

Condensed interim consolidated financial statements  
[Unaudited, expressed in Canadian dollars]

**Maricann Group Inc.**

For the three and six months ended  
June 30, 2017 and 2016

**Maricann Group Inc.**

**Condensed interim consolidated statements of financial position**

[Unaudited]

[Expressed in Canadian dollars]

As at

	June 30, 2017	December 31, 2016
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	7,980,921	16,192,662
Trade and other receivables	34,721	99,409
Inventory <i>[note 5]</i>	932,741	751,455
Biological assets <i>[note 6]</i>	374,655	189,683
Other current assets <i>[note 7]</i>	1,241,425	229,193
<b>Total current assets</b>	<b>10,564,463</b>	<b>17,462,402</b>
Other non-current assets <i>[note 7]</i>	2,013,406	—
Property, plant and equipment <i>[note 8]</i>	12,403,822	7,162,284
	<b>24,981,691</b>	<b>24,624,686</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current</b>		
Trade and other payables <i>[note 9]</i>	4,075,280	2,343,818
Deferred revenue <i>[note 10]</i>	154,966	196,284
Borrowings <i>[notes 12]</i>	—	2,687,092
Current portion of finance leases <i>[note 13]</i>	60,663	129,995
Convertible debentures and warrants liability <i>[note 14]</i>	—	22,500,000
<b>Total current liabilities</b>	<b>4,290,909</b>	<b>27,857,189</b>
Finance leases <i>[note 13]</i>	—	3,656
<b>Total liabilities</b>	<b>4,290,909</b>	<b>27,860,845</b>
Commitments and contingencies <i>[note 18]</i>		
<b>Shareholders' equity</b>		
Share capital <i>[note 15]</i>	73,768,285	8,991,682
Contributed surplus <i>[note 15]</i>	2,283,447	2,101,153
Warrants <i>[note 14, 15]</i>	11,147,724	—
Accumulated other comprehensive income	5,885	—
Deficit	(66,514,559)	(14,328,994)
Shareholders' equity attributable to Maricann Group Inc.	20,690,782	(3,236,159)
<b>Total shareholders' equity</b>	<b>20,690,782</b>	<b>(3,236,159)</b>
	<b>24,981,691</b>	<b>24,624,686</b>

*The accompanying notes are an integral part of these condensed interim financial statements*

Approved on behalf of the Board:

(Signed) Neil Tabatznik  
Director

(Signed) Ben Ward  
Director

**Maricann Group Inc.**

**Condensed interim consolidated statements of net income (loss) and comprehensive income (loss)**

[Unaudited]

[Expressed in Canadian dollars]

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	\$	\$	\$	\$
<b>Revenue</b>	<b>661,602</b>	906,246	<b>1,804,769</b>	1,864,019
Cost of sales <i>[note 5]</i>	<b>1,287,522</b>	1,023,186	<b>2,825,067</b>	2,153,448
Unrealized gain from changes in fair value of biological assets <i>[note 6]</i>	<b>(1,033,650)</b>	(773,771)	<b>(1,133,001)</b>	(1,067,418)
Gross profit	<b>407,730</b>	656,831	<b>112,703</b>	777,989
<b>Expenses</b>				
General and administrative <i>[notes 15]</i>	<b>4,090,649</b>	828,327	<b>5,793,647</b>	1,321,497
Sales and marketing expense (income) <i>[note 15]</i>	<b>(343,992)</b>	347,355	<b>1,970,373</b>	642,284
Share-based compensation <i>[note 15]</i>	<b>867,485</b>	11,990	<b>2,388,668</b>	23,980
Depreciation <i>[note 8]</i>	<b>227,629</b>	167,996	<b>437,105</b>	319,055
Loss before interest and transaction related expenses	<b>(4,434,041)</b>	(698,837)	<b>(10,477,090)</b>	(1,528,827)
Interest expense, net <i>[notes 12 and 13]</i>	<b>2,538</b>	75,561	<b>44,635</b>	129,588
Listing expense <i>[note 3]</i>	<b>3,972,464</b>	—	<b>4,486,850</b>	—
Non-cash fair value change in convertible debenture and warrants liability related to changes in value of common shares <i>[note 14]</i>	<b>(23,113,750)</b>	—	<b>37,176,990</b>	—
<b>Net income (loss) for the period</b>	<b>14,704,707</b>	(774,398)	<b>(52,185,565)</b>	(1,658,415)
<b>Other comprehensive income</b>				
Exchange differences on foreign operations	<b>5,885</b>	—	<b>5,885</b>	—
<b>Total comprehensive income (loss) for the period</b>	<b>14,710,592</b>	(774,398)	<b>(52,186,773)</b>	(1,658,415)
Net income (loss) per share, basic <i>[note 16]</i>	<b>0.22</b>	(0.02)	<b>(0.94)</b>	(0.05)
Net income (loss) per share, diluted <i>[note 16]</i>	<b>(0.11)</b>	(0.02)	<b>(0.94)</b>	(0.05)
<b>Weighted average number of outstanding shares</b>				
Basic	<b>67,564,788</b>	36,612,000	<b>55,703,713</b>	36,612,000
Diluted	<b>74,825,118</b>	36,612,000	<b>55,703,713</b>	36,612,000

