017
	Massachusetts	Vermont	Florida	New York	Colorado	New Mexico	Corporate	Total
Statement of operations								
Other revenues	\$ -	\$ -	\$ -	\$ -	\$ 459,339	\$ -	\$ 228,773	\$ 688,112
Operating expenses	-	-	-	-	(255,422)	-	(2,175,828)	(2,431,250)
Other items	-	-	-	-	-	91,416	(557,561)	(466,145)
Net loss	\$ -	\$ -	\$ -	\$ -	\$ 203,917	\$ 91,416	\$ (2,504,616)	\$ (2,209,283)

Notes to the Condensed Interim Consolidated Financial Statements

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

4. Acquisitions and Business Combinations

Acquisition of Florida Entities

On January 17, 2018, the Company entered into a series of merger and acquisition transactions resulting in the acquisition of 100% control of GHP and McCrory's (collectively "GrowHealthy"). McCrory'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 8) were redeemed in return for \$3,000,000 paid to the Company at closing.

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

The following table summarizes the preliminary purchase price allocation:

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

The \$5.0 million of receivables pertains to a cash collateral Low-THC Performance Bond posted by the Company with the State of Florida. The bond has a one year term and is renewable annually. On April 2, 2018, the Company received the \$5.0 million 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	\$ 3,000,000
Cash paid	14,458,437
Shares issued – Common shares (12,103,172 shares)	38,393,337
Debt assumed	110,000
Settlement of pre-existing relationship with GHHIA	2,313,334
Fair value of consideration	\$ 58,275,108

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

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

Notes to the Condensed Interim Consolidated Financial Statements

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

4. Acquisitions and Business Combinations (cont.)

Acquisition of Florida Entities (cont.)

Revenues of \$240,879 and net losses of \$(30,735) from the acquired operations are included in the condensed interim consolidated statement of loss and comprehensive loss from the date of acquisition. Had the acquisition of GrowHealthy occurred on January 1, 2018, there would not have been a significant impact on the consolidated operating revenues and net earnings for the nine months ended September 30, 2018. Acquisition costs of \$180,813 were incurred and recognized in legal and professional fees in the condensed interim consolidated statement of loss and comprehensive loss.

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

Acquisition of Citiva

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

The following table summarizes the preliminary purchase price allocation:

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

The following table summarizes the total fair value of consideration:

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

The consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The pre-existing relationships settled were the Company's promissory note and related accrued interest with Citiva. Due to the timing of the acquisition, the fair values assigned to the consideration paid, intangible assets and net assets acquired is preliminary and may be revised by the Company as additional information is received.

Notes to the Condensed Interim Consolidated Financial Statements

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

4. Acquisitions and Business Combinations (cont.)

Acquisition of Citiva (cont.)

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

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

Revenues of \$Nil and net losses of \$1,319,160, from the acquired operations are included in the condensed interim consolidated statement of loss and comprehensive loss from the date of acquisition. Had the acquisition of Citiva occurred on January 1, 2018, there would not have been a significant impact on the consolidated operating revenues and net earnings for the nine months ended September 30, 2018. Acquisition costs of \$52,316 were incurred and recognized in legal and professional fees in the condensed interim consolidated statement of loss and comprehensive loss.

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

Acquisitions of Mayflower and Pilgrim

Effective December 31, 2017, the Company acquired an 80.0% interest in Pilgrim, the affiliated management services company that provides lending facilities, intellectual property licensing, professional and management services, real estate and equipment leasing, and certain other services to Mayflower. In addition, Mayflower's bylaws were amended to adopt a single-member not-for-profit structure. The sole member of Mayflower is Pilgrim, which enables Pilgrim to appoint all directors of the not-for-profit corporation. On July 31, 2018, Mayflower was converted under Massachusetts law from a not-for-profit into a for-profit corporation, which is now 100% owned by the Company.

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

On April 17, 2018, the Company acquired the remaining 20.0% ownership interest in Pilgrim, resulting in the Company's 100.0% ownership of Pilgrim. The Company acquired the remaining units of Pilgrim from VSH 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 \$411,228 which is included in the change in fair value line in the condensed interim consolidated statement of loss and comprehensive loss.

Notes to the Condensed Interim Consolidated Financial Statements

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

4. Acquisitions and Business Combinations (cont.)

Acquisition of Mayflower and Pilgrim (cont.)

The following table summarizes the preliminary purchase price allocation:

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

The following table summarizes the total fair value of consideration:

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

The consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The pre-existing relationships settled were the Company's promissory note and related accrued interest with Mayflower and the Company's related party loan with Pilgrim. Due to the timing of the acquisition, the fair values assigned to the consideration paid, intangible assets and net assets acquired is preliminary and may be revised by the Company as additional information is received.

