Consolidated financial statements
[Expressed in Canadian dollars]

Maricann Group Inc.

December 31, 2017 and 2016

Independent auditors' report

To the Shareholders of
Maricann Group Inc.

We have audited the accompanying consolidated financial statements of **Maricann Group Inc**., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Maricann Group Inc**. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
April 27, 2018

Maricann Group Inc.

Consolidated statements of financial position

[Expressed in Canadian dollars]

As at December 31,

	2017	2016
	$	$
Assets		
Current		
Cash	**24,572,873**	16,192,662
Trade and other receivables	**64,609**	99,409
Inventory *[note 5]*	**1,235,239**	751,455
Biological assets *[note 6]*	**430,001**	189,683
Other current assets *[note 7]*	**3,580,829**	229,193
Total current assets	**29,883,551**	17,462,402
Other non-current assets *[note 7]*	**767,944**	—
Loan receivable *[note 8]*	**376,912**	—
Property, plant and equipment, net *[note 9]*	**28,438,345**	7,162,284
Intangible assets *[note 11]*	**33,866,045**	—
Total assets	**93,332,797**	24,624,686
Liabilities and shareholders' equity		
Current		
Trade and other payables *[note 12]*	**7,614,815**	2,343,818
Deferred revenue *[note 13]*	**41,224**	196,284
Borrowings *[notes 15]*	**—**	2,687,092
Current portion of finance leases *[note 16]*	**4,077**	129,995
Convertible debentures *and warrants [note 17]*	**—**	22,500,000
Total current liabilities	**7,660,116**	27,857,189
Finance leases *[note 16]*	**—**	3,656
Convertible debentures *[note 17]*	**24,150,672**	—
Total liabilities	**31,810,788**	27,860,845
Commitments and contingencies *[note 22]*		
Shareholders' equity		
Share capital *[note 18]*	**123,743,858**	8,991,682
Contributed surplus *[note 18]*	**15,525,257**	2,101,153
Warrants *[notes 17, 18]*	**3,556,411**	—
Accumulated other comprehensive loss	**(33,853)**	—
Deficit	**(81,269,664)**	(14,328,994)
Total shareholders' equity	**61,522,009**	(3,236,159)
Total liabilities and shareholders' equity	**93,332,797**	24,624,686

Subsequent events *[note 25]*

The accompanying notes are an integral part of these consolidated financial statements

Approved on behalf of the Board:

(Signed) Paul Pathak
Director

(Signed) Ben Ward
Director

Maricann Group Inc.

Consolidated statements of loss and comprehensive loss

[Expressed in Canadian dollars]

For the years ended December 31,

	2017	2016
	$	$
Revenue	**3,222,746**	4,060,131
Cost of sales - production costs *[note 5]*	**4,472,776**	3,065,704
Gross profit before fair value adjustments	**(1,250,030)**	994,427
Fair value adjustment on sale of inventory	**(1,959,487)**	(2,135,719)
Fair value adjustment on growth of biological assets *[note 6]*	**2,370,735**	2,109,069
Gross profit	**(838,782)**	967,777
Expenses		
General and administrative *[note 18]*	**14,086,568**	3,116,733
Sales and marketing *[note 18]*	**3,956,077**	1,463,600
Share-based compensation *[note 18]*	**4,639,681**	1,134,630
Depreciation *[note 9]*	**1,781,515**	702,089
Loss before interest and transaction related expenses	**(25,302,623)**	(5,449,275)
Interest expense	**46,411**	337,627
Listing expense *[note 3]*	**4,486,850**	—
Transaction costs *[note 17]*	**-**	2,508,866
Non-cash fair value change in convertible debenture and warrants liability related to changes in value of common shares *[note 17]*	**37,176,990**	—
Net loss for the year	**(67,012,874)**	(8,295,768)
Other comprehensive loss		
Exchange differences on foreign operations	**(33,853)**	—
Total comprehensive loss for the year	**(67,046,727)**	(8,295,768)
Net loss per share, basic and diluted *[note 19]*	**(0.97)**	(0.22)
Weighted average number of common shares outstanding		
Basic and diluted	**68,884,031**	37,238,120

The accompanying notes are an integral part of these consolidated financial statements

Maricann Group Inc.

Consolidated statements of changes in shareholders' equity

[Expressed in Canadian dollars]

For the years ended December 31, 2017 and 2016

	Common shares	Share capital	Warrants: Number of common shares issuable on exercise	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total shareholders' equity
	#	$	#	$	$	$	$	$
As at December 31, 2015	36,612,000	5,856,955	—	—	240,462	—	(6,033,226)	64,191
Net loss for the year	—	—	—	—	—	—	(8,295,768)	(8,295,768)
Issuance of common shares, net of issuance costs *[note 18]*	4,618,604	3,134,727	—	—	—	—	—	3,134,727
Issuance of warrants and options, net of issuance costs *[note 17a]*	—	—	—	—	471,268	—	—	471,268
Share-based compensation	—	—	—	—	1,389,423	—	—	1,389,423
As at December 31, 2016	41,230,604	8,991,682	—	—	2,101,153	—	(14,328,994)	(3,236,159)
Net loss for the year	—	—	—	—	—	—	(67,012,874)	(67,012,874)
Exercise of stock options *[note 18]*	2,915,841	2,398,217	—	—	(1,826,720)	—	—	571,497
Issuance of common shares to key employee *[note 18]*	3,720,695	2,439,000	—	—	(2,439,000)	—	—	—
Issuance of common shares, net of issuance costs *[note 18]*	3,510,585	8,953,982	—	—	—	—	—	8,953,982
Share-based compensation *[note 18v]*	—	—	—	—	5,915,161	—	—	5,915,161
Convertible debenture conversion *[note 17a]*	22,500,000	48,375,000	—	—	—	—	—	48,375,000
Warrant reclassification *[note 17a]*	—	—	11,250,000	11,301,990	—	—	—	11,301,990
Issuance of shares to Danbel on reverse takeover *[note 18]*	1,250,279	3,563,295	—	—	—	—	—	3,563,295
Exercise of warrants *[note 18]*	9,814,500	22,127,981	(9,814,500)	(9,859,856)	—	—	—	12,268,125
Exercise of compensation warrants *[note 18]*	1,000,200	1,387,093	—	—	(261,867)	—	—	1,125,226
Issuance of warrants *[note 18vii]*	—	—	450,000	169,136	—	—	—	169,136
Issuance of warrants on convertible debentures *[note 17b]*	—	—	9,703,000	1,945,141	—	—	—	1,945,141
Equity component of convertible debentures *[note 17b]*	—	—	—	—	3,541,019	—	—	3,541,019
Issuance of compensation options *[note 17 and 18]*	—	—	—	—	425,811	—	—	425,811
Issuance of common shares on asset acquisition *[note 18]*	18,333,319	24,566,648	—	—	7,673,066	—	—	32,239,714
Issuance of common shares as compensation *[note 18]*	794,000	940,960	—	—	468,838	—	—	1,409,798
Expiry of stock options *[note 18v]*	—	—	—	—	(72,204)	—	72,204	—
Other comprehensive loss - exchange differences on foreign operations	—	—	—	—	—	(33,853)	—	(33,853)
As at December 31, 2017	**105,070,023**	**123,743,858**	**11,588,500**	**3,556,411**	**15,525,257**	**(33,853)**	**(81,269,664)**	**61,522,009**

The accompanying notes are an integral part of these consolidated financial statements

Maricann Group Inc.

Consolidated statements of cash flows

[Expressed in Canadian dollars]

For the years ended December 31,

	2017	2016
	$	$
Operating activities		
Net loss for the year	**(67,012,874)**	(8,295,768)
Add (deduct) items not involving cash		
Non-cash interest	**6,012**	(20,271)
Non-cash fair value change in convertible debenture and warrants liability related to changes in value of common shares *[note 17]*	**37,176,990**	—
Unrealized gain from changes in fair value of biological assets	**(2,370,735)**	(2,109,069)
Share-based compensation expense	**4,639,681**	1,205,644
Cash-settled options expense	**1,111,781**	94,341
Share-based compensation expense to non-employees	**2,604,415**	183,779
Non-cash transaction expense	**—**	471,268
Issuance of shares to Danbel on reverse takeover	**3,563,295**	—
Depreciation	**1,781,515**	702,089
Loss on sale of property, plant and equipment	**—**	4,912
	(18,499,920)	(7,763,075)
Changes in non-cash working capital balances related to operations		
Trade and other receivables	**34,800**	(97,115)
Inventory	**(483,784)**	8,793
Biological assets	**2,130,417**	2,087,785
Other assets	**(3,295,236)**	(92,707)
Trade and other payables	**756,654**	352,902
Deferred revenue	**(155,060)**	162,109
Cash used in operating activities	**(19,512,129)**	(5,341,308)
Investing activities		
Purchase of and deposit on property, plant and equipment	**(18,756,541)**	(3,352,609)
Proceeds on disposal of property, plant and equipment	**—**	(12,000)
Purchase of other non-current assets	**(767,944)**	—
Advance on loan receivable	**(376,912)**	—
Cash outflow on acquisition of subsidiary	**(1,600,042)**	—
Cash used in investing activities	**(21,501,439)**	(3,364,609)
Financing activities		
Proceeds from issuance of common shares *[note 18]*	**9,136,869**	3,134,727
Issuance of convertible debentures *[note 17]*	**31,000,000**	22,500,000
Financing fees *[note 17]*	**(1,851,407)**	—
Proceeds from exercise of stock options	**571,497**	—
Proceeds from exercise of warrants	**13,393,351**	—
Repayment of shareholder loans *[note 14]*	**—**	(3,200,000)
Cash proceeds from borrowings *[note 15]*	**—**	2,705,155
Cash payment on borrowings *[notes 15]*	**(2,687,092)**	(96,883)
Repayment of obligations under finance leases	**(135,586)**	(145,420)
Cash provided by financing activities	**49,427,632**	24,897,579
Net increase in cash during the year	**8,414,064**	16,191,662
Effect of foreign exchange on cash	**(33,853)**	—
Cash, beginning of year	**16,192,662**	1,000
Cash, end of year	**24,572,873**	16,192,662
Supplementary information:		
Interest paid	**46,411**	337,627
Income taxes paid	**—**	—

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statements

[Expressed in Canadian dollars unless otherwise noted]

December 31, 2017 and 2016

1. Nature of operations

Maricann Group Inc. ["Maricann" or the "Company"] was continued under the laws of the Province of Ontario, Canada. The Company's shares are listed on the Canadian Securities Exchange [the "Exchange"] under the symbol "MARI" and on the OTCMKTS under the symbol "MRRCF". The Company is the resulting entity following the April 20, 2017 reverse takeover transaction between Maricann Inc. and Maricann Group Inc., formerly Danbel Ventures Inc. ["Danbel"], whereby Maricann Inc. was amalgamated with a wholly-owned subsidiary of Danbel and all the shares of Maricann Inc. were exchanged for shares of Danbel and the resulting entity became known as Maricann Group Inc. These consolidated financial statements are a continuation of the financial statements of Maricann Inc. See Note 3.