*The accompanying notes are an integral part of these condensed interim financial statements*

**Maricann Group Inc.**

**Condensed interim consolidated statements of cash flows**

[Unaudited]

[Expressed in Canadian dollars]

Six months ended June 30

	2017	2016
	\$	\$
<b>Operating activities</b>		
Net loss for the period	(52,185,565)	(1,658,415)
Add (deduct) items not involving cash		
Non-cash interest	(4,513)	35,127
Non-cash fair value change in convertible debenture and warrants liability related to changes in value of common shares <i>[note 14]</i>	37,176,990	—
Unrealized gain from changes in fair value of biological assets	(1,133,001)	(1,067,418)
Share-based compensation expense	2,388,668	23,980
Cash-settled options expense	806,274	43,841
Share-based compensation expense to non-employees	766,283	91,068
Issuance of shares to Danbel on RTO	3,563,295	—
Depreciation	437,105	319,055
	(8,184,464)	(2,212,762)
Changes in non-cash working capital balances related to operations		
Trade and other receivables	64,688	1,357
Inventory	(181,286)	101,500
Biological assets	948,029	798,713
Other assets	(857,955)	109,841
Trade and other payables	(63,255)	(539,302)
Deferred revenue	(41,318)	50,124
<b>Cash used in operating activities</b>	(8,315,561)	(1,690,529)
<b>Investing activities</b>		
Purchase of and deposit on property, plant and equipment	(6,078,517)	(1,937,930)
Purchase of other non-current assets	(607,333)	—
Advancement for investments	(125,000)	—
Net cash outflow on acquisition of subsidiary	(47,034)	—
<b>Cash used in investing activities</b>	(6,857,884)	(1,937,930)
<b>Financing activities</b>		
Proceeds from issuance of common shares <i>[note 15]</i>	9,136,869	—
Proceeds from exercise of stock options	176,393	—
Proceeds from exercise of warrants	398,124	—
Cash proceeds from shareholder loans <i>[note 11]</i>	—	420,000
Repayment of shareholder loans <i>[note 11]</i>	—	(1,200,000)
Cash proceeds from borrowings <i>[notes 12]</i>	—	4,459,431
Cash payment on borrowings <i>[notes 12]</i>	(2,687,092)	(7,347)
Repayment of finance leases	(68,475)	(43,625)
<b>Cash provided by financing activities</b>	6,955,819	3,628,459
<b>Net decrease in cash and cash equivalents during the period</b>	(8,217,626)	—
Effect of foreign exchange on cash	5,885	—
Cash and cash equivalents, beginning of period	16,192,662	1,000
<b>Cash and cash equivalents, end of period</b>	7,980,921	1,000

*The accompanying notes are an integral part of these condensed interim financial statements*

**Maricann Group Inc.**

**Condensed interim consolidated statements of changes in shareholders' equity**

[Unaudited]

[Expressed in Canadian dollars]

Six months ended June 30, 2017 and 2016

	Common shares	Share capital	Warrants  Number of common shares issuable on exercise	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
	#	\$	#	\$	\$	\$	\$	\$
<b>As at December 31, 2015</b>	36,612,000	5,856,955	—	—	240,462	—	(6,033,226)	64,191
Net loss and comprehensive loss for the period	—	—	—	—	—	—	(1,658,415)	(1,658,415)
Share-based compensation	—	—	—	—	115,048	—	—	115,048
<b>As at June 30, 2016</b>	<b>36,612,000</b>	<b>5,856,955</b>	<b>—</b>	<b>—</b>	<b>355,510</b>	<b>—</b>	<b>(7,691,641)</b>	<b>(1,479,176)</b>
Net loss and comprehensive loss for the period	—	—	—	—	—	—	(6,637,353)	(6,637,353)
Issuance of common shares, net of issuance costs	4,618,604	3,134,727	—	—	—	—	—	3,134,727
Issuance of warrants and options, net of issuance costs	—	—	—	—	471,268	—	—	471,268
Share-based compensation	—	—	—	—	1,274,375	—	—	1,274,375
<b>As at December 31, 2016</b>	<b>41,230,604</b>	<b>8,991,682</b>	<b>—</b>	<b>—</b>	<b>2,101,153</b>	<b>—</b>	<b>(14,328,994)</b>	<b>(3,236,159)</b>
Net loss for the period	—	—	—	—	—	—	(52,185,565)	(52,185,565)
Exercise of stock options by non-employee	818,278	727,230	—	—	(550,830)	—	—	176,400
Issuance of common shares to key employee	3,720,695	2,439,000	—	—	(2,439,000)	—	—	—
Issuance of common shares, net of issuance costs	3,510,585	8,953,982	—	—	—	—	—	8,953,982
Share-based compensation	—	—	—	—	3,172,124	—	—	3,172,124
Convertible debenture conversion	22,500,000	48,375,000	—	—	—	—	—	48,375,000
Warrant reclassification	—	—	11,250,000	11,301,990	—	—	—	11,301,990
Issuance of shares to Danbel on RTO	1,250,279	3,563,295	—	—	—	—	—	3,563,295
Exercise of warrants	318,500	718,096	(318,500)	(319,972)	—	—	—	398,124
Issuance of warrants	—	—	250,000	165,706	—	—	—	165,706
Other comprehensive income - foreign exchange	—	—	—	—	—	5,885	—	5,885
Non-controlling interest	—	—	—	—	—	—	—	—
<b>As at June 30, 2017</b>	<b>73,348,941</b>	<b>73,768,285</b>	<b>11,181,500</b>	<b>11,147,724</b>	<b>2,283,447</b>	<b>5,885</b>	<b>(66,514,559)</b>	<b>20,690,782</b>