In determining the fair value of the identifiable intangible assets acquired, the Company used an income-based approach, which involves estimating the future net cash flows and applies an appropriate discount rate to those future cash flows. The Company's preliminary estimates of expected future cash flows are based on significant management judgments. Refer to Note 19 for the Company's significant accounting policies.

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

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

Notes to the Condensed Interim Consolidated Financial Statements

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

4. Acquisitions and Business Combinations (cont.)

Acquisitions of FWR and Pakalolo

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

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

The following table summarizes the preliminary purchase price allocation:

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

The following table summarizes the total fair value of consideration:

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

The consideration has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The pre-existing relationships settled were the Company's promissory note and related accrued interest with FWR including a related party balance outstanding with FWR. Due to the timing of the acquisition, the fair values assigned to the consideration paid, intangible assets and net assets acquired are preliminary and may be revised by the Company as additional information is received.

In determining the fair value of the identifiable intangible assets acquired, the Company used an income-based approach, which involves estimating the future net cash flows and applies an appropriate discount rate to those future cash flows. The Company's preliminary estimates of expected future cash flows are based on significant management judgments. Refer to Note 19 for the Company's significant accounting policies.

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

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

Notes to the Condensed Interim Consolidated Financial Statements

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

5. Notes Receivable

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

Note Due from The Green Solution, LLC

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

On February 5, 2018, near the date of maturity, the note was restructured. The amended terms specify that the principal payments and accrued interest at the payment dates are due February 13, 2018 (\$2,000,000), April 24, 2018 (\$2,000,000) and July 31, 2018 (\$3,500,000). The interest rate from the date of restructuring is 23.0% for the remainder of the loan term. Three separate payments of the principal plus accrued interest have been received by the Company on February 13, 2018, April 19, 2018, and June 13, 2018 for the amounts indicated. As such, the full principal amount and accrued interest have been repaid.

At September 30, 2018, the loan receivable balance was \$Nil (December 31, 2017 - \$8,208,127). Interest earned during the three and nine months ended September 30, 2018 was \$Nil and \$550,685 (September 30, 2017 - \$22,444 and \$59,111).

6. Inventory

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

	September 30, 2018	December 31, 2017
Raw Materials		
Harvested cannabis	\$ 1,432,120	\$ 1,265
Harvested trim	297,144	7,221
Supplies	273,683	15,224
Total raw materials	\$ 2,002,947	\$ 23,710
Work in Process		
Work in process - transferred in	1,713,460	-
Work in process - processing	376,465	-
Total work in process	\$ 2,089,925	\$ -
Finished Goods		
Consumables	\$ 181,150	\$ 66,603
Packaged cannabis	393,608	28,322
Extracts	715,300	7,471
Total finished goods	\$ 1,290,058	\$ 102,396
Total Inventory	\$ 5,382,930	\$ 126,106

Notes to the Condensed Interim Consolidated Financial Statements

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

7. Biological Assets

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

Biological Assets	
As at December 31, 2016	\$ -
Assets obtained in acquisition of FWR	129,708
As at December 31, 2017	\$ 129,708
Fair value adjustment on biological assets	8,257,269
Assets obtained in acquisition of GrowHealthy	709,464
Transferred to inventory upon harvest	(3,573,026)
As at September 30, 2018	\$ 5,523,415

Production costs of \$812,962 and \$1,956,687 were incurred for the three and nine months ended September 30, 2018. This results in the corresponding fair value adjustment on biological assets of \$2,415,042 and \$6,300,582, respectively.

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

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

These estimates are subject to volatility and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods. All of the plants are to be harvested as agricultural produce (i.e. medical cannabis) and as at September 30, 2018, on average, were 51.1% complete (December 31, 2017 – 64.0%).

The Company estimates the harvest yields for the plants at various stages of growth. As of September 30, 2018, management estimates that the Company's biological assets will yield approximately 1,171,782 grams of dried flower (December 31, 2017 – 38,447 grams). The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the fair value of the biological assets.

Notes to the Condensed Interim Consolidated Financial Statements

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

8. Investments and Non-Current Notes Receivable

	GrowHealthy Holdings, LLC	Mayflower	FWR	Citiva Jamaica, LLC	Other	Total
As at December 31, 2016	\$ -	\$ 2,131,432	\$ 450,353	\$ -	\$ 99,969	\$ 2,681,754
Additions	3,000,000	1,604,445	455,000	-	-	5,059,445
Transfer from Notes Receivable	-	-	99,647	-	-	99,647
Interest receivable	-	672,223	22,694	-	-	694,917
Settlement of pre-existing relationship	-	(4,408,100)	(1,027,694)	-	-	(5,435,794)
As at December 31, 2017	\$ 3,000,000	\$ -	\$ -	\$ -	\$ 99,969	\$ 3,099,969
Additions	-	-	-	231,094	-	231,094
Interest receivable	-	-	-	13,348	-	13,348
Settlement of pre-existing relationship (Note 4)	(3,000,000)	-	-	-	-	(3,000,000)
As at September 30, 2018	\$ -	\$ -	\$ -	\$ 244,442	\$ 99,969	\$ 344,411

