

iAnthus Capital Holdings, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2019 and 2018

Company Overview

iAnthus Capital Holdings, Inc. (the "Company" or "iAnthus") is one of the largest Multi-State Operators ("MSOs") in the United States, providing investors with diversified exposure to the regulated cannabis industry. The Company develops, owns, and operates licensed cannabis cultivation, processing, and dispensary facilities, and the Company offers innovative branded cannabis and cannabidiol ("CBD") products in markets across the United States. As at December 31, 2019, through its subsidiaries, the Company currently owns and/or operates 35 dispensaries and 13 cultivation/processing facilities throughout the United States as compared to four dispensaries and three cultivation/processing facilities as at December 31, 2018. The Company also distributes cannabis and CBD products to over 200 dispensaries and more than 2,300 retail stores (2018 — None) throughout the United States. The Company's existing licenses, interests, and contractual arrangements provide the Company with the capacity to own and/or operate up to 73 dispensaries and up to 15 cultivation/processing facilities, and manufacture and/or distribute its cannabis products in 11 states within the United States, with an aggregate population of approximately 121.0 million.

Incorporated in British Columbia, Canada in 2014, the Company became the first licensed multi-state cannabis operator in the United States to publicly trade on the Canadian Securities Exchange (the "CSE") in 2016 under the ticker symbol "IAN". The Company's shares are also quoted on the OTCQX, part of the OTC Markets Group, under the ticker symbol "ITHUF".

The Company's multi-state operations encompass the full spectrum of medical and adult-use cannabis enterprises, including cultivation, processing, product development, wholesale-distribution, and retail. The Company's product offerings include:

- flower (smokable flower and pre-rolls);
- concentrates (vaporizer cartridges, wax products, tinctures, topicals, etc.)
- cannabis infused edibles; and
- a full suite of CBD products.

The Company is an innovative leader in the burgeoning regulated cannabis industry in the United States and is committed to creating a distinctive customer retail experience at its branded stores nationally and a portfolio of branded cannabis products recognized in the United States. Participation in the cannabis industry poses significant regulatory and financial hurdles that create high barriers to entry which result in a limited number of market participants in the United States. Most states in which the Company operates have regulatory limitations on the number of cannabis licenses that can be awarded, which minimizes the extent of competition faced by the Company. Competition arises from local regulated cannabis operators, illicit cannabis businesses, and other entities engaging in illicit cannabis-related activities within each state. The Company's primary competitors include other MSOs operating within the states in which the Company operates as well as other CBD companies. The Company's CBD business competes with a growing number of emerging CBD companies including certain MSOs and large national and multinational corporations which offer, or plan to offer, comparable CBD products.

Since its inception, the Company has accelerated the growth of its business through key strategic acquisitions. On February 5, 2019, the Company acquired the U.S. operations of MPX Bioceutical Corporation ("MPX"). The acquisition of MPX (the "MPX Acquisition") expanded the Company's operations from six to 11 states, added a robust portfolio of MPX-branded products, enhanced its management team, and significantly increased its revenues across the United States. On June 28, 2019, the Company acquired the assets and liabilities of CBD For Life, LLC ("CBD For Life"), a top-ranked, national CBD brand. CBD For Life's products are sold directly to consumers online at www.cbdforlife.us as well as in over 2,300 retail locations across the United States, with a dedicated sales team working with national retailers to on-board new locations weekly. In addition, the Company is currently exploring international opportunities for expansion of its CBD For Life product offerings and anticipates entering key markets over the next 12 months.

Cautionary Note Regarding Forward-Looking Statements

This management's discussion and analysis ("MD&A"), is supplemental to, and should be read in conjunction with, the Company's audited consolidated financial statements for the years ended December 31, 2019 and 2018, and the notes thereto, filed on www.sedar.com. For the purposes of this MD&A, the term "Company" means iAnthus Capital Holdings, Inc. and, unless the context otherwise requires, includes its subsidiaries. Any references to the cultivation, processing, retail operations, dispensing or distribution of cannabis, logistics or similar terms specifically relate only to our state-licensed subsidiary entities. Operations of the licensed subsidiary entities are dependent on each entity's license type, and the applicable state law and associated regulations. Additional information regarding the Company is available on the Company's website at www.iAnthus.com or at www.sedar.com.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators and Staff Notice 51-352 (Revised) – Issuers with US Marijuana Related Activities ("Staff Notice 51-352").

This "MD&A" contains certain "forward-looking statements" within the meaning of Canadian securities laws and United States securities laws. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on management's current beliefs, expectations or assumptions regarding the future of the business, future plans and strategies, operational results and other future conditions of the Company. In addition, the Company may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of the Company that are not statements of historical fact and may also constitute forward-looking statements. All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (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 be achieved. Statements such as those about the Recapitalization Transaction (as defined herein), including the terms, conditions and implementation thereof, obtaining requisite stakeholder, regulatory and stock exchange approval in respect thereof, the effect of the Recapitalization Transaction on the Company and the Company's financial condition, the recovery of Existing Shareholders (as defined herein) in respect thereof, forbearance by the Secured Lenders (as defined herein) and the Initial Consenting Unsecured Debentureholders (as defined herein) pursuant to the Restructuring Support Agreement (as defined herein), the expected date of meetings of the Secured Lenders, Unsecured Debentureholders (as defined herein) and Existing Shareholders to approve the Recapitalization Transaction, the effect of COVID-19 (as defined herein) on the Company's business, operating results, financial condition and the trading price of the Company's common shares, actions taken by the Company or by governmental or regulatory agencies in respect of the Company in response to COVID-19 and the effects thereof on the Company's business, operating results, financial condition and the trading price of the common shares of the Company, the expected number of users of medical and/or adult-use marijuana, the Company's ability to become a leader in the field of medical and/or adult-use 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" in this MD&A. The purpose of forward-looking statements is to provide the reader with a description of management's expectations, and such forward-looking statements may not be appropriate for any other purpose. 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.

The discussion of risk factors in this MD&A has been updated to include discussion of risks related to the current pandemic caused by the spread of the novel coronavirus ("COVID-19"). The nature and scope of the pandemic and its impact are rapidly developing, and it is difficult for management to identify at the current time all risks, or quantify those identified, or to assess their impact on particular financial measures and operating results. Nevertheless, discussion under "Risk Factors" identifies potential areas of negative potential impact that may be caused by the pandemic.

This MD&A contains future-oriented financial information and financial outlook information (collectively, "FOFI") about the Company's prospective results of operations, production and production efficiency, commercialization, revenue and cash on hand, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth in the above paragraphs. FOFI contained in this MD&A was approved by management as of the date of this MD&A and was provided for the purpose of providing further information about the Company's future business operations and financial condition. The Company disclaims any intention or obligation to update or revise any FOFI contained in this MD&A, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

Cannabis and Hemp Regulations in the United States

Cannabis

In the United States, the cultivation, manufacturing, importation, distribution, use, and possession of cannabis is illegal under U.S. federal law. However, medical and adult-use cannabis has been legalized and regulated by individual states. As of the date of this MD&A, 33 states plus the District of Columbia and certain U.S. territories recognize in one form or another the medical use of cannabis, while 11 of those states plus the District of Columbia and certain U.S. territories recognize in one form or another the full adult-use of cannabis. Notwithstanding the regulatory environment with respect to cannabis at the state level, cannabis continues to be categorized as a Schedule I controlled substance under the U.S. Controlled Substances Act (the "CSA") and as such violates U.S. federal law. As a result, cannabis businesses in the United States are subject to inconsistent state and federal legislation, regulation, and enforcement.

Under former President Barack Obama, in an effort to provide guidance to U.S. federal law enforcement regarding the inconsistent regulation of cannabis at the U.S. federal and state levels, the U.S. Department of Justice (the "DOJ") released a memorandum on August 29, 2013 entitled "Guidance Regarding Marijuana Enforcement" from former Deputy Attorney General James Cole (the "Cole Memorandum"). The Cole Memorandum acknowledged that, although cannabis is a Schedule I controlled substance under the CSA, the U.S. Attorneys in states that have legalized cannabis in some form should prioritize the use of the U.S. federal government's limited prosecutorial resources by focusing enforcement actions on the following eight areas of concern (the "Cole Priorities"):

- Preventing the distribution of cannabis to minors;
- Preventing revenue from the sale of cannabis from going to criminal enterprises, gangs, and cartels;
- Preventing the diversion of cannabis from states where it is legal under state law in some form to states where it is not legal;
- Preventing legal cannabis activity from being used as a pretext for trafficking other illegal drugs or other illegal activity;
- Preventing violence and the use of firearms in the cultivation and distribution of cannabis;
- Preventing drugged driving and the exacerbation of other adverse public health consequences associated with cannabis use;
- Preventing the growing of cannabis on public lands and the attendant public safety and environmental dangers posed by cannabis production on public lands; and
- Preventing possession or use of cannabis on U.S. federal property.

In January 2018, under the administration of President Donald Trump, former U.S. Attorney General Jeff Sessions rescinded the Cole Memorandum. While this did not create a change in U.S. federal law, as the Cole Memorandum was not itself law, the rescission added to the uncertainty of U.S. federal enforcement of the CSA in states where cannabis use is legal and regulated. Former Attorney General Sessions, concurrent with the rescission of the Cole Memorandum, also issued a one-page memorandum known as the "Sessions Memorandum." The Sessions Memorandum explained that the Cole 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 U.S. 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 cannabis is a Schedule I controlled substance under the CSA and states that it is a "dangerous drug and that marijuana activity is a serious crime," it does not otherwise provide that the prosecution of cannabis-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide for prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys who determine whether to prosecute cannabis-related offenses. U.S. Attorneys could individually continue to exercise their discretion in a manner similar to that permitted under the Cole Memorandum. While certain U.S. Attorneys have publicly affirmed their commitment to proceeding in a manner contemplated under the Cole Memorandum, or otherwise affirmed that their views of U.S. federal enforcement priorities have not changed as a result of the rescission of the Cole Memorandum, others have publicly supported the rescission of the Cole Memorandum.

At a U.S. Senate appropriations hearing on April 10, 2019, the current U.S. Attorney General, William Barr, stated that he personally "would still favor one uniform federal rule against marijuana," but if "there's not sufficient consensus to obtain that, then the way to go is to permit a more federal approach so states can make their own decisions within the framework of a federal law so we're not just ignoring the enforcement of federal law." When asked to provide any guidance in the meantime, Attorney General Barr stated that "I've generally left it up to the U.S. Attorneys in each state to determine what the best approach is."

He also stated that the DOJ is currently reviewing the recently reintroduced Strengthening the Tenth Amendment Through Entrusting States Act ("STATES Act"), which would shield individuals and businesses complying with state cannabis laws from federal intervention.

Other federal legislation provides or seeks to provide protection to individuals and businesses acting in violation of U.S. federal law but in compliance with state cannabis laws. For example, what is now known as the Joyce Amendment (previously known as the Leahy Amendment, the Rohrabacher-Farr Amendment, and the Rohrabacher-Blumenauer Amendment) has been included in annual spending bills passed by Congress since 2014. The Joyce Amendment restricts the DOJ from using federal funds to interfere with states implementing laws that authorize the use, distribution, possession, or cultivation of medical cannabis.

Cannabis and Hemp Regulations in the United States (cont.)

Cannabis (cont.)

U.S. courts have construed these appropriations bills to prevent the U.S. federal government from prosecuting individuals or businesses engaged in cannabis-related activities to the extent operating in compliance with state medical cannabis laws. However, because this conduct continues to violate U.S. federal law, U.S. courts have observed that should the U.S. Congress at any time choose to appropriate funds to fully prosecute individuals or businesses acting in violation of the CSA, such individuals or businesses could be prosecuted for violations of U.S. federal law even to the extent operating in compliance with applicable state medical cannabis laws.

If Congress declines to include the Joyce Amendment in future fiscal year appropriations bills or fails to pass necessary budget legislation causing a government shutdown, the U.S. federal government will have the authority to spend federal funds to prosecute individuals and businesses acting contrary to the CSA for violations of U.S. federal law.

Further, the appropriations protections only apply to individuals or businesses operating in compliance with a state's medical cannabis laws and provide no protection to individuals or businesses operating in compliance with a state's adult-use cannabis laws. On June 20, 2019, however, the U.S. House of Representatives passed the Blumenauer-Norton-McClintock Amendment, which would expand the protections afforded by the Joyce amendment to individuals and businesses operating in compliance with applicable state adult-use cannabis laws. The U.S. Senate did not include the Blumenauer-McClintock-Norton Amendment in its appropriations bill, and ultimately, the Blumenauer-McClintock-Norton Amendment was not included in the Consolidated Appropriations Act, 2020. On July 30, 2020, the U.S. House of Representatives again passed the Blumenauer-Norton-McClintock Amendment in its 2021 appropriations bill. However, it is unclear whether the U.S. Senate will include the Blumenauer-McClintock-Norton Amendment in its 2021 appropriations bill.

Additionally, there are a number of marijuana reform bills that have been introduced in the U.S. Congress that would amend federal law regarding the legal status and permissibility of medical and adult-use cannabis, including the STATES Act and the Marijuana Opportunity Reinvestment and Expungement Act (the "MORE Act"). The STATES Act would create an exemption in the CSA to allow states to determine their own cannabis policies without fear of federal reprisal; whereas, the MORE ACT, which was passed by the House Judiciary Committee on November 20, 2019, would remove cannabis from the CSA, expunge federal cannabis offenses, and establish a 5% excise tax on cannabis to fund various federal grant programs. Nevertheless, it is uncertain which federal marijuana reform bills, if any, will ultimately be signed into law.

Businesses in the regulated cannabis industry, including the Company, are subject to a variety of laws and regulations in the United States that involve money laundering, financial recordkeeping, and proceeds of crime, including the Bank Secrecy Act and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (the "USA PATRIOT Act") and the rules and regulations thereunder, and any related or similar rules, regulations, or guidelines, issued, administered, or enforced by governmental authorities in the United States. Further, 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 charged with money laundering, aiding and abetting, or conspiracy.

Despite these laws, the Financial Crimes Enforcement Network ("FinCEN"), a bureau within the U.S. Department of the Treasury ("U.S. Treasury"), issued a memorandum on February 14, 2014 (the "FinCEN Memorandum"), which provides instructions to banks and other financial institutions seeking to provide services to cannabis-related businesses. The FinCEN Memorandum explicitly references the Cole Priorities and states that in some circumstances it is permissible for banks and other financial institutions to provide services to cannabis-related businesses without risking prosecution for violation of U.S. federal money laundering laws. Under these guidelines, financial institutions are subject to a requirement to submit a suspicious activity report ("SAR") in certain circumstances as required by federal money laundering laws.

These cannabis 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, respectively. The FinCEN Memorandum refers to supplementary guidance in the Cole Memorandum relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA.

Despite the rescission of the Cole Memorandum, this did not affect the status of the FinCEN Memorandum, and to date, the U.S. Treasury has not given any indication that it intends to rescind the FinCEN Memorandum. While the FinCEN Memorandum was originally intended to work in tandem with the Cole Memorandum, the FinCEN Memorandum appears to remain in effect as standalone guidance. Although the FinCEN Memorandum remains intact, indicating that the U.S. Treasury and FinCEN intend to continue abiding by its guidance, it is unclear whether the Trump administration will continue to follow the guidelines set forth under the FinCEN Memorandum.

In March 2019, the U.S. House of Representatives Financial Services Committee passed the Secure and Fair Enforcement Banking Act (the "SAFE Banking Act"), which creates protections for financial institutions that provide banking services to businesses acting in compliance with applicable state cannabis laws. The U.S. Senate held a hearing on the SAFE Banking Act in July, 2019. On September 25, 2019, the U.S. House of Representatives passed the SAFE Banking Act, but it is uncertain whether it will be passed by the U.S. Senate and ultimately signed into law.

Cannabis and Hemp Regulations in the United States (cont.)

Cannabis (cont.)

There also can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. In addition, local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that could make it difficult or impossible to operate cannabis businesses in certain jurisdictions.

Hemp

On December 20, 2018, the U.S. Agriculture Improvement Act of 2018 (the "2018 Farm Bill") was signed into law. Prior to its enactment, the U.S. federal government did not distinguish between cannabis and hemp and the entire plant species *Cannabis sativa* L., subject to narrow exceptions applicable to specific portions of the plant, was scheduled as a controlled substance under the CSA. Therefore, the cultivation of hemp for any purpose in the United States without a Schedule I registration with the U.S. Drug Enforcement Agency ("DEA") was federally illegal, unless exempted by Section 7606 of the Agricultural Act of 2014 (the "2014 Farm Bill"). The 2018 Farm Bill removed hemp (which is defined as "the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis") and its derivatives, extracts, and cannabinoids, including cannabidiol ("CBD") derived from hemp, from the definition of marijuana in the CSA, thereby removing hemp and its derivatives from DEA purview as a controlled substances. The 2018 Farm Bill also amends the Agricultural Marketing Act of 1946 to allow for the commercial production of hemp in the United States under the purview of the United States Department of Agriculture (the "USDA") in coordination with state departments of agriculture that elect to have primary regulatory authority over hemp production in their respective jurisdictions. Pursuant to the 2018 Farm Bill, states, U.S. territories, and tribal governments may adopt their own regulatory plans for hemp production even if more restrictive than federal regulations so long as they meet minimum federal standards and are approved by the USDA. Hemp production in states and tribal territories that do not choose to submit their own plans and that do not prohibit hemp production will be governed by USDA regulation.

On October 31, 2019, the USDA issued an interim final rule governing the domestic production of hemp under the 2018 Farm Bill, establishing the U.S. Domestic Hemp Production Program. The interim final rule will be effective from October 31, 2019 through November 1, 2021 at which time the USDA may adopt permanent regulations. The interim final rule outlines the requirements for the USDA to approve plans submitted by states and tribal governments for the domestic production of hemp.

It also establishes a federal plan for hemp producers in states or territories of Native American tribes that do not have USDA-approved hemp production plans. The USDA will now begin reviewing hemp production plans submitted by state and tribal governments that wish to obtain or retain primary regulatory authority over hemp production in their respective jurisdictions.

Once the USDA formally receives a plan from a state or tribal government, the agency will have 60 days to review and approve or reject the plan.

Although the interim final rule provides the framework for the USDA, state departments of agriculture, and tribal governments to begin the implementation of commercial hemp production programs pursuant to the 2018 Farm Bill, the 2014 Farm Bill will remain in effect for one year after the effective date of the USDA interim final rule. The interim final rule does not affect industrial hemp that was or is being cultivated under the 2014 Farm Bill programs.

Accordingly, until the USDA approves a state or tribal hemp production plan and licenses are issued pursuant to a USDA-approved plan, the 2014 Farm Bill will remain the primary U.S. federal law governing domestic hemp production. On or about October 31, 2020, the 2014 Farm Bill hemp provisions will officially sunset and state programs must comply with the 2018 Farm Bill regulations.

Under both the 2014 Farm Bill and the 2018 Farm Bill, states and tribal governments have authority to adopt regulatory regimes that are more restrictive than federal mandates or prohibit hemp production altogether. Accordingly, variance in hemp regulation across jurisdictions is likely to persist. Compliance with state hemp law, if any, is required under both the 2014 Farm Bill and 2018 Farm Bill.

As a result of the 2018 Farm Bill, federal law now provides that CBD derived from hemp is not a controlled substance under the CSA; however, CBD derived from hemp could still be considered a controlled substance under applicable state law. States take varying approaches to regulating the production and sale of hemp and hemp-derived CBD. While some states explicitly authorize and regulate the production and sale of CBD or otherwise provide legal protection for authorized individuals and businesses to engage in commercial hemp activities, other states maintain outdated drug laws that do not distinguish hemp or hemp-derived CBD from marijuana (or "cannabis" as used herein), resulting in hemp being classified as a controlled substance under certain state laws. In these states, sale of CBD, notwithstanding its origin, is either restricted to state medical or adult-use cannabis program licensees or remains unlawful. Additionally, a number of states prohibit the sale of consumable CBD products based on the position of the U.S. Food and Drug Administration (the "FDA") set forth in the Federal Food, Drug & Cosmetic Act (the "FFDCA") that it is unlawful to introduce food containing added CBD or THC into interstate commerce, or to market CBD or THC products as or in dietary supplements regardless of whether the substances are hemp-derived.

Cannabis and Hemp Regulations in the United States (cont.)

Hemp (cont.)

The 2018 Farm Bill preserves the authority and jurisdiction of the FDA under the FFDCAs to regulate the manufacture, marketing, and sale of food, drugs, dietary supplements, and cosmetics, including products that contain hemp extracts and derivatives such as CBD. As a producer and marketer of hemp-derived products, the Company is required to comply with FDA regulations applicable to the manufacturing and marketing of certain products, including dietary supplements, food, and cosmetics. Although the FDA is considering ways to best address this issue, the agency has not deemed CBD or other cannabinoids permissible for use in dietary supplements, as dietary ingredients, or as safe for use in food. The FDA has consistently taken the position that CBD is prohibited from being marketed as a dietary supplement or added to food because substantial clinical trials studying CBD as a new drug were made public prior to the marketing of any food or dietary supplements containing CBD.

To date, the FDA has issued warning letters to companies unlawfully marketing CBD products but has not taken any enforcement action in the courts asserting its position. In many of these cases, the manufacturer made unsubstantiated claims that products containing CBD are able to treat serious medical conditions (e.g., cancer, Alzheimer's disease, opioid withdrawal, and anxiety, among others) without obtaining drug approvals. Some of these letters were co-signed with the U.S. Federal Trade Commission ("FTC") and cited the companies for making claims about the efficacy of CBD that were not substantiated by competent and reliable scientific evidence.

The FDA has stated that it recognizes the potential opportunities and significant interest in drugs and consumer products containing CBD, is committed to evaluating the agency's regulatory policies related to CBD, and has established a high-level internal working group to explore potential pathways for various types of CBD products to be lawfully marketed. The FDA has authority to issue regulation that would allow these naturally-occurring hemp compounds to be added to food or dietary supplements. In May 2019, the FDA held a public hearing to obtain scientific data and information about the safety, manufacturing, product quality, marketing, labeling, and sale of products containing cannabis or cannabis-derived compounds.