The Company's wholly-owned subsidiary, Maricann Inc. is licensed to produce and sell medical marijuana under the Access to Cannabis for Medical Purposes Regulation [the "ACMPR"]. Maricann Inc. received its first license from Health Canada under the Marijuana for Medical Purposes Regulations on March 27, 2014. Maricann Inc. received an updated license [the "License"] under the ACMPR on November 8, 2017, which expires on October 9, 2020. On September 5, 2017, Maricann Inc. received a second site license for its Burlington location. The Company's head office, registered and records office is located at 3-845 Harrington Court, Burlington, Ontario, L7N 3P3. The Company's operating production address is 150 8th Concession Road, Langton, Ontario, N0E 1G0. On April 20, 2018, Maricann Inc. received its third site license for its 138 8th Concession Road, Langton, Ontario location.

On December 7, 2016, the Board of Directors of Maricann Inc. authorized a 305.1:1 stock split of its common stock. All share, option and earnings per share information have been retroactively adjusted to reflect the increase in the number of common shares and options from the stock split.

2. Basis of presentation

Statement of compliance

These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada for publicly accountable enterprises, as set out in the *CPA Canada Handbook – Accounting*, which incorporates International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"]. The policies set out below have been consistently applied to all periods presented unless otherwise noted.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on April 27, 2018.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries, Maricann Inc. [wholly-owned], Maricann B.V. [wholly-owned], Nanoleaf Technologies Inc. [wholly-owned], Mariplant GmbH [95% owned] and Maricann GmbH [95% owned]. All significant intercompany balances and transactions were eliminated on consolidation. Subsidiaries are entities the Company controls when it is exposed, or has rights, to variable returns from its involvement in the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

These consolidated financial statements are presented in Canadian dollars unless otherwise noted. The functional currency of Maricann B.V., Mariplant GmbH and Maricann GmbH is the European Euro and the functional currency of Maricann and its remaining subsidiaries is the Canadian dollar.

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated statement of financial position dates are translated into Canadian dollars at the foreign exchange rate applicable at that date. Realized and unrealized exchange gains and losses are recognized through profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. The assets and liabilities of foreign operations are translated into Canadian dollars at year-end exchange rates. Revenue and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates. Exchange differences resulting from translating foreign operations are recognized in other comprehensive loss and accumulated in shareholders' equity.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for biological assets, which are measured at fair value, as explained in the accounting policies below. Historical cost is generally based upon the fair value of the consideration given in exchange for the goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, *Share-based payments* and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2, *Inventories* or value in use in IAS 36, *Impairment of Assets*.

Use of judgments, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- *Valuation of the fair value less costs to sell of biological assets and agricultural produce*

  Biological assets, consisting of medical cannabis plants and agricultural produce, are measured at fair value less costs to sell up to the point of harvest. The determination of the fair values of the biological assets requires the Company to make assumptions with respect to how market participants would estimate fair value. These assumptions primarily relate to the level of effort required to bring the biological assets up to the point of harvest, costs to convert the harvested medical cannabis to finished goods and sell, sales price, risk of loss and expected yield from the medical cannabis plants.

- *Useful lives and impairment of property, plant and equipment*

  Depreciation of property, plant and equipment is dependent upon management's estimate of the assets' useful lives, which requires judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of these assets.

- *Share-based compensation*

  In calculating the share-based compensation expense, key estimates such as the value of the common shares, the rate of forfeiture of options granted, the expected life of the option, the volatility of the value of the Company's common shares and the risk-free interest rate are used.

- *Convertible debentures and warrants (issued in 2016)*

  The Company determined that the convertible debentures and warrants issued on December 15, 2016 *[note 17]* did not meet the IFRS definition of equity due to the variability of the convertible debentures conversion ratio and the number of shares issuable on exercise of warrants if the Company fails to go public by a specified date. The convertible debenture conversion ratio and number of shares issuable on exercise of the warrants adjusts by 10% in this circumstance. Accordingly, the convertible debentures and warrants are treated as financial liabilities measured at fair value through profit or loss. The fair values of the convertible debentures and warrants are classified as Level 3 in the fair value hierarchy *[note 24]*. Given the convertible debentures and warrants were issued shortly before year end, their issue price was considered the best estimate of fair value at December 31, 2016.

- *Convertible debentures and warrants (issued in 2017)*

  The Company determined that the convertible debentures and warrants issued on October 27, 2017 *[note 17]* comprised of a compound financial instrument and warrant equity instruments. IFRS requires the proceeds from such issuances to be bifurcated between their liability and equity components. The Company first allocates the proceeds of such issuances to the convertible debentures and warrants based on the fair values of these instruments, with the amount allocated to warrants included within shareholders' equity as Warrants. The proceeds allocated to the convertible debentures are then further allocated between financial liability and the equity conversion feature by determining the fair value of the financial liability and applying the residual to the equity conversion feature. The determination of such allocations involves the use of estimates.

- *Convertible instruments*

  Convertible notes are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible notes in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. The identification of convertible notes components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the financial liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

- *Asset acquisition*

  The initial measurement of assets acquired and liabilities assumed in an asset acquisition is determined based on an allocation of the purchase consideration, which can be comprised of cash or cash equivalents and the fair value of other consideration given to acquire the asset at the time of its acquisition. In the event that the consideration includes share-based consideration, the Company considers the specific requirements of IFRS 2, *Share-based payments* ("IFRS 2"). Contingent consideration, if any, is measured at its acquisition date fair value and included as part of the consideration transferred in acquiring the asset. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37, as appropriate, with the corresponding gain or loss being recognized in profit or loss. Determining the fair value of contingent consideration requires management to make certain estimates.

- *Intangible assets, other than goodwill*

  Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. The cost of intangible assets acquired in an asset acquisition are initially measured using an allocation of the purchase consideration using a relative fair value approach.

  The useful lives of intangible assets are assessed as either finite or indefinite. The Company does not have any indefinite life intangible assets. Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the remaining amortization period or method, as appropriate, and are treated as changes in accounting estimates. Useful lives and the recoverable amount of intangible assets depend on management's estimates and require judgement.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statements of loss and comprehensive loss when the asset is derecognized.

3. Maricann's reverse takeover ["RTO"]

On March 3, 2017, the Company entered into a definitive agreement with Maricann Inc. to combine Maricann Inc. and Danbel via the amalgamation of a wholly-owned subsidiary of Danbel ["Danbel Subco"] and Maricann Inc. which constituted a reverse takeover of Danbel. The resulting company [the "Resulting Issuer"] continues to operate as Maricann Group Inc., and trades publicly on the Exchange under the symbol "MARI".

The agreement setting out the terms of the transaction, included the following:

(i) The outstanding liabilities of Danbel were settled by way of issuing 5,500,000 shares of Danbel prior to the consolidation of shares by Danbel;

(ii) All outstanding options of Danbel were exercised prior to the consolidation of shares. Total number of options outstanding were 360,000 options with an exercise price of $0.05 per share. These were exercised by December 31, 2016, and converted into Danbel common shares;

(iii) Prior to the transaction, Danbel consolidated its share capital on a 9.22-to-1 basis [the "Consolidation"]. The total number of Danbel shares outstanding is 11,527,716 Pre-Consolidation. Post-Consolidation, total number of Danbel shares was 1,250,279;

(iv) 22,500 units ["Units"] with each Unit comprised of one senior unsecured convertible debenture with a principal amount of $1,000 [a "Debenture"] and 500 common share purchase warrants [the "Warrants"] of Maricann Inc. *[note 17]* were automatically converted into 22,500,000 common shares of Maricann prior to the RTO. 11,250,000 warrants associated with the Units were exchanged for 11,250,000 post-consolidation warrants of the Resulting Issuer;

(v) 900,000 Compensation Options of Maricann Inc. were exchanged for 900,000 post-Consolidation Compensation Options of the Resulting Issuer; and

(vi) 3,720,695 common shares of Maricann Inc. were issued to a key employee of Maricann Inc. prior to the transaction *[note 18[iv]]*.

In conjunction with the RTO transaction, on March 3, 2017, Maricann Inc. completed a financing of $10,005,167, by issuing 3,510,585 shares of Maricann Inc. at $2.85 per share. Maricann Inc. paid issuance costs of $868,298 and issued 130,380 compensation options with an exercise price of $2.85 per share *[note 18]*.

On April 20, 2017, Maricann Inc. and Danbel Subco completed the amalgamation under the amalgamation agreement under the Business Corporations Act (Ontario).

Prior to the closing of the RTO:

(i) The convertible debentures *[note 17]* of 22,500 units, converted into 22,500,000 common shares of Maricann Inc..

(ii) 3,720,695 common shares of Maricann Inc. were issued to a key employee. Related compensation expense of $1,640,000 was recorded in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2017.

(iii) The outstanding liabilities of Danbel were settled by way of issuing 5,500,000 shares of Danbel, and Danbel consolidated its share capital on a 9.22-to-1 basis. The total number of shares outstanding of Danbel was 11,527,716 pre-consolidation. Post-consolidation, total number of shares outstanding of Danbel was 1,250,279.

[Expressed in Canadian dollars unless otherwise noted]

Pursuant to the closing of the RTO:

(i) Danbel issued 71,266,984 Post-Consolidation common shares of the Resulting Issuer to Maricann Inc. shareholders exchanged on a one (1) for one (1) basis;

(ii) Danbel further issued 11,250,000 warrants, 4,819,036 stock options and other rights to acquire securities, 900,000 Compensation Options (convertible on exercise to 900,000 common shares, and 900,000 of warrants), and 130,380 Compensation Options (convertible on exercise into 130,380 common shares) in the capital of the Resulting Issuer to holders of warrants, stock options and other rights to acquire securities and compensation options of Maricann Inc. on a one (1) for one (1) basis with economically equivalent terms.