Citiva Jamaica, LLC

On February 1, 2018, the Company issued a \$250,000 promissory note to Citiva Jamaica, LLC ("Citiva Jamaica"). The note was provided in connection with the merger agreement dated February 1, 2018, among ICH, IEH, Citiva (Note 4) and as at September 30, 2018, Citiva Jamaica had drawn down an amount of \$231,094. The note has a maturity date of February 1, 2021 and yields interest at 12.0% on or before February 1, 2019 and at 20.0% beginning February 2, 2019.

For the three and nine months ended September 30, 2018 the Company earned interest income of \$6,654 and \$13,348.

9. Investment in Associate

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

As part of the conversion above, the Company is to be reimbursed \$30,000 from RGA relating to certain legal fees and expenses incurred for the conversion. At September 30, 2018 the reimbursement due from the RGA loan conversion was \$30,000 (December 31, 2017 - \$30,000).

During the three months ended September 30, 2018, the Company's share of profit from RGA was \$81,848 based on the net income of RGA during the period of \$332,715 (December 31, 2017 - \$336,188). During the nine months ended September 30, 2018, the Company's share of profit from RGA was \$304,278 based on the net income of RGA during the period \$1,236,902 (September 30, 2017 - \$1,058,203). The Company's investment in RGA at September 30, 2018 was \$2,494,093.

	Sept. 30, 2018	June 30, 2018	Mar. 31, 2018	Dec. 31, 2017
Balance, beginning of period	\$ 2,412,245	\$ 2,365,626	\$ 2,189,815	\$ 2,407,388
Profits (losses) from investment in associate	81,848	46,619	175,811	(196,153)
Dividend received	-	-	-	(21,420)
Balance, end of period	\$ 2,494,093	\$ 2,412,245	\$ 2,365,626	\$ 2,189,815

Notes to the Condensed Interim Consolidated Financial Statements

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

10. Property, Plant and Equipment

	Buildings and improvements	Production equipment	Processing equipment	Sales equipment	Office equipment	Land	Construction in progress	Total
Cost								
As at December 31, 2017	\$ 8,199,241	\$ 995,854	\$ 456,927	\$ 55,729	\$ 371,343	\$ 750,000	\$ 19,525	\$ 10,848,619
Additions	2,922,615	216,171	329,138	235,819	320,828	532,574	1,724,637	6,281,782
Additions from acquisitions (Note 4)	6,260,080	453,976	315,010	41,875	18,105	1,293,607	163,334	8,545,987
Disposals	-	(26,313)	(314,488)	(5,074)	(15,421)	-	-	(361,296)
Transfers	158,213	4,873	(203,427)	-	59,866	-	(19,525)	-
As at September 30, 2018	\$ 17,540,149	\$ 1,644,561	\$ 583,160	\$ 328,349	\$ 754,721	\$ 2,576,181	\$ 1,887,971	\$ 25,315,092
Accumulated depreciation								
As at December 31, 2017	\$ 345,211	\$ 117,156	\$ 26,684	\$ 55,729	\$ 18,240	\$ -	\$ -	\$ 563,020
Depreciation	1,301,967	220,802	84,617	17,181	105,593	-	-	1,730,160
Disposals	14,611	-	(30,562)	-	(48)	-	-	(15,999)
As at September 30, 2018	\$ 1,661,789	\$ 337,958	\$ 80,739	\$ 72,910	\$ 123,785	\$ -	\$ -	\$ 2,277,181
Net book value								
As at December 31, 2017	\$ 7,854,031	\$ 878,696	\$ 430,243	\$ -	\$ 353,104	\$ 750,000	\$ 19,525	\$ 10,285,599
As at September 30, 2018	\$ 15,878,360	\$ 1,306,603	\$ 502,421	\$ 255,439	\$ 630,936	\$ 2,576,181	\$ 1,887,971	\$ 23,037,911
Cost								
As at December 31, 2016	\$ 1,035,297	\$ 113,244	\$ 30,472	\$ 34,416	\$ 5,449	\$ 750,000	\$ -	\$ 1,968,878
Additions	543,902	20,491	-	3,478	109,465	-	-	677,336
As at September 30, 2017	\$ 1,579,199	\$ 133,735	\$ 30,472	\$ 37,894	\$ 114,914	\$ 750,000	\$ -	\$ 2,646,214
Accumulated depreciation								
As at December 31, 2016	\$ 3,290	\$ 2,948	\$ 563	\$ 839	\$ 107	\$ -	\$ -	\$ 7,747
Depreciation	48,056	32,393	5,909	8,830	6,612	-	-	101,800
As at September 30, 2017	\$ 51,346	\$ 35,341	\$ 6,472	\$ 9,669	\$ 6,719	\$ -	\$ -	\$ 109,547
Net book value								
As at December 31, 2016	\$ 1,032,007	\$ 110,296	\$ 29,909	\$ 33,577	\$ 5,342	\$ 750,000	\$ -	\$ 1,961,131
As at September 30, 2017	\$ 1,527,853	\$ 98,394	\$ 24,000	\$ 28,225	\$ 108,195	\$ 750,000	\$ -	\$ 2,536,667

