



iAnthus

# MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE THREE MONTHS ENDED  
MARCH 31, 2018 AND 2017

## MANAGEMENT'S DISCUSSION & ANALYSIS



The following Management's Discussion and Analysis ("MD&A") of the results of operations and financial condition of iAnthus Capital Holdings, Inc. (the "Company", "ICH" or "iAnthus"), prepared as at May 29, 2018, should be read in conjunction with the condensed interim consolidated financial statements of iAnthus for the three months ended March 31, 2018 and 2017 and accompanying notes thereto. Amounts are expressed in United States dollars unless noted otherwise.

This MD&A has been prepared in accordance with the MD&A disclosure requirements established under National Instrument 51-102 Continuous Disclosure Obligations ("NI 51-102") of the Canadian Securities Administrators. Additional information regarding iAnthus, as well as the Company's Annual Information Form ("AIF"), is available on the Company's website at [www.ianthuscapital.com](http://www.ianthuscapital.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com).





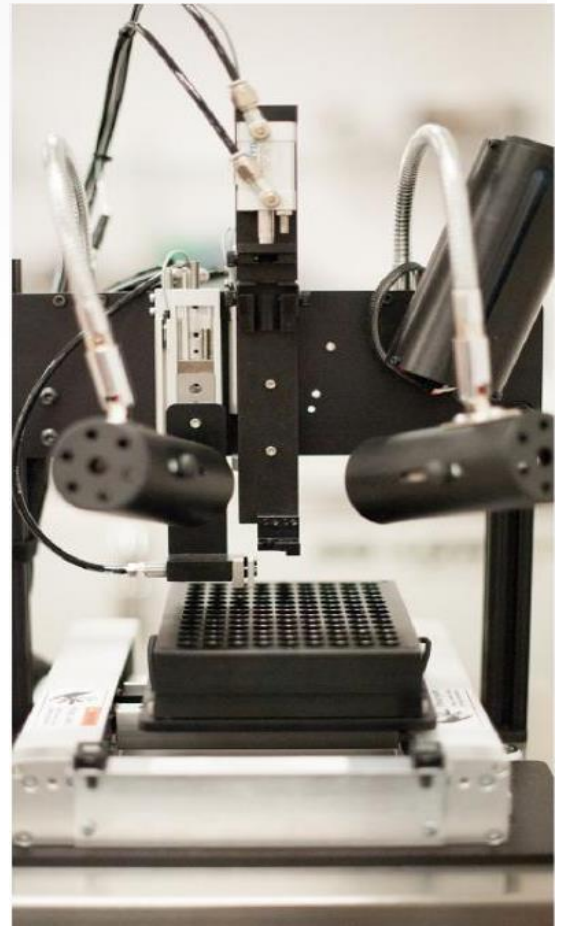
## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS



This MD&A contains certain "forward-looking statements" which may include, but are not limited to, statements with respect to the future financial or operating performance of the Company. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variation (including negative variations) of such words and phrases, or statements that certain actions, events, or results "may", "could", "would", "might", or "will" be taken, occur or to achieve. Statements such as those about expected number of users of medical marijuana, the Company's ability to become a leader in the field of medical marijuana and the Company's ability to achieve profitability without further equity financing or at all are all forward looking statements.



Forward-looking statements are based on the reasonable assumptions, estimates, internal and external analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled "Risk Factors" of the December 31, 2017 year-end MD&A. Although the Company has attempted to identify important factors that could cause actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events, or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of the MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.



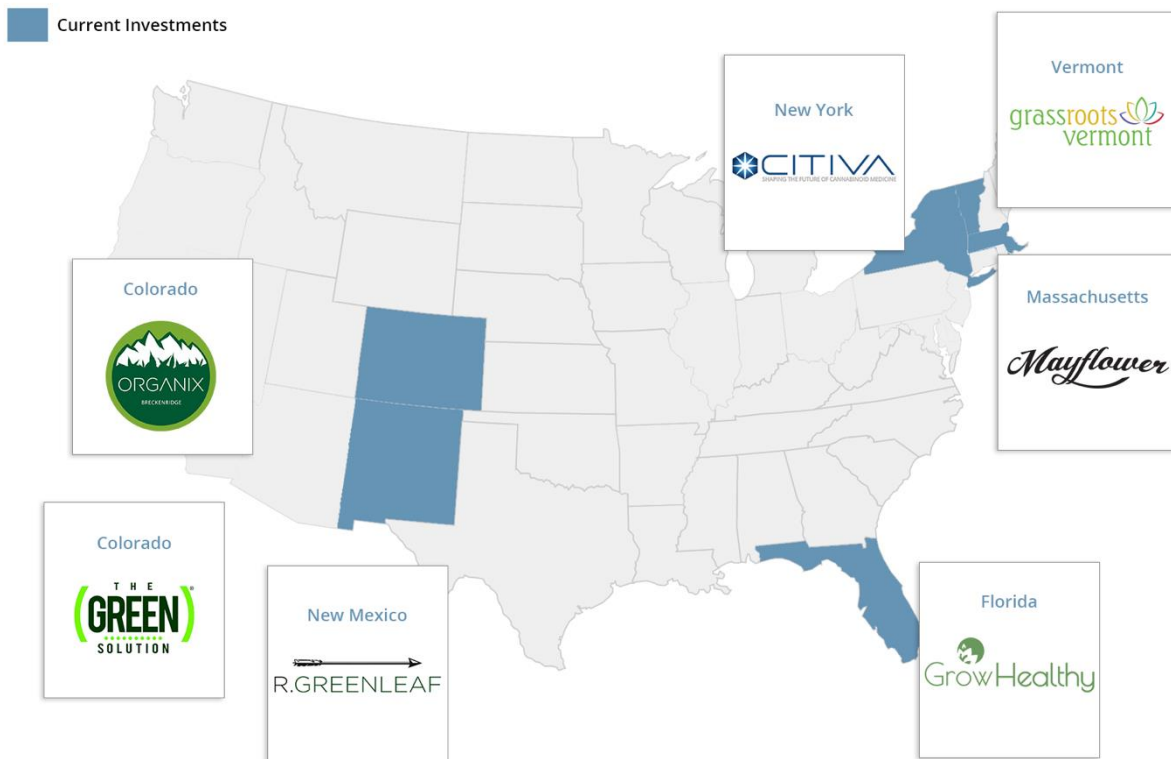
# COMPANY OVERVIEW



iAnthus provides investors diversified exposure to best-in-class licensed cannabis cultivation, cannabis product manufacturing, and cannabis dispensary operations throughout the United States. iAnthus is capitalizing on the rapidly growing U.S. regulated cannabis market and the unique opportunity that exists for well-capitalized and professionally managed cannabis cultivation, processing and retail operations.

The Company is listed on the Canadian Securities Exchange (the "CSE") under the ticker symbol "IAN" and is quoted on the OTCQB, part of the OTC Markets Group, under the ticker "ITHUF".

iAnthus currently encompasses seven operations and investments in six states:



# SUMMARY OF OPERATIONS & INVESTMENTS



## OPERATIONS CONTROLLED BY THE COMPANY



<b>POPULATION <sup>(1)</sup></b>	20.0 Million	6.8 Million	0.6 Million	21.0 Million
<b>EQUITY OWNERSHIP</b>	100%	100%	100%	100% <sup>2</sup>
<b>COMPETITION <sup>(3)</sup></b>	1 of 10 Licenses	1 of ~35 Licenses	1 of 5 Licenses	1 of 13 Licenses
<b>2018 ESTIMATED MARKET SIZE <sup>(4)</sup></b>	\$340.0 Million	\$450.0 Million	\$20.0 Million	\$380.0 Million
<b>DISPENSARIES <sup>(6)</sup></b>	4 Dispensaries <sup>5</sup>	3 Dispensaries	2 Dispensaries	25 Dispensaries
<b>CULTIVATION <sup>(6)</sup></b>	1 Cultivation Facility <sup>5</sup> 39,500 sq ft	1 Cultivation Facility 36,000 sq ft	1 Cultivation Facility 6,900 sq ft	1 Cultivation Facility 200,000 sq ft
<b>ESTIMATED PRODUCTION CAPACITY (per annum)</b>	2,200kg	2,625kg	200kg	18,000kg

## OTHER INVESTMENTS



<b>POPULATION <sup>(1)</sup></b>	5.5 Million	2.1 Million	5.5 Million
<b>INVESTMENT</b>	\$5.5 Million Loan Asset	24.6% Equity Interest	\$5.3 Million Investment
<b>2018 ESTIMATED MARKET SIZE <sup>(2)</sup></b>	\$1.6 Billion	\$110.0 Million	\$1.6 Billion
<b>FACILITIES</b>	16 Dispensaries 1 Cultivation Facility	1 Management Service Company	1 Dispensary 1 Cultivation Facility

(1) Populations according to the United States Census Bureau from [www.censusreporter.org](http://www.censusreporter.org) (2018)

(2) Acquisition of the GrowHealthy Holdings, LLC ("GrowHealthy") assets includes an option to acquire an affiliate, McCrory's Sunny Hill Nursery, LLC ("McCrory's") which holds one of only 13 licenses to provide medical cannabis from the Florida Department of Health

(3) Licenses currently issued in the applicable state

(4) Estimated 2018 market size according to The Arcview Group

(5) See "New York Acquisition" for details on the cultivation facility and dispensaries expected opening dates

(6) Refers to the maximum allowable number of dispensaries and cultivation facilities under current State legislation

(7) Subsequent to March 31, 2018, the Company received a scheduled principal payment of \$2.0 million; as at the date of this report the loan asset has a balance of \$3.5 million

## RECENT DEVELOPMENTS & OPERATIONAL HIGHLIGHTS



### STRENGTHENED BALANCE SHEET

#### *January 2018 debentures*

- On January 17, 2018, the Company issued \$20.0 million aggregate principal amount of unsecured debentures, with a maturity date of one year from issuance. These funds were used to acquire substantially all of the assets of GrowHealthy and certain related subsidiaries.

#### *Gotham Green Partners ("GGP") \$50.0 million financing*

- On May 14, 2018, the Company received a \$50.0 million investment from GGP, of which \$40.0 million was in the form of high yield senior secured notes. The Company concurrently issued \$10.0 million in the form of Class A shares. The proceeds of the financing will be allocated to continued cultivation and dispensary build-outs in the Company's key markets of New York and Florida, repayment of \$20.0 million of unsecured debentures issued in January 2018, with the remainder to be utilized for potential expansion activities consistent with the Company's strategic objectives.
- Net cash proceeds to the Company were approximately \$46.0 million after deducting various fees and structuring costs.