In connection with the Further Consolidated Appropriations Act, 2020, the House Committee on Appropriations issued an explanatory statement agreeing to appropriate \$2 million in funding to the FDA for research, policy evaluation, market surveillance, and issuance of an enforcement discretion policy for products under the FDA's jurisdiction that contain CBD. The legislation requires the FDA to provide a report within 60 days regarding its progress in obtaining and analyzing data to help determine a policy of enforcement discretion and the process through which CBD will be evaluated for use in products. On March 5, 2020, the FDA provided a report on its progress and committed to expanding its educational efforts regarding CBD products, encouraging, facilitating, and initiating more research on CBD, continuing to monitor the marketplace and take appropriate action against unlawful CBD products that pose a risk of harm to the public, and developing a risk-based enforcement policy aimed at protecting the public and providing more regulatory clarity regarding the FDA's CBD enforcement priorities. The FDA further announced that it is actively evaluating potential rulemaking to allow CBD in dietary supplements. The FDA is also required to conduct a sampling study of the current CBD marketplace to determine the extent to which products containing CBD are mislabeled or adulterated within 180 days of the enactment of the Further Consolidated Appropriations Act, 2020. On July 9, 2020, the FDA issued its sampling study to the U.S. House Committee on Appropriations and the U.S. Senate Committee on Appropriations detailing the sampling conducted in recent years on CBD products. While the minority of CBD products previously tested by the FDA contained CBD concentrations consistent with their labeling, the report states that a majority of products tested for potentially harmful elements "did not raise significant public health concerns." The report further provides that the FDA will undertake a more extensive sampling effort expected to cover a representative sample of currently marketed CBD products, including tinctures, oils, extracts, capsules, powders, gummies, water and other beverages, conventional foods, cosmetics, lubricants, tampons, suppositories, vape cartridges, and products sold for consumption by pets. Products will be evaluated for cannabinoid content as well as potentially harmful elements. The FDA is expected to report on the results of these additional sampling efforts.

The rules, regulations, and enforcement in this area continue to evolve and develop. Until the FDA formally adopts regulations authorizing the production and sale of CBD products as food and/or dietary supplements, there is a risk that the FDA could take enforcement action against the Company. Failure to comply with FDA requirements may result in, among other things, warning letters, injunctions, product withdrawals, recalls, seizures, fines, and criminal prosecutions. The Company is closely following FDA developments with respect to CBD. The Company intends to monitor its compliance with applicable United States laws relating to hemp as they are enacted and evolve, including the FDA's regulations of CBD, and to evaluate and implement appropriate compliance measures on an ongoing basis.

Application of Cannabis Laws and Regulations in the United States

Violations of U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions, or settlements arising from either civil or criminal proceedings brought by either the U.S. federal government or private citizens, including, but not limited to, disgorgement of profits, seizure of property or products, cessation of business activities, or divestiture. The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined. See "Risk Factors - Risks Specifically Related to the United States Regulatory System". The Company's cannabis business activities and the cannabis business activities of its subsidiaries, while believed to be compliant with applicable U.S. state and local laws, currently are illegal under U.S. federal law.

Selected Annual Information

The selected annual information presented below is derived from, and should be read in conjunction with, the consolidated financial statements for the years ended December 31, 2019 and 2018 presented in U.S. dollars and prepared under the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

	2019	2018	2017
Sales revenues	\$ 78,382	\$ 3,405	\$ -
Net loss	(301,254)	(62,028)	(13,717)
Loss per share - basic and diluted	(1.90)	(0.97)	(0.48)
Total assets	604,098	168,392	45,821
Total non-current liabilities	193,922	48,820	14,804

Milestone Transactions

On February 5, 2019, the Company completed its landmark business combination with MPX, acquiring all issued and outstanding common shares of MPX pursuant to a statutory plan of arrangement. This business combination increased the Company's presence to 11 U.S. states from six states and permits the Company to operate up to 74 retail locations and 15 cultivation/processing facilities. This expanded the Company's retail and production footprint in Arizona, Maryland, Nevada, Massachusetts, and New Jersey, and complemented iAnthus' existing operations in New York, Florida, Massachusetts, Vermont, Colorado, and New Mexico.

On June 28, 2019, the Company completed the acquisition of CBD For Life, a national CBD brand in the United States. CBD For Life's products are currently sold online and in over 2,300 retail locations across the United States, representing a 100% growth in retail footprint since the date of acquisition. CBD For Life's retail footprint continues to grow as additional national retail outlets are added to its roster including Urban Outfitters, Dillard's, Hallmark, Olympia Sports, and Weis Markets. Expansion and reach are further bolstered through partnerships with national distributors in the United States, including UNFI, MarketHub, Kimberly Wahlberg, and Appelman Schauben. The Company continues to explore international opportunities for its CBD For Life product offerings and anticipates entering key markets over the next year.

Transformative Expansion Across the United States

The last three years have been transformative for the Company as it continues to expand its portfolio across the United States. The Company completed acquisitions of two vertically integrated license holders in Massachusetts and Vermont at the end of 2017. Through these two acquisitions, the Company recognized cannabis revenues for the first time in 2018 while securing two additional acquisitions of vertically integrated license holders in Florida and New York in 2018.

There was a substantial increase in sales revenues in 2019, demonstrating the Company's focus on the efficient deployment of resources to expand its footprint and operations in markets with untapped demand. In addition, in 2019, the Company pioneered the first public-to-public merger in the U.S. cannabis industry through its acquisition of MPX. Sales revenues of the Company increased by \$43,041 for the year ended December 31, 2019 as a result of the consolidation of MPX's operations.

In 2020, the Company will continue executing on its expansion strategy and expects to open 9 new dispensaries across existing operations, and continue to build out additional square footage within its existing cultivation/production facilities, over the remainder of the year.

As a result of the increased sales revenues, gross profits have increased from \$9,592 to \$39,866 for the years ended December 31, 2018 and December 31, 2019, respectively. With operating expenses proportionately greater than sales revenues in 2018, and greater accretion expenses and non-cash losses in the change in fair value of financial instruments, the net loss and loss per share in 2018 increased compared to 2017. Net loss increased year-over-year from 2018 to 2019, as a result of the Company recognizing a total impairment charge of \$234,284 to goodwill recognized from its business acquisitions since 2017. The impairment loss was recognized as a result of the Company's annual impairment assessment of its goodwill on December 31, 2019. The decrease in the Company's stock price and industry-wide deteriorating market conditions were the main factors leading to this impairment charge.

The remaining increase in net loss was a result of higher expenses in 2019 due to general expansion of operations that were partially offset by non-cash gains recognized during the year due to the change in fair value of financial instruments. Loss per share accordingly increased significantly and was partially offset by the issuance of 112.9 million common shares for events including the MPX Acquisition, Class A Share to common share conversions, the CBD For Life acquisition, and the redemption of an original issue discount loan ("OID Loan") during the year ended December 31, 2019.

Selected Annual Information (cont.)

Operating Activities

In 2018, the Company's acquisitions of two vertically integrated license holders in Florida and New York increased its total assets from 2017 to 2018. Total non-current liabilities also increased from 2017 to 2018 as a result of the Company securing its first debenture financing of \$40,000 from Gotham Green Partners ("GGP"). Through the acquisition of CBD For Life and MPX in 2019, the Company's total assets increased by \$598,745, of which \$531,742 was through the recognition of goodwill and other intangibles from these two acquisitions. For the year ended December 31, 2019, the Company spent \$48,534 for the continued build out of existing and acquired operations. During the year, 19 dispensaries came online and an additional 300,000 sq. ft. of cultivation and processing was built out, including indoor and outdoor facilities.

The Company adopted IFRS 16 Leases ("IFRS 16") on January 1, 2019 under the modified retrospective approach where all operating leases became finance leases and corresponding right-of-use ("ROU") assets and lease liabilities are now recorded on the balance sheet. The majority of the Company's cultivation/production facilities and open dispensaries and dispensaries to be opened, are leased by the Company. As at December 31, 2019, the Company recognized \$27,687 from ROU assets and \$25,127 in total lease liabilities. Total non-current liabilities also increased year-over-year as a result of \$43,350 of deferred tax liabilities in 2019 compared to \$17,589 in 2018.

Financing Activities

The Company successfully raised funds during 2019 to support its expansion in the United States. In 2019, the Company raised \$116,150 through secured notes from GGP and co-investors, and from two incremental private placement offerings of convertible unsecured debentures.

Significant non-cash gains in the change in fair value of financial instruments arose from the Company's derivative liabilities. The primary cause of the gains in 2019 was the decrease in the Company's share price throughout 2019, which is a key input used in the Black-Scholes model used in the valuation of the derivative instruments. The increase in debt financing activities in 2019 have increased the Company's liabilities and accretion and interest expenses year-over-year.

Summary of Quarterly Results

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Sales revenues	\$ 27,221	\$ 22,341	\$ 19,200	\$ 9,620	\$ 1,985	\$ 939	\$ 256	\$ 225
Net loss	(258,429)	(15,270)	(9,290)	(18,265)	(15,927)	(10,021)	(35,435)	(645)
Loss per share - basic and diluted	(1.60)	(0.09)	(0.06)	(0.15)	(0.20)	(0.15)	(0.61)	(0.01)

Sales revenues continued to increase during the fourth quarter of 2019 as a result of growth across existing retail and wholesale operations and the opening of two additional dispensaries in Deerfield and Ocala, Florida, during the months of November and December 2019, respectively. The Company expects consistent growth in sales revenues as it continues its strategic rollout of new dispensary locations and additional wholesale sales.

As a result of the increased sales revenues, gross profits have increased from \$9,592 to \$39,866 for the years ended December 31, 2018 and December 31, 2019, respectively. With operating expenses proportionately greater than sales revenues in 2018, and greater accretion expenses and non-cash losses in the change in fair value of financial instruments, the net loss and loss per share in 2018 increased significantly compared to 2017. Net loss increased year-over-year from 2018 to 2019, as a result of the Company recognizing a total impairment charge of \$234,284 to goodwill in the fourth quarter of 2019 and no impairment loss was recognized in the preceding quarters of 2019. The remaining increase in net loss and loss per share was a result of increased salaries, employee benefits, and depreciation and amortization, associated with newly opened and expanded dispensary, cultivation, and production facilities. The Company also recognized smaller gains on the fair value adjustments to financial instruments as a result of the Company's share price being more stable in the fourth quarter compared to the third quarter.

The growth in the Company's sales revenues on a quarterly basis over the past eight quarters demonstrates the impact of the Company's fourth quarter 2017 acquisitions of Mayflower and Pilgrim, first quarter 2018 acquisitions of Citiva and GrowHealthy, and the impact of the acquisitions of MPX and CBD For Life in the first and second quarters of 2019, respectively. Additionally, organic growth and the opening of new dispensary locations has augmented the Company's sales revenues over the last eight quarters. Conversely, net loss increased, in part, over the course of 2018 due to the additional costs associated with the above noted acquisitions and expansion of the Company's business. Net loss for the second quarter of 2018 includes a non-recurring charge to accretion expense resulting from the Company's early redemption of debentures issued earlier in 2018. Net loss also fluctuated due to changes in the fair value of the Company's derivative components of financial instruments, most specifically reducing net losses in the second and third quarters of 2019 from significant gains on revaluation. Loss per share moved in line with net loss on a quarter-over-quarter basis and was impacted by the additional issuance of shares during 2019.

Discussion of Operations

Sales Revenues and Gross Profits

The Eastern region includes the Company's operations in Florida, Maryland, Massachusetts, New York, New Jersey, Vermont, and its CBD business. The Western region includes the Company's operations in Arizona, California, Colorado, New Mexico, and Nevada.

Sales revenues and gross profits the year ended December 31, 2019 and 2018 are highlighted in the charts below:

	For the year ended December 31, 2019		
	Eastern Region	Western Region	Total
Sales revenues	\$ 44,749	\$ 33,633	\$ 78,382
Cost of goods sold	(19,489)	(21,873)	(41,362)
Gross profit before fair value adjustments	\$ 25,260	\$ 11,760	\$ 37,020
Fair value adjustment on sale of inventory	(20,299)	(8,199)	(28,498)
Fair value adjustment on biological assets	27,177	4,167	31,344
Gross Profit	\$ 32,138	\$ 7,728	\$ 39,866

	For the year ended December 31, 2018		
	Eastern Region	Western Region	Total
Sales revenues	\$ 3,405	\$ -	\$ 3,405
Cost of goods sold	(790)	-	(790)
Gross profit before fair value adjustments	\$ 2,615	\$ -	\$ 2,615
Fair value adjustment on sale of inventory	(1,450)	-	(1,450)
Fair value adjustment on biological assets	8,427	-	8,427
Gross Profit	\$ 9,592	\$ -	\$ 9,592

Eastern Region

As at December 31, 2019, the Eastern region holds licenses to operate up to 58 dispensaries and seven cultivation and processing facilities, of which, 24 dispensaries, three cultivation and processing facilities, and one processing only facility are currently open and operational in this region. This compares to five dispensaries and three cultivation and processing facilities open and operational as at December 31, 2018. The Company continues to expand its cultivation facilities in Florida, and thus expects revenue for the region to increase steadily throughout the year.

The Company's sales revenues in the Eastern region for the year ended December 31, 2019, increased substantially compared to the prior year. The increase in revenues was driven by 10 new dispensary openings in Florida during 2019 and ongoing growth across the Company's Eastern operations as well as by the acquisition and development of CBD For Life, acquired on June 28, 2019. As the Company continues to open new dispensaries in Florida, New Jersey, and New York, expand cultivation in Florida and New Jersey, and achieve further penetration of its national CBD For Life brand, sales revenues for the region are expected to increase.

Discussion of Operations (cont.)

Sales Revenues and Gross Profits (cont.)

Eastern Region (cont.)

In the Eastern region, gross profit before fair value adjustments as a percentage of revenues was lower for the year ended December 31, 2019, as compared to the year ended December 31, 2018. The decrease was primarily due to the Company purchasing third-party biomass to be used in products in order to meet sales demand in Maryland, where the Company does not yet have cultivation facilities. The margin was lower in these states as the cost of purchased biomass is higher than biomass grown internally.

The Company harvested 12,817 pounds of plant material in the Eastern region during 2019 as compared to 270 pounds of plant material harvested during 2018. The increased cultivation footprint and activity has resulted in higher fair value adjustments on biological assets as compared to the prior year. As a result of higher sales volume, fair value adjustments on the sale of inventory also increased for the year ended December 31, 2019.

Western Region

As at December 31, 2019, the Western region holds licenses to operate up to 16 dispensaries and eight cultivation and processing facilities. Twelve dispensaries and seven cultivation and processing facilities with capacity for additional cultivation buildout are currently open and operational in this region. Prior to the MPX Acquisition on February 5, 2019, the Company did not consolidate operations in the Western region.

In the Western region, the Company delivered consistent growth in sales revenues and associated incremental increases in cost of goods sold across all quarters of 2019, recording \$10,032 in sales revenues for the three months ended December 31, 2019. This represented an increase of 10.0% over the \$9,121 sales revenues recorded in Q3 2019. Strong quarter-over-quarter growth in the region was primarily due to expansion of the Company's wholesale programs in Nevada and Arizona. Sales revenues are expected to continue to grow in the Western region as dispensaries come online in Nevada, edible offerings are launched in the Nevada market, and as the Company increases its market share through continued development of its wholesale programs in the Western region.

The Company's cultivation and processing facilities in the Western region harvested a total of 5,573 pounds of plant material during the year ended December 31, 2019. As a result of the increased sales revenues and cultivation volume for the Western region on a quarter-over-quarter basis, the fair value adjustment on sale of inventory and fair value adjustment on biological assets also increased proportionately each quarter.

Operating Expenses

General and Administrative

	Three months ended		Year ended	
	Tuesday, December 31, 2019	Monday, December 31, 2018	Tuesday, December 31, 2019	Monday, December 31, 2018
Facility, insurance and technology costs	\$ 2,229	958	\$ 6,680	\$ 2,701
Travel and pursuit costs	740	711	3,049	2,219
Loss from disposal and/or write-down of assets	1,066	-	1,239	-
Other general corporate expenditures	(3,494)	757	7,683	2,022
General and administrative	\$ 541	\$ 2,426	\$ 18,651	\$ 6,942

General and administrative expenses increased for the year ended December 31, 2019, as compared to the prior quarter and year. The increases in facility, insurance, and technology costs, and travel and pursuit costs are primarily attributable to expansion in overall operations of the Company as a result of significant acquisitions during 2019, and the opening of additional dispensaries and cultivation and processing facilities.

In addition, the Company recorded loss from disposal and/or write-down of fixed assets of \$1,239 for the year ended December 31, 2019, compared to \$361 for the year ended December 31, 2018 which was included in other losses for the year ended December 31, 2018. There was also an increase in other general corporate expenditures which include marketing and advertising related costs, research and development related to new product initiatives, bad debts expense, sales and excise taxes, and other miscellaneous items, other than interest. During 2019, the Company had increased spend in marketing and advertising related costs to prepare for the roll-out of its Be. brand in early 2020. The table above shows a recovery under other general corporate expenditures for the three months ended December 31, 2019. Income tax expense and/or recovery for the years ended December 31, 2019 and 2018, were separately disclosed on the income statement, whereas these balances were included in general and administrative expense for the period ended September 30, 2019 and 2018. As such, this reclassification results in the appearance of a recovery in the amount of general and administrative expense attributable to income taxes for the three months ended December 31, 2019, and 2018.

Discussion of Operations (cont.)

Operating Expenses (cont.)

Salaries, Employee Benefits and Share-based Compensation

	Three months ended		Year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Salaries and employee benefits	\$ 11,247	\$ 3,461	\$ 34,714	\$ 10,724
Share-based compensation	(286)	1,841	20,484	7,522
TOTAL	\$ 10,961	\$ 5,302	\$ 55,198	\$ 18,246

Both salaries and employee benefits and share-based compensation increased for both the three months and the year ended December 31, 2019, as compared to the prior quarter and year. The increases are primarily due to additional headcount as a result of the acquisitions of the MPX and CBD For Life businesses. The Company expects these balances to increase as the Company continues to grow.

Depreciation and Amortization

	Three months ended		Year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Depreciation and amortization	\$ 9,785	\$ 4,553	\$ 23,632	\$ 6,349

Depreciation and amortization expense increased for both the three months and year ended December 31, 2019, as compared to the prior quarter and year. This was primarily due to the increased depreciable asset base resulting from the acquisitions of MPX and CBD For Life and the ongoing buildout of the Company's dispensary, cultivation and processing facilities. Further, amortization expense increased during the year ended December 31, 2019, as a result of the Company's adoption of IFRS 16 Leases as of January 1, 2019. IFRS 16 requires that a right-of-use asset equal to the present value of future minimum rent payments plus any prepaid rent be recorded in total assets with a corresponding lease liability recorded in total liabilities. The right of use assets ("ROU assets") are amortized straight line over the lease term including any likely renewal terms. The impact of the adoptions of IFRS 16 is further discussed in Note 21 to the consolidated financial statements. Depreciation and amortization expense for the three months ended December 31, 2018, was also high due to a catch-up of amortization of intangible assets resulting from the finalization of the purchase price allocations on the acquisitions of GrowHealthy and Citiva earlier that year. The Company expects depreciation and amortization expense to increase as the Company continues to open new dispensary locations thereby increasing the depreciable asset base.

Professional Fees

	Three months ended		Year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Professional Fees	\$ 3,925	\$ 2,973	\$ 16,969	\$ 9,619

Professional fees increased for the year ended December 31, 2019, as compared to the prior year, primarily due to the significant acquisitions completed during the year and the resulting increased market footprint. The Company's ongoing expansion has required the expertise of various professionals such as bankers, lawyers, accountants, auditors, appraisers, and tax specialists to ensure compliance with local and state regulatory bodies and to integrate operations under the Company's management. In the three months ended December 31, 2018, professional fees were incurred as a result of ongoing work over the MPX Acquisition. Professional fees for the three months ended December 31, 2019, related to costs associated with the Company's expanded operations, including increased sales and marketing expenses. In the absence of further business acquisition activity, the Company expects professional fees to steadily decrease in future periods.

Discussion of Operations (cont.)

Operating Expenses (cont.)

Acquisition-related costs

	Three months ended		Year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Acquisition related costs	\$ 253	\$ 452	\$ 6,721	\$ 717

Acquisition-related costs are transaction based and are directly related to businesses acquired during the year. For the year ended December 31, 2019, costs included those expenses associated with the acquisition and integration of the MPX and CBD for Life businesses. In comparison, for the year ended December 31, 2018, the costs included expenses related to the acquisitions of Citiva and GrowHealthy. These acquisitions were smaller in scale than the MPX Acquisition in 2019 and thus the related costs are significantly less than the current year. Refer to Note 4 in the accompanying consolidated financial statements for the years ended December 31, 2019 and 2018 for more details of the businesses acquired in each year.

Impairment Loss

The carrying amount of the Company's goodwill is tested at least annually for impairment as at December 31st. Given the continued decline in the Company's stock price and market capitalization, the carrying value of the Company's total net assets significantly exceeded the Company's market capitalization at December 31, 2019. As a result, the Company recognized an impairment charge of \$234,284 of which \$73,591 is attributable to the Eastern region and \$160,693 is attributable to the Western region. No impairment charges were recognized for the year ended December 31, 2018. The impairment loss was fully allocated to goodwill, with no amount of impairment allocated to other intangible assets or fixed assets. Further discussion relating to impairment is disclosed in Note 9 of the consolidated financial statements.

Other Items

Interest and Accretion Expense

	Three months ended		Year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Interest expense	\$ (5,124)	\$ (1,331)	\$ (14,662)	\$ (4,794)
Accretion expense	(2,598)	(812)	(10,588)	(16,140)
TOTAL	\$ (7,722)	\$ (2,143)	\$ (25,250)	\$ (20,934)

The Company issued new debt and assumed debt via the MPX Acquisition since the first quarter of 2018, as follows:

- Secured notes issued in May 2018, formerly the high yield notes ("Tranche One Secured Notes");
- OID Loan assumed in February 2019 through the MPX Acquisition and fully redeemed in the second quarter of 2019;
- Stavola Trust Note in February 2019 through the MPX Acquisition;
- Unsecured debentures issued in March 2019 ("March 2019 Debentures");
- Unsecured debentures issued in May 2019 ("May 2019 Debentures");
- Secured notes in September 2019 ("Tranche Two Secured Notes"); and
- Secured notes in December 2019 ("Tranche Three Secured Notes").

Interest expense increased for the three months and year ended December 31, 2019, as compared to the prior quarter and year as a result of the Company recognizing interest expense on new debt instruments issued during 2019. Conversely, accretion expense for the year ended December 31, 2019 decreased compared to the prior year as a result of the Company's early repayment of debentures issued earlier in 2018 which required the Company to recognize the full accretion expense in 2018 rather than over time to maturity of the debentures. Additional accretion expense recognized on newly issued debt instruments during the current year was lower than the aforementioned one-time charge recorded in 2018.

Discussion of Operations (cont.)

Other Items (cont.)

Gain (loss) from change in fair value of financial instruments

	Three months ended		Year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Gain (loss) from change in fair value of financial instruments	\$ 262	\$ 559	\$ 36,476	\$ (8,629)

The Company's change in fair value on financial instruments is the result of the revaluation on the derivative component of compound financial instruments each reporting period. The Company uses the Black-Scholes valuation model to determine the fair value of derivative financial instruments each reporting period. Key inputs to the model are current share price, volatility and a risk-free rate. The gain from change in fair value of financial instruments recorded in 2019 was a result of a decline in the Company's share price during 2019 as compared to 2018. The gain on the change in the fair value of financial instruments for the three months ended December 31, 2019, was largely consistent with the prior year quarter.