11. Intangible Assets and Goodwill

	Standard operating procedures	Licenses	Other	Total
Cost				
As at December 31, 2017	\$ 317,000	\$ 4,120,000	\$ 2,535	\$ 4,439,535
Additions	-	-	147,425	147,425
As at September 30, 2018	\$ 317,000	\$ 4,120,000	\$ 149,960	\$ 4,586,960
Accumulated amortization				
As at December 31, 2017	\$ -	\$ -	\$ -	\$ -
Amortization	53,625	-	12,633	66,258
As at September 30, 2018	\$ 53,625	\$ -	\$ 12,633	\$ 66,258
Net carrying amount				
As at December 31, 2017	\$ 317,000	\$ 4,120,000	\$ 2,535	\$ 4,439,535
As at September 30, 2018	\$ 263,375	\$ 4,120,000	\$ 137,327	\$ 4,520,702
Goodwill				
		September 30, 2018	December 31, 2017	
Balance, beginning of period		\$ 7,182,675	\$ 2,553,485	
Goodwill acquired in acquisition of Mayflower		-	6,681,513	
Goodwill acquired in acquisition of FWR		-	501,162	
Goodwill impairment of Organix, LLC		-	(2,553,485)	
Goodwill and intangible assets acquired in acquisition of GrowHealthy		43,122,048	-	
Goodwill and intangible assets acquired in acquisition of Citiva		25,630,060	-	
Balance, end of period		\$ 75,934,783	\$ 7,182,675	

Notes to the Condensed Interim Consolidated Financial Statements

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

11. Intangible Assets and Goodwill (cont.)

The above values relating to the Citiva and GrowHealthy acquisitions include provisional amounts that are subject to adjustments throughout the measurement period. The Company has not completed the allocation of value between the identifiable intangible assets and the goodwill at this time. Upon finalizing the purchase price allocations, 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. Refer to Note 4 for further details.

12. Long-Term Debt

	Convertible				
	Promissory Notes	Debentures	High Yield Notes	Bridge Loan	Total
As at December 31, 2016	\$ 735,324	\$ -	\$ -	\$ -	735,324
Fair value of financial liability at issuance	-	13,215,907	-	2,817,391	16,033,298
Financing costs at issuance	-	(718,615)	-	-	(718,615)
Accretion of balance	295,938	1,042,084	-	14,769	1,352,791
Repayment	-	-	-	(1,626,880)	(1,626,880)
Conversion to equity	-	(707,682)	-	(1,179,656)	(1,887,338)
Foreign exchange impact	-	735,736	-	(25,624)	710,112
As at December 31, 2017	\$ 1,031,262	\$ 13,567,430	\$ -	\$ -	14,598,692
Fair value of financial liability at issuance	-	7,740,480	29,231,221	-	36,971,701
Accretion of balance	243,738	13,896,793	1,187,288	-	15,327,819
Repayment	-	(20,978,082)	-	-	(20,978,082)
Conversion to equity	(1,275,000)	(14,621,662)	-	-	(15,896,662)
Foreign exchange impact	-	395,041	-	-	395,041
As at September 30, 2018	\$ -	\$ -	\$ 30,418,509	\$ -	30,418,509

Convertible Promissory Notes

In February 2016, the Company issued two unsecured convertible promissory notes (the "Notes") for a total principal amount of \$1,300,000. The Notes, which are convertible at prices ranging from \$1.00 to \$1.65 per share contingent on certain milestones being met, bear interest at 8% per annum and have maturity date of August 2018.

On August 15, 2018, the remaining principal of \$975,000 and accrued interest of \$44,016 were fully repaid through the issuance of 590,910 and 26,678 common shares, respectively.

The conversion feature is a derivative liability and is required to be separated from the debt host liability and valued independently. As the conversion feature is designated as fair value through profit or loss, it is revalued at each reporting date using the Black-Scholes valuation model. The Company used a volatility of 87.5%, dividend yield of 0.0% and risk-free rate of 2.1% where the fair value of the Notes on that date was calculated to be \$1,960,949 (December 31, 2017 - \$592,959). For the nine months ended September 30, 2018, the Company recognized a decrease in fair value of \$226,896 arising from the full conversion of the Notes on August 15, 2018.