#### *Repayment of loan facility to VCP Bridge, LLC*

- On May 17, 2018, the Company used the proceeds from the GGP financing and paid in full the principal amount and accrued interest totaling \$20,978,082 outstanding pursuant to the debenture purchase agreement made on January 17, 2018.





## RECENT DEVELOPMENTS & OPERATIONAL HIGHLIGHTS



### MASSACHUSETTS

#### *First harvest*

- During the first weeks of 2018, Mayflower Medicinals, Inc. ("Mayflower") received and planted its first shipment of clones. The clones accelerated the production process and Mayflower's first harvest took place on April 20, 2018.

#### *Pilgrim Rock Management, LLC ("Pilgrim") step acquisition*

- On April 17, 2018, the Company acquired the remaining 20% of Pilgrim, the affiliated management and services company that provides intellectual property licensing, professional and management services, real estate and equipment leasing, and certain other services to Mayflower.

#### *Dispensaries*

- Mayflower's flagship dispensary in the popular Allston-Brighton neighborhood of Boston is nearing completion with an expected opening in the summer of 2018.
- A second dispensary lease has been signed in another state-approved Massachusetts location, with a third dispensary location currently awaiting regulatory approval.



## RECENT DEVELOPMENTS & OPERATIONAL HIGHLIGHTS



### FLORIDA

#### *Acquisition*

- In January 2018, the Company acquired substantially all of the assets of GrowHealthy including an option to acquire its affiliate, McCrory's, which held one of only 13 licenses to provide medical cannabis in Florida. As part of the transaction, the Company also acquired 100% of GHHIA Management, Inc. ("GHHIA"), which holds an exclusive 40-year license to manage the licensed cannabis operations of McCrory's. Florida is home to 21.0 million residents and the regulations currently allow each license holder to operate one cultivation facility and up to 25 medical cannabis dispensaries across the state. The number of permitted dispensaries is expected to increase to 30 in the next few months.

#### *State-wide delivery continues*

GrowHealthy commenced its state-wide delivery program in November 2017. Revenues for Q1 totaled \$15,783 through GrowHealthy's delivery program. For the first half of Q2, sales have increased to \$36,960 representing continued growth in its delivery program.

#### *Dispensary leases signed*

- Dispensary leases have been signed for locations in West Palm Beach, Tampa, Orlando, and Deerfield Beach.





## RECENT DEVELOPMENTS & OPERATIONAL HIGHLIGHTS



### NEW YORK

#### *Acquisition*

- Citiva Medical, LLC ("Citiva NY") and Citiva, LLC ("Citiva USA" and together with Citiva NY, "Citiva") were acquired by the Company on February 1, 2018. Citiva NY is one of only ten "Registered Organizations" in New York State licensed to cultivate, process and dispense medical marijuana.

#### *Cultivation facility land purchase*

- The Company closed on the purchase of 8.5 acres of land in Orange County, NY. Citiva's cultivation and processing facility will be located on this newly acquired land. The Company is finalizing the design phase of this facility, which will include 39,500 square feet of greenhouse space and a lab facility. The build-out of the facility is expected to be completed in Q2 2019 and will be able to produce 2,200kg of medical cannabis annually.

#### *Brooklyn, NY dispensary*

- In the first quarter of 2018, the Company executed the lease on Citiva's flagship dispensary location in Brooklyn, NY. The location is situated across from the Barclays Center and will be one of only three dispensaries in the city's most populous borough, with 2.6 million residents.

#### *Additional dispensary leases signed*

- The Company is currently in the process of finalizing its second dispensary lease at a location that is expected to open in Q4 2018, with the remaining two locations to be slated for 2019.



## RECENT DEVELOPMENTS & OPERATIONAL HIGHLIGHTS



### VERMONT

#### *Cultivation facility upgrades*

- FWR Inc. ("FWR"), doing business as Grassroots Vermont ("GRVT") recently completed significant upgrades to its cultivation facility, specifically comprised of improvements to environmental controls in vegetative drying rooms, upgrading lighting fixtures, and upgrading benching space. These upgrades will aid in maximizing cultivation efficiencies, ultimately doubling production capacity and allowing for up to 200kg of product annually.
- The additions and improvements culminated with GRVT's first harvest from the newly upgraded production space on April 20, 2018.

#### *Additional dispensary lease signed*

- A second dispensary lease located in Williston, VT, has been executed and is pending state approval of the location.





## LEGALIZATION OF CANNABIS IN THE U.S.



In the United States, the use and possession of cannabis is prohibited under federal law, as cannabis is classified as a Schedule I substance under the Controlled Substances Act of 1970 ("CSA"). At the state level, however, laws regarding the medical and/or recreational use of cannabis vary greatly, and in many states conflict with federal law.

The medical use of cannabis is legal in twenty-nine (29) states as well as the District of Columbia and the territories of Guam and Puerto Rico. The medical use of cannabis in the U.S. is generally protected under federal law by what is generally referred to as the Rohrabacher Amendment, a congressional budget rider that prohibits the U.S. Department of Justice ("DOJ") from using federal funds to prosecute individuals acting strictly in accordance with state laws that permit and regulate the medical use of marijuana.

The "adult" or "recreational" use of cannabis is legal in nine (9) states (Alaska, California, Colorado, Maine, Massachusetts, Nevada, Oregon, Vermont, and Washington) and the District of Columbia. The commercial distribution of cannabis by licensed businesses is allowed in all those jurisdictions where cannabis has been legalized for recreational use, except Maine, Vermont and the District of Columbia.

In August, 2013, DOJ issued a guidance memorandum (the "Cole Memorandum") to the U.S. Attorney's Offices around the country stating that, given the DOJ's limited resources, the enforcement of federal marijuana prohibition would be de-prioritized in states that had adopted strict cannabis laws and regulations, provided that individuals and businesses operating in those states strictly comply with such state cannabis laws and unless the lack of enforcement would undermine eight (8) federal priorities, most notably including preventing the distribution of regulated cannabis to minors and preventing the diversion of regulated cannabis into the black market.

On January 4, 2018, Attorney General Jeff Sessions rescinded the Cole Memorandum, as he had similarly previously rescinded several other Obama Administration DOJ guidance memoranda. This action was met with objections from both state and federal elected officials of both major U.S. political parties, particularly those from states where adult and/or medical cannabis programs have been adopted under state law.





## LEGALIZATION OF CANNABIS IN THE U.S.



Nevertheless, most experts believe that rescission of the Cole Memorandum has not fundamentally altered the DOJ policy around federal cannabis enforcement. Various U.S. Attorneys have the same wide discretion to prosecute or not to prosecute such cases as they possessed prior to the memo's rescission.

On March 10, 2018, Jeff Sessions announced that federal prosecutors would not prioritize the prosecution of small-time marijuana cases, but instead focus its resources on the prosecution of illegal marijuana-growing operations on national parklands and black-market gangs that traffic marijuana and other narcotics.

On April 11, 2018, President Trump expressed his support to Senator Cory Gardner of Colorado for a legislative state's rights approach to the issue. Senator Gardner subsequently announced that he will introduce a bipartisan bill in the U.S. Senate to adopt a federalist approach that permits states to determine for themselves the legality of marijuana in their states, free of federal interference.

These developments, coupled with the fact that regulated medical and adult use marijuana is supported by the vast majority of the American electorate, reinforces the Company's belief that the likelihood of the federal government taking action against state-licensed cannabis companies operating within the strict confines of their applicable state law is minimal. Refer to "Regulatory Environment: Issuers with United States Cannabis-Related Assets" for further discussion.



## FLORIDA ACQUISITION



The Company acquired substantially all of the assets of GrowHealthy on January 17, 2018. The consideration included \$17.5 million in cash (of which \$3.0 million was in the form of a credit for the redemption of the Company's pre-existing investment in GrowHealthy), and 12,107,979 shares of the Company at a fair value of \$38.4 million on the date of acquisition.

GrowHealthy's affiliate, McCrory's, held one of only 13 licenses from the Florida Department of Health ("DOH") to provide medical cannabis in the state. The acquisition included GHHA, now a wholly-owned subsidiary of the Company, which holds an exclusive 40-year management contract to operate the medical cannabis business associated with the Medical Marijuana Treatment Center ("MMTC") license, together with an option to acquire 100% of McCrory's for a nominal consideration, subject to prior approval of the DOH. The MMTC license allows the Company to operate a cultivation and manufacturing facility and allows for up to 25 dispensaries throughout the state, which number is expected to increase to 30 in the next few months. Florida currently has a population of approximately 21.0 million residents.

The Company's state-of-the-art cultivation facility in Lake Wales is comprised of 200,000 square feet of space capable of producing 18,000kg of medical cannabis annually when fully built-out. GrowHealthy is currently growing and processing in approximately 25,000 square feet of the facility. At the close of Q1, the cultivation facility housed over 2,400 plants, representing 70 different strains.

The Company expects to open GrowHealthy's flagship dispensary in the West Palm Beach area during 2018, with additional dispensaries currently under lease in Tampa Bay, Orlando, and Deerfield Beach. In addition to the brick-and-mortar locations, GrowHealthy began delivery sales in November 2017 and plans to rapidly expand its deliveries statewide over the remainder of 2018.

As of May 25, 2018, there are approximately 114,878 registered patients in the state of Florida and the number of patients is growing rapidly by approximately 2,800 patients per week. This represents a significant opportunity for GrowHealthy as it continues to build out its state-of-the-art cultivation facility and reach greater production capacities to adequately supply product at its West Palm Beach, Tampa Bay, Orlando, and Deerfield Beach dispensaries, which, once complete, will represent a combined retail space of 13,500 square feet.



## NEW YORK ACQUISITION



On February 1, 2018, the Company acquired 100% of Citiva for \$3.6 million in cash and issued 5,603,008 of the Company's shares at a fair value of \$20.3 million on the date of acquisition. Citiva NY is a holder of one of ten vertically integrated medical marijuana licenses issued by the State of New York, which the New York State Department of Health refers to as "Registered Organizations", while Citiva USA is the owner of certain regulated cannabis industry assets and intellectual property. Concurrent with the acquisition, Citiva USA was merged into Citiva NY. The acquisitions provide the Company with access to New York's attractive medical marijuana program and to its population of approximately 20.0 million residents. The New York license allows for a cultivation and manufacturing facility and up to four dispensary locations.