Liquidity and Capital Resource Management

Capital Raises

March 2019 Debentures

On March 18, 2019, the Company completed a private placement of \$35,000 of unsecured convertible debentures and corresponding warrants of 2,177,291 to purchase common shares of the Company. The March 2019 Debentures mature on March 15, 2023 and accrue interest at a rate of 8.0% annually. They are convertible into an aggregate of 5,912,159 common shares of the Company at \$5.92 per common share. At any time following July 16, 2019, the Company may force the conversion of the March 2019 Debentures into common shares if the daily volume weighted average trading price of the Company's common shares on the OTCQX is greater than \$10.29 for any ten consecutive trading days.

May 2019 Debentures

On May 2, 2019, the Company completed a private placement of \$25,000 of unsecured convertible debentures and corresponding warrants of 1,555,207 to purchase common shares of the Company. The May 2019 Debentures mature on March 15, 2023 and accrue interest at a rate of 8.0% annually. They are convertible into an aggregate of 4,222,971 common shares of the Company at \$5.92 per common share. At any time following September 1, 2019, the Company may force the conversion of the May 2019 Debentures into common shares if the daily volume weighted trading price of the Company's common shares on the OTCQX is greater than \$10.29 for any ten consecutive trading days.

Tranche Two Secured Notes

On September 30, 2019, the Company issued \$20,000 of secured notes. The Tranche Two Secured Notes accrue interest at 13.0%, mature on May 14, 2021, and are convertible into 10,582,011 common shares of the Company at \$1.89 per share. The Tranche Two Secured Notes were issued with warrants to purchase, in aggregate, up to 5,076,142 shares of the Company at an exercise price of \$1.97 per share.

Tranche Three Secured Notes

On December 20, 2019, the Company issued an additional \$36,150 of secured notes. The Tranche Three Secured Notes accrue interest at 13.0%, mature on May 14, 2021, and are convertible into 22,448,415 common shares of the Company at \$1.61 per share. The Tranche Three Secured Notes were issued with warrants to purchase, in aggregate, up to 10,792,508 shares of the Company at an exercise price of \$1.67 per share.

Liquidity

The Company's financing needs have historically fluctuated from period to period based on the ongoing development of its operations. Management consistently monitors its cash flows and assesses the liquidity necessary to fund both operations and development. The Company's ability to continue in the normal course of operations is dependent on its ability to raise sufficient capital to maintain operations. There are no assurances that the Company will be successful in achieving this goal. For the year ended December 31, 2019, the Company reported a net loss of \$301,254, operating cash outflows of \$45,849 and an accumulated deficit of \$384,845 as at December 31, 2019. These material circumstances cast substantial doubt on the Company's ability to continue as a going concern and ultimately on the appropriateness of the use of the accounting principles applicable to a going concern. These consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

Liquidity and Capital Resource Management (cont.)

Liquidity (cont.)

Historically, the Company has had access to equity and debt financing from the public and prospectus-exempt (private placement) markets, including:

- In January 2018, the Company closed a non-brokered private placement of debentures for gross proceeds of \$20,000, which was fully repaid on May 16, 2018 including accrued interest of \$978;
- Concurrent with the issuance of secured notes, \$10,000 comprising 3,891,051 units of the Company were issued, whereby each unit is comprised of one Class A Share of the Company at \$2.57 per share and a warrant to purchase one share of the Company at \$3.86 per share
- In October 2018, the Company closed a bought deal offering of 5,188,800 common shares of the Company at CAD\$6.65 per common share for aggregate gross proceeds of CAD\$34,506 (equivalent \$26,558);
- In March 2019, the Company completed a private placement of \$35,000 of unsecured convertible debentures, which mature on March 15, 2023, and accrue interest of 8.0%. This placement is convertible into an aggregate of 5,912,159 common shares of the Company at \$5.92 per common share;
- In May 2019, the Company completed a private placement of \$25,000 of unsecured convertible debentures, which mature on March 15, 2023, and accrue interest of 8.0%. This placement is convertible into an aggregate of 4,222,971 common shares of the Company at \$5.92 per common share;
- In September 2019, the Company issued an additional \$20,000 of secured notes, which mature on May 14, 2021, and accrue interest at 13.0%. This placement is convertible into an aggregate of 10,582,011 common shares of the Company at \$1.89 per share. The Company concurrently issued warrants to purchase, in aggregate, up to 5,076,142 shares of the Company at \$1.97 per share; and
- In December 2019, the Company issued an additional \$36,150 of secured notes, which mature on May 14, 2021, and accrue interest at 13.0%. This placement is convertible into an aggregate of 22,448,415 common shares of the Company at \$1.61 per share. The Company concurrently issued warrants to purchase, in aggregate, up to 10,792,508 shares of the Company at \$1.67 per share.

Commercial banks, private equity firms, and venture capital firms have approached the cannabis industry with caution 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 capital 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/or applicants in the United States. There can be no assurance that additional capital, if raised privately, will be available to the Company when needed or on terms that are acceptable. The Company's potential inability to raise capital to fund capital expenditures or acquisitions may cast substantial doubt on its ability to grow and may have a material adverse effect on future profitability.

The terms of the currently outstanding 13% senior secured convertible debentures ("Secured Notes") impose certain restrictions on the Company's operating and financing activities, including certain restrictions on the Company's ability to incur certain additional indebtedness, grant liens, make certain dividends and other payment restrictions affecting the Company's subsidiaries, issue shares or convertible securities, and sell certain assets. The terms also contain a financial covenant requiring the Company's asset value to be 1.75 times the total net debt at each quarter end and maintain a minimum cash balance of \$1.0 million while the Secured Notes remain outstanding. The financing is secured by all current and future assets of the Company and the rights of the remaining lenders are subordinate to the Secured Notes. The Company's remaining outstanding 8% convertible unsecured debentures ("Unsecured Debentures") also impose certain restrictions on its operating and financing activities, including certain restrictions on the Company's ability to incur certain additional indebtedness at the subsidiary level.

The Company has complied with all covenants as at December 31, 2019.

Subsequent to December 31, 2019, due to the liquidity constraints experienced by the Company, the Company did not make interest payments due to the lenders of the Company's Secured Notes and Unsecured Debentures as described more fully in Note 10 to the consolidated financial statements (together the "Lenders"). The Company attempted to negotiate with the holders of the Secured Notes for temporary relief of the Company's interest obligations due March 31, 2020, but the parties were unable to reach a satisfactory agreement. This non-payment of interest triggered an event of default with respect to the Company's long-term debt. In the event of a default, all amounts, including interest and principal, become immediately due and payable to the holders of the Secured Notes and Unsecured Debentures and the interest rate increases by 3.0% to 16.0% per annum for the Secured Notes.

Under the provisions of its arrangement with holders of the Secured Notes, the Company is required to pay an exit fee of \$10,000 that accrues interest at a rate of 13% (the "Exit Fee") upon maturity of the Secured Notes. The Exit Fee is forgiven and cancelled in full if, no later than five days prior to the maturity date, the Company pays the amounts outstanding at such time (other than the Exit Fee) in full. However, if an event of default occurs and is not waived or cured, and obligations under the Secured Notes are subject to an accelerated payment, the Exit Fee also becomes due and payable by the Company upon the event of default. Under such event, upon the payment of the Exit Fee along with all other obligations then outstanding on the Secured Notes by the Company, the noteholders are required to transfer to a nominee of the Company the 3,891,051 shares issued under the \$10,000 equity financing that closed concurrently with the Tranche One Secured Notes.

Liquidity and Capital Resource Management (cont.)

Liquidity (cont.)

For the year ended December 31, 2019, the Company did not accrue any amounts related to the Exit Fee as there was no event of default as at December 31, 2019. Furthermore, the Company believed that it was more likely than not that GGP would exercise the conversion option on the Secured Notes prior to maturity as it expected a higher share price in 2020 and beyond based on Company's forecasted improved operational results and a general improvement in both broader market and sector specific sentiment. However, as a result of the event of default, the Company expects an outflow of funds in relation to the Exit Fee.

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

On July 13, 2020, the Company announced that it has entered into a Restructuring Support Agreement (as defined below) to effect a proposed recapitalization transaction (the "Recapitalization Transaction") with some of its Lenders as more fully discussed in Note 20 as well as to provide interim financing of \$14,000. In connection with the Recapitalization Transaction, the Company and certain of its subsidiaries have entered into a restructuring support agreement (the "Restructuring Support Agreement") with all of the holders (the "Secured Lenders") of the Secured Notes, and certain holders of (the "Unsecured Debentureholders") of the Unsecured Debentures issued by the Company.

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

The Recapitalization Transaction is subject to approvals from existing holders of Common Shares and receipt of necessary legal, regulatory and stock exchange approvals. At present, there can be no assurance that the Company will receive the necessary approvals to conclude the Recapitalization Transactions.

Additional details on the Recapitalization Transaction can be found in Note 20 to the consolidated financial statements.

Interim Financing

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

Working Capital

For the year ended December 31, 2019, the Company had working capital of \$42,931, compared to working capital of \$33,684 as at December 31, 2018. Current assets increased as a result of higher inventory and biological asset balances due to the increased cultivation and processing operational footprint from the MPX Acquisition and the expansion of existing operations. Inventory balances have also increased as a result of the acquisition of CBD For Life. Current liabilities have increased and relate to payables and accrued liabilities and debt relating to the Stavola Trust note assumed as part of the MPX Acquisition.

Cash Flows

As at December 31, 2019, the Company held cash of \$34,821 compared to \$15,295 as at December 31, 2018. The increase in cash was largely due to the funds raised through financing activities, offset by the cash outflows from investing and operating activities.

Cash Flow from Operating Activities

Cash used in operating activities for the year ended December 31, 2019, was \$45,849 compared to \$28,295 for the year ended December 31, 2018. Higher spending was a result of expanded operations during the year compared to the same period in the prior year due to the MPX Acquisition in the first quarter. Cash outflows from operating activities were primarily related to general and administrative expenses, salaries and employee benefits, and professional fees.

Liquidity and Capital Resource Management (cont.)

Cash Flows (cont.)

Cash Flow from Investing Activities

Cash used in investing activities during the year ended December 31, 2019, was \$53,993 compared to \$24,312 for the year ended December 31, 2018.

During the year ended December 31, 2019, the Company's cash outflows related to investing activities were as follows:

- \$48,534 – purchase of fixed assets;
- \$5,817 – one-time acquisition-related costs relating specifically to the MPX Acquisition and the acquisition of CBD For Life; and
- \$2,164 – cash paid as consideration for the acquisition of CBD For Life.

During the year ended December 31, 2019, the Company had the following significant cash inflows from investing activities:

- \$3,153 – cash obtained from the business acquisitions from the year.

Cash Flow from Financing Activities

Cash generated from financing activities during the year ended December 31, 2019, was \$113,979 as compared to \$69,061 during the same period in 2018. Significant sources of financing during the year ended December 31, 2019, include:

- \$116,150 – private placement of debentures and secured notes issued by the Company in 2019;
- \$9,355 – exercise of warrants from previous rounds of financing and outstanding warrants; and
- \$4,203 – exercise of stock options.

This was offset by outflows of financing, including:

- \$9,334 – interest paid on outstanding debt; and
- \$2,063 – issuance costs related to debt financings.

Contractual Obligations

The following table presents the Company's significant contractual obligations as at December 31, 2019:

USD DENOMINATED	< 1 YEAR	1-2 YEARS	3-5 YEARS	> 5 YEARS	TOTAL
Payables and accrued liabilities	\$ 24,783	\$ -	\$ -	\$ -	24,783
Long-term debt	28,696	107,190	66,391	1,143	203,420
Financing Leases	5,328	5,292	9,912	51,946	72,478
Service Contracts	269	22	3	-	294
Consultants and advisors	186	-	-	-	186
Construction contracts	5,237	-	-	-	5,237
TOTAL USD DENOMINATED	\$ 64,499	\$ 112,504	\$ 76,306	\$ 53,089	306,398

Liquidity and Capital Resource Management (cont.)

Contractual Obligations (cont.)

CAD DENOMINATED						
Payables and accrued liabilities	\$	802	\$	-	\$	802
TOTAL CAD DENOMINATED	\$	802	\$	-	\$	802

Long-term debt consists of Secured Notes and Unsecured Debentures, and outstanding mortgages. The Company's contractual obligations include contracts entered into with consultants, advisors, construction companies, and leases for the Company's offices, dispensaries, cultivation, and processing facilities, vehicles, and computer software. As part of the Company's business plan to expand its footprint and develop its operations, further capital expenditures that have yet to be committed will be required to fund growth initiatives. On May 23, 2019, the Company established a line of credit with Zia Integrated, LLC, ("Zia") a cannabis management and consulting firm based in Maryland, permitting Zia drawdowns of up to an aggregate of \$15,000. For each drawdown made by Zia, a convertible promissory note will be issued between the Company and Zia. As of the date of filing of the consolidated financial statements, no drawdowns have been made on the line of credit and the principal amount on the convertible promissory note is \$Nil.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements at December 31, 2019.

Share Capital

The following table presents the Company's share capital information as at July 31, 2020.

	Number Outstanding
Common Shares issued and outstanding	171,718,192
Options to purchase Common Shares	16,128,708
Warrants	49,236,082
MPX dilutive instruments ⁽¹⁾	407,876
Convertible Debentures	10,135,130
Secured Notes	46,458,275
Fully diluted shares outstanding	294,084,263

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

Additional Information

Critical Accounting Estimates and Judgements

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. The critical accounting estimates and judgements are disclosed in full within Note 21 of the Company's consolidated financial statements.

The Company made critical estimates and judgements in the following areas in the preparation of the consolidated financial statements: biological assets, property, plant and equipment, business combinations, lease liabilities, going concern, business combinations, and impairment.

Changes in Accounting Policies

The Company has implemented the following IFRS standards effective for reporting periods commencing January 1, 2019. These standards have been discussed in greater detail within Note 21 in the notes to the consolidated financial statements.

Adoption of IFRS 16 Leases

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

Additional Information (cont.)

Changes in Accounting Policies (cont.)

Lease accounting policy from January 1, 2019

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

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

The lease liability is subsequently measured at amortized cost using the effective interest method whereby the balance is increased by interest expense and decreased by lease payments.

It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option.

The Company has included the carrying value of ROU assets under fixed assets (Note 8) on the statement of financial position and the carrying value of the lease liability within other liabilities in the consolidated financial statements for the year ended December 31, 2019.

IFRS 16 Practical Expedients

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

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

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

On transition to IFRS 16 as at January 1, 2019, the Company recognized an additional \$13,386 of ROU assets and \$13,081 of lease liabilities, with the difference resulting from adjustments to the ROU asset for lease payments made in advance of the commencement date. The current portion of lease liabilities is included in other current liabilities and the non-current portion is included in other liabilities on the consolidated statement of financial position. The impact on retained earnings as at January 1, 2019, was an increase of \$194. The Company's portfolio of leases primarily consists of cultivation, processing, and dispensary facilities. The weighted-average remaining term on leases as at January 1, 2019, was 13.4 years.

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

Measurement of lease liabilities

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

Additional Information (cont.)

Changes in Accounting Policies (cont.)

IFRIC 23 Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB introduced *IFRIC 23 Uncertainty Over Income Tax Treatments* ("IFRIC 23"), with the objective of clarifying the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The Company has adopted IFRIC 23 as of January 1, 2019, with no impact on its consolidated financial statements for the year ended December 31, 2019.

Biological assets and inventory

The Company has made a voluntary change in accounting policy in relation to its treatment of biological assets and inventory under *IAS 41 Agriculture* in order to separately disclose the realized fair value amounts of biological assets in the cost of inventory sold. The accounting policy change and impact thereof has been discussed in greater detail within Note 21 in the notes to the consolidated financial statements.

Revised Conceptual Framework

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

Financial Instruments

The Company thoroughly examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include liquidity risk, credit risk, market risk, and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors and management. The Company is exposed to a variety of risks over the normal course of business. The Board of Directors mitigates these risks by assessing, monitoring, and approving the Company's risk management processes

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its cash flow necessary to fund operations and development. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. This includes monitoring cash balances, subsidiary funding requirements, and short-term obligations on a weekly basis.

Credit risk

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

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

Market risk

- As the Company's operations are located in Canada and the United States, the Company is subject to currency transaction and translation risk;
- The Company holds cash in Canadian dollars and U.S. dollars. The Company raises capital in U.S. and Canadian capital markets and thus is exposed to fluctuations in the Canadian dollar relative to the U.S. dollar, specifically in relation to U.S. dollar denominated liabilities;
- As at December 31, 2019, the Company does not hold a material Canadian dollar balance. Hence if the Canadian dollar had strengthened or weakened by 5.0% in relation to the U.S. dollar, with all variables held constant, the assets of the Company would not have had a material increase or decrease; and

Additional Information (cont.)

Financial Instruments (cont.)

Market risk (cont.)

- As at December 31, 2019, the Company had no hedging agreements in place with respect to foreign exchange rates, however management monitors the Canadian and U.S. currency markets closely and continuously assesses the need to enter into currency hedging arrangements. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Interest rate risk

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

Transactions with Related Parties

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

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

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

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

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

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

Additional Information (cont.)

Transactions with Related Parties (cont.)

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

Legal Proceedings

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

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

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

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

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

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

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

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

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

Additional Information (cont.)

Legal Proceedings (cont.)

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

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

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

Subsequent Events

Stavola Trust Note Repayment

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

Stock Option Grant

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

COVID-19

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

Any such alterations or modifications could cause substantial interruption to the Company's business, and could have a material adverse effect on the Company's business, operating results, financial condition and the trading price of common shares, and could include temporary closures of one or more of the Company's facilities; temporary or long-term labor shortages; temporary or long-term adverse impacts on the Company's supply chain and distribution channels; the potential of increased network vulnerability and risk of data loss resulting from increased use of remote access and removal of data from the Company's facilities.

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

Subsequent Events (cont.)

Special Committee Investigation

Subsequent to year end, the Special Committee completed its investigation into the actions of a director and officer of the Company, Ford. Refer to Note 2 to the consolidated financial statements for the year ended December 31, 2019. On April 27, 2020, the Board accepted the resignation of Ford in his capacity as a director and officer of the Company and as director and officer of the Company's subsidiaries, effective immediately. Refer to the Company's press release issued on April 27, 2020 for full discussion.

Cease Trade Order ("CTO")

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

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

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

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

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

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

Event of Default and Financial Restructuring

Refer to Liquidity and Capital Resources section of this MD&A for further discussion as well as Note 20 to the consolidated financial statements for the year ended December 31, 2019.

Mutual Termination of Acquisition

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

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

Nevada Settlement

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

Regulatory Environment: Issues with U.S. 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 disclosures 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 cannabis regulation. As a result of the Company’s investments in certain United States entities as set forth herein, the Company is subject to Staff Notice 51-352 and accordingly provides the following disclosure.

Operation

As at December 31, 2019, the Company currently operates in the United States as more specifically described below.

	Licensed Entity	Type of Investment ⁽²⁾	Permitted Number of Facilities
Arizona ⁽²⁾	ABACA, LLC (“ABACA”) Soothing Options, Inc. (“Soothing Options”) Healing Center Wellness Center, LLC (“THCWC”) Health for Life, Inc. (“HFL”)	Ownership (100%) ⁽⁵⁾	4 dispensaries 3 cultivation 3 processing
California ⁽²⁾	See Note 4	See Note 4	See Note 4
Colorado ⁽²⁾	Organix, LLC (“Organix”)	See Note 5	See Note 5
Florida ⁽²⁾	McCroy’s Sunny Hill Nursery, LLC (“McCroy’s”)	Ownership (100%) ⁽⁶⁾	No Dispensary Cap 1 cultivation 1 processing
Maryland ⁽²⁾	LMS Wellness, Benefit LLC d/b/a H4L White Marsh (“LMS”) GreenMart of Maryland, LLC d/b/a H4L Baltimore (“GMMD”) Rosebud Organics, Inc. (“Rosebud”) Budding Rose, Inc. d/b/a H4L Bethesda (“Budding Rose”)	See Note 7	3 dispensaries 1 processing
Massachusetts ⁽²⁾	Mayflower Medicinals, Inc. (“Mayflower”) Cannatech Medicinals, Inc. (“Cannatech”) ⁽⁸⁾	Ownership (100%) ⁽⁸⁾	3 medical marijuana dispensaries 3 adult-use stores 3 medical cultivation/processing 3 adult-use cultivation 3 adult-use processing ⁽⁸⁾
Nevada ⁽²⁾	GreenMart of Nevada NLV, LLC (“GMNV”)	Ownership (100%)	3 dispensaries 1 cultivation 1 processing
New Jersey ⁽²⁾	MPX New Jersey, LLC (“MPX NJ”)	See Note 9	3 dispensaries 1 cultivation 1 processing ⁽¹⁰⁾
New Mexico ⁽²⁾	Reynold Greenleaf & Associates LLC (“RGA”)	Ownership (24.6%)	Nil ⁽¹¹⁾
New York ⁽²⁾	Citiva Medical, LLC (“Citiva”)	Ownership (100%)	4 dispensaries 1 cultivation 1 processing
Vermont ⁽²⁾	FWR Inc. d/b/a Grassroots Vermont (“GRVT”) ⁽¹²⁾	Ownership (100%) ⁽¹²⁾	2 dispensaries 1 cultivation 1 processing
United States ⁽¹³⁾	IA CBD, LLC (“IA CBD”)	Ownership (100%)	See Note 10

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

Operation (cont.)