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

During the three and nine months ended September 30, 2018, interest expense of \$9,737 and \$51,052 was accrued (September 30, 2017 - \$25,709 and \$76,290). During the three and nine months ending September 30, 2018, accretion expense of \$41,755 and \$243,738 was accrued (September 30, 2017 - \$76,834 and \$212,324).

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(Unaudited)

12. Long-Term Debt (cont.)

February 2017 Convertible Debentures

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

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

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 where the conversion was completed on August 15, 2018.

During the nine months ended September 30, 2018, the Company issued 6,163,648 common shares for the conversion of CAD\$18,823,927 (equivalent \$14,621,662). For the year ending December 31, 2017, the Company issued 287,095 common shares for the conversion of CAD\$890,000 (equivalent \$786,797) of the February 2017 Debentures.

During the three and nine months ended September 30, 2018, interest expense of \$70,540 and \$402,362 (September 30, 2017 - \$233,237 and \$541,227) and accretion expense of \$115,456 and \$479,729 (September 30, 2017 - \$238,386 and \$557,148) was recognized. As at September 30, 2018, the debt host liability amounts to \$Nil (December 31, 2017 - \$10,447,736).

January 2018 Debentures

On January 17, 2018, the Company issued \$20,000,000 aggregate principal amount of unsecured debentures, with a maturity date of one year (the "January 2018 Debentures"). The January 2018 Debentures contain a 15.0%, non-cash pay coupon and warrants to purchase up to 10,040,000 shares of the Company at an aggregate purchase price of \$20,000,000 (being \$1.9928 per Warrant Share).

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

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

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

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

Notes to the Condensed Interim Consolidated Financial Statements

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

12. Long-Term Debt (cont.)

High Yield Notes

On May 14, 2018, the Company issued \$40,000,000 high yield secured notes (the "HY Notes") to Gotham Green Partners ("GGP"). The HY Notes accrue interest at 13.0%, have a three-year maturity, and are convertible into shares of the Company at \$3.08 per share. The HY Notes were issued with warrants to purchase, in aggregate, up to 6,670,372 shares of the Company at \$3.60 per share. Concurrently with the issuance of the HY Notes, \$10,000,000 comprised of 3,891,051 Units of the Company (the "Units") were issued where each Unit comprises of one Class A Share of the Company at \$2.57 per share and a warrant to purchase one share of the Company at a price of \$3.86 per share.

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

During the three and nine months ended September 30, 2018, interest expense of \$1,328,889 and \$2,007,778 was accrued (September 30, 2017 – \$Nil and \$Nil). During the three and nine months ending September 30, 2018, accretion expense of \$791,109 and \$1,187,288 was accrued (September 30, 2017 – \$Nil and \$Nil).

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

13. Share Capital

Share Capital

Authorized: Unlimited common shares and Class A common shares.

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

The following is a summary of the common share issuances for the nine months ending September 30, 2018:

- 6,163,648 common shares of the Company were issued as a result of conversions of the Convertible Debentures;
- 824,308 common shares of the Company were issued in order to satisfy the accrued interest and conversion of the Convertible Promissory Notes;
- 1,082,515 common shares of the Company were issued as a result of warrant exercises during the period for cash proceeds of \$1,900,633;
- 112,500 common shares of the Company were issued as a result of stock option exercises during the period for cash proceeds of \$148,427;
- 980,000 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 outstanding obligations; and
- 16,845,424 common shares of the Company were issued in relation to acquisition activity during the nine months ended September 30, 2018.

The Company issued 1,977,563 Class A shares in relation to acquisition activity and 3,891,051 Class A shares in relation to the GGP financing for the nine months ended September 30, 2018.

Notes to the Condensed Interim Consolidated Financial Statements

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

13. Share Capital (cont.)

Stock Options

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

On August 15, 2016, upon closing of the reverse takeover (“RTO”), the Company adopted a rolling stock option plan (the “ICH Plan”), in which the maximum number of common shares which can be reserved for issuance under the ICH Plan is 10.0% of the issued and outstanding common shares of the Company. 1,300,000 options issued by ICM under the ICM 2015 Equity Compensation Plan were assumed by the ICH Plan. The exercise price of each option (“Option”) shall not be less than the closing price of the common shares on the trading day immediately preceding the day on which the Option is granted, less any discount permitted by the CSE.

During the nine months ended September 30, 2018, 2,434,000 stock options were granted.