On closing of the RTO, the shareholders of Maricann Inc. held 71,266,984 (or 98%) of the common shares of the Resulting Issuer, while shareholders of Danbel held 1,250,279 (or 2%) of the common shares of the Resulting Issuer. Since Danbel did not meet the definition of a business under IFRS 3 – *Business Combinations* (“IFRS 3”), the acquisition was accounted for as the purchase of Danbel’s assets by the Company. The consideration paid was determined as equity-settled share-based payment under IFRS 2, at the fair value of the equity of Maricann Inc. retained by the shareholders of Danbel based on the fair value of the Maricann Inc. common shares on the date of closing of the RTO, which was determined to be $2.85 per share based on the most recent equity raise on March 3, 2017.

The Company recorded a listing expense of $4,486,850 in the consolidated statement of loss and comprehensive loss. The details of the listing expense are as follows:

	$
Fair value of consideration paid:	
1,250,279 common shares of Maricann at $2.85 per share	3,563,295
Fair value of net assets of Danbel acquired by Maricann	(379)
	3,562,916
Other transaction costs:	
Professional fees	589,583
Filing and listing fees	334,351
RTO listing expense	4,486,850

The net assets of Danbel were included at their carrying value of $379 which approximates their fair value as follows:

	$
Cash	379
Fair value of net assets acquired	379

4. Significant accounting policies

Cash

Cash consists of cash on hand or deposits held with banks. The Company does not invest in any asset-backed deposits or investments.

Biological assets

The Company measures biological assets consisting of medical cannabis plants at fair value less costs to sell up to the point of harvest. Agricultural produce consisting of medical cannabis is measured at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventory after harvest.

Gains or losses arising from changes in fair value less costs to sell during the year are included in the statements of loss and comprehensive loss of the related year.

Inventory

The value of finished goods is measured at the lower of cost and net realizable value, wherein the cost of the finished goods includes the value of the agricultural produce at the date of its conversion.

Cost is determined using the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell.

The Company reviews inventory for obsolete, redundant, and slow-moving goods and such inventory identified is written down to net realizable value. Any write downs of inventory to net realizable value are recorded in the statements of loss and comprehensive loss at the time they are determined.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Depreciation is provided for on a straight-line basis over the assets' estimated useful lives, which management has determined to be as follows:

Furniture and fixtures	5 years
Computer equipment	3 years
Agricultural equipment	10 years
Leasehold improvements	Lesser of useful life and remaining term of the lease

The Company assesses an asset's residual value, useful life and depreciation method at each financial year end and makes adjustments if appropriate.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognized in the consolidated statements of loss and comprehensive loss of the related year.

The Company capitalizes borrowing costs on capital invested in projects under construction [*note 9*]. Upon commencement of commercial operations, capitalized borrowing costs, as a portion of the total cost of the asset, are depreciated over the estimated useful life of the related asset.

Intangible assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization is provided on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively.

Intellectual property is amortized on a straight-line basis over a period of 7 years.

The exclusivity agreement provides the Company exclusivity for a period of five years. The exclusivity agreement will be amortized on a straight-line basis over the shorter of five years or the remaining period in the exclusivity arrangement.

Software is measured at historical cost and is amortized on a straight-line basis over a period of three years.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed for impairment as at the consolidated statements of financial position dates or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets [the cash-generating unit, or "CGU"]. The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount in which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of the recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at its inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. Leases are classified as an operating lease whenever the terms of the lease do not transfer substantially all of the risks and rewards of ownership to the lessee, in which case the lease is classified as a finance lease and the asset is treated as if it had been purchased outright.

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statements of loss and comprehensive loss.

Operating lease payments are recognized as an operating expense in the consolidated statements of loss and comprehensive loss on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits are consumed.

Revenue recognition

Revenue from the sale of products is recognized when all of the following criteria have been satisfied: significant risks and rewards of ownership have been transferred to the buyer, there is no continuing managerial involvement with respect to the goods sold, revenue can be reliably measured at the fair value of consideration received or expected to be received, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is recognized at the fair value of consideration received or receivable less any appropriate deductions for loyalty program costs.

Loyalty award credits issued as part of a sales transaction result in revenue being deferred until the loyalty award is redeemed by the customer. The portion of the revenue that is deferred is the fair value of the award. The fair value of the award takes into account the portion of the award credits that are not expected to be redeemed by the customers.

Share-based compensation

The Company has a share option plan of which further details are given in note 18.

<u>Equity-settled transactions</u>

The Company measures equity-settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the period in which the service and, where applicable, the performance conditions are fulfilled [the vesting period] with a corresponding increase in equity [contributed surplus]. Fair value is measured using the Black-Scholes option pricing model. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the consolidated statements of loss and comprehensive loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company’s best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through the consolidated statements of loss and comprehensive loss.

The dilutive effect of outstanding options, warrants and convertible debentures is reflected as additional share dilution in the computation of diluted earnings per share [further details are given in note 19].

<u>Cash-settled transactions</u>

For cash-settled share-based payments, a liability is recognized for the goods and services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in the consolidated statements of loss and comprehensive loss for the reporting period. Fair value is measured using the Black-Scholes option pricing model.

Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statements of loss and comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the year.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition [other than in a business combination] of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each year and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realized, based on tax rates [and tax laws] that have been enacted or substantively enacted by the end of the year.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the year, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive loss or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive loss or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities [other than financial assets and financial liabilities at fair value through profit or loss] are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Company initially recognizes financial assets at fair value on the date at which the Company becomes a party to the contractual provisions of the instrument.

The Company classifies its financial assets as financial assets at fair value through profit or loss or loans and receivables. The Company does not have assets that would be classified as available-for-sale financial assets or held-to-maturity financial assets.

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in the consolidated statements of loss and comprehensive loss.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial liabilities

The Company initially recognizes financial liabilities at fair value on the date at which the Company becomes a party to the contractual provisions of the instrument.

The Company classifies its financial liabilities as either financial liabilities at fair value through profit or loss or other liabilities. Subsequent to initial recognition other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in profit or loss.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

<u>Compound financial instruments</u>

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest and gains and losses relating to the financial liability are recognized in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognized on conversion.

Financial liabilities and equity instruments

<u>Classification as debt or equity</u>

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

<u>Equity instruments</u>

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by an entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company’s own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company’s own equity instruments.

Classification of financial instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

Asset/Liability	Classification
Cash	Loans and receivables
Trade and other receivables	Loans and receivables
Loan receivable	Loans and receivables
Trade and other payables	Other liabilities
Borrowings	Other liabilities
Convertible debentures and warrants (issued in 2016)	Fair value through profit or loss
Convertible debentures (issued in 2017)	Other liabilities

Impairment of financial assets

Financial assets, other than those classified as fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that have occurred after initially recognizing the financial asset, the present value of estimated future cash flows determined based on the instrument's original effective interest rate is lower than the asset's carrying amount. When an impairment has been identified, the financial asset's carrying amount is reduced through the use of an allowance account, with changes in the carrying amount recognized in profit or loss. Subsequent recoveries of amounts previously written off are adjusted against the allowance account.

Convertible debentures and warrants (issued in 2016)

Convertible debentures and the associated warrants issued on December 15, 2016 meet the definition of financial liabilities subject to measurement at fair value at each reporting period end with changes in fair value to be reflected in the Company's consolidated statements of loss and comprehensive loss. The Company determined that the convertible debentures and associated warrants did not meet the IFRS definition of equity due to the variability of the conversion ratio and number of shares issuable on exercise of the warrants if the Company failed to go public by a specified date *[notes 2 and 17]*.

Transaction costs are expensed as incurred.

Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise share options issued and other rights to acquire common shares, compensation options issued and the common share equivalents related to the convertible debentures and associated warrants.

Segment reporting

Reportable segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the reportable segments, has been identified as the Chief Executive Officer. The Company has a single operating and reportable segment.

New standards, interpretations and amendments adopted by the Company

The following new accounting standards applied or adopted during the year ended December 31, 2017 had no material impact on the consolidated financial statements:

IAS 7 – Statement of Cash Flows [“IAS 7”]

IAS 7 has been revised to incorporate amendments issued by the IASB in January 2016. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017. The amendments to IAS 7 did not have any significant impact on the Company’s consolidated financial statements for the year ended December 31, 2017.

IAS 12 – Income Taxes [“IAS 12”]

IAS 12 has been revised to incorporate amendments issued by the IASB in January 2016. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017. The amendments to IAS 12 did not have any significant impact on the Company’s consolidated financial statements for the year ended December 31, 2017.

The Company has not applied the following new and revised IFRS standards that have been issued but are not yet effective:

IFRS 9 Financial Instruments [“IFRS 9”]

IFRS 9, Financial Instruments (“IFRS 9”), introduces new requirements for the classification and measurement of financial instruments, a new expected-loss impairment model that will require more timely recognition of expected credit losses and a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. IFRS 9 also removes the volatility in profit or loss that was caused by changes in an entity’s own credit risk for liabilities elected to be measured at fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company is in the process of evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers [“IFRS 15”]

In May 2014, the IASB issued IFRS 15, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The core principle of the new standard is that an entity recognizes revenue to represent the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also provides a model for the recognition and measurement of gains or losses of non-financial assets. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The standard permits the use of either full or modified retrospective application. This new accounting guidance will also result in enhanced disclosures about revenue. The Company is evaluating the effect that IFRS 15 will have on its consolidated financial statements and related disclosures, as well as the transition method to apply the new standard.

IFRS 16 – Leases [“IFRS 16”]

In January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and a lessee shall either apply IFRS 16 with full retrospective effect or, alternatively, not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. Early adoption is permitted if IFRS 15 has also been adopted. The Company is in the process of evaluating the impact of IFRS 16 on its consolidated financial statements.