The accompanying notes are an integral part of these condensed interim financial statements

## **Maricann Group Inc.**

### **Notes to the condensed interim consolidated financial statements**

[Unaudited, expressed in Canadian dollars unless otherwise noted]

Three and six months ended June 30, 2017 and 2016

#### **1. Nature of operations**

Maricann Group Inc. ["Maricann" or the "Company"] is a publicly traded company listed on the Canadian Securities Exchange ["CSE"] under the symbol "MARI", and was incorporated under the laws of the Province of Ontario, Canada.

The Company, through its 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 March 29, 2017, which expires on September 28, 2018. It is anticipated that Health Canada will continue to renew the License. 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 December 7, 2016, the Directors of the Company 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 condensed interim 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* ["CPA Handbook"], which incorporates International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"], using International Accounting Standard 34, *Interim Financial Reporting* ["IAS 34"]. The policies set out below have been consistently applied to all periods presented unless otherwise noted.

These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited financial statements as at and for the year ended December 31, 2016.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 29, 2017.

##### **Going concern uncertainty**

The consolidated financial statements has been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

As at June 30, 2017, the Company has not yet achieved profitable operations, and has an accumulated deficit of \$66.5 million. Whether, and when, the Company can attain profitability and positive cash flows from operations

## **Maricann Group Inc.**

### **Notes to the condensed interim consolidated financial statements**

[Unaudited, expressed in Canadian dollars unless otherwise noted]

Three and six months ended June 30, 2017 and 2016

have uncertainty, which may cast significant doubt upon the Company's ability to continue as a going concern. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and obtain necessary financing to do so. While the Company has been successful in obtaining financing to date, there can be no assurance that it will be able to do so in the future on terms favourable for the Company. The Company will need to raise capital in order to fund its operations. This need may be adversely impacted by: uncertain market conditions, approval by regulatory bodies, and adverse results from operations. The Company believes it will be able to acquire sufficient funds to cover planned operations through the next twelve-month period by securing additional financing such as the planned financing described in note 19. However, the outcome of these matters cannot be predicted at this time.

#### **Basis of consolidation**

These condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries, Maricann Inc. [wholly-owned], Maricann B.V. [wholly-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 and has the ability to affect those returns through its power to direct the relevant activities of the entity.

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company.

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 statement of financial position date are translated to 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, including goodwill and fair value adjustments arising from the acquisition, are translated in Canadian dollars at year-end exchange rates. Income 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 income and accumulated in equity.

#### **Basis of measurement**

These condensed interim 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 costs are generally based upon the fair value of the consideration given in exchange for 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 condensed interim 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* ["IFRS

## Maricann Group Inc.

### Notes to the condensed interim consolidated financial statements

[Unaudited, expressed in Canadian dollars unless otherwise noted]

Three and six months ended June 30, 2017 and 2016

2"], and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2, *Inventories* ["IAS 2"], or value in use in IAS 36, *Impairment of Assets*.

#### Use of judgments, estimates and assumptions

The preparation of the condensed interim 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 amount 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 cost 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, cost to convert the harvested medical cannabis to finished goods, 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 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*

The Company determined that the convertible debentures and warrants issued on December 15, 2016 [see note 14] 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 adjust by 10% in this circumstance. Accordingly, the convertible debentures and warrants are



## Maricann Group Inc.

### Notes to the condensed interim consolidated financial statements

[Unaudited, expressed in Canadian dollars unless otherwise noted]

Three and six months ended June 30, 2017 and 2016

treated as a 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.