- (2) For further details on the Company's cannabis operations in the United States, see the section entitled "Regulatory Environment: Issues with U.S. Cannabis-Related Assets".
- (3) The Company's wholly owned subsidiary, iAnthus Arizona, LLC ("IA AZ"), has entered into management agreements with Soothing Options, THCWC, HFL, and ABACA.
- (4) The Company does not currently have a license to operate a cannabis business in California. However, the Company maintains certain operations in the state and monitors the market for opportunities.
- (5) The Company does not currently have a license to operate a cannabis business in Colorado. However, On December 5, 2016, in related transactions, the Company through its wholly owned subsidiaries, Scarlet and Bergamot, respectively acquired certain non-cannabis assets of Organix and the real estate holdings of Organix's affiliate, DB Land Holdings, Inc. ("DB"), consisting of a 12,000 square foot cultivation facility in Denver, CO. Bergamot also purchased the dispensary located in Breckenridge, CO from the third-party landlord of the property.
- (6) The Company owns 100% of GHHA Management, Inc. ("GHHA"), which holds an exclusive 40-year management agreement to operate the medical cannabis business associated with the Medical Marijuana Treatment Center ("MMTC") license issued to McCrory's, and held an option to acquire 100% of McCrory's for a nominal consideration, subject to the approval of the Florida Department of Health ("FL DOH"). On August 14, 2019, the FL DOH approved GHHA's option to acquire McCrory's, and GHHA subsequently exercised the option. Accordingly, the Company through its wholly owned subsidiary, GHHA, now owns 100% of McCrory's.
- (7) The Company's wholly owned subsidiary, S8 Management, LLC ("S8 Management") has entered into management services agreements with three dispensaries, LMS, Budding Rose, GMMD, and one processing facility, Rosebud. The Company's wholly owned subsidiary, CGX, holds options to acquire these dispensary and processing licenses in the future.
- (8) The Company, through its wholly owned subsidiary iAnthus Capital Management, LLC ("ICM"), owns 100% of Mayflower and, through its wholly owned subsidiary, CGX Life Sciences, Inc. ("CGX"), 100% of two separate management entities with service and management agreements with a second license holder, Cannatech, a non-profit corporation. In Massachusetts, an entity is permitted to control and operate up to three vertically-integrated medical licenses, which include medical cultivation, product manufacturing, and retail dispensing, up to three adult-use retail licenses, up to three adult-use product manufacturing licenses, and up to three adult-use cultivation licenses with a maximum total cultivation "canopy" of up to 100,000 square feet. The Massachusetts regulations also allow medical and adult-use operations to co-locate in the same facility. The Company currently holds two vertically integrated medical licenses, one adult-use cultivation license, one adult-use product manufacturing license, and one adult-use retail license, and also provides management services for a third vertically integrated medical licensee.
- (9) On August 27, 2019, iAnthus New Jersey, LLC ("iAnthus NJ"), the Company's wholly owned subsidiary, entered into a financing, leasing, licensing, and services agreement with MPX NJ.
- (10) One medical dispensary is permitted under the current rules in New Jersey as a matter of right, with the possibility of operating two more satellite dispensaries subject to regulatory approval. Under New Jersey law, the license holder must obtain such approval prior to January 1, 2021.
- (11) RCA currently manages three cultivation operations in Albuquerque, NM totaling approximately 50,000 square feet and six dispensary locations, five of which are located in Albuquerque, NM and one of which is located in Grants, NM.
- (12) The Company owns 100% of Grassroots Vermont Management Services, LLC ("GVMS"), the sole shareholder of GRVT, which has entered into a management services agreement with GRVT. Accordingly, the Company through its wholly owned subsidiary, GVMS, owns 100% of GRVT.
- (13) On June 27, 2019, the Company, through its wholly owned subsidiary, iA CBD, acquired substantially all of the property and assets of CBD for Life. As a result of its acquisition of CBD for Life, iA CBD is engaged in the formulation, manufacture, creation, and sale of products infused with CBD. The CBD used to manufacture these products is exclusively derived from hemp. The Company intends for all its hemp-derived products to be produced and sold in accordance with the 2014 Farm Bill and the 2018 Farm Bill, as applicable at the time and location of operation, and for such products to constitute hemp under the 2018 Farm Bill. Because iA CBD is not engaged in any marijuana-related practices or activities, including the cultivation, possession, or distribution of marijuana, iA CBD is not required to make additional disclosures pursuant to Staff Notice 51-352.

Compliance with Applicable State Cannabis Law in the United States

As of the date of this MD&A, the Company believes that each of its licensed cannabis operating entities (a) holds all applicable licenses to cultivate, manufacture, possess, and/or distribute cannabis in its respective state, and (b) is in good standing and in compliance with its respective state's cannabis regulatory program. The Company ensures that its operating entities are in compliance with state cannabis regulatory programs by utilizing some or all of the following in the Company's various state operations: (1) each operating entity is licensed pursuant to applicable state law to cultivate, manufacture, possess, and/or distribute cannabis in such state; (2) renewal dates for such licenses are docketed by legal counsel and/or other advisors; (3) random internal audits of the operating entity's business activities are conducted by the applicable state regulator and such operating entity to ensure compliance with applicable state law; (4) employees are provided with employee handbooks that outline internal standard operating procedures in connection with the cultivation, manufacturing, possession, and distribution of cannabis to ensure that all cannabis inventory and proceeds from the sale of such cannabis are properly accounted for and tracked; (5) scanners are used to confirm each customer's legal age with the validity of each customer's driver's license; (6) each room that contains cannabis inventory and/or proceeds from the sale of such inventory is stored is monitored by video surveillance; and (7) software is used to track cannabis inventory from seed to sale. The Company's U.S. legal counsel reviews, from time to time, the licenses and documents referenced above in order to confirm such information and identify any deficiencies.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

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

The following table reflects certain assets and liabilities on the Company's consolidated statement of financial position that pertain to its U.S. cannabis activity, as of December 31, 2019:

Balance Sheet Line Item	Percentage which relates to Investments/Holdings with U.S. marijuana-related activities
Receivables and prepaid assets	61%
Inventory and biological assets	88%
Other current assets	50%
Long-term investments	100%
Fixed assets	98%
Intangible assets and goodwill	98%
Other assets	52%
Payables and accrued liabilities	69%
Current portion of long-term debt	0%
Derivative liabilities	0%
Current lease liabilities	93%
Other current liabilities	63%
Other liabilities	100%
Long-term debt	1%
Deferred tax liabilities	96%
Non-current lease liabilities	96%
Income Statement Line Item	Percentage which relates to Investments/Holdings with U.S. marijuana-related activities
Gross profit	97%
Operating expenses	83%
Other items	31%

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

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

Enforcement of U.S. Federal Laws

For the reasons set forth above, the Company's existing operations in the United States and any future operations or investments may become the subject of heightened scrutiny by regulators, stock exchanges, and other authorities in Canada and the United States. 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 this MD&A.

Change to government policy or public opinion may also result in a significant influence on the regulation of the cannabis industry in Canada, the United States, or elsewhere. A negative shift in the public's perception of medical or adult-use cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation or enforcement. Such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical or adult-use cannabis thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's business strategy in the states in which the Company currently operates or in the Company's ability to expand its business into new states may have a material adverse effect on the Company's business, financial condition, and results of operations. See "Risk Factors" section of this 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.

Any enforcement action against the Company or any of its licensed operating facilities could have a material adverse effect on (1) the Company's reputation, (2) the Company's ability to conduct business, (3) the Company's holdings (directly or indirectly) of medical or adult-use cannabis licenses in the United States, (4) the listing or quoting of the Company's securities on various stock exchanges, (5) the Company's financial position, (6) the Company's operating results, profitability, or liquidity, or (7) the market price of the Company's 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 their final resolution because the time and resources that may be necessary depend 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 this MD&A. See "Risk Factors -- See "Risk Factors - Risks Specifically Related to the United States Regulatory System - The Company's cannabis business activities, and the cannabis business activities of its subsidiaries, while believed to be compliant with applicable U.S. state and local laws, currently are illegal under U.S. federal law".

Arizona

As a result of the MPX Acquisition on February 5, 2019, the Company acquired 100% of CGX. CGX is the sole owner and member of iA AZ and S8 Rental Services, LLC ("S8 Rental"). iA AZ has management agreements in place with Soothing Options, THCWC, HFL, and ABACA. S8 Rental provide financing, leasing, and other logistical support to Soothing Options, THCWC, and HFL.

HFL is a cannabis dispensary and cultivation facility located in Mesa, AZ operating under the "Health for Life" brand. Soothing Options is a cannabis dispensary and cultivation and production/manufacturing facility located in Mesa, AZ operating under the "Health for Life" brand. THCWC is a cannabis dispensary located in Mesa, AZ operating under the "Health for Life" brand. ABACA is a cannabis dispensary and cultivation and production/manufacturing facility located in Phoenix, AZ operating under the name "The Holistic Center AZ Medical Cannabis Dispensary". ABACA holds a dispensary license with the approval to cultivate medical cannabis at an offsite location in Arizona.

For the purposes of Staff Notice 51-352, the Company's investments in Soothing Options, THCWC, HFL, and ABACA are classified as "direct" involvement in the United States cannabis cultivation or distribution industry because iA AZ is a wholly owned subsidiary of the Company. The Company's investment in S8 Rental is classified as "ancillary" involvement in the United States cannabis industry.

The Company is advised by legal counsel regarding compliance with Arizona's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with Arizona's cannabis regulatory program. The Company only engages in transactions with Arizona cannabis businesses that hold licenses that are in good standing to cultivate, possess, and/or distribute cannabis in Arizona in compliance with Arizona's cannabis regulatory program.

To the extent required by Arizona's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Arizona cannabis businesses. The Company, Soothing Options, THCWC, HFL, ABACA, and iA AZ are in compliance with Arizona's cannabis regulatory program. With respect to S8 Rental, the Company is not aware of any non-compliance of Arizona's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with a "direct" involvement in the United States cannabis cultivation or distribution industry.

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

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

Arizona (cont.)

In 2010, Arizona voters passed Proposition 203, which was known as the Arizona Marijuana Initiative. The Arizona legislature thereafter enacted the Arizona Medical Marijuana Act ("AMMA"), decriminalizing the medical use of cannabis. The AMMA appointed the Arizona Department of Health Services ("ADHS") as a regulator for the program and authorized ADHS to promulgate, adopt, and enforce regulations implementing the AMMA. The ADHS established the Arizona Department of Health Services - Medical Marijuana Program ("MMJ Program"), which sets the rules and regulations regarding medical cannabis in the State of Arizona.

Medical Marijuana Dispensary Registration Certificates ("Certificates"), medical cannabis licenses under the AMMA, are vertically integrated and authorize Certificate holders to cultivate and dispense medical cannabis to patients. All Certificate holders must be not-for-profit entities and must submit an application to renew their Certificates to the ADHS at least 30 before the expiration thereof.

Colorado

On December 5, 2016, the Company, through its wholly-owned subsidiary, Scarlet, acquired the non-cannabis assets of Organix (collectively, the "Organix Assets"), the owner and operator of a Colorado medical and adult-use cannabis operation with a cultivation facility in Denver, CO and a medical and adult-use dispensary in Breckenridge, CO. The Organix Assets include all equipment and other tangible and intangible assets and all of the intellectual property of Organix, including its brands. In connection with this transaction, Bergamot, a wholly-owned subsidiary of Scarlet, purchased the real estate holdings of Organix's affiliate, DB, consisting of a 12,000 square foot cultivation facility in Denver, CO. Bergamot also purchased the dispensary located in Breckenridge, CO from the third-party landlord of the property. In a related transaction, Bellflower agreed to acquire all cannabis inventory and licenses to cultivate, manufacture, and sell cannabis-based products from Organix. The Company holds no ownership interest in Bellflower and accordingly, Bellflower is an arm's length party to the Company.

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. With respect to Scarlet and Bergamot, the Company is not aware of non-compliance with Colorado's cannabis regulatory program.

Florida

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

GHH's subsidiary and strategic partner, McCrory's Sunny Hill Nursery, LLC ("McCrory's" doing business as, and collectively with GHHIA, "GrowHealthy"), holds 1 of 22 Medical Marijuana Treatment Center licenses ("MMTC") issued by the Florida Department of Health ("FL DOH"), pursuant to which GrowHealthy is permitted to cultivate, process, and dispense medical cannabis under Florida's medical marijuana law.

Through the January 2018 transaction, the Company also acquired GHHIA, which holds an exclusive 40-year management contract that renews automatically every five years thereafter to provide management services associated with GrowHealthy's business in connection with the MMTC license issued to McCrory's, and held an option to acquire 100% of McCrory's for a nominal consideration subject to the approval of the FL DOH. On August 14, 2019, the FL DOH approved GHHIA's option to acquire McCrory's and GHHIA subsequently exercised the option. Accordingly, the Company through its wholly owned subsidiary, GHHIA, owns 100% of McCrory's. The MMTC license held by McCrory's allows for one or more cultivation and manufacturing facilities with no current cap on dispensaries in Florida, which has a current population of approximately 21 million residents.

GrowHealthy continues to expand its cultivation and production capacity through the construction and improvement of outdoor greenhouses and indoor grow rooms at its Lake Wales cultivation facility, which will add approximately 285,000 square feet of additional cultivation space.

GrowHealthy opened its flagship dispensary in West Palm Beach, FL in December 2018. In 2019, GrowHealthy opened additional dispensary locations in Brandon, Lake Worth, Orlando, Daytona Beach, North Miami, Lakeland, Gainesville, Bonita Springs, Deerfield Beach, and Ocala, FL.

Following the conclusion of 2019, GrowHealthy opened additional dispensary locations in Stuart, Pensacola, Tallahassee, Clearwater/Largo, and Cape Coral, FL bringing the total number of GrowHealthy dispensaries opened in Florida to sixteen. GrowHealthy continues to expand its delivery program through the addition of delivery vehicles. It is expected that each new dispensary will house an additional delivery vehicle.

For the purposes of Staff Notice 51-352, the Company's investment in GrowHealthy is classified as "direct" involvement in the United States cannabis cultivation or distribution industry because GHHIA is a wholly-owned subsidiary of the Company.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

Florida (cont.)

The Company is advised by legal counsel regarding compliance with Florida's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with Florida's cannabis regulatory program. The Company only engages in transactions with Florida cannabis businesses that hold licenses that are in good standing to cultivate, possess, and/or distribute cannabis in Florida in compliance with Florida's cannabis regulatory program. To the extent required by Florida's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Florida cannabis businesses. The Company, GHHA, and GrowHealthy are in compliance with Florida's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with a "direct" involvement in the United States cannabis cultivation or distribution industry.

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

On July 1, 2014, the Florida Legislature enacted the Compassionate Use Act (the "CUA") to create an exemption from Florida criminal statutes for the cultivation, processing, dispensing, and use of medical marijuana. Originally, the CUA was limited in scope, creating an application process for the creation of five geographically dispersed dispensing organizations, which would be vertically licensed to cultivate, process, and dispense low-THC cannabis for medically approved uses (each, a "Dispensing Organization"). The original 28 applicants for Dispensing Organization licenses were competitively reviewed, resulting in the selection of five licensees. The legislative session and special session thereafter, as well as a citizen led Florida constitutional amendment approved by state-wide vote in November, 2016, expanded and modified the original CUA, resulting in a total of 22 MMTC vertical licenses, which are legislatively approved to dispense "Low-THC cannabis" and "Medical Marijuana" derivative products in Florida, including smokable flower.

Until April 1, 2020, certain statutory caps were imposed upon the number of vertically integrated MMTC licenses that could be issued and the number of dispensary locations a duly licensed MMTC could open. Before the expiration of these caps, an additional four vertically integrated MMTC licenses could be granted upon the addition of 100,000 new qualified patients to the state-regulated database. Additionally, the statutory caps imposed a limit of 25 dispensaries that each MMTC could open increased by an additional five dispensaries per MMTC upon the addition of 100,000 new qualified patients to the state-regulated database. These caps were not readopted and expired on April 1, 2020.

The Office of Medical Marijuana Use of the FL DOH, is authorized to promulgate regulations implementing Florida's medical cannabis program, along with the Florida Department of Agriculture and Consumer Services, which is authorized to promulgate regulations concerning edible products.

Each licensed MMTC must receive authorization from the FL DOH at each stage of the production process (i.e., cultivation, processing, dispensing, and for each dispensary), as well as authorizations and inspections concerning edible products by the Florida Department of Agriculture and Consumer Services. Each licensee is held to the representations made in its original July, 2014 application. An MMTC must obtain approval from the FL DOH in the form of a variance before operating in a manner inconsistent with the representations in its application.

Florida's medical cannabis law further provides that the FL DOH shall renew the licensure of an MMTC every two years if the licensee meets the requirements of the law and pays the biennial renewal fee.

Maryland

Through its wholly owned subsidiary, S8 Management, the Company, operates three medical cannabis dispensaries in Maryland, LMS, Budding Rose, and GMMD, and one medical cannabis processor, Rosebud (collectively, the "Maryland Facilities"), pursuant to management agreements. The management agreements have an initial term of 20 years with up to two renewal terms of 20 years each. The Maryland Facilities hold licenses issued by the Natalie M. LaPrade Maryland Medical Cannabis Commission ("MMCC").

Through its wholly owned subsidiary, CGX, the Company, holds options to purchase each of the Maryland Facilities (the "Options"). The Options expire at various times in 2020 and 2021. An amendment to Maryland cannabis law effective July 1, 2019 prohibits the transfer of the ownership of a grower, processor, or dispensary until the applicable facility has operated for at least three years. A change in ownership of a dispensary or processor license, including through exercise of an option, is subject to the approval of the MMCC.

For the purposes of Staff Notice 51-352, the Company's investment in the Maryland Facilities are classified as "direct" involvement in the United States cannabis cultivation or distribution industry because S8 Management is a wholly owned subsidiary of the Company.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

Maryland (cont.)

The Company is advised by legal counsel regarding compliance with Maryland's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with Maryland's cannabis regulatory program. The Company only engages in transactions with Maryland cannabis businesses that hold licenses that are in good standing to cultivate, possess, and/or distribute cannabis in Maryland in compliance with Maryland's cannabis regulatory program. To the extent required by Maryland's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Maryland cannabis businesses.

The Company and the Maryland Facilities are in compliance with Maryland's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with a "direct" involvement in the United States cannabis cultivation or distribution industry.

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

In 2013, Governor Martin O'Malley signed Maryland House Bill 1101 into law, establishing Maryland's medical cannabis program and the MMCC, which is charged with enforcing Maryland's medical cannabis laws and regulations. The MMCC grants medical cannabis grower, processor, and dispensary licenses. A licensee may own or control one grower, one processor, and effective July 1, 2019, up to four dispensaries. The applicant must first seek pre-approval from the MMCC in order to be granted a license. Licenses for medical cannabis processors and dispensaries are issued for an initial term of six years and may be renewed for terms of 4 years, subject to the approval of the MMCC.

Maryland law regarding management agreements continues to evolve. On February 21, 2018, the MMCC issued Bulletin 2018-003 via its website, which required licensees to submit a copy of any proposed management agreement to the MMCC for review. The management agreements for the Maryland Facilities were submitted to the MMCC. In May, 2020, the MMCC issued further guidance on ownership and control reporting requirements, which confirmed the guidance set forth in Bulletin 2018-003 regarding management agreements and created a new procedure for the submission of management agreements and material changes to management agreements to the MMCC for approval.

Massachusetts

The Company formed Mayflower as a Massachusetts non-profit corporation and submitted applications in August 2015 for Registered Marijuana Dispensary Certificates of Registration, which are now known as Medical Marijuana Treatment Center ("MTC") Licenses under the new marijuana regulations. In August 2016, Mayflower received two MTC Provisional Licenses. In 2017, the Company acquired an 80% controlling interest in Pilgrim Rock Management, LLC ("Pilgrim"), the affiliated management company that provides management services, financing, intellectual property licensing, real estate, equipment leasing, and certain other services to Mayflower. The Company acquired the remaining 20% of Pilgrim in April 2018, which gave the Company 100% ownership of Pilgrim. On July 31, 2018, Mayflower was converted into a Massachusetts for-profit corporation, which is now 100% owned by the Company through its wholly owned subsidiary, ICM.

In December 2017, Mayflower completed construction of its Holliston, MA cultivation and product manufacturing facility and received an MTC Final License from the Massachusetts Department of Public Health ("DPH"). In January 2018, Mayflower began medical marijuana cultivation and manufacturing operations in Holliston, MA. The first harvest took place on April 20, 2018.

On June 25, 2018, Mayflower launched its medical marijuana delivery program, which now serves the municipalities of Arlington, Ashland, Boston, Brookline, Cambridge, Chelsea, East Boston, Everett, Malden, Medford, Milford, Milton, Quincy, Revere, Sherborn, Somerville, and Watertown, MA.

On July 19, 2018, Mayflower opened its first retail MTC facility in the Allston neighborhood of Boston, MA.

In 2018, Mayflower also began submitting applications for adult-use licenses. As an existing medical marijuana operator, Mayflower received and remains eligible for Priority Applicant status, which enables its adult-use applications to be reviewed before the applications of non-Priority applicants.

On October 10, 2019, Mayflower received approval from the Massachusetts Cannabis Control Commission ("Commission"), which assumed regulatory authority over the Medical Use of Marijuana Program in December 2018, to move the location of its second retail facility from Gloucester, MA to Lowell, MA, which will serve as a co-located MTC dispensary and adult-use Marijuana Retailer Establishment and is expected to open in 2020.

In December 2019, Mayflower received approval from the Commission to commence construction of its Worcester, MA retail facility, which will serve as an adult-use Marijuana Retailer Establishment and is expected to open in 2020.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

Massachusetts (cont.)

Additionally, the Holliston, MA facility passed its final Commission inspection and was approved to commence operations for adult-use cultivation and product manufacturing, effective Monday, January 27, 2020. On January 27, 2020, the Company commenced cultivating and manufacturing adult-use marijuana infused products and marijuana concentrates including edibles, vaporizers, tinctures, and topicals. This will allow the Company to supply its adult-use dispensary currently under construction in Worcester, MA as well as the other MTCs and adult-use Marijuana Establishments currently licensed in the Commonwealth on a wholesale basis.

In the next several months, Mayflower also expects to receive the local approvals necessary to submit an application to the Commission for an adult-use Marijuana Retailer license at its current MTC location in Boston, MA.

As a result of the MPX Acquisition on February 5, 2019, the Company also acquired 100% of CGX, which is the sole owner and member of Fall River Development Company, LLC ("FRDC") and IMT, LLC ("IMT"). FRDC and IMT have certain service and management agreements in place with Cannatech Medicinals, Inc. ("Cannatech"), a not-for-profit MTC license holder with a cultivation and product manufacturing facility and a separate retail dispensing facility both located in Fall River, MA. Both Fall River facilities are provisionally licensed as MTC facilities and are expected to open in the second quarter of 2020. Additionally, Cannatech has submitted adult-use Cultivator and Product Manufacturer License applications for the Fall River cultivation and product manufacturing facility.

For the purposes of Staff Notice 51-352, the Company's investments in Mayflower and Cannatech are classified as "direct" involvement in the United States cannabis cultivation or distribution industry, because Mayflower, Pilgrim Rock, FRDC, and IMT are wholly owned subsidiaries of the Company.

The Company is advised by legal counsel regarding compliance with Massachusetts' cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with Massachusetts' 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' cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Massachusetts cannabis businesses. The Company, Mayflower, Pilgrim Rock, Cannatech, FRDC, and IMT are in compliance with Massachusetts' cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with a "direct" involvement in the United States cannabis cultivation or distribution industry.

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

In November 2012, Massachusetts voters passed Ballot Question 3, establishing the Medical Use of Marijuana Program ("Medical Program"). The DPH initially regulated the Medical Program, and medical MTCs were required to be vertically integrated, Massachusetts Ch. 180 non-profit corporations that cultivated, manufactured, and dispensed medical marijuana and marijuana products. No person or entity having Direct or Indirect Control, as defined in 935 CMR 501.002, may be granted, or hold, more than three MTC licenses.