The Company completed the purchase of 8.5 acres of land in Warwick, NY in May of 2018 and is finalizing the design phase for an approximately 39,500 square-foot modular cultivation and processing facility, which will support more than 2,200 kg of raw materials. The build-out of the facility is expected to be completed in the first half of 2019 and additional space is available for expansion. Prior to this completion date, the Company has engaged in negotiations with other Registered Organizations to gain access to wholesale product, including bulk oil, white labeled products, and finished products.

In Q1 2018, the Company announced execution of the lease of Citiva's flagship dispensary in Brooklyn, NY, which will be one of only three dispensaries in the city's most populous borough of approximately 2.6 million residents. The 2,000 square-foot dispensary is expected to open in Q4 2018 and is located directly across from the Barclays Center, which is one of the most highly trafficked areas in Brooklyn. Leases for the remaining three dispensary locations in Staten Island, Dutchess County and Chemung County are currently under negotiation. The Staten Island location is expected to open in Q4 2018, with the other two slated for 2019. These three locations have a combined population of approximately 860,000 residents.





## MASSACHUSETTS UPDATE



During the quarter, Mayflower commenced cannabis cultivation and production at its 36,000 square-foot cultivation and manufacturing facility in Holliston, MA. Mayflower, a non-profit corporation dedicated to providing medical cannabis products and services to qualified patients, has received two provisional licenses to operate Registered Marijuana Dispensaries ("RMDs") in Massachusetts, with a third RMD application pending before the Department of Public Health.

On April 17, 2018, the Company acquired the remaining 20% ownership interest in Pilgrim, resulting in the Company's 100% ownership of Pilgrim. The Company acquired the 200,000 Class A-2 units of Pilgrim from VSH PR, Inc. ("VSH") in exchange for 1,655,734 common shares of the Company. The common shares were issued pursuant to prospectus exemptions in Canada and are subject to a Canadian hold period expiring on August 17, 2018.

A significant inventory of cannabis clones was acquired and planted at the beginning of 2018. This accelerated the production process and culminated with Mayflower's first harvest on April 20, 2018. The first sale of products is expected to occur in the summer of 2018. iAnthus believes that the facility, with its state-of-the-art cannabis cultivation, commercial kitchen, and processing capabilities, will be one of the most advanced in the United States. The systems implemented at the facility, including lighting, fertigation and environmental controls, consist of cutting edge automation allowing for high levels of production and quality while reducing labor and operating costs.

At the close of Q1 2018, Mayflower was cultivating 2,670 plants, representing 15 different strains. Mayflower's first harvests yielded high-quality trim and flower to be processed and packaged for sale. In order to ensure that the shelves are fully stocked with an attractive product assortment in time for opening its first dispensary location, Mayflower entered into wholesale contracts to purchase flower, edibles, and trim to be further processed into tinctures, vape pens, and extracts. This added an additional nine strains to Mayflower's available selection.

Mayflower has received its final "Approval to Sell" from the Department of Public Health and its flagship dispensary is scheduled to open in the summer of 2018. Located in the highly desirable Allston-Brighton neighborhood of Boston, the dispensary is expected to be one of only two operating within Boston's city limits at the time of its opening with over 1,500 square feet of floor space. Having already received provisional licenses for two RMDs, a second dispensary lease has been signed in another Massachusetts location and construction is expected to begin in September 2018. The Company is currently evaluating and negotiating locations for its expected third dispensary.

The recreational cannabis program is expected to begin in Massachusetts in Q3 2018. Management estimates that the current statewide medical market size is already well over \$100.0 million in annual revenue, and with a full adult-use/recreational program in place the market size is estimated to grow to over \$1.0 billion in annual revenues by 2020. There are currently only 22 operating dispensaries in Massachusetts, which provides an attractive competitive landscape for Mayflower's market entry.

## VERMONT UPDATE



GRVT, holds one of only five medical marijuana licenses in Vermont and currently occupies one dispensary and a 6,900 square-foot cultivation and processing facility in Brandon, VT. In July 2017, the state amended its statute to allow each license holder to open one additional dispensary location with prior state approval.

GRVT recently completed upgrades of its facilities, including the installation of a new commercial kitchen, enhanced processing capabilities and cultivation. The cultivation upgrades were specifically comprised of improvements to environmental controls in vegetative drying rooms, upgrading lighting fixtures, and strengthening efficiencies through upgrading benching space. Through maximizing cultivation efficiencies, GRVT increased its production capacity to up to 200kg of raw materials annually.

As of March 31, 2018, GRVT was cultivating 24 different strains. In Q1 2018, GRVT focused on introducing strains with more stable and vibrant genetics, with the goal of improving yields and enhancing the quality of product for patients.

GRVT plans to begin construction on its second dispensary location in Williston, VT in Q3 2018, pending state approval of the location.



## COLORADO UPDATE



Organix, LLC ("Organix") has a current market share in the popular ski-town of Breckenridge which is estimated to be greater than 35%. Key highlights from the quarter:

- Sales increased by approximately 21% during Q1 2018 compared to Q1 2017;
- Organix achieved sales of approximately \$0.52 million in the month of March 2018, the highest number in its history; and
- Sales in April 2018 increased by 37% compared to the same month in 2017.

Current state regulatory restrictions prevent iAnthus from consolidating the financial results of Organix. However, pending legislation in Colorado, if passed and signed into law, may permit the Company to consolidate Organix's financial results in the future.





## SUMMARY OF QUARTERLY RESULTS



	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Sales revenue	\$225,076	\$-	\$-	\$-
Other revenue	444,424	833,301	688,112	555,467
Net loss	(645,168)	(7,078,907)	(2,209,283)	(2,551,622)
Loss per share	(0.01)	(0.25)	(0.09)	(0.10)
Diluted loss per share	(0.01)	(0.25)	(0.09)	(0.10)
Total assets	123,994,199	45,821,471	30,932,980	32,493,567
Total non-current liabilities	1,236,306	14,803,736	13,437,035	14,353,824

The following is a summary of quarterly results for the last eight quarters:

	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Revenue	\$669,500	\$833,301	\$688,112	\$555,467	\$330,349	\$107,058	\$177,111	\$72,599
Net loss	(645,168)	(7,081,907)	(2,209,283)	(2,551,622)	(1,876,853)	(1,452,993)	(2,172,726)	(894,428)
Net loss per share – basic	(0.01)	(0.25)	(0.09)	(0.10)	(0.07)	(0.09)	(0.18)	(0.06)
Net loss per share - diluted	(0.01)	(0.25)	(0.09)	(0.10)	(0.07)	(0.09)	(0.18)	(0.06)

## SUMMARY OF QUARTERLY RESULTS



In the last two quarters, the Company has seen significant growth in its investment portfolio, with acquisitions in Massachusetts, Vermont, Florida and New York.

Through its acquisitions in Vermont and Florida, the Company has recognized cannabis sales revenues for the first quarter since its inception. This is a significant milestone for the Company in its transition from an investor to an owner-operator in the cannabis sector. The Company expects sales revenues to increase in the coming quarters as facilities are completed and products are available for sale. The Company's other revenues have decreased in Q1 2018 as management fees and certain other income have been eliminated on a consolidated basis, since the acquisitions in Vermont and Massachusetts. The Company's net loss has decreased in the current quarter as a result of the recognition of the gain on the transformation of biological assets.

Over Q4 2017 and Q1 2018, the Company completed acquisitions in the four states listed above, leading to a significant increase in total assets over previous quarters. The increase in total assets includes the additions to property, leasehold improvements, cultivation equipment, processing equipment, office equipment, licenses, intangible assets and goodwill.



## DISCUSSION OF OPERATIONS



### SALES REVENUE & GROSS PROFITS

The following represents the cannabis sales revenue and gross profits generated by each subsidiary for Q1 2018:

	Vermont	Massachusetts	Florida	Total
Sales revenue	\$209,293	\$-	\$15,783	\$225,076
Cost of goods sold	35,677	-	4,240	39,917
<b>Gross profit before fair value adjustment on biological assets</b>	<b>\$173,616</b>	<b>\$-</b>	<b>\$11,543</b>	<b>\$185,159</b>
Fair value adjustment on biological assets, net costs	104,205	112,179	2,390,720	2,607,104
<b>Gross Profit</b>	<b>\$277,821</b>	<b>\$112,179</b>	<b>\$2,402,263</b>	<b>\$2,792,263</b>

The sales revenues, cost of goods sold, gain on fair value of biological assets and gross profit were \$Nil for all subsidiaries for the three months ending Q1 2017.

With the completion of acquisitions in Vermont, Massachusetts and Florida, the Company began consolidating the financial statements of the entities that were acquired. This has led to the occurrence and recognition of cannabis sales revenues, costs of goods sold and gains on fair value of biological assets which did not exist as of the three months ending Q1 2017.

#### *Vermont*

GRVT had an operational cultivation facility, processing facility and dispensary open during the quarter. As a result, GRVT recognized gains on the transformation of biological assets from the growth of the plants at the cultivation facilities and recognized revenues from the sales made at its dispensary.

#### *Massachusetts*

Mayflower began its cultivation activities by growing its first crop in January 2018. Furthermore, Mayflower's dispensary was not open at March 31, 2018 and, therefore, no sales revenues or costs of goods sold were recognized by Mayflower during the quarter. As a result, Mayflower recognized only gains on the transformation of biological assets from the growth of the plants at the cultivation facility.



## DISCUSSION OF OPERATIONS



### *Florida*

GrowHealthy had a cultivation facility and processing facility operating throughout the quarter and recognized substantial gains on the transformation of biological assets from the growth of the plants at the cultivation facility. It did not have a dispensary open as of March 31, 2018 but is expecting to open one or more dispensaries in Florida in 2018. GrowHealthy made sales through deliveries and recognized cannabis sales revenues during the quarter as a result. Once the dispensaries open, the sales revenues for GrowHealthy are expected to increase substantially.

### OTHER REVENUE

	Three months ended	
	March 31, 2018	March 31, 2017
Investment revenue	\$70,001	\$90,190
Interest income	358,409	240,159
Other income	16,014	-
<b>TOTAL</b>	<b>\$444,424</b>	<b>\$330,349</b>

The investment revenue line records the Company's revenues from management fees and the lease of fixed assets held in the two wholly-owned subsidiaries, Scarlet Globemallow, LLC ("Scarlet") and Bergamot Properties, LLC ("Bergamot"). Overall investment revenue decreased due to management fees decreasing to \$Nil in Q1 2018 as these fees related to companies which have now been acquired.