#### ) Revenue recognition – loyalty awards

The fair value of points awarded under the points program is determined by applying statistical techniques. Inputs to the model include assumptions about expected redemption rates.

### 3. Maricann's Reverse Take Over ["RTO"]

On March 3, 2017, the Company entered into a definitive agreement with Danbel Ventures Inc. ["Danbel"] to combine Maricann and Danbel via the merger of a wholly-owned subsidiary of Danbel ["Danbel Subco"] and Maricann, which constituted a reverse takeover of Danbel by the shareholders of Maricann. It is intended that the resulting company [the "Resulting Issuer"] will continue to operate as Maricann, and trade publicly on the CSE under the symbol "MARI".

The Agreement sets out the terms of the Transaction, including the following:

- i) The outstanding liabilities of Danbel will be 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 will be 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 will consolidate 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 will be 1,250,279;
- iv) 22,500 units of debentures of Maricann will be automatically converted into 22,500,000 common shares of Maricann prior to the RTO. 11,250,000 warrants associated with the units will be exchanged for 11,250,000 Post-Consolidation warrants of the Resulting Issuer;
- v) 900,000 compensation options of Maricann will be exchanged for 900,000 Post-Consolidation compensation options of the Resulting Issuer; and
- vi) 3,720,695 common shares of Maricann will be issued to a key employee of Maricann prior to the transaction [note 15].

In conjunction with the RTO transaction, on March 7, 2017, the Company completed a raise of \$10,005,167, by issuing 3,510,585 shares of the Company at \$2.85 per share. The Company paid issuance costs of \$868,298, and issued 130,380 compensation options with an exercise price of \$2.85 per share [note 15].

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

Prior to the closing of the RTO:

- i) The convertible debenture [note 14] of 22,500 units, converted into 22,500,000 common shares of Maricann.
- ii) 3,720,695 common shares of Maricann were issued to a key employee. Related compensation expense of \$1.64 million was recorded to the condensed interim consolidated statements of net income (loss) and comprehensive income (loss) for the six months ended June 30, 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

## Maricann Group Inc.

### Notes to the condensed interim consolidated financial statements

[Unaudited, expressed in Canadian dollars unless otherwise noted]

Three and six months ended June 30, 2017 and 2016

of Danbel was 11,527,716 Pre-Consolidation. Post-Consolidation, the total number of shares outstanding of Danbel was 1,250,279.

Pursuant to the closing of the RTO:

- i) Danbel issued 71,266,984 Post-Consolidation common shares of the Resulting Issuer to Maricann shareholders exchanged on a one-for-one 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 warrants, in the capital of the Resulting Issuer to holders of warrants, stock options and other rights to acquire securities and compensation options of Maricann on a one-for-one basis with economically equivalent terms.

On closing of the RTO, the shareholders of Maricann 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*, 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 retained by the shareholders of Danbel based on the fair value of the Maricann 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 condensed interim consolidated statement of net income (loss) and comprehensive income (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	334,352
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

## Maricann Group Inc.

### Notes to the condensed interim consolidated financial statements

[Unaudited, expressed in Canadian dollars unless otherwise noted]

Three and six months ended June 30, 2017 and 2016

#### 4. Significant accounting policies

These condensed interim consolidated financial statements have been prepared following the same accounting policies used in the preparation of the audited financial statements of the Company for the year ended December 31, 2016.

##### ***New standards, interpretations and amendments adopted by the Company***

###### *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 condensed interim consolidated financial statements for the period ended.

###### *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 condensed interim consolidated financial statements for the period ended.

***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”]*

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not compulsory. The Company is in the process of evaluating the impact of IFRS 9 on the Company's condensed interim 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 on the sale 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 condensed interim consolidated financial statements and related disclosures, as well as the transition method to apply the new standard.

## Maricann Group Inc.

### Notes to the condensed interim consolidated financial statements

[Unaudited, expressed in Canadian dollars unless otherwise noted]

Three and six months ended June 30, 2017 and 2016

#### *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 the Company's condensed interim consolidated financial statements.

#### *IFRS 2 – Share-based Payments*

IFRS 2 has been amended to address [i] certain issues related to the accounting for cash settled awards; and [ii] the accounting for equity settled awards that include a “net settlement” feature in respect of employee withholding taxes. The IFRS 2 amendments are effective for annual periods beginning on or after January 1, 2018. The Company is in the process of evaluating the amendments to IFRS 2 on the Company's condensed interim consolidated financial statements.

## 5. Inventory

	June 30, 2017 \$	December 31, 2016 \$
Finished goods – dry cannabis	28,191	124,485
Finished goods – cannabis oils	77,942	136,607
Work in progress – dry cannabis	704,585	421,566
Work in progress – cannabis oils	122,023	68,797
	<b>932,741</b>	<b>751,455</b>

The cost of inventory recognized as an expense during the three- and six-month periods ended June 30, 2017 was \$1,287,522 and \$2,825,067, respectively [three- and six-month periods ended June 30, 2016 – \$1,023,186 and \$2,153,448, respectively]. The Company did not have any inventory write-downs during the three- and six-month periods ended June 30, 2017 and 2016.