In November 2016, Massachusetts voters passed Ballot Question 4, legalizing adult-use marijuana for individuals 21 years of age and older.

The Commission promulgated adult-use marijuana regulations and began accepting applications in April 2018 for a variety of adult-use marijuana establishment licenses, including cultivator, retailer, product manufacturer, craft cooperative, testing lab, research facility, transporter, and microbusiness (collectively, the "Marijuana Establishment Licenses"). No person or entity having Direct or Indirect Control, as defined in 935 CMR 500.002, may be granted, or hold, more than three Marijuana Establishment licenses in a particular class. Adult-use license applicants must enter into host community agreements with the host municipality in which the facility is located (each, a "Host Community Agreement") and conduct a community outreach meeting. Existing medical marijuana operators and economic empowerment applicants are eligible for Priority Applicant status that enables their adult-use applications to be reviewed before the applications of non-priority applicants. Where operations include both medical and adult-use operations, license holders must provide a plan for separating medical use operations from adult-use operations. All licensees must renew their licenses annually.

In December 2018 and in accordance with state law, the Medical Program was transferred from the DPH to the Commission, which now regulates both the medical and adult-use marijuana programs.

On March 4, 2020, Boston's Mayor Martin Walsh announced his appointments to the Boston Cannabis Board, an independent board charged with advising the Mayor's office on cannabis regulation and policy and reviewing all applicants for a local marijuana license in the City of Boston (the "BCB"). The members of the BCB are Kathleen Joyce, Monica Valdes Lupi, Darlene Lombos, Lisa Holmes, and John Smith. On July 22, 2020, the BCB adopted rules and regulations governing marijuana establishments within the City of Boston. Any person or entity seeking to operate any type of adult use marijuana establishment in the City of Boston must obtain a local license from the BCB.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

Nevada

As a result of the MPX Acquisition on February 5, 2019, the Company, through its wholly owned subsidiary CGX, acquired 99% of the ownership interests of GMNV, a licensed cultivation and production facility located in North Las Vegas, NV (the "NLV Facility"). The change in control of GMNV must be approved by the Nevada Department of Taxation ("NV DOT"), which is currently reviewing the Company's application. Approval by the NV DOT will also result in the Company acquiring the remaining one percent ownership interest in GMNV, and the Company will then own 100% of GMNV through its wholly owned subsidiary, CGX.

GMNV, currently has two Nevada medical cannabis establishment registration certificates (each, a "Medical Marijuana License"), one for cultivation and one for product manufacturing, each of which occurs at the NLV Facility. GMNV also currently has two Nevada adult-use licenses ("Adult-Use Licenses"), one for cultivation and one for product manufacturing, each of which also occurs at the same NLV Facility. In December 2018, GMNV was awarded four conditional adult-use dispensary licenses ("Marijuana Retail Stores"). The NV DOT's award of conditional adult-use Marijuana Retail Store licenses is being challenged by several unsuccessful applicants in an action in Nevada state court. In consideration for partial settlement of this action, GMNV will transfer one of its conditional adult-use Marijuana Retail Store licenses to an unsuccessful applicant once certain conditions to settlement are met. GMNV is currently seeking to perfect its other conditional adult-use Marijuana Retail Store licenses at the state and local level.

Additionally, GMNV is in the process of perfecting a distributorship license, which is required to transport adult-use cannabis from its cultivation and product manufacturing facilities to its dispensaries/Marijuana Retail Stores.

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

The Company is advised by legal counsel regarding compliance with Nevada's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with Nevada's cannabis regulatory program.

The Company only engages in transactions with Nevada cannabis businesses that hold licenses that are in good standing to cultivate, possess, and/or distribute cannabis in Nevada in compliance with Nevada's cannabis regulatory program. To the extent required by Nevada's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such Nevada cannabis businesses.

The Company and GMNV are in compliance with Nevada's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with a "direct" involvement in the United States cannabis cultivation or distribution industry.

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

The Nevada Constitution was amended in 2000 to legalize the medical use of cannabis. State-certified medical cannabis establishments, including dispensaries, became operational in 2015. The Regulation and Taxation of Marijuana Act was proposed by an initiative petition and approved during the 2016 general election (the "RTMA"). The RTMA allows individuals over 21 years of age to purchase and possess limited amounts of cannabis and cannabis products. Prior to November 15, 2018, the NV DOT, which then regulated medical and adult-use cannabis in Nevada, only accepted applications for Nevada Adult-Use Licenses from individuals or businesses that held Medical Marijuana Licenses. Following November 16, 2018, the NV DOT began soliciting applications for cannabis establishments. Further requests for applications may be issued if additional cannabis establishments are required.

In 2019, Governor Steve Sisolak signed Assembly Bill 533 ("AB 533") into law. This omnibus legislation addresses many aspects of Nevada's cannabis industry, including creating the Cannabis Compliance Board ("CCB"). These changes took effect on July 1, 2020, including the transfer of regulatory oversight from the NV DOT to the CCB.

In Nevada, medical and adult-use marijuana licenses are issued for Cultivation Facilities, Marijuana Product Manufacturing Facilities, Medical Marijuana Dispensaries (for the retail sales of medical marijuana), Retail Marijuana Store Licenses (for retail sales of adult-use marijuana), and Independent Testing Laboratories. Additionally, Distributor Licenses, which pertain only to adult-use marijuana, permit licensees to transport cannabis from one cannabis establishment to another. All licenses must be renewed yearly.

In addition to obtaining a Nevada license, each Nevada marijuana establishment must obtain a license and land use approval form from the local jurisdiction in which it is situated. A provisional or conditional licensee may not engage in cannabis business operations until it has received all necessary local approvals and a final registration certificate from the CCB. No single entity may own more than one license in a local jurisdiction or more than 10% of the allocable licenses in one local jurisdiction, whichever is greater.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

New Jersey

MPX NJ received initial approval from the New Jersey Department of Health ("NJ DOH") in December 2018 to proceed under the Alternative Treatment Center ("ATC") medical cannabis permitting process to commence operations at an Atlantic County, NJ cultivation facility and an Atlantic City, NJ dispensary facility. Pursuant to the Honig Act (as defined below), MPX NJ may open two additional satellite dispensary facilities within its designated geographic region, subject to NJ DOH approval. In 2019, as a result of the MPX Acquisition, the Company acquired a 4% beneficial interest in MPX NJ. On August 27, 2019, iAnthus NJ, the Company's wholly owned subsidiary, entered into a broad services agreement to provide exclusive financing, leasing, licensing, and professional services to MPX NJ. On February 3, 2020, the NJ DOH issued MPX NJ a permit to cultivate and process medical cannabis at the Company's Pleasantville cultivation facility. Additionally, MPX NJ expects to open its Atlantic City, NJ dispensary facility in 2020.

The NJ DOH's approval of MPX NJ for licensure as an ATC has been appealed by several unsuccessful applicants and one existing ATC permit holder. Those appeals are presently pending in the Superior Court of New Jersey, Appellate Division.

For the purposes of Staff Notice 51-352, the Company's investment in MPX NJ and iAnthus NJ is classified as "direct" involvement in the United States cannabis cultivation or distribution industry.

The Company is advised by legal counsel regarding compliance with New Jersey's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with New Jersey's cannabis regulatory program. The Company only engages in transactions with New Jersey cannabis businesses that hold licenses that are in good standing to cultivate, possess, and/or distribute cannabis in New Jersey in compliance with New Jersey's cannabis regulatory program. To the extent required by New Jersey's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such New Jersey cannabis businesses. The Company, MPX NJ, and iAnthus NJ are in compliance with New Jersey's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with a "direct" involvement in the United States cannabis cultivation or distribution industry.

The applicable regulations in the State of New Jersey are summarized below.

On July 2, 2019, Governor Phil Murphy signed the Jake Honig Compassionate Use Medical Cannabis Act ("Honig Act") into law, which significantly amended and expanded the existing New Jersey Compassionate Use Medical Marijuana Act ("CUMMA") enacted in January 2010. Like CUMMA, the Honig Act provides protection from arrest, prosecution, property forfeiture, and criminal and other penalties for patients who use cannabis to alleviate suffering from certain medical conditions, as well as their health care practitioners, designated caregivers, and those who are authorized to produce, process, and dispense cannabis for medical purposes.

The Honig Act ultimately transfers all responsibility for oversight, regulation, administration, and enforcement of New Jersey's medical cannabis program from the NJ DOH to the new five-member Cannabis Regulatory Commission (the "CRC"). However, medical cannabis oversight will remain under the NJ DOH until such time as all members of the CRC are appointed and the CRC first organizes.

The Honig Act establishes three distinct permit types in connection with the production and dispensing of medical cannabis: Medical Cannabis Cultivators, Medical Cannabis Manufacturers, and Medical Cannabis Dispensaries. Any such permit will be valid for one year and be renewable annually. The CRC will be required to issue a request for new permit applications within 90 days of the Honig Act's effective date and to make a determination on any permit application within 90 days after the date of submission.

For a period of 18 months after the Honig Act's effective date, an entity will be permitted to hold only one permit of any type subject to the exceptions set forth below. After 18 months, an entity will be authorized to concurrently hold Medical Cannabis Cultivator, Medical Cannabis Manufacturer, and Medical Cannabis Dispensary permits.

However, the Honig Act provides that the CRC must issue three new ATC permits that are not subject to these restrictions. These ATCs will be deemed to concurrently hold Medical Cannabis Cultivator, Medical Cannabis Manufacturer, and Medical Cannabis Dispensary permits immediately upon approval, regardless of the general 18-month restriction on vertical integration. They will also be authorized to establish one satellite dispensary location each, provided that each such ATC applies for the satellite dispensary within 18 months after the Honig Act's effective date. These permits are to be geographically distributed with one located in each of the northern, central, and southern regions of New Jersey.

Additionally, ATCs that were issued a permit prior to the Honig Act's effective date, ATCs that were issued a permit after the Honig Act's effective date but pursuant to an application submitted prior to such effective date, and up to four ATCs issued permits after the Honig Act's effective date but pursuant to a request for applications published in the New Jersey Register prior to such effective date will not be subject to the restrictions on vertical integration and will also be deemed to concurrently hold Medical Cannabis Cultivator, Medical Cannabis Manufacturer, and Medical Cannabis Dispensary permits.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

New Jersey (cont.)

Similarly, no new satellite dispensaries will be approved aside from any new satellite dispensary expressly authorized under the Honig Act, any satellite dispensary authorized for a clinical registrant, and grandfathered satellite dispensaries, including those of any ATC issued a permit prior to the Honig Act's effective date and any ATC issued a permit after the Honig Act's effective date pursuant to an application submitted prior to such effective date. Any such ATC shall be authorized to hold up to two satellite dispensary permits, including any satellite dispensary permit approved prior to the Honig Act's effective date or approved pursuant to an application submitted prior thereto. Any satellite dispensary approved pursuant to an application submitted within the first 18 months after the Honig Act's effective date are also permitted.

The CRC will be required to specify by regulation the number of new permits of each type that it will authorize in the first year following the Honig Act's effective date and thereafter periodically evaluate whether the current number of permits is sufficient to meet the needs of qualifying patients and issue requests for new applications if necessary.

Pursuant to its mandate under the Honig Act and until its authority transfers to the CRC, the NJ DOH grants vertically integrated and endorsement-specific permits authorizing the cultivation, processing, and dispensing of medical cannabis by ATCs through its Division of Medicinal Marijuana. To obtain an ATC permit, an application must be filed with the NJ DOH.

New Mexico

On April 2, 2014, RGA was formed for the primary purpose of serving as (1) a branding, marketing and consulting company to license and/or sublicense certain technology and product names to medical cannabis license holders in New Mexico; (2) a holding company for acquiring, leasing, and/or managing real estate, fixtures, and equipment; and (3) an entity that enters into financial transactions to support the operations of medical cannabis license holders in New Mexico. RGA currently manages three cultivation operations in Albuquerque, NM, totaling approximately 50,000 square feet, and six dispensary locations, five of which are in Albuquerque, NM and one of which is in Grants, NM. RGA also manages a kitchen and extraction laboratory located in Albuquerque, NM. 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 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 cannabis cultivation or distribution industry. With respect to RGA, the Company is not aware of non-compliance with New Mexico's cannabis regulatory program.

New York

On February 1, 2018, the Company acquired 100% of Citiva. The vertically integrated medical cannabis business license held by Citiva allows for one cultivation and processing facility and up to four dispensaries. The acquisition provides the Company with exposure to one of the nation's largest markets, with a state-wide population of approximately 20 million people in a state where only 10 licenses have been granted.

On December 31, 2018, the Company opened its flagship dispensary in Brooklyn, NY. The dispensary is one of only three dispensaries operating in Brooklyn, a borough of approximately 2.6 million residents. On February 14, 2019, the Company opened its second dispensary location in Wappingers Falls, NY, and on March 11, 2020, the Company opened its third dispensary in Staten Island, NY. The Company plans to open its fourth dispensary in Ithaca, NY in the second half of 2020. To supply Citiva's dispensaries with product ahead of completion of the Company's Warwick, NY cultivation facility, Citiva has wholesale purchase agreements with other Registered Organizations (as defined below) in New York for of a range of vaporization products, capsules, and tinctures.

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

The Company is advised by legal counsel regarding compliance with New York's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law and/or other advisors in connection with New York's cannabis regulatory program. The Company only engages in transactions with New York cannabis businesses that hold licenses that are in good standing to cultivate, possess, and/or distribute cannabis in New York in compliance with New York's cannabis regulatory program. To the extent required by New York's cannabis regulatory program, the Company has fully disclosed and/or registered each financial interest the Company holds in such New York cannabis businesses.

The Company and Citiva are in compliance with New York's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with a "direct" involvement in the United States cannabis cultivation or distribution industry.

The applicable regulations in the State of New York are summarized below.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

New York (cont.)

In July 2014, Governor Andrew M. Cuomo and the New York State Legislature enacted the Compassionate Care Act (the "CCA") to provide a comprehensive, safe and effective medical cannabis program. The CCA and the regulations promulgated thereunder allow for the acquisition, possession, manufacturing, sale, delivery, transportation, distribution, and dispensing of cannabis for medical purposes by certain registered organizations in the State of New York (each, a "Registered Organization"). The New York State Department of Health (the "NY DOH") supervises New York's medical cannabis regulatory program and has currently issued registrations to only ten Registered Organizations.

Each Registered Organization holds a vertically integrated license that allows for one manufacturing (cultivation and processing) facility and up to four dispensaries for medical cannabis products. The CCA permits a limited number of product offerings, and smoking of cannabis flower is prohibited as is incorporating medical cannabis into food products unless approved by the Commissioner of the NY DOH. New York is a vertically integrated system but allows Registered Organizations to wholesale manufactured product to one another. Registered Organizations may only manufacture and dispense medical cannabis to qualified patients and designated caregivers.

Registrations under New York's medical cannabis program must be renewed every two years. An application to renew any registration must be filed with the NY DOH not more than six months and not less than four months prior to the expiration thereof.

Vermont

In 2017, the Company acquired 100% of Pakalolo, LLC ("Pakalolo"), the sole member of GRVT, a non-profit medical cannabis license holder in Vermont. On January 1, 2018, the Company's wholly owned subsidiary, Grassroots Vermont Management Services, LLC ("GVMS"), executed a management services agreement with GRVT, pursuant to which GVMS provides GRVT management services, financing, intellectual property licensing, real estate, equipment leasing, and certain other services.

On August 23, 2019, GRVT was converted from a non-profit corporation to a for profit corporation and issued its only common stock outstanding to GVMS. In connection with the conversion, GRVT is now 100% owned by the Company through its wholly owned subsidiary, GVMS, and Pakalolo is no longer a member of GRVT.

GRVT currently maintains one location in Brandon, VT where cannabis is dispensed, cultivated, and processed. GRVT is seeking to open a second location in the greater Burlington, VT area, subject to applicable state and local approvals.

For the purposes of Staff Notice 51-352, the Company's investment in GRVT is classified as "direct" involvement in the United States cannabis cultivation or distribution industry because GVMS is a wholly owned subsidiary of the Company.

The Company is advised by legal counsel regarding compliance with Vermont's cannabis regulatory framework and potential exposure and implications arising from U.S. federal law 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. The Company, Pakalolo, GRVT, and GVMS are in compliance with Vermont's cannabis regulatory program. In addition to the foregoing description, Staff Notice 51-352 requires additional disclosure for issuers with a "direct" involvement in the United States cannabis cultivation or distribution industry.

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

On May 19, 2004, Vermont legalized medical marijuana through the passage of Senate Bill 76, which authorized state-registered patients to grow up to three marijuana plants and possess up to two ounces of marijuana for medical purposes.

In 2011, Vermont authorized the establishment of up to four state-licensed medical marijuana distribution facilities through the passage of Senate Bill 17. On June 8, 2017, Governor Phil Scott signed Bill S. 16 authorizing the operation of an additional dispensary in Vermont and allowing each existing dispensary to open one additional location. The Vermont Department of Public Safety ("VT DPS") regulates Vermont's medicinal marijuana regulatory program.

On January 22, 2018, Governor Phil Scott signed Vermont's recreational cannabis bill into law, the first recreational cannabis law to be passed by a state legislature. This law took effect on July 1, 2018 and allows adults 21 years of age and older to possess up to one ounce of cannabis and possess up to two plants. However, there is no current regulatory system in place permitting the commercial sale of recreational cannabis.

Regulatory Environment: Issues with U.S. Cannabis-Related Assets (cont.)

Vermont (cont.)

No person is permitted to operate as a registered medical marijuana dispensary without a DPS-issued limited operating registration certificate. A dispensary may not dispense cannabis before the issuance of an active operating registration certificate, among other requirements. Limited operating registration certificates issued by the VT DPS to a dispensary are non-transferable. After a dispensary has been issued a limited operating registration certificate, the dispensary must obtain an active operating registration certificate and begin dispensing cannabis within six months. A waiver allowing an additional three months may be granted by the VT DPS upon receipt of a written justification for delay. A dispensary that does not commence dispensing within the required timeframe forfeits any and all fees that have been submitted. If a dispensary fails to commence dispensing within the required timeframe, the VT DPS may reopen the application process for a replacement dispensary.

Up to five registered dispensaries may be authorized by the VT DPS until such time as the number of registered patients in Vermont reaches 7,000. Currently, there are five registered dispensaries in Vermont including GRVT, and according to the VT DPS, there were 5,209 patients enrolled with the Vermont Marijuana Registry as of May 7, 2019. Each licensed dispensary may have up to two locations, where cannabis may be dispensed to registered patients, and one additional location, where cannabis is cultivated or processed.

The operations of a dispensary are subject to regulations promulgated by the VT DPS. On an annual basis, a dispensary may seek to renew its registration certificate. Upon this renewal request, the VT DPS determines whether to renew a dispensary's registration certificate for operation within 10 business days after submission of a completed VT DPS-approved form with all required documentation and the required fee.

iA CBD

On June 27, 2019, the Company, through its wholly owned subsidiary, iA CBD, acquired substantially all of the property and assets of CBD for Life. As a result of its acquisition of CBD for Life, the Company through its wholly owned subsidiary, iA CBD, is engaged in the formulation, manufacture, creation, and sale of products infused with CBD. The CBD used to manufacture these products is exclusively derived from hemp. The Company intends for all its hemp-derived products to be produced and sold in accordance with the 2014 Farm Bill and the 2018 Farm Bill, as applicable at the time and location of operation and for such products to constitute hemp under the 2018 Farm Bill.

Risk Factors

Many factors could cause the Company's actual results, performance and achievements to differ materially from those expressed or implied by the forward-looking statements and forward-looking information, including without limitation, the following factors. The risk factors described herein are not the only ones the Company may face. Additional risks and uncertainties that the Company is unaware of, or that the Company currently deems not to be material, may also become important factors that affect the Company. If any such risks actually occur, the Company's business, financial condition, or results of operations could be materially adversely affected, with the result that the trading price of the Common Shares could decline and purchases could lose all or part of their investment.

The Company relies on third-party suppliers, manufacturers and contractors.

The Company relies on third-party suppliers, manufacturers and contractors to provide certain products and services. Due to the uncertain regulatory landscape for regulating cannabis in Canada and the United States, the Company's third-party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Company's operations and the operations of the Company's subsidiaries. Loss of these suppliers, manufacturers and contractors could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company may not be able to continue executing its merger and acquisition strategy successfully.

The Company's business plan depends in part on its ability to continue merging with or acquiring other businesses in the cannabis industry, including cultivators, processors, manufacturers and dispensaries. The success of any acquisition will depend upon, among other things, the Company's ability to integrate acquired personnel, operations, products and technologies into the Company's organization effectively, to retain and motivate key personnel of acquired businesses, to retain their customers, and maintain product quality.

Any future mergers or acquisitions, or similar transactions, are subject to conditions, which may include, without limitation, the Company's satisfactory completion of due diligence, negotiation and finalization of formal legal documents, financing and approval from its Board of Directors. As a result, there can be no assurance that the Company will complete any such transactions. If the Company does not complete such transactions, the Company may be subject to a number of risks, including, but not limited to:

- a decline in the price of the Company's common shares to the extent that the current market price reflects a market assumption that these transactions will be completed;

Risk Factors (cont.)

- the payment of certain costs related to each transaction, such as legal, accounting and consulting fees, even if a transaction is not completed; and
- an absence of assurance that such opportunities will be available to the Company in the future or at all.

Furthermore, any future merger or acquisition may result in diversion of management's attention from other business concerns, and such transactions may be dilutive to the Company's financial results and/or result in impairment charges and write-offs. Such transactions could involve other risks, including the assumption of unidentified or unknown liabilities, disputes or contingencies, for which the Company, as a successor owner, may be responsible, and/or changes in the industry, location, or regulatory or political environment in which these investments are located, that the Company's due diligence review may not adequately uncover and that may arise after entering into such transactions.

Although the Company has and expects to continue to realize strategic, operational and financial benefits as a result of the Company's mergers and acquisitions, the Company cannot predict whether and to what extent such benefits will be achieved.

The Company competes for market share with other companies, which may have longer operating histories, more financial resources and more manufacturing and marketing experience than the Company has.

The Company faces, and expects to continue to face, competition from other companies some of which may have longer operating histories, more financial resources and more experience than the Company. Increased competition by larger and well-financed competitors, and/or competitors that have longer operating histories and more manufacturing and marketing experience than the Company, could have a material adverse effect on the Company's business, financial condition, and results of operations. As the Company and its subsidiaries operate in an early stage industry, the Company expects to face additional competition from new entrants.