Interest income increased during the year as a result of the Company's increase in investments in new and existing loan facilities. The main driver for the increase in interest income was the \$7,500,000 credit facility issued to The Green Solution, LLC ("TGS") and certain of its affiliated Colorado entities. The balance on the promissory note at March 31, 2018 is \$5.5 million after the Company received the first payment of \$2.0 million on February 13, 2018. Subsequent to quarter end, on April 19, 2018, the Company received further payment of \$2.0 million on the principal amount. The balance of \$3.5 million is expected to be received in July 2018.

## DISCUSSION OF OPERATIONS



### OPERATING EXPENSES

#### *Depreciation and Amortization*

Depreciation and amortization increased from \$97,414 in Q1 2017 to \$480,794 in the same period in 2018. Following the acquisitions in Florida, New York, Vermont and Massachusetts, the Company's depreciable asset base increased significantly. The assets acquired include all real estate holdings as well as all equipment and other tangible and intangible assets and all intellectual property.

#### *Administrative and Other Expenses*

As the Company presents the consolidated results of its subsidiaries in this quarter, administrative and other expenses have increased from \$455,802 in Q1 2017 to \$1,318,221 in the same period in 2018, which reflects the incremental administrative costs associated with operating the acquired subsidiaries.

The acquisitions have led to significant increases in expenditures, including rent expenses, utility fees, insurance expenses, IT and other technology expenses, research and development, repairs and maintenance, and state regulatory fees.

Additionally, the Company has had increases in regulatory and filing fees in line with various financings and deal activity pursued by the Company over the quarter. Travel expenses increased as the Company explored various financing and investment opportunities across the U.S. It is expected that, as the Company continues to expand its portfolio across the U.S., site visits to the various current and potential investments will continue to increase.



## DISCUSSION OF OPERATIONS



### *Wages and Share-based Compensation*

	Three months ended	
	March 31, 2018	March 31, 2017
Wages and salaries	\$1,484,191	\$364,585
Share-based compensation	1,754,325	328,044
<b>TOTAL</b>	<b>\$3,238,516</b>	<b>\$692,629</b>

Following the acquisitions in Massachusetts, Vermont, Florida and New York, the Company's human capital has grown substantially, resulting in increased payroll expenses. In addition, at the corporate level, the Company has made additions to its management, operations and finance teams and has brought several functions in-house by establishing new departments, including human resources and marketing.

In line with these additions to wages and salaries throughout the Company, the share-based compensation expense has increased as the Company has issued employee stock options as part of its compensation packages to attract top talent in a competitive and highly specialized job market.





## DISCUSSION OF OPERATIONS



### *Legal, Professional and Consulting Fees*

	Three months ended	
	March 31, 2018	March 31, 2017
Legal fees	\$792,910	\$259,183
Audit and advisory fees	469,146	139,818
Consulting fees – financial	304,686	296,343
Consulting fees – promotional	303,154	59,197
Consulting fees – other	313,017	61,713
<b>TOTAL</b>	<b>\$2,182,913</b>	<b>\$816,254</b>

As the Company's footprint continues to grow in size and complexity, the services of external consultants have become increasingly important to the Company.

Legal fees for the three months ending March 31, 2018 have increased compared to the same period in 2017 as the Company has continued to require legal expertise in navigating complex investment structuring, in particular for the acquisitions in Florida and New York, and ensuring compliance with state and local regulations in expanded jurisdictions. Audit fees were higher this year as the Company's operations have grown and have become increasingly complex, thus resulting in increased audit related fees. Additionally, significant advisory fees were incurred due to due diligence, tax consulting and valuation work performed over the acquisitions and biological assets.



## DISCUSSION OF OPERATIONS



### OTHER ITEMS

#### *Interest and Accretion Expense*

	Three months ended	
	March 31, 2018	March 31, 2017
Interest expense	\$861,489	\$126,368
Accretion expense	2,871,056	163,874
<b>TOTAL</b>	<b>\$3,732,545</b>	<b>\$290,242</b>

The Company's interest expense and accretion expense are higher compared to the previous period due to the increase in interest-bearing borrowings outstanding at March 31, 2018.

On January 17, 2018, the Company closed a non-brokered private placement of debentures for gross proceeds of \$20.0 million with interest accruing at 15%. Concurrently, the Company issued warrants exercisable to purchase 10,040,000 shares of the Company at an aggregate purchase price of \$20.0 million (at \$1.9928 per share). This led to an increase in the Company's interest expense and accretion expense as compared to the same quarter in the prior year.

### CAPITAL RAISES AND FINANCINGS

#### *January 2018 debentures*

On January 17, 2018, the Company issued \$20.0 million aggregate principal amount of unsecured debentures, with a maturity date of one year. These debentures contained a 15%, non-cash pay coupon and warrants to purchase up to 10,040,000 shares of the Company at an aggregate purchase price of \$20.0 million (being \$1.9928 per Warrant Share) which amount was reserved by price reservation. The debentures were purchased by a private U.S. investment group.



## LIQUIDITY AND CAPITAL RESOURCES



### LIQUIDITY

The Company and the majority of its investments are in the development stage; therefore, funding requirements fluctuate from period to period. Management constantly monitors and manages its cash flow to assess the liquidity necessary to fund operations and development.

The Company has historically had, and continues to have, access to equity and debt financing from the public and prospectus-exempt (private placement) markets in Canada. Specifically: (i) in November 2016, the Company closed an equity bought deal offering and concurrent non-brokered private placement for gross proceeds of CAD\$21,505,092 (equivalent \$20,002,500); (ii) in February 2017, the Company closed a convertible debenture brokered private placement for gross proceeds of CAD\$20,000,000 (equivalent \$15,096,000); (iii) in November of 2017 the Company closed a public offering of Common Shares for gross proceeds of CAD\$12,023,250 (equivalent \$9,409,336) along with a non-brokered private placement of Common Shares for further proceeds of CAD\$4,551,735 (equivalent \$3,574,193); (iv) in January 2018, the Company closed a non-brokered private placement of debentures for gross proceeds of \$20,000,000; (v) in May 2018, the Company received a \$50,000,000 investment from GGP, in the form of high yield senior secured notes and Class A Shares. If such financing were no longer available in the public markets in Canada due to changes in applicable law, the Company expects that it would have access to raise financing privately; however, there are no guarantees that such financing would be available.



Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and projects similar to the Company's projects. Although there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect on future profitability.

The Company has complied with all debt covenants during the period. Management believes that the Company will continue to be able to meet all its covenants through the balance of this fiscal year.



# LIQUIDITY AND CAPITAL RESOURCES



## CASH FLOWS

Cash was \$3,270,001 at March 31, 2018, compared to \$16,146,395 at December 31, 2017. The decrease in cash is largely due to the cash outflows from investing and operating activities and partially offset by the funds raised through financing activities.

### *Cash Flow from Operating Activities*

Cash used in operating activities during the quarter was \$7,058,374 compared to \$1,411,431 during the three months ended March 31, 2017. The increase was a result of the overall increase in the level of activity and complexity in the operations of the Company. Significant cash outflows from operating activities were related to legal fees, professional fees, consulting fees and salaries over the period.

### *Cash Flow from Investing Activities*

Cash used in investing activities during the quarter was \$16,406,064 compared to \$6,141,766 during the three months ended March 31, 2017.

During the quarter, the Company made the following significant investments:

- \$14.5 million – cash used in the acquisition of GrowHealthy's assets in January 2018;
- \$3.6 million – cash used in the acquisition of Citiva in February 2018;
- \$1.1 million – purchase of plant, property, and equipment; and
- \$0.1 million – promissory note issued to Citiva Jamaica LLC.

During the quarter, the Company received the following cash flows from investments:

- \$2.0 million – principal repayment on promissory note receivable due from TGS in February 2018; and
- \$0.9 million – interest payment on promissory note receivable due from TGS in February 2018.

### *Cash Flow from Financing Activities*

Cash generated from financing activities during the first quarter of the year was \$20,626,634 compared to \$14,303,972 during the three months ended March 31, 2017. Significant sources of financing during the quarter include:

- \$20.0 million from the non-brokered private placement of debentures issued by the Company in January 2018, \$14.5 million of which was directed toward the acquisition of GrowHealthy; and
- \$1.2 million from the exercise of agents' warrants related to the November 2016 financing and November 2017 public offering.

These amounts are offset by \$0.6 million of interest paid on convertible debentures during the period.

# LIQUIDITY AND CAPITAL RESOURCES



## CONTRACTUAL OBLIGATIONS

The following table presents the Company's significant contractual obligations as at March 31, 2018.

	< 1 YEAR	1-2 YEARS	3-5 YEARS	> 5 YEARS	TOTAL
<b>USD DENOMINATED</b>					
Payables and accrued liabilities	\$2,773,612	\$-	\$-	\$-	\$2,773,612
Long-term debt	24,092,000	-	-	-	24,092,000
Operating leases	2,403,367	2,609,586	2,431,916	6,475,306	13,920,175
Consultants and advisors	194,000	-	-	-	194,000
VSH Liability	4,256,074	-	-	-	4,256,074
<b>TOTAL USD DENOMINATED</b>	<b>\$33,719,053</b>	<b>\$2,609,586</b>	<b>\$2,431,916</b>	<b>\$6,475,306</b>	<b>\$45,235,861</b>
<b>CAD DENOMINATED</b>					
Payables and accrued liabilities	\$785,796	\$-	\$-	\$-	\$785,796
Long-term debt	13,046,400	-	-	-	13,046,400
Operating leases	269,186	351,076	279,347	-	899,610
<b>TOTAL CAD DENOMINATED</b>	<b>\$14,101,382</b>	<b>\$351,076</b>	<b>\$279,347</b>	<b>\$-</b>	<b>\$14,731,806</b>

Long-term debt consists of Convertible Promissory Notes (USD) and Convertible Debentures (USD and CAD). The Company's contractual obligations include consultants, advisors and leases for the Company's offices in Toronto and New York, as well as dispensaries, cultivation facilities, vehicles, and computer software in Massachusetts, New York, Florida and Vermont.

## LIQUIDITY AND CAPITAL RESOURCES



### OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements at March 31, 2018.

### SHARE CAPITAL

The following table presents the Company's share capital information as at May 29, 2018.