## Maricann Group Inc.

### Notes to the condensed interim consolidated financial statements

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Three and six months ended June 30, 2017 and 2016

#### 6. Biological assets

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

	\$
<b>Carrying amount, as at December 31, 2016</b>	<b>189,683</b>
Net increase in fair value less costs to sell due to biological transformation	<b>1,133,001</b>
Transferred to inventory upon harvest	<b>(948,029)</b>
<b>Carrying amount, as at June 30, 2017</b>	<b>374,655</b>
	\$
<b>Carrying amount, as at December 31, 2015</b>	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)
<b>Carrying amount, as at December 31, 2016</b>	<b>189,683</b>

All biological assets are current assets. 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 significant assumptions used in determining the fair value of cannabis on plants include:

- [i] Expected yields for cannabis on plants to be harvested, including wastage and the risk over the growing period of plant loss;
- [ii] The costs incurred and costs expected to be incurred to complete the growing, drying and selling cycle of the plants, which were estimated by calculating an average of total growing, drying and selling costs over the total production period; and
- [iii] The number of growing weeks completed as a percentage of total expected growing weeks that is applied to the total fair value per gram, which is determined based on market prices of medical cannabis less drying and selling costs and the associated margin related to these activities.

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.

The Company estimates the harvest yields for medical cannabis at various stages of growth. As at June 30, 2017, it is expected that the Company's biological assets will yield approximately 201,933 grams [December 31, 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.

## Maricann Group Inc.

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#### 7. Other assets

The Company's other assets include the following:

	June 30, 2017 \$	December 31, 2016 \$
Prepayments and deposits	260,190	120,226
Advancements for investments	125,000	—
Input taxes recoverable	856,235	108,967
	<b>1,241,425</b>	<b>229,193</b>

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

	June 30, 2017 \$	December 31, 2016 \$
Prepayments and deposits	2,013,406	—
	<b>2,013,406</b>	<b>—</b>

Other non-current assets include \$1,257,943 [December 31, 2016 – nil] of deposits made for the purpose of purchases of property, plant and equipment. Other non-current assets include \$755,463 [December 31, 2016 – nil] of amounts paid for the purpose of acquiring an option to purchase property in Germany for \$4,443,900 (€3,000,000).

#### 8. Property, plant and equipment

	Furniture and fixtures \$	Computer equipment \$	Agricultural equipment \$	Leasehold improvements \$	Land and buildings \$	Total \$
<b>Cost</b>						
<b>As at December 31, 2015</b>	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)
<b>As at December 31, 2016</b>	53,727	357,535	776,656	5,365,491	1,938,045	8,491,454
Additions	80,983	178,439	369,462	949,779	4,099,980	5,678,643
<b>As at June 30, 2017</b>	<b>134,710</b>	<b>535,974</b>	<b>1,146,118</b>	<b>6,315,270</b>	<b>6,038,025</b>	<b>14,170,097</b>

	Furniture and fixtures \$	Computer equipment \$	Agricultural equipment \$	Leasehold improvements \$	Land and buildings \$	Total \$
<b>Accumulated depreciation</b>						
<b>As at December 31, 2015</b>	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)
<b>As at December 31, 2016</b>	<b>22,561</b>	<b>168,983</b>	<b>115,756</b>	<b>1,021,870</b>	<b>—</b>	<b>1,329,170</b>

## Maricann Group Inc.

### Notes to the condensed interim consolidated financial statements

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Three and six months ended June 30, 2017 and 2016

Depreciation	8,318	65,389	51,794	311,604	—	437,105
<b>As at June 30, 2017</b>	<b>30,879</b>	<b>234,372</b>	<b>167,550</b>	<b>1,333,474</b>	<b>—</b>	<b>1,766,275</b>

	<b>Furniture and fixtures</b>	<b>Computer equipment</b>	<b>Agricultural equipment</b>	<b>Leasehold improvements</b>	<b>Land and buildings</b>	<b>Total</b>
<b>Net book value</b>	\$	\$	\$	\$	\$	\$
<b>As at December 31, 2015</b>	34,130	135,307	506,552	3,602,751	—	4,278,740
<b>As at December 31, 2016</b>	31,166	188,552	660,900	4,343,621	1,938,045	7,162,284
<b>As at June 30, 2017</b>	<b>103,831</b>	<b>301,602</b>	<b>978,568</b>	<b>4,981,796</b>	<b>6,038,025</b>	<b>12,403,822</b>

Property, plant and equipment include \$6,038,025 [December 31, 2016 – \$1,938,045] of expenditures for property under construction.