The continuity of stock options is as follows:

	September 30, 2018			June 30, 2018		
	Number	Weighted Average Exercise Price (CAD)	Weighted Average Contractual Life	Number	Weighted Average Exercise Price (CAD)	Weighted Average Contractual Life
Options outstanding, beginning	5,865,000	\$ 2.92		5,509,500	\$ 2.60	
Granted	-	-		570,000	5.70	
Exercised	(5,000)	3.56		(107,500)	1.50	
Expired	-	-		(107,000)	2.80	
Options outstanding, ending	5,860,000	\$ 2.92	8.84	5,865,000	\$ 4.35	9.09

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:

	September 30, 2018	December 31, 2017
Risk-free interest rate	0.96 - 2.50%	1.33% - 1.81%
Expected dividend yield	0%	0%
Expected volatility	94.40% - 100.37%	94.82% - 96.14%
Expected option life	7 years	10 years

Option pricing models require the application of estimates and assumptions including the expected volatility. As the Company became publicly traded in September 2016, trading information for the Company is not available for 7 years as would be used in the Black-Scholes model. Therefore, the Company uses expected volatility rates based upon historical data from comparable companies.

The related share-based compensation expense for the three and nine months ended September 30, 2018 was \$1,676,252 and \$5,680,883, respectively (September 30, 2017 - \$762,989 and \$1,613,444).

Notes to the Condensed Interim Consolidated Financial Statements

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

13. Share Capital (cont.)

Warrants

The continuity of warrants for the Company is as follows:

	Number		Weighted average exercise price (CAD)
Balance as at December 31, 2017	1,698,320	\$	2.06
Granted ⁽¹⁾	10,040,000		2.27
Exercised	(780,258)		1.94
Balance as at March 31, 2018	10,958,062	\$	2.26
Granted ⁽²⁾	10,661,423		4.72
Exercised	(157,326)		1.70
Balance as at June 30, 2018	21,462,159	\$	3.48
Granted	-		-
Exercised	(144,931)		2.74
Balance as at September 30, 2018	21,317,228	\$	3.48

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

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

With the change in functional currency on May 14, 2018, the classifications of the warrants issued in relation to the October 2017 financing, the November 2017 financing and the warrants issued in relation to the January acquisitions were changed from equity to derivative liabilities.

As at September 30, 2018, the warrant derivatives were revalued, with inputs as volatility of 87.3%, dividend yield of 0.0% and risk-free rate of 2.2%. This resulted in a value of \$1,816,420. On the revaluation for the three and nine months ended September 30, 2018, the Company recognized a loss of \$337,255 and \$2,162,745, respectively.

Full share equivalent warrants outstanding and exercisable are as follows:

Year of expiry	September 30, 2018		December 31, 2017	
	Number outstanding	Weighted average exercise price (CAD)	Number outstanding	Weighted average exercise price (CAD)
2018	-	\$	460,727	\$
2019	715,805		1,237,593	
2020	-		-	
2021	20,601,423		-	
	21,317,228	\$	1,698,320	\$
				2.07

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

Common Share Options	3,534,500
Class A Share Options	2,325,500
Warrants	21,317,228
High Yield Notes	12,970,169
Total Dilutive Securities	40,147,397

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14. Financial Instruments

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

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

There were no transfers between levels during the nine months ended September 30, 2018.

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

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

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

Financial Assets

Cash	Amortized cost
Receivables and prepaids	Amortized cost
Notes receivable (current)	Amortized cost
Investments	Fair value through profit and loss

Financial Liabilities

Payables and accrued liabilities	Amortized cost
Interest payable	Amortized cost
Notes and Debentures	Amortized cost
Derivative liability	Fair value through profit and loss
Financial liability - VSH	Fair value through profit and loss

Notes to the Condensed Interim Consolidated Financial Statements

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

14. Financial Instruments (cont.)

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

	Amortized cost	Fair value through profit and loss	Total
Financial Assets			
Cash	\$ 15,646,665	\$ -	\$ 15,646,665
Receivables and prepaid assets	2,671,143	-	2,671,143
Investment - 4Front	-	99,969	99,969
Citiva Jamaica promissory note	244,442	-	244,442
Financial Liabilities			
Payables and accrued liabilities	\$ 2,885,089	\$ -	\$ 2,885,089
Interest payable	28,889	-	28,889
February 2017 Debentures	-	-	-
Convertible promissory notes	-	-	-
HY Notes	30,418,509	-	30,418,509
Derivative liabilities	-	1,816,420	1,816,420

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

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

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

	September 30, 2018				December 31, 2017			
	Carrying Value	Level 2	Level 3	Total	Carrying Value	Level 2	Level 3	Total
Financial Assets								
Preferred Shares - GrowHealthy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,000,000	\$ 3,000,000
Investment in 4Front	\$ -	\$ -	\$ 99,969	\$ 99,969	\$ -	\$ -	\$ 99,969	\$ 99,969
Financial Liabilities								
Financial liability - VSH	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,411,481	\$ -	\$ 4,411,481
Derivative liabilities	\$ -	\$ -	\$ 1,816,420	\$ 1,816,420	\$ -	\$ -	\$ 592,959	\$ 592,959

Notes to the Condensed Interim Consolidated Financial Statements

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

14. Financial Instruments (cont.)

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

The derivative liabilities related to the convertible promissory note and the warrants relating to the November 2017 financings are recorded at fair value estimated using the Black-Scholes option pricing model and is therefore considered to be a Level 3 measurement. Refer to Note 12.