Amendments to IFRS 2 Share-based Payment

Amendments to IFRS 2, *Share-based Payment* were issued in June 2016 and are effective for annual periods beginning on or after January 1, 2018, to be applied prospectively. The amendments clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; provide guidance on the classification of share-based payment transactions with net settlement features for withholding tax obligations; and clarify accounting for modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company is in the process of evaluating the amendments to IFRS 2 on its consolidated financial statements.

IFRS Interpretation Committee (“IFRIC”) Interpretation 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (“IFRIC 22”) was issued in December 2016 and is effective for annual periods beginning on or after January 1, 2018 and may be applied retrospectively or prospectively. IFRIC 22 addresses which foreign exchange rate to use to measure a foreign currency transaction when advance payments are made or received and non-monetary assets or liabilities are recognized prior to recognition of the underlying transaction. IFRIC 22 does not relate to goods or services accounted for at fair value or at the fair value of consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or liability, or to income taxes, insurance contracts or reinsurance contracts. The foreign exchange rate on the day of the advance payment is used to measure the foreign currency transaction. If multiple advance payments are made or received, each payment is measured separately. The Company is in the process of evaluating the amendments to IFRIC 22 on its consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23, “Uncertainty over Income Tax Treatments” (“IFRIC 23”), to clarify the accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12, *Income Taxes* when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on January 1, 2019. The Company is currently assessing the impact of IFRIC 23 on its consolidated financial statements.

[Expressed in Canadian dollars unless otherwise noted]

5. Inventory

	2017	2016
	$	$
Finished goods – dry cannabis	**184,470**	124,485
Finished goods – cannabis oils	**51,483**	136,607
Work-in progress – dry cannabis	**940,249**	421,566
Work-in progress – cannabis oils	**59,037**	68,797
	1,235,239	751,455

The Company did not have any inventory write-downs during the years ended December 31, 2017 and 2016.

Cost of sales as at December 31, 2017 and 2016 is comprised of:

	2017	**2016**
	$	$
Cost of goods sold – production costs	**4,472,776**	3,065,704
Fair value adjustment on sale of inventory	**1,959,487**	2,135,719
	6,432,263	5,201,423

The Company does not capitalize any production costs including overheads to biological assets. All production costs related to biological assets are expensed as incurred and are included in production costs in the table above.

The Company capitalizes cost incurred after harvest to bring the products to their present location and condition in accordance with IAS 2 Inventories. The cost of inventories includes the fair value less cost to sell of the cannabis at harvest and costs incurred after harvest (such as quality assurance costs, fulfillment costs and packaging costs) to bring the products to their present location and condition.

[Expressed in Canadian dollars unless otherwise noted]

6. Biological assets

The changes in the carrying value of biological assets, which consist of cannabis on plants, are as follows:

	$
Balance at December 31, 2015	168,399
Net increase in fair value less costs to sell due to biological transformation	2,109,069
Transferred to inventory upon harvest	(2,087,785)
Balance at December 31, 2016	189,683
Net increase in fair value less costs to sell due to biological transformation	2,370,735
Transferred to inventory upon harvest	(2,130,417)
Balance at December 31, 2017	**430,001**

Biological assets are measured at fair value less costs to sell until harvest. All production costs related to biological assets are expensed as incurred. The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique used. The fair value was determined using an expected cash flow model which assumes the biological assets at the balance sheet date will grow to maturity, be harvested and converted into finished goods inventory and sold in the retail medical cannabis market. This model utilizes the following significant assumptions:

	Assumption	**December 31,**	
		2017	**2016**
[i]	Weighted average of expected loss of plants until harvest	8% - 31%	26% - 31%
[ii]	Expected yields for cannabis plants (average grams per plant per strain)	10 – 34.3 grams per plant	12.33 - 25.24 grams per plant
[iii]	Expected number of growing weeks	12 - 26 weeks	13 - 18 weeks
[iv]	Weighted average number of growing weeks completed as a percentage of total growing weeks as at December 31	44%	34%
[v]	Estimated selling price (per gram by strain)	$6 - $15	$5 - $11
[vi]	After harvest cost to complete and sell, incorporating a reasonable margin (per gram)	$5.27 - $6.38	$3.55 - $3.60

These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future periods. A 10% positive change in each of the significant assumptions would result in an aggregate increase of $263,050 in the biological assets balance at December 31, 2017 [2016 - $51,608]. A 10% negative change in each of the significant assumptions would result in an aggregate decrease of $174,938 in the biological assets balance at December 31, 2017 [2016 - $30,457].

The Company estimates the harvest yields for medical cannabis at various stages of growth. As of December 31, 2017, it is expected that the Company's biological assets will yield approximately 437,499 grams [2016 – 156,495 grams] of medical cannabis when harvested.

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

[Expressed in Canadian dollars unless otherwise noted]

7. Other assets

The Company's other current assets include the following:

	2017	2016
	$	$
Prepayments and deposits	**432,128**	120,226
Input tax receivable	**3,148,701**	108,967
	3,580,829	229,193

The Company's other non-current assets include the following:

	2017	2016
	$	$
Prepayments and deposits	**767,944**	—

Other non-current assets includes $767,944 [2016 – nil] of amounts paid for the purpose of acquiring an option to purchase property in Germany for €3,000,000 [$4,510,170]. The option to purchase property in Germany is a related party transaction between Maricann and another company that is affiliated with an executive of the Company *[note 21]*.

8. Loan receivable

The Company provided a subordinated convertible loan of €250,000 [$376,912] to a third party [the "Borrower"] to participate in the tender process for medicinal cannabis issued by the Federal Institute for Drugs and Medical Devices ["BfArM"] in Germany. The loan bears interest at 2% per annum and has a maturity of two years. Upon successful participation in the tender process, the loan will be forced to convert. The loan is convertible into 50% of common shares of the Borrower at €1 per share. Upon a conversion, the Company will be required to invest an additional $5,000,000 for the first lot awarded by BfArM. In the event the tender lot awarded by BfArM is sufficiently profitable, as determined by the operating committee, which will be comprised of members from the Borrower and the Company, the Company will be required to invest an additional $15,000,000.

[Expressed in Canadian dollars unless otherwise noted]

9. Property, plant and equipment

Cost	Furniture and fixtures $	Computer equipment $	Agricultural equipment $	Leasehold improvements $	Land and buildings $	Total $
As at December 31, 2015	46,409	205,151	556,028	4,103,059	—	4,910,647
Additions	7,318	152,384	242,365	1,262,432	1,938,045	3,602,544
Disposals	—	—	(21,737)	—	—	(21,737)
As at December 31, 2016	53,727	357,535	776,656	5,365,491	1,938,045	8,491,454
Additions	90,447	253,916	686,343	1,234,066	19,997,962	22,262,734
As at December 31, 2017	**144,174**	**611,451**	**1,462,999**	**6,599,557**	**21,936,007**	**30,754,188**

Accumulated depreciation	Furniture and fixtures $	Computer equipment $	Agricultural equipment $	Leasehold improvements $	Land and buildings $	Total $
As at December 31, 2015	12,279	69,844	49,476	500,308	—	631,907
Depreciation	10,282	99,139	71,106	521,562	—	702,089
Disposals	—	—	(4,826)	—	—	(4,826)
As at December 31, 2016	22,561	168,983	115,756	1,021,870	—	1,329,170
Depreciation	22,308	154,788	117,241	692,336	—	986,673
As at December 31, 2017	44,869	323,771	232,997	1,714,206	—	2,315,843

Net book value	Furniture and fixtures $	Computer equipment $	Agricultural equipment $	Leasehold improvements $	Land and buildings $	Total $
As at December 31, 2016	31,166	188,552	660,900	4,343,621	1,938,045	7,162,284
As at December 31, 2017	**99,305**	**287,680**	**1,230,002**	**4,885,351**	**21,936,007**	**28,438,345**

The Company is constructing a 217,000 square foot production facility in Langton, Ontario. Property, plant and equipment includes $21,936,007 [2016 – $1,938,045] of expenditures related to the construction of this facility, which is not currently being amortized. Amortization will commence when construction is complete and the facility is available for its intended use.

Borrowing costs of $730,844 [2016 – $113,225] were capitalized as land and buildings during the year.

[Expressed in Canadian dollars unless otherwise noted]

10. Acquisition

Acquisition of Nanoleaf Technologies Inc. [the "Acquisition"]

On October 27, 2017, the Company completed the acquisition of all the issued and outstanding shares of Nanoleaf Technologies Inc. ["Nanoleaf"]. Nanoleaf is a biotech company with licensing rights to patented nano-technology for ingestible cannabinoid delivery called VESIsorb ®. The transaction was accounted for as an asset acquisition.

The Company acquired all of the common shares of Nanoleaf for a total consideration of $33,439,714 consisting of:

	$
Consideration	
18,333,319 common shares[(1)]	24,566,648
Contingent consideration	7,273,066
Cash	1,600,000
	33,439,714

[(1)] The number of common shares issued to Nanoleaf shareholders in connection with the Acquisition is subject to adjustment in certain circumstances following closing, including if, on the date that is 179 days post-closing [the "Adjustment Calculation Date"], the volume weighted average price of Maricann common shares for the preceding 20-day period [the "Adjustment VWAP"] is less than $2.10 per share, the Company will issue incremental shares to the Nanoleaf vendors ["Adjustment Shares"] in accordance with the following formula:

($38,500,000 / Adjustment VWAP) – Number of Closing Shares issued)

The Adjustment VWAP is subject to a minimum of $1.40 per Maricann share, resulting in a maximum number of Adjustment Shares of approximately 9,200,000.

The initial 18,333,319 common shares issued pursuant to the acquisition agreement were valued based on the closing share price of the Company on October 27, 2017, which was $1.34.

[Expressed in Canadian dollars unless otherwise noted]

The contingent consideration was valued using a model to simulate the share price at the expiry date using the following parameters:

Time to expiry	0.49 years
Share price at onset	$1.34
Volatility	68.9%
Risk free interest rate	1.25%

The model simulated multiple trials and the mean was used for purpose of valuing the contingent consideration.