Specifically, the Company expects to face additional competition from new market entrants that are granted licenses within a particular state in which the Company's subsidiaries operate or existing license holders which are not yet active in the industry. If a significant number of new licenses are granted in the near term, the Company may experience increased competition for market share and may experience downward price pressure on the Company's products as new entrants increase production, which could have a material adverse effect on the Company's business.

In addition, if the number of users of cannabis increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development together with marketing, sales, and other support.

The Company may not have sufficient resources to maintain research and development, and sales efforts on a competitive basis, which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's U.S. tax classification could have a material adverse effect on the Company's financial condition and results of operations.

Although the Company is a Canadian corporation, it is classified as a U.S. domestic corporation for U.S. federal income tax purposes under section 7874(b) of the U.S. Internal Revenue Code of 1986, as amended (the "U.S. Tax Code") and will be subject to U.S. federal income tax on its worldwide income. However, for Canadian tax purposes, regardless of any application of section 7874 of the U.S. Tax Code, the Company is treated as a Canadian resident corporation. As a result, the Company is subject to taxation in both Canada and the United States, which could have a material adverse effect on the Company's financial condition and results of operations. It is unlikely that the Company will pay any dividends on its common shares in the foreseeable future. However, dividends received by shareholders who are residents of Canada for purposes of the Income Tax Act (Canada) (the "Canadian Tax Act") will generally be subject to U.S. withholding tax. Any such dividends may not qualify for a reduced rate of withholding tax under the U.S.-Canada income tax treaty ("U.S.-Canada Treaty"). In addition, a Canadian foreign tax credit may not be available under the Canadian Tax Act in respect of such taxes. Dividends received by shareholders resident in the United States will not be subject to U.S. withholding tax but will be subject to Canadian withholding tax under the Canadian Tax Act. In the event that the Company pays any dividends, they will be characterized as U.S. source income for purposes of the foreign tax credit rules under the U.S. Tax Code. Accordingly, shareholders resident in the United States generally will not be able to claim a credit for any Canadian tax withheld unless, depending on the circumstances, such shareholders have an excess foreign tax credit limitation due to other foreign source income that is subject to a low or zero rate of foreign tax. Dividends received by shareholders that are residents of neither Canadian nor the United States generally will be subject to U.S. withholding tax and Canadian withholding tax. These dividends may not qualify for a reduced rate of U.S. withholding tax under any income tax treaty otherwise applicable to the Company's shareholders, subject to examination of the relevant treaty. Since the Company is classified as a U.S. domestic corporation for U.S. federal income tax purposes under section 7874(b) of the U.S. Tax Code, the Company's common shares will be treated as shares of a U.S. domestic corporation and shareholders will be subject to the relevant provisions of the U.S. Tax Code and/or the U.S. Treaty.

Risk Factors (cont.)

Each shareholder should seek tax advice, based on such shareholder's particular facts and circumstances, from an independent tax advisor, including, without limitation, in connection with the Company's classification as a U.S. domestic corporation for U.S. federal income tax purposes under section 7874(b) of the U.S. tax code, the application of the U.S. tax code, the application of the U.S.-Canada treaty, the application of U.S. federal estate and gift taxes, the application of U.S. federal tax withholding requirements, the application of U.S. estimated tax payment requirements and the application of U.S. tax return filing requirements.

The Company may incur significant tax liabilities under section 280E of the U.S. Tax Code.

Section 280E of the U.S. Tax Code prohibits businesses from deducting certain expenses associated with trafficking controlled substances (within the meaning of Schedule I and II of the CSA). The Internal Revenue Service of the United States (the "IRS") has invoked section 280E of the U.S. Tax Code in tax audits against various cannabis businesses in the United States that are permitted under applicable state laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly, and the bulk of operating costs and general administrative costs are not permissible deductions. While there are currently several pending cases before various U.S. administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E of the U.S. Tax Code favorable to cannabis businesses.

The Company relies on the operators of its subsidiaries to execute their business plans and operations.

The Company relies on operators of its subsidiaries to execute on their business plans, produce cannabis products, and otherwise conduct day to day operations. As a result, the Company's cash flows are dependent upon the ability of its subsidiaries to operate successfully. The operators of the Company's subsidiaries have significant influence over the results of operations. Further, the Company's interests and the interests of such operators may not always be aligned. As a result, the Company's cash flows are dependent upon the activities of the operators of its subsidiaries, which creates the risk that at any time those third parties may:

- have business interests or targets that are inconsistent with the Company's;
- take action contrary to the Company's policies or objectives;
- be unable or unwilling to fulfil their obligations under their agreements with the Company; or
- experience financial, operational or other difficulties, including insolvency, which could limit or suspend its ability to perform its obligations.

In addition, payments may flow through the Company's subsidiaries, and there is a risk of delay and additional expense in receiving such payments. Failure by the Company to receive payments in a timely fashion, or at all may have a material adverse effect on the Company. In addition, the Company must rely, in part, on the accuracy and timeliness of the information it receives from its subsidiaries, and uses such information in its analyses, forecasts, and assessments relating to its own business. If the information provided to the Company by its subsidiary contains material inaccuracies or omissions, the Company's ability to accurately forecast or achieve such subsidiary's stated objectives, or satisfy its reporting obligations, may be materially impaired.

The Company may invest in securities of private companies, and may hold a minority interest in such companies, which may limit the Company's ability to sell or otherwise transfer those securities and direct management decisions of such companies.

The Company may invest in securities of private companies, and may hold a minority interest in such companies. In some cases, the Company may be restricted for a period by contract or applicable securities laws from selling or otherwise transferring those securities. In addition, any securities of private companies in which the Company invests may not have a liquid market, and the inability to sell those securities on a timely basis or at acceptable prices may impair the Company's ability to exit the investments when the Company considers it appropriate. Further, because the Company holds a minority interest in certain companies, the Company may be limited in the Company's ability to direct management decisions of such companies.

The Company experienced negative cash flow from operating activities.

During the fiscal year ended December 31, 2019, the Company experienced negative cash flow from operating activities. Although the Company anticipates having positive cash flow from operating activities in future periods, the Company cannot assure that it will achieve sufficient revenues from sales of cannabis, CBD and/or other related products to achieve or maintain profitability or positive cash flow from operating activities. If the Company does not achieve or maintain profitability or positive cash flow from operating activities, it could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's auditors have included a material uncertainty related to going concern with respect to the Company's financial statements.

The Company and certain of its subsidiaries have limited operating history and a history of negative cash flow from operating activities. The Company's ability to continue as a going concern is dependent upon the Company's ability to raise additional capital, the Company's ability to achieve sustainable revenues and profitable operations and, in the meantime, the Company's ability to obtain the necessary capital to meet the Company's obligations and repay the Company's liabilities when they become due. No assurances can be given that the Company will be successful in achieving these goals. If the Company is unable to achieve these goals, the Company's ability to carry out and implement the Company's planned business objectives and strategies will be significantly delayed, limited or may not occur. These material circumstances cast substantial doubt on the Company's ability to

Risk Factors (cont.)

continue as a going concern and ultimately on the appropriateness of the use of the accounting principles applicable to a going concern. The Company's financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. The Company continues to have access to equity and debt capital from public and private markets in Canada and the United States; however, there are no guarantees that such capital will be available, or if available, that it will be on terms acceptable to the Company.

The Company is a holding company and the majority of the Company's assets are the capital stock of the Company's subsidiaries.

The Company is a holding company and the majority of the Company's assets is the capital stock of the Company's subsidiaries. As a result, investors are subject to the risks attributable to the Company's subsidiaries. As a holding company, the Company conducts substantially all of its business through its subsidiaries, which generate substantially all of the Company's revenues. Consequently, the Company's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of the Company's subsidiaries and the distribution of those earnings to the Company. The ability of the Company's subsidiaries to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations, which require that solvency and capital standards be maintained, as well as any contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any the Company's subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before the Company can receive any dividends or other distributions from its subsidiaries.

If the Company's goodwill, other intangibles or fixed assets become impaired, the Company may be required to record a significant charge to earnings.

When the Company acquires a business, a substantial portion of the purchase price of the acquisition can be allocated to goodwill and other identifiable intangible assets. The amount of the purchase price that is allocated to goodwill and other identifiable intangible assets is determined by the excess of the purchase price over the net identifiable assets acquired. As of December 31, 2019, the Company held goodwill of \$201,014 and other intangible assets, including cannabis operations licenses, and trademarks of \$177,590.

Under IFRS, the carrying amount of the Company's goodwill is tested at least annually for impairment on December 31st of each fiscal year. On each quarter end date, the Company assesses whether recent events or changes in circumstances constitute a triggering event requiring the Company to assess whether goodwill, other intangibles or fixed assets may be impaired before the annual testing date. Occurrences that may constitute a change in circumstances include but are not limited to a decline in the Company's share price and market capitalization, decreases in expected future cash flows and slower growth rates in the Company's industry. The Company reviews its fixed assets and other finite life intangibles for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. As a result of its annual test conducted on December 31st of each fiscal year, the Company recognized an impairment loss on goodwill of \$234,284 and \$nil for the years ended December 31, 2019 and 2018, respectively. No impairment losses were recorded on the Company's other intangibles or fixed assets.

Under IFRS, if the Company determines that goodwill, other intangibles or fixed assets are impaired, the Company will be required to write down these assets. Any write-down would have a negative effect on the Company's consolidated financial statements. During the second half of 2019, the Company's share price declined below net book value per share. As a result, the Company was required to record a significant impairment loss to reduce the amount of goodwill recorded in its financial statements for the year ended December 31, 2019. If the share price remains below the net book value per share, or other negative business factors arise, the Company may be required to perform additional goodwill impairment analyses before its next annual testing date of December 31, 2020, which could result in additional impairment charges. Additionally, significant impairment charges may impact compliance with the financial covenants of Company's outstanding borrowings.

The Company believes that it has, and will seek to maintain, adequate insurance coverage in respect of risks customarily insured by other companies in the Company's industry; however, premiums for such insurance may not continue to be on terms acceptable to the Company and there may be coverage limitations and other exclusions that may not be sufficient to cover potential liabilities faced by the Company.

The Company believes it has, and will seek to maintain, adequate coverage in respect of risks customarily insured by other companies in the Company's industry, including insurance to protect the Company's assets, operations and employees. While the Company does not maintain crop insurance and the Company's ability to obtain insurance coverage may be limited because of the Company's industry, the Company believes the Company's insurance coverage addresses all material risks to which the Company is exposed and is adequate and customary in the Company's current state of operations. However, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be on terms acceptable to the Company.

If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when the Company is not able to obtain liability insurance, it could have a material adverse effect on the Company's business, financial condition and results of operations.

Risk Factors (cont.)

The Company's cannabis cultivation operations are subject to risks inherent in an agricultural business.

The Company's business involves the growing of cannabis, an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and other agricultural risks that may create crop failures and supply interruptions for the Company's customers.

Although the majority of the Company's cultivators grow products indoors under climate controlled conditions and carefully monitor the growing conditions with trained personnel, there can be no assurance that such agricultural risks will not have a material adverse effect on the production of the Company's products.

The Company's cannabis cultivation operations are vulnerable to rising energy costs and dependent upon key inputs.

The Company's cannabis cultivation operations consume considerable amounts of energy making the Company vulnerable to rising energy costs. Rising or volatile energy costs could have a material adverse effect on the Company's business, financial condition, and results of operations. In addition, the Company's business is dependent on a number of key inputs and their related costs, including raw materials and supplies related to the Company's growing operations, as well as electricity, water, and other utilities. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier were to go out of business, the Company might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to the Company or its subsidiaries in the future. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs or the Company's inability to secure required supplies and services or to do so on appropriate terms could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company may not be able to transport its products to customers in a safe and efficient manner.

The Company depends on fast and efficient third-party transportation services to distribute hemp-based products. Any prolonged disruption of third-party transportation services could have a material adverse effect on the Company's sales volumes or its end users' satisfaction with its services. Rising costs associated with third-party transportation services used by the Company to ship its hemp-based products may also adversely impact the Company's profitability, and more generally its business, financial condition and results of operations.

The security of products during transportation will be of the utmost concern. A breach of security during transport or delivery could result in the loss of high-value product. A failure to take steps necessary to ensure the safekeeping of cannabis and hemp could also have an impact on the Company's ability to operate under its license(s), to renew or receive amendments to such license(s), or to receive required new licenses.

Notwithstanding the passage of the 2018 Farm Bill, local law enforcement officials in Oklahoma and Idaho previously seized shipments of hemp traveling through those states on the grounds that (i) the products qualified as marijuana and were illegal under these states' controlled substances laws and (ii) the interstate transportation provision of the 2018 Farm Bill had not yet taken effect. Criminal charges were also filed. Despite the intent of the 2018 Farm Bill to allow interstate transportation of hemp products—even through states lacking hemp programs—the novelty of the 2018 Farm Bill hemp provision, and conflicts among state laws, has created confusion and caused differing interpretations among local authorities. Accordingly, there remains risk of enforcement even when activity is lawful under federal and state law. Notably, on May 28, 2019, the USDA Office of General Counsel issued a legal opinion concluding that, among other things, states may not prohibit the interstate transportation or shipment of hemp, regardless of whether the hemp is produced under the 2014 Farm Bill or the 2018 Farm Bill. This opinion is not binding, and certain states have already indicated that they do not intend to follow it.

The cannabis and hemp industry is subject to the risks inherent in an agricultural business, including the risk of crop failure.

The growing of cannabis and hemp is an agricultural process. As such, a business with operations in the cannabis and hemp industry is subject to the risks inherent in the agricultural business, including risks of crop failure presented by weather, insects, plant diseases, and similar agricultural risks. Accordingly, there can be no assurance that artificial or natural elements, such as insects and plant diseases, will not entirely interrupt production activities or have an adverse effect on the production of cannabis and hemp and, accordingly, acquisition prices which could have a material adverse effect on the Company's operations.

There is uncertainty surrounding the characterization of CBD.

There is uncertainty surrounding the characterization of CBD as a food and/or dietary ingredient by the FDA, and the Company may be subject to enforcement action taken by the FDA concerning products containing derivatives from hemp. On January 13, 2020, Representative Collin C. Peterson introduced H.R. 5587, a bill seeking to amend the FFDCFA with respect to the regulation of hemp-derived CBD and substances containing hemp-derived CBD which, if enacted into law, H.R. 5587 would consider hemp-derived CBD and substances containing hemp-derived CBD to be dietary supplements under the FFDCFA, resolving ambiguity and providing clear guidance to stakeholders about how to comply with applicable FDA law. However, there can be no assurance that such bill will be enacted into law, and failure by the Company to comply with FDA requirements may result in, among other things, injunctions, product withdrawals or recalls, product seizures, fines, and criminal prosecutions.

Risk Factors (cont.)

The Company is dependent on the popularity of consumer acceptance of cannabis and hemp products.

The Company believes the cannabis and hemp industries are highly dependent upon consumer perception regarding the safety, efficacy, and quality of cannabis and related products distributed to such consumers.

Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention, and other publicity regarding the consumption of cannabis and hemp-based products. There has been limited scientific research on cannabis and hemp, and there can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention, or other research findings or publicity will be favorable to the cannabis and hemp market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention, or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings, or publicity could have a material adverse effect on the demand for the Company's products and on the Company's business, financial condition, and results of operations. Further, adverse publicity reports or other media attention regarding the safety, efficacy, and quality of cannabis, hemp and related products in general, or our products specifically, or associating the consumption of cannabis and hemp or related products with illness or other negative effects or events, could also have such a material adverse effect. Such adverse publicity reports could be published or other media attention could have such a material adverse effect even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed. The increased usage of social media and other web-based tools used to generate, publish, and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views in regard to the Company and its activities, whether true or not. Although the Company takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputational loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its projects, thereby having a material adverse impact on the financial performance, financial condition, cash flows, and growth prospects of the Company.

Furthermore, adverse publicity reports or other media attention could hinder market growth and state legalization of cannabis due to inconsistent public opinion and perception of the medical and adult-use cannabis industry. While public opinion and support appears to be rising for legalizing the use of cannabis for medical and adult use, especially in the United States, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, decriminalizing cannabis as opposed to full legalization). If consumers do not accept the Company's cannabis or hemp products, or if the Company fails to meet customers' needs and expectations adequately, the Company's ability to continue generating revenues could be reduced which could have a material adverse effect on the Company.

The presence of trace amounts of THC in the Company's hemp products may cause adverse consequences to users of such products that will expose the Company to the risk of liability and other consequences.

Some of the Company's products that are intended to primarily contain U.S. hemp-derived CBD may contain trace amounts of THC. THC is an illegal or controlled substance in many jurisdictions, including under the federal laws of the U.S. Whether or not ingestion of THC (at low levels or otherwise) is permitted in a particular jurisdiction, there may be adverse consequences to consumers of the Company's U.S. hemp products who test positive for any amounts of THC, even trace amounts, because of the presence of unintentional amounts of THC in the Company's hemp products. In addition, certain metabolic processes in the body may negatively affect the results of drug tests. As a result, the Company may have to recall its products from the market. Positive tests for THC may adversely affect the Company's reputation, its ability to obtain or retain customers, and individuals' participation in certain athletic or other activities. A claim or regulatory action against the Company based on such positive test results could materially and adversely affect its business, financial condition, operating results, liquidity, cash flow, and operational performance.

The Company will likely need additional capital to sustain its operations and will likely need to seek further financing, which may not be able on acceptable terms, if at all. If the Company fails to raise additional capital, as needed, its ability to implement its business model and strategy could be limited.

The Company has limited capital resources and operations. To date, the Company's operations have been funded primarily from the proceeds of debt and equity financings, and the Company may require additional equity and/or debt financing to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. If

additional capital is raised through further issuances of equity or debt securities, existing holders of the Company's common shares could suffer significant dilution, and any new equity securities issued could have rights, preferences, and privileges superior to the Company's existing common shareholders.

Furthermore, any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

Risk Factors (cont.)

The Company has historically raised capital from the public markets in Canada. If the Company is unable to continue to raise capital from the public markets in Canada in the future due to changes in applicable law or any other unforeseeable reason, then the Company expects that it would be able to raise capital through private equity and/or debt financings. However, there is no assurance that the Company will be able to raise capital through private equity or debt financings or from any other resources in the future. Further, commercial banks, private equity firms, and venture capital firms have approached the industry cautiously to date.

Although there has been an increase in the amount of private financings available over the last several years, there is neither a broad number of institutional investors nor a significant pool of institutional capital that is available to cannabis license holders and license applicants. Further, because cannabis is illegal under U.S. federal law, the Company may have difficulty attracting investors or raising capital on favorable terms or at all.

The Company and its subsidiaries have limited operating history and therefore the Company is subject to many of the risks common to early-stage enterprises.

The Company and certain of its subsidiaries have a limited operating history, which may make evaluating the Company's business and future prospects difficult and may increase the risk of an investment in the Company. The Company may face certain risks and difficulties as an early-stage company with limited operating history, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources, and lack of revenue. The Company's ability to manage growth effectively will require the Company to manage its subsidiaries effectively and continue to implement and improve the Company's operational and financial systems and to expand, train, and manage the Company's employee base. There is no assurance that the Company will manage growth effectively. If the Company does not successfully address these risks, it could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company depends on key personnel to operate its business, and if the Company is unable to retain, attract, and integrate qualified personnel, the Company's ability to develop and successfully grow the Company's business could be harmed.

The Company believes its success has depended and will continue to depend on the efforts and talents of the Company's executives and employees. The Company's future success depends on the Company's continuing ability to attract, develop, motivate and retain highly qualified and skilled employees, including employees with sufficient experience in the cannabis industry. Qualified individuals, including individuals with sufficient experience in the cannabis industry, are in high demand, and the Company may incur significant costs to attract and retain such individuals. In addition, the loss of any of the Company's key employees or senior management could have a material adverse effect on the Company's ability to execute its business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis or at all. The Company's executive officers and other employees are at will employees, which means they may terminate their employment relationship with the Company at any time, and their knowledge of the Company's business and industry would be extremely difficult to replace. The Company may not be able to retain the services of any members of the Company's senior management or other key employees. If the Company does not succeed in attracting well-qualified employees or retaining and motivating existing employees, it could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company may have difficulty accessing the service of banks, which may make it difficult for the Company to operate.

Since cannabis and certain cannabis-related activities are illegal under U.S. federal law and certain state laws, many banks and other financial institutions will not accept for deposit funds from cannabis-related businesses and will close deposit accounts upon discovery that the account contains such funds. Financial transactions involving proceeds generated by cannabis-related activities can form the basis for prosecution under the U.S. federal anti-money laundering statutes, unlicensed money transmitter statute and the Bank Secrecy Act. The Bank Secrecy Act, enforced by FinCEN, requires the Company's banks and financial institutions with which the Company does business to file currency transaction reports for currency transactions in excess of \$10,000, including identification of the customer by name and social security number, to the IRS. This regulation also requires those banks and financial institutions to file suspicious activity reports with respect to certain suspicious activity, including any transaction that exceeds \$5,000 that they know, suspect, or have reason to believe involves funds from illegal activity (including funds from cannabis-related businesses) or is designed to evade U.S. federal regulations or reporting requirements and to verify sources of funds. Substantial penalties can be imposed against those banks and financial institutions if they fail to comply with these laws and regulations.

In recent years, anti-money laundering enforcement has included the assessment of money penalties that, in some cases, have been very substantial amounts, the acceptance of responsibility and admission regarding the facts by the company involved, actions focused on individual officers, including compliance officers, of the company involved, and seizure and forfeiture of company property and its proceeds. If those banks and financial institutions fail to comply with this regulation and other laws and regulations, FinCEN and other regulatory agencies may impose substantial penalties on those banks and financial institutions.

For the reasons noted above, despite the guidance set forth to banks under the FinCEN memorandum, banks remain hesitant to offer banking services to cannabis-related businesses. Consequently, those businesses involved in the cannabis industry continue to encounter difficulty establishing and maintaining banking relationships. The Company's inability to maintain its current bank accounts would make it difficult for the Company to operate its business, increase the Company's operating costs, and impose additional operational, logistical, and security challenges and could result in the Company's inability to implement the Company's business plan, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Risk Factors (cont.)

The Company competes for market share with illicit cannabis businesses and other persons engaging in illicit cannabis-related activities, and each such business or other person likely is not adhering to the same laws, regulations, rules, and other restrictions that are applicable to the Company.

The Company faces and expects to continue to face competition from illicit cannabis businesses, which are unlicensed and unregulated and other persons engaging in illicit cannabis-related activities.

These illicit cannabis businesses and other persons are cultivating and/or selling cannabis while likely not adhering to the same laws, regulations, rules, and other restrictions that are applicable to the Company. Further, these illicit cannabis businesses and other persons may be able to offer products with higher concentrations of active ingredients than the Company is authorized to produce and sell, and using delivery methods, including edibles, concentrates, and extract vaporizers, that the Company may be prohibited from offering in certain of the states in which the Company operates. The competition presented by these illicit cannabis businesses and other persons, and the inability or unwillingness of law enforcement authorities to enforce existing laws prohibiting the unlicensed or otherwise illegal cultivation and sale of cannabis could result in the perpetuation of the illegal market for cannabis and/or have a material adverse effect on the perception of cannabis use.