	NUMBER OUTSTANDING
Common Shares issued and outstanding	48,951,826
Class A Common Shares issued and outstanding	17,123,614
Options to purchase Common Shares	4,276,500
Options to purchase Class A Common Shares	1,125,500
Warrants	21,507,555
Debentures	1,450,979
High yield notes	12,970,169
Convertible promissory notes	590,909
Fully diluted shares outstanding	107,997,052
Escrowed shares	8,853,176





## ADDITIONAL INFORMATION



### CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of condensed interim 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 expense.

The critical accounting estimates and judgements are disclosed in full in the Company's consolidated financial statements and accompanying management's discussion and analysis as at December 31, 2017.

### CHANGES IN ACCOUNTING POLICIES

The Company has implemented the following IFRS standards effective for reporting periods commencing January 1, 2018. These standards have been discussed in greater detail within Note 19 in the notes to the condensed interim consolidated financial statements.

- *IFRS 7 Financial instruments: Disclosure*
- *IFRS 9 Financial Instruments*
- *IFRS 15 Revenue from Contracts with Customers*

The following IFRS standard has been recently issued by the IASB. The Company is assessing the impact of this new standard on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined to not have a significant impact to the Company have been excluded herein. This standard has been discussed in greater detail within Note 19 in the notes to the condensed interim consolidated financial statements.

- *IFRS 16 Leases*

### FINANCIAL INSTRUMENTS

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

The financial instruments and related risk management strategies are disclosed in full in the Company's consolidated financial statements and accompanying management discussion and analysis as at December 31, 2017. The instruments and risk management strategies remain unchanged for the current quarter.



## ADDITIONAL INFORMATION



### TRANSACTIONS WITH RELATED PARTIES

#### *Reynold Greenleaf & Associates, LLC ("RGA")*

The Company's wholly-owned subsidiary, iAnthus Capital Management, LLC ("ICM"), converted its loan to RGA into Class A-1 units of RGA, a related party through a family relationship with one of the Company's officers, Hadley Ford. As part of that transaction, the Company is to be reimbursed \$30,000 from RGA in connection with certain legal fees and expenses incurred as a result of the conversion. As of March 31, 2018, the reimbursement due from the RGA loan conversion was \$30,000.

Effective December 31, 2017, the Company entered into a series of transactions which resulted in the acquisition of 100% of the sole member of FWR, a non-profit corporation (refer to Note 4 in the notes to the consolidated financial statements). As a result of previous 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 \$60,439 as at March 31, 2018.

#### *Other*

As at March 31, 2018, the Company had a loan due from a director with a balance of CAD\$500,000 (equivalent \$387,777). The maximum amount of the loan facility is CAD\$500,000 (equivalent \$387,777) 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 as at March 31, 2018 was CAD\$7,329 (equivalent \$5,684) (December 31, 2017 - CAD\$4,247 or equivalent \$3,270).

As at March 31, 2018, the Company had a loan payable to an executive of Citiva with a balance of \$20,000. The executive has agreed to convert the loan in exchange of shares for the company within the next 12 months.

	March 31, 2018	December 31, 2017
Due from RGA	\$30,000	\$30,000
Director's loans outstanding	387,777	398,565
<b>TOTAL DUE FROM RELATED PARTIES</b>	<b>\$417,777</b>	<b>\$428,565</b>
Executive's loans payable	20,000	-
Due to RGA and affiliates	60,439	81,056
<b>TOTAL DUE TO RELATED PARTIES</b>	<b>\$80,439</b>	<b>\$81,056</b>

## SUBSEQUENT EVENTS



### SUBSEQUENT EVENTS

#### *Acquisition of Pilgrim*

On April 17, 2018, the Company acquired the remaining 20% of Pilgrim, the affiliated management and services company that provides intellectual property licensing, professional and management services, real estate and equipment leasing, and certain other services to Mayflower.

#### *GGP Financing*

On May 14, 2018, the Company received a \$50.0 million investment from GGP, of which \$40.0 million was in the form of high yield senior secured notes ("HY Notes"). The Company concurrently issued \$10.0 million in the form of Class A shares.

The HY Notes mature in three years and accrue interest at 13%, which may be paid in cash or in-kind for the first year. The HY Notes are exchangeable into Class A Shares of the Company at \$3.08 per share and include warrants to purchase, in aggregate, up to 6,670,372 shares of the Company at \$3.60 per share. Beginning May 14, 2019, iAnthus may force the exchange of the HY Notes into common shares if the daily volume weighted average trading price of the Company's common shares is greater than \$5.14 per share for any 20 consecutive trading days.

The 3,891,051 Class A Shares were issued at a price of \$2.57 per share and include warrants to purchase, in aggregate, up to 3,891,051 Class A Shares at a price of \$3.86 per share. GGP has the right to convert the Class A shares into common shares beginning on July 2, 2018.

Following the receipt of the funds from GGP, the Company repaid all outstanding principal and accrued interest related to the unsecured debentures issued in January 2018.







iAnthus



## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



Canadian Securities Administrators Staff Notice 51-352 (Revised) – Issuers with U.S. Marijuana-Related Activities (“Staff Notice 51-352”) provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state’s regulatory framework. All issuers with United States cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents.

In accordance with Staff Notice 51-352, the Company will evaluate, monitor and reassess the disclosure contained herein, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation. As a result of the Company’s investments in certain United States entities (as described herein), the Company is subject to Staff Notice 51-352 and accordingly provides the following disclosure.

### ***Compliance with Applicable State Law in the United States***

Each investee complies with applicable U.S. state licensing requirements as follows: (1) each investee is licensed pursuant to applicable U.S. state law to cultivate, possess and/or distribute marijuana in such state; (2) renewal dates for such licenses are docketed by legal counsel and/or other advisors; (3) random internal audits of the investee’s business activities are conducted by the applicable state regulator and by the respective investee to ensure compliance with applicable state law; (4) each employee is provided with an employee handbook that outlines internal standard operating procedures in connection the cultivation, possession and distribution of marijuana to ensure that all marijuana inventory and proceeds from the sale of such marijuana are properly accounted for and tracked and using scanners to confirm each customer’s legal age and the validity of each customer’s drivers’ license; (5) each room that marijuana inventory and/or proceeds from the sale of such inventory enter is monitored by video surveillance; (6) software is used to track marijuana inventory from seed to sale; and (7) each investee is contractually obligated to the Company to comply with applicable state law in the United States in connection with the cultivation, possession and/or distribution of marijuana. The Company’s United States legal counsel reviews, from time to time, the licenses and documents referenced above in order to confirm such information and identify any deficiencies.

Each investee that is a license holder (specifically, Mayflower, GRVT, TGS, Citiva NY, and McCrory’s) holds licenses that are in good standing to cultivate, possess and/or distribute marijuana in its respective state. Each license holder is in compliance with its respective state’s marijuana regulatory program. To the knowledge of the Company, no investee has experienced any material non-compliance and no investee is subject to any notices of violation by its respective regulatory authority.

## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



### ***The Company's Balance Sheet and Operating Statement Exposure to U.S. Marijuana Related Activities***

The following represents the portion of certain assets on the Company's consolidated balance sheet that pertain to U.S. cannabis activity as at March 31, 2018:

Balance Sheet Line Item	Percentage which Relates to Investments/Holdings with U.S. marijuana-related activities
Receivables and prepaid assets	9%
Notes receivable	100%
Inventory and biological assets	100%
Other current assets	56%
Investments and investments in associates	100%
Plant, property and equipment	99%
Intangible assets and goodwill	100%
Other assets	90%
Payables and accrued liabilities	73%
Interest payable	0%
Derivative liabilities	0%
Financial liabilities	100%
Other liabilities	94%
Long-term debt	0%
Deferred tax liabilities	0%

Income Statement Line Item	Percentage which Relates to Investments/Holdings with U.S. marijuana-related activities
Gross profit	100%
Other revenues	0%
Operating expenses	32%
Other items	31%

## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



Readers are cautioned that the foregoing financial information, though extracted from the Company's financial systems that supports its annual financial statements, has not been audited in its presentation format and accordingly is not in compliance with IFRS based on consolidation principles.

### ***United States Federal Overview***

In the United States, twenty-nine (29) states, Washington D.C. and Puerto Rico have legalized medical marijuana, and nine states and Washington D.C. have legalized recreational marijuana. At the federal level, however, cannabis currently remains a Schedule I drug under the CSA. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis related practices or activities including, without limitation, the manufacture, importation, possession, use, or distribution of cannabis, remain illegal under United States federal law.

Although federally illegal, the U.S. federal government's approach to enforcement of such laws has at least until recently trended toward non-enforcement. On August 29, 2013, the DOJ issued a memorandum known as the "Cole Memorandum" to all U.S. Attorneys' offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly regulated medical or recreational cannabis programs. While not legally binding, and merely prosecutorial guidance, the Cole Memorandum laid a framework for managing the tension between state and federal laws concerning state regulated marijuana businesses.

However, on January 4, 2018, the Cole Memorandum was revoked by Attorney General Jeff Sessions, a long-time opponent of state-regulated medical and recreational cannabis. While this did not create a change in federal law, as the Cole Memorandum was not itself law, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority.

In addition to his revocation of the Cole Memorandum, Attorney General Sessions also issued a one-page memorandum known as the "Sessions Memorandum." The Sessions Memorandum confirmed the rescission of the Cole Memorandum and explained the rationale of the DOJ in doing so: the Cole Memorandum, according to the Sessions Memorandum, was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

While the Sessions Memorandum emphasizes that marijuana is a Schedule I controlled substance, and reiterates the statutory view that cannabis is a "dangerous drug and that marijuana activity is a serious crime," it does not otherwise indicate that the prosecution of marijuana-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether or not to prosecute marijuana-related offenses. The Company's outside U.S. legal counsel continuously monitors all U.S. Attorney comments related to regulated medical and adult-use cannabis laws to assess various risks and enforcement priorities within each jurisdiction. Dozens of U.S. Attorneys across the country have affirmed that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence.

## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



It is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memorandum. While initial fears of a nationwide "crackdown" have not yet materialized, considerable uncertainty remains.

Regardless, marijuana remains a Schedule I controlled substance at the federal level, and neither the Cole Memorandum nor its rescission has altered that fact. The federal government of the United States has always reserved the right to enforce federal law in regard to the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. From a purely legal perspective, the criminal risk today remains identical to the risk on January 3, 2018. It remains unclear whether the risk of enforcement has been altered.