Borrowing costs of nil [December 31, 2016 – \$113,225, capitalization rate: 10.4%] were capitalized as land and buildings and leasehold improvements during the six-month period ended June 30, 2017.

#### 9. Trade and other payables

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

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	\$	\$
Trade payables and accrued liabilities	<b>3,381,853</b>	1,657,026
Accrued payroll	<b>367,500</b>	369,167
Cash-settled options	<b>323,927</b>	317,625
	<b>4,075,280</b>	2,343,818

#### 10. Deferred revenue

The Company's deferred revenue consists primarily of loyalty credits earned by customers for discounts in the amount of \$136,122 [December 31, 2017 – \$119,233] that the Company may be obligated to provide on future sales. The balance of the deferred revenue relates to product sales that were in transit as at June 30, 2017 and December 31, 2016.

#### 11. Shareholder loans

In December 2016, the Company repaid all the outstanding shareholder loans resulting in a balance of nil including accrued interest as at June 30, 2017. During the six-month period ended June 30, 2016, the Company repaid \$1,200,000 and obtained another \$420,000 in shareholder loans at an interest rate of 6% paid annually.

## Maricann Group Inc.

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Three and six months ended June 30, 2017 and 2016

#### 12. Borrowings

Borrowings consist of the following:

	June 30, 2017 \$	December 31, 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 loan was received in two tranches, with \$1,340,000 received in January 2016 and the remaining \$660,000 received in April 2016. The commercial term loan is subject to an interest rate of 5.5% per annum and matures 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 facility is secured. Interest on the mortgage facility is accrued monthly at a one-year fixed rate of 5.5%. The mortgage facility has 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. The Company repaid the principle of the mortgage facility and the associated accrued interest in March 2017 in full.

#### 13. Finance leases

In February 2016, the Company entered into an additional 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 for 24-month terms 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 terms and bears interest at 7.5%.



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### Notes to the condensed interim consolidated financial statements

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	June 30, 2017	December 31, 2016
	\$	\$
<b>Minimum lease payments</b>		
No later than one year	61,801	134,750
Later than one year, but no later than five years	—	3,700
	61,801	138,450
Less: future finance charges	(1,138)	(4,799)
Present value of minimum lease payments	60,663	133,651
Current liabilities	60,663	129,995
Non-current liabilities	—	3,656
	60,663	133,651

#### 14. Convertible debentures and warrants

On December 15, 2016, the Company entered into a binding letter agreement [the “Letter Agreement”] with Danbel, for Danbel to acquire a 100% interest in the Company, which would constitute a reverse takeover of Danbel by the shareholders of the Company [the “Transaction”]. As noted in note 3 to these condensed interim consolidated financial statements, on April 20, 2017, following approval of the shareholders of Danbel and the Company, Maricann Inc., and Danbel through Danbel Subco completed the amalgamation under the amalgamation agreement and commenced trading on the CSE on April 24, 2017.

On December 15, 2016, the Company completed a \$22,500,000 financing by issuing 22,500 units [the “Units”], with each Unit consisting of one senior unsecured convertible debenture with a principle amount of \$1,000 [a “Debenture”] and 500 common share purchase warrants [the “Warrants”]. The Debentures have a maturity date of June 15, 2017. Should the Company 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 the Company 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 were to be converted into common shares of the Company 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.

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 were 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.

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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 two 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%

As the Debenture financial liability and the associated Warrants were measured at fair value, as they met the IFRS definition of debt instruments measured at fair value, it was required that they were remeasured as at each reporting date. The issuance costs were expensed.

As at December 31, 2016, the fair value of the convertible debentures and Warrants approximated their issue price of \$22,500,000.

As at March 31, 2017, the fair value of the convertible debenture instrument was revalued based on the most recent equity raise on March 3, 2017 at \$2.85 per share. The fair value of the Debenture instrument based on \$2.85 per share for 22,500,000 shares was \$64,125,000. The fair value of the Warrants was \$18,665,740 determined based on the Black-Scholes option pricing model, estimated using the following assumptions: reporting date share value: \$2.85, exercise price: \$1.25, risk-free interest rate: 0.75%, expected life: 0.75 year, expected annualized volatility: 73.47%, expected dividend yield: 0%. As at March 31, 2017, due to the increase in the value of the share price of the Company, the Company recorded a non-cash fair value loss of \$60,290,740.

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 was 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 were \$11,301,990 determined based on the Black-Scholes option pricing model, estimated using the following assumptions: reporting date share value: \$2.15, exercise price: \$1.25, risk-free interest rate: 0.72%, expected life: 0.68 year, expected annualized volatility: 73.92%, expected dividend yield: 0%. As a result, the Company derecognized the convertible debenture instrument and the related Warrant liability and recorded \$59,676,990 to shareholders' equity and recorded a non-cash fair value gain on convertible debt related to share issuance of \$23,113,750 on April 24, 2017. For the six months ended June 30, 2017, the Company recorded a net non-cash fair value loss on convertible debt related to share issuance of \$37,176,990.