During the periods ended September 30, 2018, and December 31, 2017, there were no transfers between Level 1, Level 2 and Level 3 within the fair value hierarchy.

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

	GrowHealthy Preferred Shares		Derivative Liability	
Balance at December 31, 2017	\$	3,000,000	\$	592,959
Additions		-		12,259,520
Settlement in acquisitions (Note 4)		(3,000,000)		(473,708)
Revaluations on level 3 instruments		-		9,187,797
Reclassifications on currency change		-		(16,781,989)
Conversions		-		(2,933,810)
Foreign exchange impact		-		(34,349)
Balance at September 30, 2018	\$	-	\$	1,816,420

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

	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt				
Convertible promissory notes	\$ -	\$ -	\$ 1,031,262	\$ 1,228,475
February 2017 Debentures	-	-	13,567,430	14,458,470
High-Yield Notes	30,418,509	45,949,385	-	-
Total	\$ 30,418,509	\$ 45,949,385	\$ 14,598,692	\$ 15,686,945

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

	< 1 Year	1-2 Years	3-5 Years	> 5 Years	Total
USD Denominated					
Payables and accrued liabilities	\$ 2,502,257	\$ -	\$ -	\$ -	\$ 2,502,257
Long-term debt	5,257,777	5,286,667	43,250,000	-	53,794,444
Total USD Denominated	\$ 7,760,034	\$ 5,286,667	\$ 43,250,000	\$ -	\$ 56,296,701
CAD Denominated					
Payables and accrued liabilities	\$ 495,576	\$ -	\$ -	\$ -	\$ 495,576
Total CAD Denominated	\$ 495,576	\$ -	\$ -	\$ -	\$ 495,576

Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited)

15. Commitments

The Company has contractual obligations to make the following payments:

	< 1 Year	1-2 Years	3-5 Years	> 5 Years	Total
USD denominated					
Operating leases	\$ 2,921,866	\$ 5,261,473	\$ 5,090,407	\$ 8,845,798	\$ 22,119,544
Consultants and advisors	665,672	112,380	-	-	778,052
Construction contracts	5,263,692	-	-	-	5,263,692
Total USD denominated	\$ 8,851,230	\$ 5,373,853	\$ 5,090,407	\$ 8,845,798	\$ 28,161,288
CAD denominated					
Operating leases	\$ 233,184	\$ 394,368	\$ 147,888	\$ -	\$ 775,440
Total CAD denominated	\$ 233,184	\$ 394,368	\$ 147,888	\$ -	\$ 775,440

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

16. Related Party Transactions

	September 30, 2018	December 31, 2017
Due from RGA	\$ 30,000	\$ 30,000
Director's loans outstanding	391,267	398,565
Total due from related parties	\$ 421,267	\$ 428,565
Due to RGA and affiliates	31,873	81,056
Total due to related parties	\$ 31,873	\$ 81,056

Reynold Greenleaf & Associates, LLC

As described in Note 9, the Company is to be reimbursed \$30,000 from RGA, an entity owned by an individual with a familial relationship with an officer and director of the Company, Hadley Ford, in connection with certain legal fees and expenses from the financing. As at September 30, 2018, the reimbursement due from the RGA was \$30,000 (December 31, 2017 - \$30,000). The related party balance is presented in the "Other current assets" line on the condensed interim consolidated statement of financial position.

On December 31, 2017, the Company acquired control of FWR (Refer to Note 4). From its historical transactions, FWR had amounts due to RGA and its affiliates and as a result of the acquisition, the Company has included a due to related parties balance of \$31,873 as at September 30, 2018 (December 31, 2017 - \$81,056). The related party balance is presented in the "Payables and accrued liabilities" line on the condensed interim consolidated statement of financial position.

Other

As of September 30, 2018, the Company had a loan due from an officer and director of the Company, Hadley Ford, with a balance of \$391,267. The total loan facility is up to CAD\$500,000 (equivalent \$391,267) and the loan accrues 2.5% interest due upon the maturity of the loan. The loan is repayable on demand and is expected to be repaid within the next 12 months. Interest accrued on the loan for the quarter ended September 30, 2018, was CAD\$13,596 (equivalent \$10,536) (December 31, 2017 - CAD\$4,247 or equivalent \$3,270). The related party balance is presented in the "Other current assets" line on the condensed interim consolidated statement of financial position.