In addition, the Company must follow certain state regulations to set the retail prices of the Company's cannabis, which regulations are not applicable to illicit cannabis businesses and other persons engaging in illicit cannabis related-activities. In determining the retail prices of the Company's cannabis, the Company must consider a number of factors, including the price of cannabis in the existing illicit market in the event the Company's prices are too high, and the risk of the Company's customers reselling the Company's cannabis in the event the Company's prices are too low. If the Company does not appropriately set retail prices on its cannabis products, it may have difficulty competing with illicit cannabis businesses and other persons, which may have a material adverse effect on the Company's business.

Servicing the Company's debt will require a significant amount of cash, and the Company may not have sufficient cash flow from the Company's business to pay the Company's substantial debt.

The Company's ability to make scheduled payments of the principal of, to pay interest on or to refinance the Company's current and future indebtedness depends on the Company's future performance, which is subject to economic, financial, competitive and other factors beyond the Company's control.

For year ended 2019, the Company had a long-term debt of \$130.7 million and cash balance of \$34.8 million, representing a shortfall of cash to cover the long-term debt of \$95.9 million. There is no assurance that the Company's operations will generate cash flow to service the Company's debt sufficiently, which could have a material adverse effect on the Company's financial condition. If the Company is unable to generate such cash flow, the Company may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. The Company's ability to refinance the Company's current and future indebtedness will depend on the capital markets and the Company's financial condition at such time. The Company may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on the Company's debt obligations.

Certain events or developments in the cannabis industry more generally may affect the Company's business.

Cannabis is illegal under U.S. federal law and there is limited scientific evidence to verify the medical or therapeutic benefits associated with cannabis; any such evidence remains mostly anecdotal. In addition, there is no clear scientific evidence to suggest whether cannabis consumption can result in long-term health effects or any adverse public health consequences. Further, the cannabis industry has commonly been associated with certain criminal activities, including organized crime.

The actual or perceived occurrence of any number of events, including publication of any negative scientific research or the actions and/or wrongdoing of other businesses and individuals in the cannabis industry, may negatively affect the reputation of the industry as a whole, and may cause potential investors to no longer invest in the Company's securities or the cannabis industry in general.

The Company ultimately does not have control over how the cannabis industry, or the Company is perceived by others. Any reputational issues may result in decreased investor confidence, increased challenges in developing and maintaining community relations, and present an impediment to the Company's overall ability to advance the Company's business strategy and realize on the Company's growth prospects.

Cannabis pricing and supply regulation may adversely affect the Company's business.

Certain states require cannabis dispensaries to submit cannabis pricing for licensing approval in order to ensure that the cost of cannabis in the regulated market is neither too high, which among other things may encourage the purchase of cannabis from illicit cannabis business, or too low, which among other things may increase the risk of legally purchased cannabis being resold illicitly. Additionally, certain states regulate the operations of cultivators to address oversupply of local markets. The Company's ability to adjust sale prices at the Company's dispensaries or production volumes at the Company's cultivation facilities may be affected by such pricing and supply regulations, which could have a material adverse impact on the Company's ability to adapt to local market conditions.

Risk Factors (cont.)

Tax laws related to cannabis and compliance costs may adversely affect the Company's business.

Section 280E of the Internal Revenue Code prohibits cannabis businesses from deducting their ordinary and necessary business expenses, except for some "costs of goods sold", forcing cannabis businesses to pay higher effective federal tax rates than similar companies in other industries. The effective tax rate on a cannabis business depends on how large its ratio of non-deductible expenses is to its total revenues.

In addition, certain states impose significant excise taxes on products sold at licensed cannabis dispensaries, which taxes in some states exceed 15%. Local jurisdictions typically impose additional taxes on cannabis products. Furthermore, the Company incurs significant costs complying with state and local laws and regulations. Collectively, federal state and local taxes may place a substantial burden on the Company's revenue which could have a material adverse effect on the Company's business.

Litigation, complaints, enforcement actions and governmental inquiries could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company (directly or through its subsidiaries) has been named as a defendant in several legal actions and is subject to various risks and contingencies arising in the normal course of business. Furthermore, the Company's participation in the cannabis industry may lead to further litigation, formal or informal complaints, enforcement actions, and governmental inquiries. Litigation, complaints, enforcement actions, and governmental inquiries could consume considerable amounts of the Company's financial and other resources, which could have a material adverse effect on the Company's sales, revenue, profitability, and growth prospects.

The Company's subsidiaries are presently engaged in the lawful cultivation, processing, and sale of cannabis under state law in the jurisdictions in which they operate, and the Company, and its subsidiaries, have not been, and are not currently, subject to any material litigation, complaint, or enforcement action regarding cannabis (or otherwise) brought by any governmental authority.

Litigation, complaints, enforcement actions and governmental inquiries could result from cannabis-related activities in violation of federal law, including, but not limited to, the Racketeer Influenced Corrupt Organizations Act ("RICO"). Among other things, RICO authorizes private parties whose properties or businesses are harmed by such patterns of racketeering activity to initiate a civil action against the individuals involved. Recently, a number of RICO lawsuits have been brought by neighbors of state licensed cannabis farms who allege they are bothered by noise and odor associated with cannabis production, which has also led to decreased property values. By alleging that the smell of cannabis interferes with the enjoyment of their property and drives down their property value, plaintiffs in these cases have effectively elevated common law nuisance claims into federal RICO lawsuits. These lawsuits have named not only the cannabis operator, but also supply chain partners and vendors that do not directly handle or otherwise "touch" cannabis.

Further, from time to time in the normal course of the Company's business operations, the Company or any of its subsidiaries may become subject to litigation, complaints, enforcement actions, and governmental inquiries that may result in liability material to the Company's financial statements as a whole or may negatively affect the Company's operating results if changes to the Company's business operations are required. The cost to defend such litigation, complaints, actions, or inquiries may be significant and may require a diversion of the Company's resources. There also may be adverse publicity associated with such litigation, complaints, actions, or inquiries that could negatively affect customer perception of the Company's business, regardless of whether the allegations are valid or whether the Company is ultimately found liable. Insurance may not be available at all or in sufficient amounts to cover any liabilities with respect to these or other matters. A judgment or other liability in excess of the Company's insurance coverage for any claims could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company currently has insurance coverage protecting many but not all of its assets and operations. The Company's insurance coverage is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, it may be exposed to material uninsured liabilities that could impede the Company's liquidity, profitability, or solvency.

The Company may be subject to product liability claims and product recalls.

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action, and litigation if the Company's products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis and CBD products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination, which may affect consumer confidence in the Company's cannabis and/or CBD products. Previously unknown adverse reactions resulting from human consumption of cannabis and CBD products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, adversely affect the Company's reputation with the Company's clients and consumers generally, and have a material adverse effect on the Company's business, financial condition, and results of operations.

Risk Factors (cont.)

While the Company maintains product liability insurance, there can be no assurances that the Company will be able to maintain this or other product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's products.

In addition, manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety, and inadequate or inaccurate labelling disclosure. If one or more of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all.

In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing finished products, there can be no assurance that any quality, potency, or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action, or lawsuits.

Additionally, if one or more of the Company's products were subject to recall, the reputation of that product and the Company's reputation could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the Company's business, financial condition, and results of operations. Additionally, product recalls may lead to increased scrutiny of the Company's operations by regulatory agencies in the jurisdictions in which the Company operates, requiring further management attention and potential legal fees and other expenses. Furthermore, any product recall affecting the cannabis or CBD industry more broadly could lead consumers to lose confidence in the safety of the products, which could have a material adverse effect on the Company's business, financial condition, and results of operations.

Third parties with whom the Company does business may perceive themselves as being exposed to reputational risk because of their relationship with the Company due to the Company's cannabis-related business activities and may as a result, refuse to do business with the Company.

The third parties with whom the Company does business may perceive that they are exposed to reputational risk because of the Company's cannabis-related business activities. Any third-party service provider could suspend or withdraw its services to the Company if it perceives that the potential risks exceed the potential benefits to such services. Specifically, while the Company has banking relationships and believes that the services can be procured from other institutions, the Company may, in the future, have difficulty maintaining existing or securing new bank accounts or clearing services. The Company's failure to establish or maintain business relationships could have a material adverse effect on its business, financial condition, and results of operations.

The Company may become subject to liability arising from any fraudulent or illegal activity by the Company's employees, independent contractors, and consultants.

The Company is exposed to the risk that the Company's employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless, and/or negligent conduct or disclosure of unauthorized activities to the Company that violates government regulations, manufacturing standards, healthcare fraud, and abuse laws and regulations or laws that require the true, complete, and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by the Company's employees and other third parties. The precautions taken by the Company to detect and prevent such misconduct may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to comply with such laws or regulations.

If any such actions are instituted against the Company, and the Company is not successful in defending itself or asserting its rights, those actions could have a significant impact on the Company's business, including the imposition of civil, criminal, and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

Some of the Company's lines of business rely on the Company's third-party service providers to host and deliver services and data, and any interruptions or delays in these hosted services, security or privacy breaches, or failures in data collection could expose the Company to liability and harm the Company's business and reputation.

Some of the Company's lines of business and services rely on services hosted and controlled directly by third-party service providers. The Company does not have redundancy for all of its systems, many of the Company's critical applications reside in only one of the Company's data centers, and the Company's disaster recovery planning may not account for all eventualities. If the Company's business relationship with a third-party provider of hosting or software services is negatively affected, or if one of the Company's service providers were to terminate its agreement with the Company, the Company might not be able to deliver access to its data, which could subject the Company to reputational harm and cause the Company to lose customers and future business, thereby reducing the Company's revenue.

Risk Factors (cont.)

The Company may experience breaches of security at the Company's facilities or in respect of electronic documents and data storage and may face risks related to breaches of applicable privacy laws.

Given the nature of the Company's cannabis products and the limited legal channels for distribution as well as the concentration of inventory in the Company's facilities, the Company is subject to the risk of theft of the Company's products and other security breaches.

A security breach at one of the Company's facilities could result in a significant loss of available products, expose the Company to additional liability under applicable regulations and to potentially costly litigation, or increase expenses relating to the resolution and future prevention of similar thefts, any of which could have an adverse effect on the Company's business, financial condition and results of operations.

In addition, the Company may collect and store personal information about its customers and is responsible for protecting that information from privacy breaches. A security incident at the Company's facilities may compromise the confidentiality, integrity, or availability of customer data. Unauthorized access to customer data stored on the Company's computers or networks may be obtained through break-ins, breaches of the Company's secure network by an unauthorized party, employee theft or misuse, or other misconduct. Unauthorized access to customer data may be obtained through inadequate use of security controls by customers. Accounts created with weak passwords could allow cyber-attackers to gain access to customer data.

If there were an inadvertent disclosure of customer information or if a third party were to gain unauthorized access to the information the Company possesses on behalf of its customers, the Company's operations could be disrupted, the Company's reputation could be damaged, and the Company could be subject to claims or other liabilities, including liability from federal and state governmental agencies. In addition, such perceived or actual unauthorized disclosure of the information the Company collects or breach of the Company's security could damage the Company's reputation, result in the loss of customers and have a material adverse effect on the Company's business, financial condition and results of operations.

The Company collects and manages a large amount of data using the Company's hosted solutions. As a result, it is possible that hardware or software failures or errors in the Company's systems (or those of the Company's third-party service providers) could result in data loss or corruption, cause the information that the Company collects to be incomplete or contain inaccuracies that the Company's customers regard as significant, or cause the Company to fail to meet committed service levels. Furthermore, the Company's ability to collect and report data may be delayed or interrupted by a number of factors, including access to the Internet, the failure of the Company's network or software systems, or security breaches. In addition, computer viruses or other malware (including ransomware) may harm the Company's systems, causing the Company to lose data or incur additional costs to retrieve corrupted or encrypted data, and the transmission of computer viruses or other malware could expose the Company to litigation. The Company may also find, on occasion, that the Company cannot deliver data and reports in near real time because of a number of factors, including failures of the Company's network or software. If the Company supplies inaccurate information or experiences interruptions in the Company's ability to capture, store, and supply information in near real time or at all, the Company's reputation could be harmed and the Company could lose customers or the Company could be found liable for damages or incur other losses.

In addition, there are a number of laws protecting the confidentiality of certain of the Company's customers health information, including health records, and restricting the use and disclosure of that protected information. In the United States, under the administrative simplification provisions of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), and the HIPAA Privacy and Security Rules, 45 C.F.R. Parts 160 and 164, as amended by Title XIII of Division A and Title IV of Division B of the American Recovery and Reinvestment Act ("ARRA") (Pub. L. 111-5) also known as the Health Information Technology for Economic and Clinical Health Act ("HITECH Act") and the HITECH Act Final Rule published January 25, 2013 ("HITECH Act Final Rule"), the U.S. Department of Health and Human Services has issued regulations which establish uniform standards governing the conduct of certain electronic health care transactions and protecting the privacy and security of Protected Health Information ("PHI") and electronic PHI ("ePHI") used or disclosed by health care providers and other covered entities. HIPAA Privacy and Security Rules establish a minimum standard for healthcare privacy and security in the United States and do not pre-empt state privacy, security, and confidentiality laws that are more stringent or that provide individuals with greater rights with respect to the privacy or security of and access to their records containing PHI or ePHI. If the Company were found to be subject to and in violation of the HIPAA Privacy and Security Rules or other state laws protecting the confidentiality of the Company's customers health information, the Company could be subject to sanctions, civil or criminal penalties, and a corrective action plan which could increase the Company's liabilities, harm the Company's reputation and have a material adverse effect on the Company's business, financial condition, and results of operations. Other jurisdictions in which the Company may expand its operations may also have similar privacy and security laws to which the Company is subject, depending on the nature of the Company's operations in such jurisdictions.

Risk Factors (cont.)

The Company may be subject to risks related to the protection and enforcement of the Company's intellectual property rights, and third parties may enforce their intellectual property rights against the Company.

The ownership and protection of the Company's intellectual property rights is a significant aspect of the Company's future success. Currently, the Company relies on trade secrets, trademarks, service marks, copyrights, technical know-how, and other proprietary information (collectively, "Intellectual Property") to maintain the Company's competitive position. The Company tries to protect its Intellectual Property by seeking and obtaining registered protection where possible, developing and implementing standard operating procedures to protect Intellectual Property, and entering into agreements with parties that have access to the Company's Intellectual Property, such as the Company's partners, collaborators, employees, and consultants, to protect confidentiality and ownership. The Company also seeks to preserve the integrity and confidentiality of its Intellectual Property by maintaining physical security of the Company's premises and physical and electronic security of the Company's information technology systems.

It is possible that the Company may fail to identify Intellectual Property, fail to protect or enforce its Intellectual Property, inadvertently disclose such Intellectual Property or fail to obtain patents or register rights in relation to such Intellectual Property.

In relation to the Company's agreements with parties that have access to the Company's Intellectual Property, any of these parties may breach those agreements and the Company may not have adequate remedies for any specific breach.

In relation to the Company's security measures, such security measures may be breached, and the Company may not have adequate remedies for any such breach. In addition, the Company's Intellectual Property, which has not yet been applied for or registered, may otherwise become known to or be independently developed by competitors or may already be the subject of applications for intellectual property registrations filed by the Company's competitors, which could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company cannot provide any assurances that the Company's Intellectual Property will not be disclosed in violation of agreements or that competitors will not otherwise gain access to the Company's Intellectual Property or independently develop and file applications for intellectual property rights that adversely affect the Company's intellectual property rights. Unauthorized parties may attempt to copy, reverse engineer, or otherwise obtain and use the Company's Intellectual Property. Identifying and policing the unauthorized use of the Company's current or future Intellectual Property rights could be difficult, expensive, time-consuming, and unpredictable, as may be enforcing these rights against unauthorized use by others. The Company may be unable to effectively monitor and evaluate the products being distributed by the Company's competitors, including unlicensed dispensaries, and the processes used to produce such products. Additionally, if the steps taken to identify and protect the Company's Intellectual Property rights are deemed inadequate, the Company may have insufficient recourse against third parties for enforcement of the Company's Intellectual Property rights.

Furthermore, the laws and positions of intellectual property offices administering such laws and regulations regarding intellectual property rights with respect to cannabis and services and products relating to cannabis are constantly evolving and there is uncertainty regarding whether the laws or regulations of other countries prohibit the filing, prosecution, and issuance of applications for intellectual property registrations with respect to cannabis or services or products relating to cannabis and whether the laws or regulations of other countries prohibit the enforcement of rights under intellectual property registrations with respect to cannabis or services or products relating to cannabis. For example, the Company's ability to obtain registered trademark protection with respect to cannabis and services and products related to cannabis may be limited in certain countries, such as the United States, where registered trademark protections are currently unavailable with the U.S. Patent and Trademark Office ("USPTO") for trademarks covering cannabis or cannabis-based products in light of the CSA.

Additionally, USPTO promulgated Examination Guide 1-19, which provides, among other things, that trademarks for food products, beverage products, dietary supplement products, or pet treat products containing hemp derived CBD can be rejected by the USPTO on the basis that the sale of such products in interstate commerce allegedly violates FDA law. Accordingly, the Company's ability to obtain intellectual property rights or enforce intellectual property rights against third-party uses of similar trademarks may be limited in certain countries. Moreover, in any infringement proceeding, some or all of the Company's intellectual property rights or arrangements or agreements seeking to protect the same for the Company's benefit may be found invalid, unenforceable, or anti-competitive. An adverse result in any litigation or defense proceedings could put one or more of the Company's intellectual property rights at risk of being invalidated or interpreted narrowly and could put existing intellectual property applications at risk of not being issued. Any or all of these events could have a material adverse effect on the Company's business, financial condition, and results of operations.

Risk Factors (cont.)

To the extent that the Company files any patent applications, the Company cannot offer any assurances about which, if any, patent applications will issue, the breadth of any such patent, or whether any issued patents will be found invalid or unenforceable or which of the Company's products or processes will be found to infringe upon the patents or other proprietary rights of third parties. Any successful opposition to future issued patents could deprive the Company of rights necessary for the successful commercialization of any new products or processes that the Company may develop. Furthermore, there is no guarantee that any patent or other intellectual property applications that the Company files will result in registration or any enforceable intellectual property rights. In addition, there is no assurance that the Company will find all potentially relevant prior art relating to any patent applications that the Company files, which may prevent a patent from issuing from a patent application or invalidate any patent that issues from such application. Even if patents do successfully issue and cover the Company's products and processes, third parties may challenge their validity, enforceability, or scope, which may result in such patents being narrowed, found unenforceable, invalidated, or not infringed. Even if they are unchallenged, any patent applications and future patents may not adequately protect the Company's intellectual property, provide exclusivity for the Company's products or processes, or prevent others from designing around any issued patent claims. Any of these outcomes could impair the Company's ability to prevent competition from third parties, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Additionally, other parties may claim that the Company's products or services infringe on their proprietary and patent protected rights or other intellectual property rights. There may be third-party patents or patent applications with claims to products or processes related to the manufacture, use, or sale of the Company's products.

There may be currently pending patent applications, some of which may still be confidential, that may later result in issued patents upon which the Company's products or processes may infringe. In addition, third parties may obtain patents in the future and claim that use of the Company's inventions, trade secrets, technical know-how, and proprietary information, or the manufacture, use or sale of the Company's products infringes upon those patents. Third parties may also claim that the Company's use of the Company's trademarks infringes upon their trademark rights. Parties making claims against the Company may obtain injunctive or other equitable relief, which may have an adverse impact on the Company's business. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders, and/or require the payment of damages.

In addition, the Company may need to obtain licenses from third parties who allege that the Company has infringed on their lawful rights. However, such licenses may not be available on terms acceptable to the Company or at all. In addition, the Company may not be able to obtain or utilize on terms that are favorable to the Company or at all licenses or other rights with respect to intellectual property that the Company does not own.

Conflicts of interest may arise between the Company and the Company's directors and officers.

The Company may be subject to various potential conflicts of interest because of the fact that some of the Company's directors and officers may be engaged in a range of business activities. In addition, the Company's executive officers and directors may devote time to their outside business interests so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's directors and executive officers may have fiduciary obligations associated with those business interests that interfere with their ability to devote time to the Company's business and affairs and that could have a material adverse effect on the Company's business, financial condition, and results of operations. These business interests could require significant time and attention of the Company's directors and executive officers.

In addition, the Company may also become involved in other transactions, which conflict with the interests of the Company's directors and officers who may from time to time deal with persons, firms, institutions, or corporations with which the Company may be dealing or may be seeking investments similar to those desired by the Company. The interests of these persons could conflict with the Company's interests, and these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the Company's directors are required to act honestly, in good faith, and in the Company's best interests.

The requirements of being a public company may strain the Company's resources, result in more litigation, and divert the attention of the Company's management.

As a public company, the Company is subject to the reporting requirements of applicable securities rules and regulations of Canadian securities regulators and other requirements in Canada. Complying with these rules and regulations increases the Company's legal and financial compliance costs, makes some activities more difficult, time-consuming, and costly, and increases demand on the Company's systems and resources.

Risk Factors (cont.)

In addition, upon effectiveness of this registration statement on Form 10, the Company will become a public reporting company in the United States. The obligations of being a public company in the United States require significant expenditures and will place significant demands on the Company's management and other personnel, including costs resulting from public company reporting obligations under the Exchange Act and the rules and regulations regarding corporate governance practices, including those under the Sarbanes-Oxley Act of 2002 the Dodd-Frank Wall Street Reform and Consumer Protection Act. These rules require the establishment and maintenance of effective disclosure and financial controls and procedures and internal control over financial reporting among many other complex rules that are often difficult to implement, monitor, and maintain compliance with. Moreover, despite recent reforms made possible by the Jumpstart Our Business Startups Act, the reporting requirements, rules, and regulations will make some activities more time-consuming and costly, particularly after the Company is no longer deemed an "emerging growth company." In addition, the Company expects these rules and regulations to make it more difficult and more expensive for it to obtain director and officer liability insurance, and the Company may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. The Company's management and other personnel will need to devote a substantial amount of time to ensure that it complies with all of these requirements and to keep pace with new regulations, otherwise the Company may fall out of compliance and risk becoming subject to litigation among other potential problems. Compliance with these rules and regulations could also make it more difficult for the Company to attract and retain qualified members of our Board of Directors.

The Company's failure to maintain effective internal controls over financial reporting could have an adverse effect on the Company.