## Maricann Group Inc.

### Notes to the condensed interim consolidated financial statements

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#### 15. Share capital

##### Authorized

The authorized share capital of the Company is an unlimited number of common shares without par value. All issued shares, consisting only of common shares, are fully paid.

##### *Common share stock split*

On December 7, 2016, the Directors of the Company 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	
	#	\$
<b>As at December 31, 2015</b>	36,612,000	5,856,955
<b>As at June 30, 2016</b>	36,612,000	5,856,955
Common shares issued	4,618,604	3,134,727
<b>As at December 31, 2016</b>	41,230,604	8,991,682
Common shares issued	32,118,337	64,776,603
<b>As at June 30, 2017</b>	<b>73,348,941</b>	<b>73,768,285</b>

- [i] On November 18, 2016, the Company issued 4,618,604 common shares at \$0.68 per share 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: 92.77%, risk-free interest rate: 0.79%, expected dividend yield: 0%, and expected life: 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.

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- [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] During the three- and six-month periods ended June 30 2017, 318,500 Warrants were exercised for gross proceeds of \$398,124. An amount of \$319,972 was reclassified from Warrants to share capital.
- [x] 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.

#### 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 periods, 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 Board of Directors' resolution. If any options terminate, expire, or are cancelled as contemplated by the Option Plan, the number of options so terminated, expired, or cancelled shall again be available under the Option Plan.

#### *[i] Share-based payment arrangements*

As at June 30, 2017, the Company had the following share-based payment arrangements outstanding:

#### *[a] Equity-settled arrangements*

Grant date/ individual entitled	Number of instruments	Vesting conditions	Contractual life of option
<i>Options granted to employees</i>			
On April 20, 2015	244,080	3 years of service from grant date	6 years
On October 31, 2016	915,300	1 year of service from grant date	3 years
On October 31, 2016	915,300	2 years of service from grant date	4 years
On December 1, 2016	266,963	1 year of service from grant date	10 years
On December 1, 2016	266,963	2 years of service from grant date	10 years
<i>Options granted to non-employees</i>			
On March 3, 2017	130,380	Vests immediately	2 years
On April 1, 2017	305,100	1 year of service from grant date	3 years
<b>Total share options</b>	<b>3,044,086</b>		

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[b] Cash-settled arrangements

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

[iii] Measurement of fair values

*Employee options*

The Company did not issue any share options to employees during the six-month periods ended June 30, 2017 and 2016.

*Non-employee options*

The fair value of share options granted during the six-month periods ended June 30, 2017 and June 30, 2016 was estimated at the date of grant using the Black Scholes option pricing model using the following inputs:

	Equity-settled arrangements		Cash-settled arrangements	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<b>Non-employee options</b>				
Grant date fair value [weighted average]	<b>\$2.37</b>	\$0.60	<b>\$1.90</b>	\$0.44
Exercise price [weighted average]	<b>\$0.90</b>	\$0.07	<b>\$0.62</b>	\$0.62
Expected dividend yield	<b>0%</b>	0%	<b>0%</b>	0%
Risk-free interest rate [weighted average]	<b>0.75%</b>	0.54%	<b>0.75%</b>	0.72%
Expected option life [weighted average]	<b>2 years</b>	3 years	<b>4 years</b>	4 years
Expected volatility [weighted average]	<b>98.89%</b>	96.41%	<b>94.17%</b>	96.41%

During the six-month period ended June 30, 2017, 305,100 cash settled options were granted and subsequently forfeited within the period.

Expected volatility was estimated by using the historical volatility 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 Canada government bonds with a remaining term equal to the expected life of the options.

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#### [iii] Reconciliation of outstanding equity-settled share options

	Options issued	Weighted average exercise price
	#	\$
<b>Outstanding as at December 31, 2015</b>	757,258	<b>0.25</b>
Options issued	305,100	0.07
<b>Outstanding as at June 30, 2016</b>	1,062,358	<b>0.25</b>
Options issued	2,364,525	0.25
<b>Outstanding as at December 31, 2016</b>	3,426,883	<b>0.26</b>
Options issued	643,558	0.82
Options exercised	(818,278)	0.22
Options expired	(208,077)	0.66
<b>Outstanding as at June 30, 2017</b>	<b>3,044,086</b>	<b>0.39</b>

The following table is a summary of the Company's share options outstanding as at June 30, 2017:

Options outstanding			Options exercisable	
Exercise price	Number outstanding	Weighted average remaining contractual life [years]	Weighted average exercise price	Number exercisable
\$	#	#	\$	#
0.07	2,135,700	2.68	—	—
0.15	244,080	3.81	—	—
1.00	533,926	9.43	—	—
2.85	130,380	1.68	2.85	130,380
	<b>3,044,086</b>	<b>3.91</b>	<b>2.85</b>	<b>130,380</b>

#### [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 June 30, 2017, 3,720,695 common shares were issued under this arrangement.