The allocation of the consideration to the fair value of the net assets acquired at the date of acquisition is as follows:

	$
Other assets – Input tax receivable	56,357
Intangible asset – Intellectual property	33,383,357
	33,439,714

11. Intangible assets

A continuity of the intangible assets for the year ended December 31, 2017 is as follows:

	Balance at December 31, 2016	Additions	**Balance at December 31, 2017**
Cost	$	$	$
Intellectual property *[note 10]*	—	**33,383,357**	**33,383,357**
Exclusivity agreement *[i]*	—	**1,277,530**	**1,277,530**
Amortization *[ii]*	—	—	**(794,842)**
Total	—	**34,660,887**	**33,866,045**

[i] In December 2017, the Company entered into an exclusivity agreement [the “RD Agreement”] with Rare Dankness LLC [“RD”] to bring certified strains and cannabis products to Canada. The RD Agreement provides the Corporation with exclusive distribution and retail rights for the Canadian markets for specified Rare Dankness Genetics and Products for a five-year term, subject to the Company meeting minimum wholesale targets each year or paying an exclusivity fee and a right of first refusal to act as RD’s exclusive distributor for such products in Europe. The RD Agreement is subject to a one-time non-refundable payment of USD$500,000 [$627,530], which is accrued as at December 31, 2017. RD shall be entitled to 50% of all profits on wholesale sales of products by the Company. Additionally, the Company is to issue three tranches of $250,000 in common share purchase options on execution of the RD Agreement and on each of the first and second anniversaries. Such options have not been issued as at December 31, 2017. The Company has capitalized the fair value of the three $250,000 tranches using a discount rate of 18%. The exercise price of such options will be equal to the greater of the price of Maricann common shares at market close on the principal exchange on which the common shares trade on the date of issuance or the day prior to the date of issuance. Options shall vest on the date that is four months following the issuance date. The Company has capitalized $1,227,530 to intangible

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assets, of which $650,000 has correspondingly been recorded as an increase to contributed surplus in 2017 representing the present value of the $750,000 of common share purchase options to be issued. The first tranche of options were issued subsequent to December 31, 2017.

[ii] Amortization relates entirely to the intellectual property as the exclusivity agreement was acquired at the end of December 2017.

12. Trade and other payables

The Company's trade and other payables include the following:

	2017	2016
	$	$
Trade payables and accrued liabilities	**6,855,401**	1,657,026
Accrued payroll	**129,980**	369,167
Cash-settled options	**629,434**	317,625
	7,614,815	2,343,818

13. Deferred revenue

The Company's deferred revenue consists primarily of loyalty credits earned by customers for discounts in the amount of $30,420 [2016 - $119,233] that the Company may be obligated to provide on future sales. The balance of the deferred revenue relates to product sales which were paid in advance of shipping as at the year-end date.

14. Shareholder loans

During the years ended December 31, 2013 and 2014, the Company received loans from its shareholders to expand its operating facility. The first loan was received during the year ended December 31, 2013 for $813,195 and the second loan was received during the year ended December 31, 2014 for $1,936,805 [collectively the "Shareholder Loans"]. The Shareholder Loans are subject to an interest rate of 1% per annum [commencing as of March 1, 2014] until such amounts are repaid however, for the loan received in October 2014 in the amount of $750,000, the shareholders waived the rights to any interest. Interest on the Shareholder Loans shall be paid annually in arrears or at such other times as the Board of Directors may determine.

In January 2015, the Company repaid the October 2014 Shareholder Loan of $750,000. A further $1,200,000 in Shareholder Loans was then received by the Company during 2015. Of the $1,200,000 of loans received, $600,000 is subject to an interest rate of 6.5% and the remainder at 6% paid annually in arrears or at such other times as the Board of Directors may determine. The terms of the Shareholder Loans were also such that they were repayable on demand. The $1,200,000 amount was received in four monthly tranches of $300,000 in June, July, October and November of 2015, respectively.

In December 2016, the Company repaid all the outstanding Shareholder Loans resulting in a nil balance including accrued interest as at December 31, 2016.

[Expressed in Canadian dollars unless otherwise noted]

15. Borrowings

Borrowings consist of the following:

	2017	2016
	$	$
Commercial term loan [i]	—	1,939,780
Mortgage facility [ii]	—	747,312
	—	2,687,092

[i] Commercial term loan

In January 2016, the Company secured a $2,000,000 commercial term loan with a Canadian based lender for a term of one year. The commercial term loan is subject to an interest rate of 5.5% per annum and matured on January 15, 2017. On February 3, 2017, the commercial term loan was extended at a fixed interest rate of 6% for a period of five years maturing on January 15, 2022. The Company repaid the commercial term loan and the associated accrued interest in March 2017 in full.

[ii] Mortgage facility

In February 2016, the Company entered into a $765,375 fixed rate mortgage facility [the "Mortgage"] with a Canadian based lender to assist with the purchase of 138 8th Concession Road, Langton, Ontario being a 97.5 acre parcel of land located adjacent to the Company's registered office over which the Mortgage is secured. Interest on the Mortgage was accrued monthly at a one-year fixed rate of 5.5%. The Mortgage had a term of one year. On February 3, 2017, the Mortgage was extended on terms consistent with the original agreement for a period of one year.

On initial recognition, the Mortgage was designated as an "other financial liability" and recorded at fair value less transaction costs. The Mortgage was subsequently measured at amortized cost using the effective interest method. As at December 31, 2016, the carrying amount of the Mortgage was $747,312 and was included as a current liability. The Company repaid the principle of the Mortgage and the associated accrued interest in March 2017 in full.

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16. Finance leases

In February 2016, the Company entered into a finance lease to lease agricultural equipment. The equipment related to the lease is recorded as finance leases in property, plant and equipment. The Company's finance lease is a 24-month term and bears interest at 7.5%.

The Company entered into a finance lease to lease bio-botanical extraction equipment in October 2015. The equipment related to the lease is recorded as finance leases in property, plant and equipment. The Company's finance lease is for a 24-month term and bears interest at 7.5%.

	2017	2016
	$	$
Minimum lease payments		
No later than one year	**4,100**	134,750
Later than one year, but no later than five years	—	3,700
	4,100	138,450
Less: future finance charges	**(23)**	(4,799)
Present value of minimum lease payments	**4,077**	133,651
Current liabilities	**4,077**	129,995
Non-current liabilities	—	3,656
	4,077	133,651

17. Convertible debentures and warrants

	2016 Debentures
Convertible debentures and warrants (issued in 2016) (a)	$
Balance, as at December 31, 2016	**—**
Issued	**22,500,000**
Balance, December 31, 2016	**22,500,000**
Non-cash fair value change	37,176,990
Transferred to share capital	**(59,676,990)**
Balance, as at December 31, 2017	**—**

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Convertible debentures (issued in 2017) (b)	**2017 Debentures** $
Balance, as at January 1, 2016 and 2017	**—**
Convertible debentures and warrants issued	31,000,000
Less: Equity component of convertible debenture *[i]*	(3,797,580)
Less: Warrants *[ii]*	(2,086,074)
Less: Deferred financing fees on financial liability	(1,696,518)
Accretion and accrued interest	730,844
Balance, as at December 31, 2017	**24,150,672**

[i] Within shareholders' equity, the equity component of convertible debentures is presented net of issuance costs of $256,561.

[ii] Within shareholders' equity, the warrants associated with the convertible debentures (issued in 2017) is presented net of issuance costs of $140,933.

The liability component of the convertible notes was valued using Company specific interest rates assuming no conversion features existed. The debt component is accreted to its fair value over the term to maturity as a non-cash interest charge and the equity component is presented in contributed surplus.

(a) On March 3, 2017, Maricann Inc. entered into a definitive agreement with Danbel, for Danbel to acquire a 100% interest in Maricann Inc., which constituted a reverse takeover of Danbel [the "Transaction"]. As noted in note 3 to these consolidated financial statements, on April 20, 2017, following approval of the shareholders of Danbel, Maricann Inc., and Danbel Subco completed the amalgamation under the amalgamation agreement and the Resulting Issuer commenced trading on the Exchange on April 24, 2017.

On December 15, 2016, Maricann Inc. completed a $22,500,000 financing by issuing 22,500 units [the "Units"], with each Unit comprised of one senior unsecured convertible debenture with a principal amount of $1,000 [a "Debenture"] and 500 common share purchase warrants [the "Warrants"]. The Debentures had a maturity date of June 15, 2017. Should Maricann Inc. have not completed a going public transaction and listing on a stock exchange by this date, the holders of the convertible debentures would have had the right to either convert into common shares and Maricann Inc. would have been obligated to issue 10% additional shares on conversion for no additional consideration or demand repayment with 10% per annum interest. In addition, the number of shares issuable on exercise of the Warrants would have also increased by 10%. Otherwise, the terms of the Debentures and Warrants were as described in the next paragraph.

Immediately prior to the completion of the Transaction, the principal amount of the Debentures was to be converted into common shares of Maricann Inc. at a conversion price of $1.00 per share and, subsequently, be exchanged for common shares of the Resulting Issuer pursuant to the Transaction. The Warrants were to similarly be exchanged pursuant to the Transaction, and were exercisable into common shares of the Resulting Issuer at an exercise price of $1.25 per share for a period of two years from the listing date, subject to an accelerated expiry in the event that the volume weighted average price of the Resulting Issuer's common shares for any 20 consecutive trading days equals or exceeds $1.90 per share.

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The Company determined that the Debentures and associated Warrants did not meet the IFRS definition of equity due to the variability of the Debenture conversion ratio and the number of shares issuable on exercise of the Warrants if the Company fails to go public by the specified date (June 15, 2017). Accordingly, the Debentures and Warrants are treated as financial liabilities measured at fair value through profit or loss. The fair values of the Debenture financial liability and Warrants are classified as Level 3 in the fair value hierarchy *[note 24]*.

Issuance costs were $2,037,598 in cash and 900,000 compensation options. The Company issued 900,000 compensation options to agents. Each compensation option entitles the holder thereof to purchase one common share and one common share purchase warrant of the Company at an exercise price of $1.00 per compensation option up to two years from the closing date of the Transaction. Each compensation warrant entitles the holder thereof to purchase one common share at an exercise price of $1.25 for up to 2 years from the closing date of the Transaction. Based on the Black-Scholes option pricing model, the fair value of the compensation units was estimated at $471,268 using the following assumptions:

Grant date share and warrant value	$0.96
Exercise price	1.00
Risk-free interest rate	0.80%
Expected life (years)	2.5
Expected annualized volatility	95%
Expected dividend yield	0%

The total issuance costs of $2,508,868 has been expensed as a transaction cost in the consolidated statements of loss and comprehensive loss.