Additionally, under U.S. federal law it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from marijuana sales or any other Schedule I substance. Canadian banks are also hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy. Despite these laws, the U.S. Department of the Treasury issued a memorandum in February of 2014 (the "FinCEN Memorandum") outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses. Under these guidelines, financial institutions must submit a "suspicious activity report" ("SAR") as required by federal money laundering laws. These marijuana related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution's belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated.

On the same day the FinCEN Memorandum was published, the DOJ issued a memorandum (the "2014 Cole Memorandum") directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related conduct. The 2014 Cole Memorandum has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes was not a DOJ priority.

However, Attorney General Sessions' revocation of the Cole Memorandum and the 2014 Cole Memorandum has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memorandum and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum can act as a standalone document which explicitly lists the eight enforcement priorities originally cited in the Cole Memorandum. As such, the FinCEN Memorandum remains intact.



## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



### ***Enforcement of U.S. Federal Laws***

For the reasons set forth above, the Company's existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction. See "Risk Factors" section of the December 31, 2017 year-end MD&A.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations. See "Risk Factors" section of the December 31, 2017 year-end MD&A.

Further, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. See "Risk Factors" section of the December 31, 2017 year-end MD&A.

### ***U.S. Enforcement Proceedings***

Although the Cole Memorandum and 2014 Cole Memorandum have been rescinded, one legislative safeguard for the medical marijuana industry remains in place: Congress has used a rider provision in the FY 2015, 2016 and 2017 Consolidated Appropriations Acts (formerly referred to as the "Rohrabacher-Farr Amendment" and, currently, the "Leahy Amendment") to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The Leahy Amendment was included in the FY 2018 budget passed on March 23, 2018, meaning that, the Leahy Amendment is still in effect as of today's date and will remain in effect until September 30, 2018, when FY 2019 begins.

## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



### ***Investment in Massachusetts***

In 2017, the Company acquired an 80% controlling interest in Pilgrim, the affiliated management company that will provide intellectual property licensing, professional and management services, real estate and equipment leasing, and certain other services to Mayflower, a not-for-profit corporation and the holder of the RMD licenses in Massachusetts. The remaining 20% of Pilgrim was acquired in April 2018, which gave the Company a 100% ownership of Pilgrim, which in turn is the sole member of Mayflower.

Mayflower received final authorization from the DPH and began operations at the Holliston, Massachusetts cannabis cultivation and processing facility upon the completion of the construction. The first harvest took place on April 20, 2018 and the first dispensary is slated to open in the summer of 2018. The Company anticipates that Mayflower will ultimately operate out of four locations – one cultivation and manufacturing facility totalling 36,000 square feet, and three retail dispensing locations. The Holliston facility will be dedicated to cultivation and the manufacturing of cannabis infused products and cannabis concentrates including, without limitation, edibles, vaporizer pen cartridges, tinctures, and topicals.

For the purposes of Staff Notice 51-352, the assets held by the Company's subsidiaries, Pilgrim and Mayflower, are classified as "direct" involvement in the United States cultivation or distribution industry.

Massachusetts has authorized the cultivation, possession and distribution of cannabis by certain licensed Massachusetts cannabis businesses. The Massachusetts Department of Public Health regulates Massachusetts' cannabis regulatory program. The Company has been advised by legal counsel and/or other advisors in connection with Massachusetts's cannabis regulatory program. The Company only engages in transactions with Massachusetts cannabis businesses that hold licenses that are in good standing to cultivate, possess and/or distribute cannabis in Massachusetts in compliance with Massachusetts' cannabis regulatory program. To the extent required by Massachusetts's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Massachusetts cannabis businesses (i.e., Mayflower). The Company and its investee (Mayflower) are in compliance with Massachusetts's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issues with a "direct" involvement in the United States cultivation or distribution industry

The applicable regulations in the State of Massachusetts are summarized below.

#### (i) Registration and Certification

The DPH grants cannabis cultivation, processing and dispensary licenses. To obtain a license to cultivate, process and/or dispense cannabis, each applicant must file an application detailing the applicant's business structure, management profile, operations profile, capitalization, architectural plans and the proposed location of business operations.

#### (ii) Inspections

A license holder must be available for inspection by the DPH upon request. A license holder must maintain written records for a period of at least two (2) years regarding operating procedures, inventory, seed-to-sale tracking, personnel, financials and waste disposal.

## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



### (iii) Security Requirements

A license holder must implement sufficient security measures to deter and prevent unauthorized entrance into areas containing cannabis and theft of cannabis. A license holder is required to use and maintain security alarms, locks, surveillance equipment, safes, a lit outside perimeter and additional safeguards as required by the DPH if the DPH determines that additional safeguards are necessary. A license holder's written operating procedures must contain a policy requiring the immediate dismissal of any employee that diverts cannabis or engages in unsafe practices.

### (iv) Operations

A license holder must maintain a set of detailed written operating procedures regarding security measures, employee security policies, hours of operations, pricing, inventory storage, record keeping procedures, quality control, staffing plan and records, emergency procedures, employee termination procedures, a list of board members and executives, and cash handling procedures. Each license holder must maintain minimum liability insurance coverage. A license holder's employees are required to complete training prior to performing job functions. Furthermore, a license holder is required to abide by packaging and labelling requirements and edible cannabis products cannot bear a reasonable resemblance to any product available for consumption as a commercially available candy. Certain license holders are required to provide educational materials about cannabis to customers.

### (v) Record Keeping and Inventory Tracking

Massachusetts requires license holders to maintain written records for a period of at least two (2) years regarding operating procedures, inventory, seed-to-sale tracking, personnel, financials and waste disposal. Each license holder is required to track cannabis inventory from seed-to-sale, including by tagging all cannabis inventory. A license holder is required to conduct a monthly inventory of cannabis inventory.

### ***Investment in Vermont***

In 2017, the Company acquired 100% of Pakalolo, LLC, ("Pakalolo") the sole member of FWR, a not-for-profit license holder in Vermont doing business as Grassroots Vermont ("GRVT").

As a not-for-profit corporation, GRVT does not have equity owners. Ms. Alexandra Ford serves as one of the three board members that oversee GRVT. Ms. Ford is the sister of Hadley Ford (a director and officer of the Company).

On January 22, 2018, Vermont Governor Phil Scott signed the State's recreational bill into law, the first recreational marijuana law to be passed by a state legislature. This law will take effect on July 1, 2018 and allows adults 21 and older to possess up to an ounce of marijuana and possess up to two plants. The current law does not yet permit commercial recreational sales by GRVT or the other medical cannabis license holders in Vermont.

For the purposes of Staff Notice 51-352, the assets held by the Company's subsidiary, GRVT, are classified as "direct" involvement in the United States cultivation or distribution industry.

## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



Vermont has authorized the cultivation, possession and distribution of cannabis by certain licensed Vermont cannabis businesses. The Vermont Department of Public Safety ("DPS") regulates Vermont's cannabis regulatory program. The Company has been advised by legal counsel and/or other advisors in connection with Vermont's cannabis regulatory program. The Company only engages in transactions with Vermont cannabis businesses that hold licenses that are in good standing to cultivate, possess and/or distribute cannabis in Vermont in compliance with Vermont's cannabis regulatory program. To the extent required by Vermont's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Vermont cannabis businesses (i.e., GRVT). In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issues with a "direct" involvement in the United States cultivation or distribution industry.

The applicable regulations in the State of Vermont are summarized below.

### (i) Registration and Certification

The DPS grants cannabis dispensary licenses. To obtain a license to dispense cannabis, each applicant must file an application. Currently, the DPS is not accepting cannabis dispensary applications. Applications must provide a summary of the applicant's business structure, proposed location of business operations, verification that any proposed location is not within 1,000 feet of a pre-existing public or private school, the applicant's business plan, the applicant's capitalization, an applicant's projected income, and management profile.

No person shall commence cannabis dispensary operations without a the DPS-issued license.

### (ii) Inspections

A license holder is subject to on-site assessments by the DPS at any time, without notice. The DPS may require laboratory testing of cannabis inventory.

### (iii) Security Requirements

A license holder must transport cannabis inventory in a secured locked container and schedule deliveries only during established operating hours. A license holder may only cultivate cannabis in a secure indoor facility. A license holder must implement security measures to deter and prevent unauthorized entrance into areas containing cannabis and the theft of cannabis, including the usage of exterior lighting, alarms, security cameras, locks and procedures to prevent loitering.

### (iv) Operations

A license holder must maintain written operating procedures regarding security measures, employee security policies, hours of operations, pricing, inventory storage, record keeping procedures, quality control, employee matters, and cash handling procedures. A license holder may only dispense a limited amount of cannabis inventory to a customer during a 30-day period. A license holder may only dispense cannabis in containers that are properly labelled. A license holder must maintain a written alcohol and drug-free workplace policy.



## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



### (v) Record Keeping and Inventory Tracking

A license holder must maintain a written record of all individuals entering and exiting a cannabis cultivation and/or processing location. A license holder must maintain written records regarding personnel policies and practices, job description and employment contract policies, business and financial records, patent education, employee files, inventory controls, customers and security measures. A license holder must maintain a written inventory (e.g., harvest dates, drying completion dates, and packaging dates) and the sale of such cannabis inventory.

### ***Investment in New Mexico***

RGA was formed on April 2, 2014 for the primary purpose of serving as: (i) a branding, marketing and consulting company to license and/or sublicense certain technology and product names to medical marijuana license holders in New Mexico; (ii) a holding company for acquiring, leasing, and/or managing real estate, fixtures and equipment; and (iii) an entity that enters into financial transactions to support operating medical marijuana license holders. RGA currently manages three cultivation operations in Albuquerque, New Mexico totaling 13,200 square feet and four dispensary locations, also in Albuquerque, New Mexico. Working with the Company, RGA is currently instituting an expansion of its cultivating facilities and dispensaries, as well as developing a production strategy to provide value-added cannabis-infused products for its license holders and others in the State of New Mexico. The Company has a 24.6% equity interest in RGA.

For the purposes of Staff Notice 51-352, the Company's investment in RGA is classified as "ancillary" involvement in the United States cultivation or distribution industry.

New Mexico has authorized the cultivation, possession and distribution of marijuana by certain licensed New Mexico marijuana businesses. The New Mexico Department of Health regulates New Mexico's marijuana regulatory program. The Company is advised by legal counsel and/or other advisors in connection with New Mexico's marijuana regulatory program. The Company only engages in transactions with New Mexico marijuana businesses that hold licenses that are in good standing to cultivate, possess and/or distribute marijuana in New Mexico in compliance with New Mexico's marijuana regulatory program. To the extent required by New Mexico's marijuana regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such New Mexico marijuana businesses. The Company and its investee, RGA, are in compliance with New Mexico's marijuana regulatory program.

## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



### ***Investments in Colorado***

#### ***Organix***

On December 5, 2016, the Company, through its wholly-owned subsidiary, ICM, acquired certain assets of Organix, the owner and operator of a Colorado medical and adult-use cannabis operation with a cultivation facility in Denver, Colorado and a medical and adult-use dispensary located in the town of Breckenridge, Colorado. The assets acquired include all real estate holdings of Organix's affiliate, DB Land Holdings, Inc. ("DB"), consisting of a 12,000 square-foot cultivation facility in Denver, as well as all equipment and other tangible and intangible assets and all of the intellectual property of Organix, including its brands (the "Organix Assets"). The purchase price of the Organix Assets was \$4,520,175, subject to certain purchase price adjustments to be determined over a portion of the 2017 fiscal year. The foregoing assets are held by Scarlet and Bergamot.

In a related transaction, Bellflower, a Colorado limited liability company, agreed to acquire all cannabis inventory and licenses to cultivate, manufacture and sell cannabis-based products from Organix for \$300,000 (the "Bellflower Transaction"). The Company holds no ownership interest in Bellflower and accordingly, Bellflower is an arm's length party to the Company. Upon completion of the Bellflower Transaction, the Company, through Scarlet and Bergamot, will provide a broad range of real estate, financing, intellectual property licensing and professional services to Bellflower. Scarlet and Bergamot were formed to provide long term contractual services to Bellflower and potentially other licensed cannabis operators in Colorado. Scarlet has acquired substantially all of the Organix Assets and serves as a branding, marketing, financing, equipment leasing and professional services company to Bellflower and potentially to other licensed cannabis operators in Colorado. Bergamot Properties acquired and now holds all the applicable real estate and master leasehold interests associated with Organix's operations and serves as a lessor of real property to Bellflower.

For the purposes of Staff Notice 51-352, the assets held by the Company's subsidiaries, Scarlet and Bergamot, are classified as "ancillary" involvement in the United States cannabis industry for the purpose of Staff Notice 51-352.

#### ***TGS***

On February 6, 2017, the Company entered into a lending facility with TGS, an operator of 12 retail stores and a number of cultivation and processing facilities in the State of Colorado. The loan facility of \$7,500,000 (the "TGS Loan Facility") has a term of one year. Interest on borrowings are payable at the rate of 14% during the first four months, escalating to 23% for the remaining eight months.

The Company received an initial principal repayment of \$2.0 million plus accrued interest from TGS in February 2018. Subsequent to the end of the quarter, the company received another principal repayment of \$2.0 million plus accrued interest in April 2018. The remaining \$3.5 million principal plus accrued interest is expected to be received in July 2018.

## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



For the purposes of Staff Notice 51-352, the Company's loan to TGS is classified as "ancillary" involvement in the United States cultivation or distribution industry. Colorado has authorized the cultivation, possession and distribution of marijuana by certain licensed Colorado marijuana businesses. The Colorado Marijuana Enforcement Division regulates Colorado's marijuana regulatory program. The Company is advised by legal counsel and/or other advisors in connection with Colorado's marijuana regulatory program. The Company only engages in transactions with Colorado marijuana businesses that hold licenses that are in good standing to cultivate, possess and/or distribute marijuana in Colorado in compliance with Colorado's marijuana regulatory program. To the extent required by Colorado's marijuana regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Colorado marijuana businesses. The Company, the Company's subsidiaries, Scarlet and Bergamot, and its investee (TGS) are in compliance with Colorado's marijuana regulatory program.

### ***Investment in New York***

On February 1, 2018, the Company acquired 100% of Citiva. The license held by Citiva NY allows for one cultivation facility and up to four dispensary locations. The acquisition provides the Company with exposure to one of the nation's largest markets, with a state-wide population of approximately 20.0 million people in a state where only 10 licenses have been granted.

Citiva continues to execute on its business plan, having signed a lease on a flagship 2,000 square-foot dispensary in Brooklyn, located in a highly-trafficked area directly across from the Barclays Center. The dispensary is expected to be one of only three dispensaries operating in Brooklyn, a borough of 2.6 million residents. Citiva has also been engaged in negotiations with other Registered Organizations to gain access to wholesale product, as well as negotiations related to leasing agreements for dispensaries in Staten Island, Dutchess County and Chemung County.

For the purposes of Staff Notice 51-352, the Company's investment in Citiva is classified as "direct" involvement in the United States cultivation or distribution industry because the Company has a controlling interest in Citiva.

## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



The State of New York has authorized the cultivation, possession and distribution of marijuana by certain licensed New York marijuana businesses. The New York State Department of Health regulates New York's marijuana regulatory program. The Company has been advised by legal counsel and/or other advisors in connection with New York's marijuana regulatory program. The Company only engages in transactions with New York marijuana businesses that hold licenses that are in good standing to cultivate, possess and/or distribute marijuana in New York in compliance with New York's marijuana regulatory program. To operate a marijuana business in New York, an entity must submit an application for registration as a RO. ROs are required to manufacture, transport, distribute and dispense marijuana for certified medical use. To the extent required by New York's marijuana regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such New York marijuana businesses. The Company and its investee (Citiva) are in compliance with New York's marijuana regulatory program. In addition to the foregoing description, Staff Notice 51-352 also requires additional disclosure for issuers with a "direct" involvement in the United States cultivation and distribution industry.

The additional disclosure is set forth as follows:

(i) Corporate Structure

An applicant must provide the New York State Department of Health with the applicant's organizational and operational documents, including explanations of parents and affiliates and affidavits regarding all owners, officers, board members, managers, and employees.

An applicant must provide the New York State Department of Health the applicant's financial statements setting forth all elements and details of any business transactions connected with the application, including but not limited to, all agreements and contracts for consultation and/or arranging for the assistance in preparing the application. An applicant must also provide the most recent financial statement of the applicant prepared in accordance with generally accepted accounting principles ("GAAP") applied on a consistent basis and certified by an independent certified public accountant.

If another entity maintains a 10% interest in the applicant, the applicant must provide a statement with the name and address of the entity together with a description of the goods, leases, or services and the probable or anticipated cost to the registered organization.



## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



### (ii) Premises Requirements

An applicant must provide the New York State Department of Health the identification of all real property, buildings, and facilities that will be used in manufacturing and dispensing activities and all equipment that will be used to carry out the manufacturing, processing, transportation, distributing, sale, and dispensing activities described in the application and operating plan. An applicant must provide the New York State Department of Health with all applicable executed and proposed deeds, leases, and rental agreements or executed option contracts related to the organization's real property interests, showing that the applicant possesses or has the right to use sufficient land, buildings, other premises, and equipment.

### (iii) RO Operations

An applicant must provide an operational plan that includes a detailed description of the RO's manufacturing processes, transporting, distributing, sale and dispensing policies or procedures. An applicant must also provide the New York State Department of Health with a timeline demonstrating the estimated timeframe from growing marijuana to production of a final approved product.

An applicant must enter into a labor peace agreement with a bona fide labor organization.

An applicant must provide the New York State Department of Health a staffing plan for staff to be involved in activities related to the cultivation of marijuana, the manufacturing and/or dispensing of approved medical marijuana products, and/or staff with oversight responsibilities.

An applicant must provide the New York State Department of Health proof from the local internet service provider(s) that all of the applicant's manufacturing and dispensing facilities are located in an area with internet connectivity.

An applicant must provide the security plan of the applicant's proposed manufacturing and dispensing facilities indicating how the applicant will comply with all legal requirements.

### (iv) Record Keeping and Inventory Tracking

An applicant must provide the New York State Department of Health with detailed descriptions of plans, procedures and systems adopted and maintained for seed to sale tracking, record keeping, record retention and surveillance systems relating to all medical marijuana at every stage, including cultivating, possessing of marijuana, and manufacturing, delivery, transporting, distributing, sale and dispensing by the proposed registered organization.

### (v) Pricing

ROs must submit the proposed prices of approved medical marijuana products to the Department of Health for approval with documentation to support them. Documentation is to include all costs the RO considered to arrive at its proposed price. In doing so, the RO may submit documentation related to indirect costs for consideration by the Department.

## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



### (vi) Testing

The Department of Health's Wadsworth Laboratories conducts the final product testing. The regulations require that the testing of each lot of final medical marijuana product be conducted with a statistically significant number of samples using acceptable methodologies to ensure that all lots manufactured of each medical marijuana product are adequately assessed for contaminants and the cannabinoid profile is consistent throughout.

### (vii) Labelling

An RO's dispensing must affix a patient-specific dispensing label approved by the Department of Health that is easily readable, firmly affixed and includes patient and care giver names and registry ID numbers, the certifying practitioner's name, the dispensing facility contact information, the dosing and administration instructions, the quantity and date dispensed, and any recommendations or limitations.

### ***Investment in Florida***

On January 17, 2018, the Company acquired substantially all of the assets of GrowHealthy and certain related subsidiaries. The Company had previously acquired approximately six percent (6%) of GrowHealthy in a preferred share purchase in October 2017. Those shares were redeemed by GrowHealthy as part of the Company's asset purchase in January 2018.

GrowHealthy and its affiliate, McCrory's, comprised one of just thirteen (13) Florida MMTCs licensed to provide medical cannabis under Florida's medical marijuana law. The acquisition also included GHIA, a wholly-owned subsidiary of GrowHealthy that holds an exclusive 40-year management contract to operate the medical cannabis business associated with the MMTC license issued to McCrory's, together with an option to acquire 100% of McCrory's for a nominal consideration, pending approval of the Florida Department of Health.

The license held by McCrory's allows for one cultivation and manufacturing facility and up to 25 dispensaries in Florida, which has a current population of approximately 21.0 million residents.

The Company's state-of-the-art cultivation facility located in Lake Wales comprises approximately 200,000 square feet, of which 25,000 square feet has been built out so far for cultivation and processing purposes. An additional 175,000 square feet are available for continued cultivation expansion, capable of producing 18,000kg of medical cannabis annually when fully built out.

A lease has been signed for a flagship dispensary in the West Palm Beach area, which facility is expected to open in 2018. The next three dispensaries are planned for Tampa Bay, Orlando and Deerfield Beach, and leases have been executed for each of these locations.