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

17. Supplemental Cash Flow Information

Non-cash transactions excluded from the September 30, 2018 condensed interim consolidated statement of cash flows are: \$4,000,254 in shares issued for the settlement of the financial liabilities with VSH; \$113,226 in shares issued for settlement of shares to be issued from the acquisition of Pakalolo; \$1,275,000 in shares issued as settlement for conversion of convertible promissory notes; \$14,621,662 in shares issued as settlement for conversion of February 2017 Debentures and accrued interest; \$43,816,671 non-cash consideration transferred for the acquisition of GrowHealthy; \$21,155,630 non-cash consideration transferred for the acquisition of Citiva; and \$16,781,989 due to adjustments from functional currency changes.

Non-cash transactions excluded from the September 30, 2017, condensed interim consolidated statement of cash flows are: \$20,165 in shares issued as settlement for interest payable and \$655,077 in shares issued as settlement for debenture conversion.

18. Events After the Reporting Period

October 2018 Bought Deal

On October 10, 2018 the Company closed its bought deal offering of 5,188,800 common shares of the Company at CAD\$6.65 per common share for aggregate gross proceeds of CAD\$34,505,520 (equivalent \$26,558,900). The net proceeds were CAD\$32,114,554 (equivalent \$24,718,573) after deducting finder's fees of up to 7.0% of the gross proceeds raised plus legal and other issuance costs. CAD\$748,125 (equivalent \$573,750) was received during the quarter for this financing has been recorded as shares to be issued on September 30, 2018.

iAnthus and MPX Bioceutical Corporation Combination

On October 18, 2018, the Company and MPX Bioceutical Corporation ("MPX") signed an arrangement agreement pursuant to which the Company will combine with MPX.

The arrangement agreement provides that existing MPX shareholders will be entitled to receive 0.1673 common shares of iAnthus for each common share of MPX held, representing a consideration of approximately CAD\$1.28 (equivalent \$0.98) per MPX common share. In addition, each MPX shareholder will receive common shares of the newly formed MPX International which will hold all of the non-U.S. businesses of MPX. MPX International will apply to list on the Canadian Securities Exchange with the listing to occur contemporaneously with the closing of the transaction.

The arrangement agreement provides that MPX is subject to non-solicitation provisions and provides that the special committee of MPX may, under certain circumstances, terminate the arrangement agreement in favour of an unsolicited superior proposal, subject to a termination fee of CAD\$25,000,000 paid to the Company and subject to a right to match the superior proposal. The arrangement agreement will be carried out by way of plan of arrangement under the Business Corporations Act (British Columbia) and will require the approval of at least 66 2/3% of the votes cast by MPX shareholders at a special meeting expected to take place in January 2019.

Closing remains subject to approval of the shareholders of MPX, court approval, the approval of the CSE, applicable regulatory approvals and the satisfaction of certain other closing conditions customary in transactions of this nature. There can be no assurance that such transaction will be completed.

Subsequent Capital Activity

Subsequent to September 30, 2018, the Company issued 1,121,811 common shares as the result of warrant exercises, stock option exercises, and Class A conversions.

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19. Significant Accounting Policies

Accounting Policies

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

Revenue

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

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

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

Derivative warrant financial liability

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

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

Significant accounting estimates and judgements

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

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

Notes to the Condensed Interim Consolidated Financial Statements

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

19. Significant Accounting Policies (cont.)

Recent accounting pronouncements

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

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments (“IFRS 9”) reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”) and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and has been adopted by the Company as well as applied retrospectively. Refer to Note 14 for changes in classifications and amounts of financial instruments from IAS 39 to IFRS 9.

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

Solely payments of principal and interest (“SPPI”) test for receivables: The Company’s current investments are short-term in nature and do not contain features that would violate the SPPI test.

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

Option to record gains/losses of investments through OCI: IFRS 9 allows entities to record the fair value fluctuations on equity investments through other comprehensive income. The Company will elect to continue to record its fair value fluctuations on equity investments in profit and loss.

Impairment of receivables: IFRS 9 introduces a new expected credit loss methodology for assessing impairment of receivables, which estimates potential losses based on forward looking information, rather than incurred loss events.

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

IFRS 15 Revenue from Contracts with Customers

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

Notes to the Condensed Interim Consolidated Financial Statements

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

19. Significant Accounting Policies (cont.)

Recent accounting pronouncements (cont.)

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

During the nine months ended September 30, 2018, the Company generated revenue from the sale of cannabis products through its subsidiaries, GrowHealthy, Mayflower and FWR. The Company also generated interest income from its promissory notes issued to TGS.

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

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

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The Company expects that it will recognize additional assets and liabilities as a result of the leasing arrangements currently entered or to be entered by its subsidiaries. As shown in Note 15, the Company has over \$22.1 million in operating lease obligations as at September 30, 2018. This will represent a significant recognition of lease assets and obligations on the balance sheet once IFRS 16 is adopted. The full extent of the impact of adoption of the standard has not yet been determined and management will continue to assess the impact as January 1, 2019, approaches.