Upon completion of the RTO transaction and public listing, as at April 24, 2017, the fair value of the convertible debenture instrument and the related Warrants was revalued based on the opening trading price of $2.15 at which point the Debenture instruments were settled by way of share issuance, and the Warrants were reclassified to shareholders' equity as they are no longer variable and meet the IFRS definition for equity. The fair value of the Debenture instrument based on $2.15 per share for 22,500,000 shares was $48,375,000. The fair value of the Warrants was $11,301,990 determined based on the Black-Scholes option pricing model, estimated using the following assumptions: reporting date share value of $2.15, exercise price of $1.25, risk-free interest rate of 0.72%, expected life of 0.68 year, expected annualized volatility of 73.92%, expected dividend yield of 0%. As a result, on April 24, 2017, the Company derecognized the convertible debenture instrument and the related Warrant liability, recorded $59,676,990 to shareholders' equity and recorded a non-cash fair value loss on convertible debenture and warrants liability of $37,176,990 for the year ended December 31, 2017 [2016 – nil]. On December 18, 2017, the Company accelerated the expiry date of all outstanding common share purchase warrants issued pursuant to the convertible debentures issued on December 15, 2016 due to the share price threshold noted above. The accelerated expiry date of these warrants is January 17, 2018.

(b) On October 27, 2017, the Company closed a private placement for $31,000,000 aggregate principal amount of convertible debenture units [the "Convertible Debenture Units"] at a price of $1,000 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of $1,000 principal amount of 9.0% secured convertible debentures [the "Convertible Debentures"] and 313 common share purchase warrants [the "Warrants"] of the

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Company. Each Warrant is exercisable to acquire one common share of the Company [a “Warrant Share”] at an exercise price of $2.30 per Warrant Share [the “Exercise Price”] until October 27, 2020, subject to adjustment in certain events.

$6,000,000 of the gross proceeds were raised from the participation of a number of the Directors of the Company or their associates. The Convertible Debentures sold to insiders as part of the offering, aggregating $6,000,000 in principal amount, are subject to a higher conversion price of $1.68, subject to adjustment in certain events. The remaining $25,000,000 principal amount of the Convertible Debentures have a conversion price of $1.60. The Convertible Debentures are subject to a forced conversion if the VWAP of the Company’s common shares exceeds $2.50 per share for 20 consecutive trading days following February 28, 2018. On closing, the Company paid the agent a commission of $971,695 and legal fees and expenses of $879,712.

During the year ended December 31, 2017, the Company paid interest of nil and issued nil common shares on partial conversion of nil convertible debentures.

The Company issued 597,493 compensation options at a fair value of $242,923. The compensation options have the same terms as the Warrants and expire on October 27, 2020. The fair value of the compensation options at the date of grant was estimated as $0.41 per compensation option based on the following weighted average assumptions: stock price volatility - 60%; risk-free interest rate – 1.48%; dividend yield - 0.00%; and expected life - 3 years.

18. Share capital

Authorized

The authorized share capital of the Company is an unlimited number of common shares and an unlimited number of preferred shares. All issued shares, consisting only of common shares, are fully paid.

Common share stock split

On December 7, 2016, the Board of Directors of Maricann Inc. authorized a 305.1:1 stock split of its common stock. All share, option and loss per share information have been retroactively adjusted to reflect the increase in the number of common shares and options from the stock split.

Reconciliation of the Company’s share capital is as follows:

	Common shares	
	#	$
Balance, as at December 31, 2015	36,612,000	5,856,955
Common shares issued	4,618,604	3,134,727
Balance, as at December 31, 2016	41,230,604	8,991,682
Common shares issued	63,839,419	114,752,176
Balance, as at December 31, 2017	**105,070,023**	**123,743,858**

[i] On November 18, 2016, the Company issued 4,618,604 common shares for consideration of $3,134,727 [net of issuance costs of $13,977].

[ii] On January 17, 2017, 305,100 stock options were exercised for gross proceeds of $20,000. Non-cash compensation charges of $183,382 were reclassified from contributed surplus to share capital on the exercise of these stock options.

[iii] On January 23, 2017, 1,660,000 shares were issued to a key employee upon achievement of performance milestones. The amount of $1,088,168 was reclassified from contributed surplus to share capital.

[iv] On March 7, 2017, the Company completed a private placement consisting of 3,510,585 shares at a subscription price of $2.85 per share, for a total consideration of $10,005,167. The Company paid issuance costs of $868,298 and issued 130,380 compensation options at a fair value of $182,887 *[note 3]*. The compensation options are exercisable into common shares of the Company, at a price of $2.85 per share for a period of two years. The fair value of these compensation options at the date of grant was estimated at $1.40 per option, based on the following weighted average assumptions: expected annualized volatility of 92.77%; risk-free interest rate of 0.79%; expected dividend yield of 0%; and expected life of two years.

[v] On April 18, 2017, 2,060,695 shares were issued to a key employee upon achievement of performance milestones. The amount of $1,350,832 was reclassified from contributed surplus to share capital.

[vi] On April 20, 2017, upon completion of the RTO transaction, 22,500 units of the convertible debenture were converted to 22,500,000 common shares of the Company. The amount of $48,375,000 was reclassified from convertible debt liability to share capital.

[vii] On April 20, 2017, as part of the RTO transaction, the Company issued 1,250,279 shares to the shareholders of Danbel at a price of $2.85 per share.

[viii] On April 28, 2017, 305,100 stock options were exercised for gross proceeds of $20,000. Non-cash compensation charges of $183,408 were reclassified from contributed surplus to share capital on the exercise of these stock options.

[ix] On June 20, 2017, 208,078 stock options were issued for settlement of services received, and subsequently exercised for gross proceeds of $136,400. Non-cash compensation charges of $184,040 was reclassified from contributed surplus to share capital on the exercise of these stock options.

[x] During the year ended December 31, 2017, 9,814,500 warrants were exercised for gross proceeds of $12,268,125. An amount of $9,859,855 was reclassified from Warrants to share capital.

[xi] On October 27, 2017, the Company issued 18,333,319 common shares at a fair value of $24,566,648 pursuant to the acquisition of Nanoleaf. In addition, the Company recognized within shareholders' equity, contingent consideration of $7,273,066 *[note 10]*.

[xii] On November 1, 2017, 266,963 stock options were exercised for gross proceeds of $266,963. Non-cash compensation charges of $122,054 were reclassified from contributed surplus to share capital on the exercise of these stock options.

[xiii] On November 15, 2017, 1,830,600 stock options were exercised for gross proceeds of $128,142. Non-cash compensation charges of $1,153,828 were reclassified from contributed surplus to share capital on the exercise of these stock options.

[xiv] During the year ended December 31, 2017, the Company issued 794,000 common shares at a fair value of $940,960 to consultants pursuant to consulting agreements, of this amount $480,960 was recognized within production costs and $100,000 was included within general and administrative expense on the consolidated statement of loss and comprehensive loss. Non-cash compensation charges of $360,000 were reclassified from contributed surplus to share capital on the issuance of these common shares *[note 18iv].*

[xv] During the year ended December 31, 2017, 500,100 compensation options were exercised for 1,000,200 shares for gross proceeds of $1,125,225. An amount of $261,868 was reclassified from contributed surplus to share capital.

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Share options

The Company has established a stock option plan [the "Option Plan"] for directors, officers, employees and consultants of the Company. The Company's Board of Directors determines, among other things, the eligibility of individuals to participate in the Option Plan and the term, vesting period, and the exercise price of options granted to individuals under the Option Plan.

Each share option converts into one common share of the Company on exercise. No amounts are paid or payable by the individual on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The Company's Option Plan provides that the number of common shares reserved for issuance may not exceed 10% of the aggregate number of common shares that are outstanding unless the Board of Directors shall have increased such limit by a resolution. If any options are exercised, terminate, expire, or are cancelled as contemplated by the Option Plan, the number of options so exercised, terminated, expired, or cancelled shall again be available under the Option Plan.

[i] Share-based payment arrangements

As at December 31, 2017, the Company had the following share-based payment arrangements:

[a] Equity-settled arrangements

Grant date/individual entitled	**Number of instruments**	**Vesting conditions**	**Contractual life of option**
Options granted to employees and outstanding as at December 31, 2017			
On April 20, 2015	122,040	Fully vested	6 years
On October 2, 2017	250,000	50% vesting upon six months other 50% upon twelve months from start of employment	3 years
On December 7, 2017	125,000	25% vesting quarterly from start of employment	5 years
On December 15, 2017	3,000,000	One third on date of grant, one third on first and second anniversaries	5 years
On December 19, 2017	155,000	25% vesting quarterly starting March 19, 2018	5 years
Options granted to non-employees and outstanding as at December 31, 2017			
On April 1, 2017	305,100	1 year of service from grant date	3 years
On December 6, 2017	150,000	6 months of service from grant date	3 years
On December 19, 2017	314,417	Fully vested	5 years
On December 19, 2017	157,209	Vesting on April 12, 2018	5 years
Total share options	**4,578,766**		

[Expressed in Canadian dollars unless otherwise noted]

[b] Cash-settled arrangements

Grant date/individual entitled	Number of instruments	Vesting conditions	Contractual life of option
Options granted to non-employees			
On January 1, 2016	305,100	1 year of service from grant date	4 years
Total share options	**305,100**		

[ii] Measurement of fair values

The fair value of share options granted during the years ended December 31, 2017 and 2016 was estimated at the date of grant using the Black-Scholes option pricing model using the following inputs:

Employee options

	Equity-settled arrangements	
	2017	2016
Employee options		
Grant date fair value [weighted average]	**$1.18**	$0.59
Exercise price [weighted average]	**$2.08**	$0.28
Expected dividend yield	**0%**	0%
Risk-free interest rate [weighted average]	**1.66%**	0.73%
Expected option life in years [weighted average]	**4.86**	3.7
Expected volatility [weighted average]	**69.01%**	96.41%

Non-employee options

	Equity-settled arrangements		Cash-settlement arrangements	
	2017	**2016**	**2017**	**2016**
Non-employee options				
Grant date fair value [weighted average]	$1.12	$0.60	$1.90	$0.44
Exercise price [weighted average]	$2.08	$0.07	$0.62	$0.62
Expected dividend yield	0%	0%	0%	0%
Risk-free interest rate [weighted average]	1.70%	0.54%	0.75%	0.72%
Expected option life in years [weighted average]	4.52	3	4	4
Expected volatility [weighted average]	67.54%	96.41%	94.17%	96.41%

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During the year ended December 31, 2017, 305,100 cash-settled options were granted and subsequently forfeited within the year.