The Company is required to establish and maintain appropriate internal controls over financial reporting. Failure to establish those controls or any failure of those controls once established could adversely affect the Company's public disclosures regarding the Company's business, financial condition, or results of operations. In addition, management's assessment of internal controls over financial reporting may identify weaknesses and conditions that need to be addressed in the Company's internal controls over financial reporting or other matters that may raise concerns for investors. Any actual or perceived weaknesses and conditions that need to be addressed in the Company's internal control over financial reporting, disclosure of management's assessment of the Company's internal controls over financial reporting, or disclosure of the Company's public accounting firm's attestation to or report on management's assessment of the Company's internal controls over financial reporting may have an adverse impact on the price of the Company's common shares.

The cannabis industry is highly regulated and the Company may not always succeed in fully complying with applicable regulatory requirements in all jurisdictions where the Company conducts its business.

The Company's cannabis-related business and activities and those of the Company's subsidiaries are heavily regulated in all jurisdictions where the Company conducts its business.

The Company's operations are subject to various laws, regulations, and guidelines by governmental authorities, both in the United States and Canada, relating to, among other things, the manufacture, marketing, and sale of cannabis, as well as laws and regulations relating to health and safety, insurance coverage, the conduct of operations and the protection of the environment. Laws and regulations, applied generally, grant government agencies and self-regulatory bodies broad administrative discretion over the Company's activities, including the power to limit or restrict business activities as well as impose additional disclosure requirements on the Company's products.

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all necessary licenses, permits, authorizations, or accreditations for the Company's cultivation, production, and dispensary operations. The Company may not be able to obtain such approvals or may be able to do so only at a significant expense. The commercial cannabis industry is still a new industry in Canada and is an emerging industry in the United States. The effect of relevant governmental authorities' administration, application, and enforcement of their respective regulatory regimes and delays in obtaining or the Company's failure to obtain the necessary licenses, permits, authorizations, or accreditations to conduct the Company's business may significantly delay or impact the development of markets, products, and sales initiatives and could have a material adverse effect on the Company's business, financial condition and results of operations.

While the Company endeavors to comply with all relevant laws, regulations, and guidelines with respect to its cannabis-related business and, to the Company's knowledge, it is in compliance or is in the process of being assessed for compliance with all such laws, regulations, and guidelines, any failure to comply with the regulatory requirements applicable to the Company's operations may lead to possible sanctions including, but are not limited to, the revocation or imposition of additional conditions on licenses to operate the Company's business, the suspension or expulsion from a particular market or jurisdiction or of the Company's key personnel, the imposition of additional or more stringent inspection, testing and reporting requirements, and the imposition of fines and censures.

Risk Factors (cont.)

In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increase compliance costs or give rise to material liabilities or a revocation of the Company's licenses and other permits, which could have a material adverse effect on the Company's business, financial condition, and results of operations. For example, new legislation or regulations may be introduced at either the federal and/or state level which, if passed, could impose substantial new regulatory requirements on the manufacture, packaging, labelling, advertising and distribution and sale of hemp-derived products. New legislation or regulations may also require the reformulation, elimination or relabelling of certain products to meet new standards and revisions to certain sales and marketing materials, and it is possible that the costs of complying with these new regulatory requirements could be material. Furthermore, governmental authorities may change their administration, application, or enforcement procedures at any time, which may adversely affect the Company's ongoing costs relating to regulatory compliance.

Failure to comply with these laws and regulations could subject the Company to regulatory or agency proceedings, investigations, or audits and could lead to damage awards, fines, and penalties.

The Company may become involved in a number of government or agency proceedings, investigations, and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Company's reputation, require the Company to take or refrain from taking actions that could harm the Company's operations, or require the Company to pay substantial amounts of money, harming the Company's financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations, and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on the Company's business, financial condition, and results of operations. Furthermore, if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for the Company's products, the Company's sales and operating results could be adversely affected.

The Company's business activities and the business activities of its subsidiaries, while believed to be compliant with applicable U.S. state and local laws, currently are illegal under U.S. federal law.

While certain states in the U.S. have legalized "medical cannabis," "adult use cannabis" or both, medical and adult-use cannabis remains illegal under federal law. The CSA, classifies "marijuana" as a Schedule I drug. As such, cannabis-related business activities, including without limitation, the cultivation, manufacture, importation, possession, use, or distribution of cannabis, remains illegal under U.S. federal law. Individual state laws do not always conform to U.S. federal law or the laws of other states, and there are a number of variations in the laws and regulations of the various states in which the Company operates. Although the Company believes its business activities and those of its subsidiaries are compliant with the laws and regulations of the states in which the Company and its subsidiaries operate, strict compliance with state and local laws with respect to cannabis neither absolves the Company of liability under U.S. federal law, nor provides a defense to any proceeding that may be brought against the Company under U.S. federal law. Any proceeding that may be brought against the Company could have a material adverse effect on the Company's business, financial condition, and results of operations. Violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions, or settlements, arising from either civil or criminal proceedings brought by either the U.S. federal government or private citizens, including, but not limited to, property or product seizures, disgorgement of profits, cessation of business activities, or divestiture.

Such fines, penalties, administrative sanctions, convictions, or settlements could have a material adverse effect on the Company, including but not limited to:

- the Company's reputation and on the Company's ability to conduct business;
- the Company's ability to obtain and/or maintain cannabis licenses, whether directly or indirectly, in the United States;
- the listing of the Company's securities on various stock exchanges;
- the Company's financial position, operating results, profitability, or liquidity; and
- the market price of the Company's securities.

Risk Factors (cont.)

If the Company is not able to comply with all safety, security, health, and environmental regulations applicable to its operations and industry, the Company may be held liable for any breaches thereof.

Safety, security, health, and environmental laws and regulations affect nearly all aspects of the Company's operations, including product development, working conditions, waste disposal, emission controls, the maintenance of air and water quality standards, and land reclamation. Security protocols with respect to the Company's facilities and the transportation of cannabis and with respect to environmental laws and regulations impose limitations on the generation, transportation, storage, and disposal of solid and hazardous waste. Continuing to meet good manufacturing practice standards, which the Company follows voluntarily, requires satisfying additional standards for the conduct of the Company's operations and subjects the Company to ongoing compliance inspections in respect of these standards. Compliance with safety, security, health, and environmental laws and regulations can require significant expenditures, and failure to comply with such laws and regulations may result in the imposition of fines and penalties, the temporary or permanent suspension of operations, the imposition of clean-up costs resulting from contaminated properties, the imposition of damages and/or the loss of or refusal of governmental authorities to issue permits or licenses to the Company. Exposure to these liabilities may arise in connection with the Company's existing operations, the Company's historical operations and operations that the Company may undertake in the future. The Company could also be held liable for worker exposure to hazardous substances and for accidents causing injury or death. There can be no assurance that the Company will remain in compliance with all safety, security, health, and environmental laws and regulations notwithstanding the Company's attempts to comply with such laws and regulations.

Changes in applicable safety, security, health, and environmental standards may impose stricter standards and enforcement, increased fines and penalties for non-compliance, and a heightened degree of responsibility for companies and their officers, directors, and employees.

The Company is not able to determine the specific impact that future changes in safety, security, health, and environmental laws and regulations may have on the Company's industry, operations, and/or activities and the Company's resulting financial position. However, the Company anticipates that capital expenditures and operating expenses will increase in the future as a result of the implementation of new and increasingly stringent safety, security, health, and environmental laws and regulations. Further changes in such laws and regulations, new information on existing safety, security, health, and environmental conditions or other events, including legal proceedings based upon such conditions or an inability to obtain necessary permits in relation thereto may require increased compliance expenditures by the Company.

There is uncertainty surrounding the policies of President Donald Trump and the Trump administration and their ability to influence policies in opposition to the cannabis industry as a whole.

There is uncertainty surrounding the policies of President Donald Trump and the Trump administration regarding the medical or adult use of cannabis. In an effort to provide guidance to U.S. federal law enforcement, under former President Barack Obama, the DOJ released the Cole Memorandum on August 29, 2013. The Cole Memorandum sought to limit the use of the U.S. federal government's prosecutorial resources by providing U.S. Attorneys with the following Cole Priorities on which to focus their attention in states that have established cannabis programs with regulatory enforcement systems:

- Preventing the distribution of cannabis to minors;
- Preventing revenue from the sale of cannabis from going to criminal enterprises, gangs, and cartels;
- Preventing the diversion of cannabis from states where it is legal under state law in some form to states where it is not legal;
- Preventing legal cannabis activity from being used as a pretext for trafficking other illegal drugs or other illegal activity;
- Preventing violence and the use of firearms in the cultivation and distribution of cannabis;
- Preventing drugged driving and the exacerbation of other adverse public health consequences associated with cannabis use;
- Preventing the growing of cannabis on public lands and the attendant public safety and environmental dangers posed by cannabis production on public lands; and
- Preventing possession or use of cannabis on U.S. federal property.

U.S. Attorneys were required to adhere to the Cole Priorities until the rescission of the Cole Memorandum in January 2018.

On January 4, 2018, former Attorney General Sessions rescinded the Cole Memorandum.

Risk Factors (cont.)

While this did not create a change in U.S. federal law, as the Cole Memorandum was policy guidance and not 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. Accordingly, the rescission added to the uncertainty of U.S. federal enforcement of the CSA in states where cannabis use is regulated. Pursuant to his rescission of the Cole Memorandum, former Attorney General Sessions also issued the Sessions Memorandum. The Sessions Memorandum confirmed the rescission of the Cole Memorandum and explained the rationale of the DOJ. According to the Sessions Memorandum, the Cole Memorandum was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the USAM. The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the U.S. 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."

As of the date of hereof, although the Department of Justice under Attorney General William Barr has not taken a formal position on the federal enforcement of laws relating to cannabis, Attorney General William Barr stated that his preference would be to have a uniform federal rule against cannabis, but, absent such a uniform rule, his preference would be to permit the existing federal approach leaving it up to the states to make their own decisions.

Furthermore, the United States House of Representatives passed an amendment to the Commerce, Justice, Science, and Related Agencies Appropriations Bill (currently known as the "Joyce Amendment" and formerly known as the "Rohrabacher-Blumenauer Amendment"), which funds the DOJ. Under the Joyce Amendment, the DOJ is prohibited from using federal funds to prevent states "from implementing their own State laws that authorize the use, distribution, possession, or cultivation of medical marijuana." In particular, this amendment only prohibits the use of federal funds to prosecute individuals and businesses operating cannabis companies in compliance with state laws regulating the medical use of cannabis and does not apply to adult use cannabis operations. The Joyce Amendment must be renewed each federal fiscal year and was subsequently renewed by Congress through September 30, 2020.

However, there can be no assurance that Congress will continue to renew the Joyce Amendment in the future. If the Joyce Amendment is not renewed in the future, the DOJ and other U.S. federal agencies may utilize U.S. federal funds to enforce the CSA in states with a medical cannabis program, including states in which the Company's subsidiaries operate, which could have a material adverse effect on the Company's expansion strategy, business, financial condition, and results of operations.

Enforcement of U.S. federal laws with respect to cannabis, including cannabis products, remains uncertain. If the Trump administration and U.S. federal agencies adopt a policy of stricter enforcement of the CSA, it could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company's investments in the United States are subject to applicable anti-money laundering laws and regulations in the United States and Canada.

All of the Company's subsidiaries are located in the United States. Therefore, the Company is subject to a variety of laws and regulations in the United States and Canada that involve money laundering, financial recordkeeping, and proceeds of crime.

Such laws and regulations may include the U.S. Currency and Foreign Transactions Reporting Act of 1970 (the "Bank Secrecy Act"), as amended by Title III of the US PATRIOT Act in the United States, and the Proceeds of Crime (Money Laundering) and Terrorist Financing Act, as amended, in Canada. If any of the Company's investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States are found to be in violation of anti-money laundering laws or otherwise, such transactions may be viewed as proceeds of crime, including under one or more of the statutes discussed above. Any property, real or personal, and its proceeds, involved in or traceable to such a crime is subject to seizure by and forfeiture to governmental authorities. Any such seizure, forfeiture or other action by law enforcement with respect to the Company's assets could restrict or otherwise jeopardize the Company's ability to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada and could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company's investments in the United States may be subject to heightened scrutiny by regulators, stock exchanges, and other authorities in Canada and the United States.

The Company's existing investments in the United States and any future investments in the United States may become the subject of heightened scrutiny by regulators, stock exchanges, and other authorities in Canada and the United States. 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, in addition to those described herein.

Following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, TMX Group Limited announced the signing of a Memorandum of Understanding (the "TMX MOU"), with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The TMX MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and Clearing and Depository Services Inc. ("CDS"), relating to issuers with cannabis-related activities in the United States.

Risk Factors (cont.)

The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no assurance that this approach to regulation will continue in the future. Any implementation by CDS of a ban on the clearing of securities of issuers with cannabis-related activities in the United States would have a material adverse effect on the ability of holders of the Company's common shares to make and settle trades. In particular, the Company's common shares likely would become highly illiquid, and until an alternative stock exchange became available or the ban were lifted, investors would have no ability to effect a trade of the Company's common shares through the facilities of a stock exchange. The Company has obtained eligibility with the Depository Trust Company ("DTC") for its common share quotation on the OTCQX and such eligibility provides another possible avenue to clear the Company's common shares in the event of a CDS ban. Revocation of DTC eligibility or implementation by DTC of a ban on the clearing of securities of issuers with cannabis-related activities in the United States would similarly have a material adverse effect on the ability of holders of the Company's common shares to make and settle trades.

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 the medical or adult use of cannabis could affect future legislation or regulation in Canada, the United States, or elsewhere. Among other things, such a shift could cause such jurisdictions to abandon initiatives or proposals to legalize cannabis or reverse existing legislation that legalized cannabis in some respect.

A shift by any such jurisdiction could limit the number of new jurisdictions into which the Company could expand or reduce the jurisdictions in which the Company operates, either of which could have a material adverse effect on the Company's expansion strategy, business, financial condition, and results of operations.

U.S. border officers could deny entry into the United States to non-U.S. citizens who are employees of or investors in companies with cannabis operations in the United States or Canada.

As cannabis remains illegal under U.S. federal law, those non-U.S. citizens who are employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry, or lifetime bans from the United States for their business associations with U.S. or Canadian cannabis businesses. Entry happens at the sole discretion of the U.S. Customs and Border Protection (the "USCBP"), officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a foreign national. As a result, the Canadian government has started warning travelers that previous use of cannabis or any substance prohibited by U.S. federal laws could mean denial of entry to the United States. In addition, business or financial involvement in the legal cannabis industry in Canada or in the United States could also be reason enough for USCBP officers to deny entry in the United States. In reaction to the then-impending legalization of cannabis in Canada, the USCBP released a statement outlining its current position with respect to enforcement of U.S. federal laws. The statement specified that Canada's legalization of cannabis would not change the USCBP's enforcement of U.S. federal laws regarding controlled substances, and because cannabis continues to be a controlled substance under the CSA, working in or facilitating the proliferation of the cannabis industry in states or Canada where cannabis is legal may affect admissibility to the United States. Although, the USCBP has affirmed that Canadian citizens "working in or facilitating the proliferation of the legal cannabis industry in Canada, coming to the U.S. for reasons unrelated to the cannabis industry will generally be admissible to the U.S.," if Canadian citizens, or any other travelers, are "found to be coming to the U.S. for reason related to the cannabis industry, they may be deemed inadmissible" and risk being barred from entry into the United States.

Certain of the Company's directors, officers, and employees are Canadian citizens, and may be subject to denials or bans from entry into the United States by USCBP officers due to their service or employment with the Company. In the event that any such directors, officers, or employees are hindered or otherwise prevented from entering the U.S., either in one instance or permanently, their ability to provide services to the Company could be materially hindered, which could have a material adverse effect on the Company's business. In addition, the Company's ability to attract qualified candidates for positions with the Company may be diminished by the prospect of a denial or ban from entry into the United States, which could have a material adverse effect on the Company's business.

The market price of the Company's common shares is volatile and may not accurately reflect the long-term value of the Company.

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies has experienced substantial volatility in the past. This volatility may affect the ability of holders of the Company's common shares to sell their securities at an advantageous price. Market price fluctuations in the Company's common shares may be due to the Company's operating results, failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions, or other material public announcements by the Company or the Company's competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the Company's common shares. Financial markets have historically, at times, experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values, or prospects of such companies.

Risk Factors (cont.)

Accordingly, the market price of the Company's common shares may decline even if the Company's operating results, underlying asset values, or prospects have not changed. Additionally, these factors as well as other related factors may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in the price and volume of the Company's common shares will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted, and the trading price of the Company's common shares may be materially adversely affected.

There is no assurance that an investment in the Company's common shares will earn any positive return.

There is no assurance that an investment in the Company's common shares will earn any positive return. An investment in the Company's common shares involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. An investment in Company's common shares is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

The Company has never paid dividends in the past and does not expect to declare or pay dividends in the foreseeable future.

The Company has never paid dividends in the past and does not expect to declare or pay dividends on its common shares in the foreseeable future, as the Company anticipates that it will invest future earnings in the development and growth of the Company's business. Should the Company declare and pay dividends on its common shares in the future, there may be significant tax implications to holders of common shares who are recipients of such dividends. For example, as discussed above, the Company is a Canadian corporation and is classified as a U.S. domestic corporation for U.S. federal income tax purposes under the Section 7874(b) "inversion" rules of the U.S. Tax Code. As such, dividends received by shareholders who are residents of Canada for purposes of the Canadian Tax Act will generally be subject to U.S. withholding tax. In addition, any such dividends may not qualify for a reduced rate of withholding tax under the U.S.-Canada Treaty, and Canadian foreign tax credits may not be available under the Canadian Tax Act in respect of such taxes. Further, any dividends received by shareholders resident in the United States will not be subject to U.S. withholding tax but will be subject to Canadian withholding tax under the Canadian Tax Act. In the event that the Company pays any dividends, such dividends will be characterized as U.S. source income for purposes of the foreign tax credit rules under the U.S. Tax Code. Accordingly, shareholders resident in the United States generally will not be able to claim a credit for any Canadian tax withheld unless, depending on the circumstances, such shareholders have an excess foreign tax credit limitation.

Our common shares are subject to the "penny stock" rules of the SEC and the trading market in the securities is limited, which makes transactions in the stock cumbersome and may reduce the value of an investment in the stock.

Rule 15g-9 under the Exchange Act establishes the definition of a "penny stock," for the purposes relevant to the Company, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require: (a) that a broker or dealer approve a person's account for transactions in penny stocks; and (b) the broker or dealer receive from the investor a written agreement to the transaction setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must: (a) obtain financial information and investment experience objectives of the person and (b) make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the U.S. Securities and Exchange Commission (the "SEC") relating to the penny stock market, which, in highlight form: (a) sets forth the basis on which the broker or dealer made the suitability determination; and (b) confirms that the broker or dealer received a signed, written agreement from the investor prior to the transaction. Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common shares and cause a decline in the market value of our common shares.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker or dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

There is a limited market for the Company's common shares.

The Company's common shares are listed for trading on the CSE and is quoted over-the-counter in the United States on the OTCQX. The over-the-counter markets provide less liquidity than U.S. national securities exchanges, such as the New York Stock Exchange or Nasdaq.

Accordingly, a market for the Company's common shares may become highly illiquid and holders of the Company's common shares may be unable to sell or otherwise dispose of their common shares at desirable prices or at all.

Risk Factors (cont.)

Future issuances of debt securities, which would rank senior to the Company's common shares upon the Company's bankruptcy or liquidation, may adversely affect the level of return holders common shares may be able to receive.

In the future, the Company may attempt to increase its capital resources by offering debt securities. Upon bankruptcy or liquidation, holders of the Company's debt securities and lenders would receive distributions of the Company's available assets prior to any distributions being made to holders of the Company's common shares. As the Company's decision to issue debt securities or borrow money from lenders will depend in part on market conditions and other factors beyond the Company's control, the Company cannot predict or estimate the amount, timing, or nature of any such future offerings or borrowings. Holders of the Company's common shares must bear the risk that any future offerings the Company conducts or borrowings the Company makes may adversely affect the level of return, if any, that the holders of the Company's common shares may receive.

The Company's Operations Could Be Adversely Affected by Events Outside of its Control, such as Natural Disasters, Wars or Health Epidemics

The Company may be impacted by business interruptions resulting from epidemics, pandemics and other public health emergencies, including those related to novel coronavirus known as COVID-19, geopolitical actions, including war and terrorism or natural disasters including earthquakes, hurricanes, floods and fires. An outbreak of infectious disease, an epidemic or pandemic, or a similar public health threat, such as the recent outbreak of COVID-19, or a fear of any of the foregoing, could adversely impact the Company by causing operating, manufacturing, supply chain, and project development delays and disruptions, labor shortages, travel, and shipping disruption and shutdowns (including as a result of government regulation and prevention measures). In addition to the direct impact that such events could have on the Company's facilities and workforce, these types of events could negatively impact capital expenditures and overall economic activity in the impacted regions or depending on the severity, globally, which could impact the demand for the Company's products and services. A prolonged continuance of COVID-19 could also have a material adverse effect on overall economic growth and impact the stability of the financial markets and availability of credit.

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

The Company may be subject to liability for failure to comply with the requirements of the United States Securities Exchange Act of 1934, as amended (the "1934 Act").

The Company had determined that on June 28, 2019 (being the last business day of the second fiscal quarter of the year ended December 31, 2019), the Company ceased to qualify as a foreign private issuer for the purposes of the United States Securities Act of 1933, as amended (the "1933 Act") and the 1934 Act. As a result, the Company ceased to be eligible to use the rules and forms available to foreign private issuers under the 1933 Act and the 1934 Act on December 31, 2019, and became obligated to file a registration statement with the United States Securities and Exchange Commission ("SEC"), on Form 10 under the 1934 Act, no later than April 29, 2020 (being 120 days from the fiscal year end). The circumstances necessitating the Recapitalization Transaction made it impossible for the Company to do so.

As a result of the Company's failure to comply with the registration requirements of the 1934 Act, the SEC may bring an enforcement action or commence litigation against the Company. If any claims or actions were to be brought against the Company relating to its lack of compliance with the 1934 Act, the Company may be subject to penalties, required to pay fines, make damages payments or settlement payments. In addition, any claims or actions could force the Company to expend significant financial resources to defend itself, could divert the attention of management from its core business and could harm its reputation.

Upcoming Change in Issuer's GAAP

The Company has ceased to be a "foreign private issuer" under the rules of the U.S. Securities and Exchange Commission and will cease to be eligible to use the rules and forms available to foreign private issuers as of December 31, 2019. As a result, the Company will have to prepare its December 31, 2019 audited annual financial statements in accordance with United States generally accepted accounting principles ("US GAAP"), with such change being applied retrospectively. The extent of the impact of this change in accounting framework has not yet been determined. The Company will report its fourth quarter and annual 2019 results under IFRS as issued by the International Accounting Standards Board and the Company expects to provide further guidance over the year on the impacts of converting to US GAAP.