For the purposes of Staff Notice 51-352, the Company's investment in GrowHealthy is classified as "direct" involvement in the United States cultivation or distribution industry because the Company has a controlling interest in GHIAA.

## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



Florida has authorized the cultivation, possession and distribution of marijuana by certain licensed Florida marijuana businesses. The Florida Department of Health, Office of Medical Marijuana Use regulates Florida's marijuana regulatory program. The Company has been advised by legal counsel and/or other advisors in connection with Florida's marijuana regulatory program. The Company only engages in transactions with Florida marijuana businesses that hold licenses that are in good standing to cultivate, possess and/or distribute marijuana in Florida in compliance with Florida's marijuana regulatory program. To the extent required by Florida's marijuana regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Florida marijuana businesses.

The Company and its investee are in compliance with Florida's marijuana regulatory program. In addition to the foregoing description, Staff Notice 51-352 also requires additional disclosure for issuers with an "direct" involvement in the United States cultivation and distribution industry.

The applicable regulations in Florida are summarized below.

### (i) Registration and Certification

In order to become a licensed MMTC, each applicant must pass a background check and submit audited certified financial statements. The MMTC is to provide an organizational chart illustrating the supervisory structure, including all owners, officers, board members, managers, and employees.

An applicant must also demonstrate that all owners, officers, board members, and managers have passed a level-2 background check. In addition, each owner, officer, board member, and manager must be fingerprinted. Each applicant must employ a Medical Director to supervise the activities of the MMTC. The Medical Director can only be employed by one MMTC.

The MMTC must also demonstrate it has been registered to do business in Florida for the prior five consecutive years and that the applicant possesses a valid certificate of registration issued by the Department of Agriculture and Consumer Services.

### (ii) Inspections

An MMTC needs to be prepared to be inspected prior to receiving approval from the Department of Health to be authorized to begin cultivation, processing, and dispensing. The MMTC is to have inspection processes in place to handle pests that endanger or threaten the horticulture or agriculture of the State of Florida.

## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



### (iii) Security Requirements

As part of the MMTC application, the applicant must provide information about the MMTC's security plan, including the following: (i) plan to ensure a sanitary and safe processing facility; (ii) an alarm system that secures all entry points and perimeter windows and is equipped with motion detectors, pressure switches and duress, panic and hold-up alarms; (iii) video surveillance that: (a) records continuously for 24 hours per day, (b) has cameras in fixed places that allow for the clear identification of persons and activities in the controlled areas of the premises, including grow rooms, processing rooms, storage rooms, disposal rooms/areas and point of sale rooms, (c) has the capability of recording clear images and displays the time and date of the recording, and (d) demonstrates a plan for retention of recordings for at least 45 days; and (iv) outdoor lighting.

In addition, the applicant must show a storage plan for each cultivation, processing, dispensing, and delivery facility, including the following: safes, vaults, climate control, plans to ensure all medical marijuana is stored in a secured locked room or vault; and plans to ensure at least two security personnel are on the premises where the cultivation, processing, and storage occur, at all times.

### (iv) Operations

As part of the MMTC application, the applicant must provide information about the MMTC's infrastructure, including the following: (i) communication systems; (ii) facility odour mitigation; and (iii) back-up systems for all cultivation and processing systems.

The MMTC must demonstrate it has a cultivation plan that will ensure consistent supply of safe medical marijuana for patients that addresses the following: (i) the applicant's expertise cultivating medical marijuana; (ii) the proper conditions and techniques for cultivating marijuana; and (iii) the steps the applicant will take to ensure a sanitary and safe cultivation facility.

### (v) Record Keeping and Inventory Tracking

MMTC's must have diversion and trafficking prevention procedures, including the following: (i) a plan for tracking and securing medical marijuana throughout an applicant's supply chain, which includes a seed-to-sale system; (ii) descriptions of an inventory control system for medical marijuana and derivative products; and (iii) a description of personal qualifications and experience with chain of custody or other tracking mechanisms. In addition, MMTC's must have a transportation plan, including the following information: (i) proposed vehicles to be used for the business, including transporting between an MMTC's facility and delivering to patients; (ii) vehicle tracking systems; (iii) vehicle security systems, including plan to incorporate separate locking compartments to store any medical marijuana product or delivery devices; and (iv) the use of transportation manifests that are generated from the seed-to-sale tracking system, including (a) the departure date, (b) name, location, address and license number of the originating MMTC, (c) quantity and form of product to be delivered, (d) arrival date and estimated time of arrival, (e) name and signature of the employee delivering the product. These transportation manifests will be retained for a period of at least three years.



## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



### ***Investment in Maryland***

The Company holds a non-material preferred stock position in 4Front, purchased for \$99,969. The Company's equity position in 4Front is approximately 0.3% of 4Front's issued and outstanding shares.

The Company understands that 4Front, through various subsidiaries, holds a 65% interest in one dispensary license in the State of Maryland. That dispensary is not yet operational and the Company's interest in 4Front is not material.

The Company and, to the best of the Company's knowledge, its investee (4Front), are in compliance with Maryland's medical marijuana regulatory program. In addition to the foregoing description, Staff Notice 51-352 also requires additional disclosure for issuers with an "indirect" involvement in the United States cultivation and distribution industry.

The applicable regulations in the State of Maryland are summarized below.

#### (i) Registration and Certification

The Medical Marijuana Cannabis Commission ("MMCC") grants medical cannabis grower, processor, and dispensary licenses. A licensee may hold a license in each category to obtain vertical integration. The applicant must first seek pre-approval from the MMCC in order to be granted a license. As part of the pre-approval application, the applicant must submit information related to its operations; safety and security; medical cannabis professionalism; retail management factors; business and economic factors; and other additional factors that may apply.

In order to become a licensed medical cannabis dispensary, each applicant must submit an application detailing the location of the proposed dispensary, the personal details of each principal officer or director, and operating procedures the dispensary will use. An owner, a member, an employee, a volunteer, an officer, or a director of a dispensary must undergo a criminal background check and register as a dispensary agent.

Once licensed, the medical cannabis dispensary is required to submit to the MMCC quarterly reports including the following information: (i) the number of patients served; (ii) the county of residence of each patient served; (iii) the medical condition for which medical cannabis was recommended; (iv) the type and amount of medical cannabis dispensed; and (v) if available, a summary of clinical outcomes, including adverse events and any cases of suspected diversion. The medical cannabis dispensary must not include any patient personal information in the quarterly report.

#### (ii) Inspections

A medical cannabis dispensary is inspected by the MMCC prior to receiving approval from the MMCC to be authorized to begin cultivation, processing, and dispensing.

## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



### (iii) Safety and Security Requirements

As part of the medical cannabis dispensary application, the applicant must provide information about the dispensary's operating procedures consistent with the oversight regulations established by the MMCC, including the following: (i) storage of cannabis and products containing cannabis only in enclosed and locked facilities; (ii) security features and procedures; (iii) how the dispensary will prevent diversion; and (iv) safety procedures. As part of the safety and security requirements, the applicant must detail how the premises will be constructed to prevent unauthorized entry, including a designation of a secured room meeting high-security requirements. The applicant must describe how it would train all registered dispensary agents on safety procedures, including responding to: (i) a medical emergency; (ii) a fire; (iii) a chemical spill; and (iv) a threatening event including: (1) an armed robbery, (2) an invasion, (3) a burglary, or (4) any other criminal incident.

The applicant must describe its security and surveillance plan with information including the following: (i) an alarm system that covers all perimeter entry points, windows, and portals at the premises that: (a) will be continuously monitored; (b) detects smoke and fire capabilities; (c) detects power loss capabilities; (d) includes panic alarm devices mounted at convenient, readily-accessible locations through the licensed premises; (e) inclusion of a second, independent alarm system to protect where records are stored on-and off-site and where any secure room holds medical cannabis; (f) equipped with auxiliary power to continue operation for at least 48 hours; (ii) a video surveillance that: (a) records continuously for 24 hours per day for 365 days a year without interruption, (b) has cameras in fixed places that allow for the clear facial identification and of activities in the controlled areas of the premises, including where medical cannabis is packaged, tested, processed, stored, or dispensed, (c) has the capability of recording clear images and displays the time and date of the recording, and (d) demonstrates a plan for retention of recordings for at least 30 days.

### (iv) Operations

As part of the dispensary application, the applicant must provide information about the dispensary's operations, including the following: (i) communication systems; (ii) facility odour mitigation; and (iii) back-up systems for all cultivation and processing systems. The applicant must establish a standard operating procedure of all aspects of the receipt, storage, packaging, labelling, handling, tracking, and dispensing of products containing medical cannabis and medical cannabis waste.

In addition, the applicant must provide information about the dispensary's medical cannabis professionalism, including the following information: (i) experience, knowledge, and training in training dispensary agents in the science and use of medical cannabis; and (ii) use of a clinical director.

The applicant must also provide information about the dispensary's retail management operations, including the following: (i) a detailed plan to preserve the quality of the medical cannabis; (ii) a plan to minimize any negative impact on the surrounding community and businesses; (iii) a detailed inventory control plan; and (iv) a detailed medical cannabis waste disposal plan.

The business and economic factors of the dispensary business must also be detailed, including the following information: (i) a business plan demonstrating a likelihood of success, demonstrating sufficient business ability and experience on the part of the applicant, and providing for appropriate employee working conditions, benefits, and training; (ii) demonstration of adequate capitalization; and (iii) a detailed plan evidencing how the dispensary will enforce the alcohol and drug free workplace policy.

## REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS



Additional information the applicant must also provide includes the following: (i) demonstration of Maryland residency among the owners and investors; (ii) evidence that the applicant is not in arrears regarding any tax obligation in Maryland or other jurisdictions; and (iii) the medical cannabis extracts and medical cannabis-infused products proposed to be dispensed with proposed cannabinoid profiles, including varieties with high cannabidiol content, and the varieties of routes of administration.

### (v) Record Keeping and Inventory Tracking

Maryland requires use of a seed-to-sale tracking system. The applicant must create and use a perpetual inventory control system that identifies and tracks the stock of medical cannabis from the time it is delivered or produced to the time it is delivered to a grower or qualified caregiver. The applicant must describe how it will assure the integrity of the electronic manifest and inventory control system and that a cannabis transportation agent will continue the chain of custody to a dispensary agent.

The applicant must retain attendance records and ensure dispensary agents are trained on the record retention and standard operating procedure.