Expected volatility was estimated by considering the historical volatility of the Company and of other companies that the Company considers comparable that have trading and volatility history. The expected option life represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is based on the government of Canada bonds with a remaining term equal to the expected life of the options.

[iii] Reconciliation of outstanding equity-settled share options

	Options Issued \#	**Weighted average exercise price** $
Outstanding as at December 31, 2015	757,258	0.25
Options issued	2,669,625	0.25
Outstanding as at December 31, 2016	3,426,883	0.26
Options issued	4,664,804	2.08
Options exercised	(2,915,841)	0.20
Options expired	(330,117)	0.44
Options forfeited	(266,963)	1.00
Outstanding as at December 31, 2017	**4,578,766**	**1.90**

The following table is a summary of the Company's share options outstanding as at December 31, 2017:

Exercise price **$**	**Options outstanding** **#**	**Expiry date**	**Weighted average remaining contractual life [years]**	**Options exercisable** **#**
0.07	**305,100**	April 1, 2020	**2.25**	**—**
1.52	**250,000**	October 2, 2020	**2.76**	**—**
2.18	**150,000**	December 6, 2020	**2.93**	**—**
0.15	**122,040**	April 20, 2021	**3.30**	**122,040**
2.14	**125,000**	December 7, 2022	**4.94**	**—**
2.13	**3,000,000**	December 15, 2022	**4.96**	**1,000,000**
2.05	**626,626**	December 19, 2022	**4.97**	**314,417**
1.90	**4,578,766**		**4.55**	**1,436,457**

[iv] Share-based awards

Employee

In August and October 2016, the Company entered into an arrangement with a key management employee to issue 4,960,926 common shares of the Company upon meeting certain market and non-market conditions.

There are three tranches as follows:

- 30% and 45% of the award vests based on securing certain additional minimum investments in common shares at certain specified minimum pre-money valuations.
- 25% of the award vests upon final inspection and approval by the applicable municipal authorities on Phase 1 of the expansion plan.

The grant date fair value was $0.66 per share and reflects the high probability of meeting market conditions present in the first two tranches. As at December 31, 2017, 1,240,231 [2016 – 4,960,926] share-based awards were outstanding.

Non-employee

In October 2016, the Company entered into an arrangement with a non-employee to issue 460,000 shares in exchange for consulting services. The transaction was measured at the fair value of the services received in the amount of $460,000. Total fair value is being recognized as an expense on a straight-line basis over a one-year period as the Company receives these services over a one-year period. For the year ended December 31, 2017, $388,987 [2016 - $71,013] was recognized as consulting expense within general and administrative expense on the consolidated statement of loss and comprehensive loss and recorded to contributed surplus.

Additionally, in July 2017, the Company entered into an arrangement with a non-employee to issue 100,000 common shares in exchange for consulting services. The transaction was measured at the fair value of the common shares at the date of commitment of the shares, being $163,000. This amount has been recognized as consulting expense within general and administrative expenses on the consolidated statement of loss and comprehensive loss and recorded to contributed surplus.

In November 2017, the Company entered into an arrangement with a non-employee to provide consulting services with respect to manage and coordinate all elements of the Company's business related to cultivation, harvesting and processing of cannabis for $375,000 on an annual basis. In addition to the annual consideration, the consultant is entitled to common shares of the Company as follows: 334,000 upon executing of the agreement; 333,000 on January 18, 2018 and 333,000 on January 18, 2019. For the year ended December 31, 2018, the Company issued 334,000 common shares and recognized an expense of $480,960 within production costs with a corresponding amount in contributed surplus. The consultant is also entitled to certain additional cash payments based on cannabis yield.

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December 31, 2017 and 2016

[v] Share-based compensation expense

Employee options

The Company recognized $4,639,681 [2016 - $1,134,630] of share-based compensation expense to employees during the year ended December 31, 2017 with a corresponding amount recognized as a contributed surplus. See above per "Measurement of Fair Values" for significant assumptions used. In addition, during the year ended December 31, 2017, 266,963 options valued at $31,877 were forfeited and were reversed from contributed surplus and 122,040 options valued at $72,204 expired and were reversed from contributed surplus.

Non-employee options

The Company recognized $2,387,262 [2016 - $278,120] of share-based compensation expense to non-employees during the year ended December 31, 2017. Of this amount, $1,111,781 [2016 - $94,341] are cash settled options, accordingly has been accounted for as a liability to the Company, the balance of $1,275,481 [2016 - $183,779] are equity-settled awards with a corresponding amount recognized as contributed surplus. The nature of the services by the Company related to professional services and the amount has been expensed within the Company's sales and marketing expenses. See above per "Measurement of Fair Values" for significant assumptions used.

[vi] Liabilities arising from cash-settled options

Details of the liabilities arising from the cash-settled options are as follows:

	2017	2016
	$	$
Total carrying amount of liability	**629,434**	317,625
Total intrinsic value of liabilities for vested options	**610,915**	18,400

[vii] Compensation warrants

During the year ended December 31, 2017, the Company granted 250,000 compensation Warrants valued at $92,469 for services received. The compensation Warrants are exercisable into common shares of the Company, at a price of $2.00 per share for a period of two years. The fair value of these compensation Warrants at the date of grant and issuance was estimated using the Black-Scholes option pricing model at $0.37 per Warrant, based on the following weighted average assumptions: expected annualized volatility of 64.52%; risk-free interest rate of 1.09%; expected dividend yield of 0%; expected life of two years. The Company has further committed to issue an additional 250,000 compensation Warrants in eight months under the same terms subject to meeting service obligations. During the year ended December 31, 2017, the Company recognized $69,352 in contributed surplus for 187,500 warrants to be issued related to the additional Warrants. As at December 31, 2017, $161,821 was recognized as consulting expense within general and administrative expenses on the consolidated statements of loss and comprehensive loss.

During the year ended December 31, 2017, the Company also granted 200,000 compensation Warrants valued at $76,666 for services received. The compensation Warrants are exercisable into common shares of the Company, at a price of $2.00 per share for a period of two years. The fair value of these compensation Warrants at the date of grant and issuance was estimated using the Black-Scholes option pricing model at $0.38 per Warrant, based on the following weighted average assumptions: expected annualized volatility of 64.13%; risk-free interest rate of 1.10%; expected dividend yield of 0%; expected life of two years. The Company has further committed to issue an additional 200,000 compensation Warrants in eight months under the same terms subject to meeting service obligations. During the year ended December 31, 2017, the Company recognized $57,500 in contributed surplus for 150,000 warrants to be issued related to the additional Warrants. As at December 31, 2017, $134,166 was recognized as consulting expense within general and administrative expenses on the consolidated statements of loss and comprehensive loss.

[Expressed in Canadian dollars unless otherwise noted]

[viii] Share purchase warrants

Each whole warrant entitles the holder to purchase one common share of the Company. A summary of the status of the warrants outstanding follows:

	Warrants classified as equity \#	Weighted average exercise price $
Balance, as at December 31, 2015 and 2016	—	—
Issued	21,403,000	1.74
Exercised	(9,814,500)	1.25
Balance, as at December 31, 2017	**11,588,500**	**2.16**

The following table summarizes the warrants that remain outstanding as at December 31, 2017:

Exercise Price $	Warrants \#	Expiry Date
1.25	**1,435,500**	April 20, 2019
2.00	**250,000**	June 29, 2019
2.00	**200,000**	July 1, 2019
2.30	**9,703,000**	October 27, 2020
	11,588,500	

[Expressed in Canadian dollars unless otherwise noted]

[ix] Compensation options

A summary of the status of the compensation options outstanding follows:

	Compensation options	Weighted average exercise price
	#	$
Balance, as at December 31, 2015	—	—
Issued[1]	900,000	1.00
Balance, as at December 31, 2016	900,000	1.00
Issued	727,873	2.40
Exercised	(500,100)	1.00
Balance, as at December 31, 2017	**1,127,773**	**1.96**

[1] Each compensation option entitles the holder to purchase one common share and one share purchase warrant of the Company at $1.25 per whole warrant for a period of two years.

19. Loss per share

Loss per common share represents net loss for the year divided by the weighted average number of common shares outstanding during the year.

Diluted loss per share is calculated by dividing the applicable net loss by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the year.

For all the years presented, diluted loss per share equals basic loss per share due to the anti-dilutive effect of the dilutive securities.

20. Income taxes

Income tax expense varies from the amount that would be computed by applying the basic federal and provincial tax rates to net loss before income taxes, shown as follows:

	2017	2016
	$	$
Net loss before tax	**(67,012,874)**	(8,295,768)
Expected tax rate	**26.5%**	26.5%
Expected tax benefit resulting from loss	**(17,758,412)**	(2,198,379)
Permanent differences	**13,430,409**	311,943
Deferred tax asset not recognized	**4,328,002**	1,886,436
Income tax recovery	**—**	—

Deferred tax assets have not been recognized in respect of tax losses because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

[Expressed in Canadian dollars unless otherwise noted]

As at December 31, 2017, the Company's estimated non-capital losses that can be applied against future taxable profit at approximately $29,490,000. These non-capital losses expire in the years ended:

December 31, 2033	$290,000
December 31, 2034	$2,100,000
December 31, 2035	$3,200,000
December 31, 2036	$7,000,000
December 31, 2037	$16,900,000

21. Related parties

Transactions and balances with related parties

As at December 31, 2017 and 2016, the Company had the following transactions with related parties as defined in IAS 24 – *Related Party Disclosures,* except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship arrangements and transactions with the Company's shareholders in the form of various financings as further discussed in notes 14 and 17.

[i] During the year ended December 31, 2017, the Company incorporated Maricann GmbH and Mariplant GmbH, limited liability entities in Germany. The Company through its wholly owned subsidiary Maricann B.V. owns 95% of the issued and outstanding shares of the entities, while the remaining 5% non-controlling interest is retained by a key management employee of the newly incorporated subsidiaries. This 5% non-controlling interest can be put to the Company for redemption at €5,000 in certain circumstances and therefore has been classified as a liability. In addition, the key management employee is entitled to a profit share of 5% subject to certain adjustments provided the individual continues to provide employee services to the Company. Maricann GmbH and Mariplant GmbH serves to allow the Company to expand in to the German market.

[ii] During January 2017, the Company entered into an agreement with an operator of a clinical network, who is a shareholder of the Company, to provide assessment and education with respect to medical cannabis for the Company. As at December 31, 2017, the amount provided to this related party was $125,000. The loan bears interest at 6% per annum and is due in January 2018. The balance was collected in January 2018.

[iii] During the year ended December 31, 2017, the Company entered into a reservation agreement to acquire for €3,000,000 [$4,510,170] an entity in Germany. Such entity holds a property in Naunhof, Germany that the Company intends to utilize in the event of obtaining required licenses in Germany to cultivate and distribute cannabis for medical purposes. An entity jointly owned by the CEO of the Company and a key management employee of the Company's German subsidiaries held preemptive rights over this property. In entering into a reservation agreement, the Company paid another entity affiliated with the Company's CEO €410,000 ($767,944) to acquire these preemptive rights. Such amount is included in Other assets [see Note 7].

[Expressed in Canadian dollars unless otherwise noted]

Management compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly including the Chief Executive Officer, Chief Financial Officer and equivalent, and Directors.

Compensation expense for the Company's key management personnel for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
	$	$
Salaries and other benefits	**1,553,290**	470,615
Share-based compensation	**4,329,772**	1,086,406
	5,883,062	1,557,021

22. Commitments and contingencies

Commitments

The Company has committed to construction contracts associated with the expansion of its production facilities for a total of $17,301,777 expected to be incurred within the next 12 months.

The Company has production facilities under operating lease arrangements until fiscal 2018 as well as administrative offices under operating lease arrangements until 2022. The Company has the right under a production facilities lease arrangement to extend the leases by another five years. The following table presents the minimum payments due over the next five years and thereafter until the termination of the leasing arrangement.

	$
2018	277,998
2019	42,420
2020	43,803
2021	44,264
2022 and beyond	18,443
	426,928

Contingencies

In the ordinary course of business, from time to time the Company is involved in various claims related to operations, rights, commercial, employment or other claims. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to these claims to be material to these consolidated financial statements.

[Expressed in Canadian dollars unless otherwise noted]

23. Capital management

The Company considers its capital to consist of share capital, contributed surplus, warrants, borrowings, convertible debentures and deficit. The Company's objectives when managing capital are to ensure that it can provide products to its customers and returns to its shareholders.

Total managed capital as at December 31, 2017 and December 31, 2016 is as follows:

	2017	2016
	$	$
Convertible debentures and warrants (issued in 2016)	**—**	22,500,000
Convertible debentures (issued in 2017)	**24,150,672**	—
Other borrowings	**—**	2,687,092
Shareholders' equity	**61,522,009**	(3,236,159)
Total managed capital	**85,672,681**	21,950,933

The Company manages its capital structure and makes adjustments to it, based on funds available to the Company, in order to fund its operations and the purchase and construction of its growing facility. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There has been no change in how the Company defines or manages capital in the year.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy and objectives with respect to capital risk management remained unchanged for the year ended December 31, 2017.

24. Financial instruments and risk management

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from deposits with banks and outstanding receivables. The Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's exposure to liquidity risk is dependent on its ability to raise additional financing to meet its commitments and sustain operations. The Company mitigates liquidity risk by management of working capital, cash flows and the issuance of share capital.

In addition to the commitments disclosed in note 22, the Company is obligated to the following contractual maturities of undiscounted cash flows:

	Carrying amount	Contractual cash flows	Year 1	Year 2	Year 3
	$	$	$	$	$
Trade and other payables	**7,614,815**	7,614,815	7,614,815	—	—
Convertible debentures	**24,150,672**	31,000,000	—	—	31,000,000
Interest on convertible debenture		8,370,000	2,790,000	2,790,000	2,790,000
Finance leases	**4,077**	4,077	4,077	—	—
	31,769,564	**46,988,892**	**10,408,892**	**2,790,000**	**33,790,000**

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest risk and other price risk.

Foreign currency risk

Currency risk is the risk to the Company's income that arises from fluctuations in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operations in Germany, where expenses and purchases are denominated in a different currency than the Company's functional currency.

At December 31, 2017, the exchange rate of one Canadian dollar expressed in Euros as reported by the Bank of Canada was 0.67 Euros to one Canadian dollar [2016 – 0.71 Euros to one Canadian dollar]. With all other variables held constant, changes in the fair value of monetary assets and liabilities at December 31, 2017 from a reasonably possible increase or decrease of 10% in this exchange rate would result in a decrease of approximately $35,000 and an increase of approximately $35,000, respectively, in net loss before income taxes. There would be a nil impact from such increases or decreases in the exchange rate as at December 31, 2016.

The Company's exposure to changes in foreign currency exchange rates for all other currencies is not material.

Interest 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 is not exposed to interest rate risk associated with convertible debentures as the interest rate is fixed.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices [other than those arising from interest rate risk or currency risk], whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to other price risk as at December 31, 2017.

Fair values

The carrying values of cash, trade and other receivables, loan receivable, other assets, trade and other payables and borrowings approximate their fair values due to the short-term nature of these instruments. The risk of material change in fair value is not considered to be significant due to their relatively short-term nature. The Company does not use derivative financial instruments to manage this risk.

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

- Level 1 – Unadjusted quoted prices as at the measurement date for identical assets or liabilities in active markets.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs which are supported by little or no market activity. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

[Expressed in Canadian dollars unless otherwise noted]

The following tables present information related to the Company's financial assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall as at December 31:

	Fair value as at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Biological assets	—	—	**430,001**	**430,001**
	—	—	**430,001**	**430,001**

	Fair value as at December 31, 2016			
	Level 1	Level 2	Level 3	Total
Biological Assets	—	—	189,683	189,683
Convertible Debentures and warrants (2016)	—	—	22,500,000	22,500,000
	—	—	22,689,683	22,689,683

The fair value of all other financial instruments carried within the Company's consolidated financial statements is not materially different from their carrying amount.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. Derivative financial instruments are recorded in Level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3.

The fair values of the convertible debentures and warrants (2016) and biological assets are classified as Level 3 in the fair value hierarchy.

25. Subsequent events

- Subsequent to December 31, 2017, the Company closed a private placement offering [the "SW Offering"] of special warrants [the "Special Warrants"] for aggregate gross proceeds of $40,250,000. The aggregate gross proceeds of the SW Offering include the full exercise of the over-allotment option granted to the agents in connection with the SW Offering. Pursuant to the SW Offering, the Company issued 20,125,000 Special Warrants, at a price of $2.00 per Special Warrant. Each Special Warrant is automatically exercisable, for no additional consideration, into units of the Company [the "Special Warrant Units"] on the earlier of: (i) the date that is three business days following the date on which the Company obtains receipt from the applicable securities regulatory authorities [the "Securities Commissions"] for a (final) prospectus [the "Qualifying Prospectus"] qualifying distribution of the Special Warrant Units issuable upon exercise of the Special Warrants; and (ii) May 10, 2018. Each Special Warrant originally entitled the holder therof to one Special Warrant Unit consisting of one common share of the Company [each, a "Common Share"] and one-half of a common share purchase warrant of the Company [each full common share purchase warrant, a “Warrant”]. Each Warrant will be exercisable to acquire one Common Share at a price of $2.35 per Common Share until January 9, 2021, subject to adjustment in certain events. Pursuant to the terms of the SW Offering, the Company agreed to use its commercially reasonable efforts to obtain a receipt from the Securities Commissions for the Qualifying Prospectus before February 27, 2018. A receipt was obtained on March 29, 2018. As the Company did not receive a receipt from the Securities Commissions for the Qualifying Prospectus before February 27, 2018, each unexercised Special Warrant entitles the holder to receive, upon the automatic exercise thereof, for no additional consideration, 1.05 Special Warrant Units (instead of one (1) Special Warrant Unit). Insiders of the Company or their associates participated in the SW Offering for an aggregate amount of $929,500. In connection with the SW Offering, the agents received a cash commission and 970,950 compensation warrants. Each compensation warrant entitles the holder thereof to acquire one Special Warrant Unit at a price of $2.00 per Special Warrant Unit until January 9, 2020, subject to adjustment in certain events.

- Subsequent to December 31, 2017, the Company granted 116,385 stock options with an exercise price of $3.10 each and 280,000 stock options with an exercise price of $3.39 each.
- Subsequent to December 31, 2017, 122,040 common shares were issued on the exercise of 122,040 stock options for gross proceeds of $18,000.
- Subsequent to December 31, 2017, 87,108 warrants were granted pursuant to the RD Agreement *[Note 11]*.
- Subsequent to December 31, 2017, 1,435,500 warrants were exercised at $1.25 for gross proceeds of $1,794,510 and 16,589 warrants were exercised at $2.30 for gross proceeds of $38,155.
- Subsequent to December 31, 2017, 433,000 common shares were issued pursuant to consulting agreements.
- Subsequent to December 31, 2017, 5,181,250 common shares were issued upon the conversion of $8,290,000 of the convertible debentures.
- Subsequent to December 31, 2017, the Company has entered into a definitive agreement with respect to the acquisition of all outstanding shares of Haxxon AG (“Haxxon”). Haxxon operates within a 6,000 sq. m. (approximately 64,500 sq. ft.) indoor facility in Regensdorf, Switzerland; an industrial suburb of Zurich. The transaction is scheduled to close on or about May 15th, 2018, or as soon as possible, subject to regulatory approval and the approval of the holders of the Company’s secured convertible debentures holding 66 2/3% in principal amount of the outstanding debentures being obtained by no later than May 31, 2018. Haxxon is being acquired for CHF 2,000,000 ($2,570,960) in cash and CHF 6,000,000 ($7,712,880) in common shares of the Company at the 20-day volume weighted average price ending two trading days before closing, subject however that the common shares shall not be issued at a price that is less than the closing price of the common shares of the Company on the CSE on the last trading day prior to closing date of the acquisition after factoring in the maximum allowable discount under the rules of the CSE, unless otherwise approved by the CSE.