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Three and six months ended June 30, 2017 and 2016

#### *Non-employee*

In October 2016, the Company entered into an arrangement with a non-employee to issue 360,000 shares in exchange for consulting services. The transaction was measured at the fair value of the services received in the amount of \$360,000. 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. To date, as at June 30, 2017, \$232,000 was recognized as consulting expense within general and administrative expense on the condensed interim consolidated statement of income (loss) and comprehensive income (loss) and \$128,000 will be expensed as services are received by the Company.

#### *[v] Share-based compensation expense*

##### *Employee options*

The Company recognized \$867,485 and \$2,388,668 of share-based compensation expense to employees during the three and six months ended June 30, 2017 [three and six months ended June 30, 2016 – \$11,990 and \$23,980] with a corresponding amount recognized as a contributed surplus. See above per “Measurement of fair values” for significant assumptions used.

##### *Non-employee options*

The Company recognized a net reversal of \$788,236 of share-based compensation expense to non-employees during the three months ended June 30, 2017, and net share-based compensation expense of \$1,222,803 to non-employees during the six months ended June 30, 2017 [three and six months ended June 30, 2016 – expense of \$66,118 and 134,909]. Of the share-based compensation expense of \$1,222,803 for the six months ended June 30, 2017, \$806,274 relate to cash-settled options, accordingly has been accounted for as a liability to the Company, the balance of \$416,529 are equity-settled awards with a corresponding amount recognized as a 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 expense. See above per “Measurement of fair values” for significant assumptions used.

The Company recognized \$184,040 of share-based compensation expense to non-employees during the three and six months ended June 30, 2017 [three and six months ended June 30, 2016 – nil]. Based on the nature of the services the amount was expensed within the Company's general and administrative expense. 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:

	June 30, 2017 \$	December 31, 2016 \$
Total carrying amount of liability	323,927	317,625
Total intrinsic value of liabilities for vested options	250,897	25,937

## Maricann Group Inc.

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Three and six months ended June 30, 2017 and 2016

#### [vii] Compensation Warrants

During the period ended June 30, 2017, the Company granted 250,000 compensation Warrants 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 \$0.66 per Warrant, based on the following weighted average assumptions: expected annualized volatility: 102.79%, risk-free interest rate: 1.09%, expected dividend yield: 0%, and expected life: 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. To date, as at June 30, 2017, \$165,706 was recognized as consulting expense within general and administrative expense on the condensed interim consolidated statement of income (loss) and comprehensive loss.

#### 16. Net income (loss) per share

Net income (loss) per common share represents net income (loss) attributable to common shareholders divided by the weighted average number of common shares outstanding during the year.

Diluted income (loss) per common share is calculated by dividing the applicable net income (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.

The following table shows the net income (loss) after adjusting for the effect of dilution and the amount of potential common shares for the six month periods ended June 30, 2017 and 2016:

	June 30, 2017 \$	June 30, 2016 \$
Net income (loss)	14,704,707	(1,658,415)
Fair value change in convertible debenture and warrants liability	(23,113,750)	—
Net loss adjusted for the effect of dilution	(8,409,043)	(1,658,415)
Weighted average number of common shares for basic earnings per share	67,654,788	36,612,000
Convertible debenture and warrants	7,170,330	—
Weighted average number of common shares adjusted for the effect of dilution	74,825,118	36,612,000

The outstanding number and type of securities that could potentially dilute basic net income (loss) per share in the future, but were anti-dilutive for the three and six month periods ended June 30, 2017 and 2016 were as follow:



## Maricann Group Inc.

### Notes to the condensed interim consolidated financial statements

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Three and six months ended June 30, 2017 and 2016

	June 30, 2017 #	June 30, 2016 #
Warrants	11,181,500	—
Compensation options issued to agents	1,800,000	—
Share-based awards to a key employee	1,240,231	—
Stock options	3,044,086	1,062,358
<b>Total</b>	<b>17,265,817</b>	<b>1,062,358</b>

#### 17. Related parties

##### Transactions and balances with related parties

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 note 11.

- [i] During the period ended June 30, 2017, the Company incorporated Maricann GmbH, a limited liabilities entity in Germany. The Company through its wholly owned subsidiary Maricann B.V. owns 95% of the issued and outstanding shares of the entity, while the remaining 5% non-controlling interest is retained by a key management employee of the newly incorporated subsidiary. 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 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 with an associated affiliate. As at June 30, 2017, the amount provided to this related party was \$125,000.

#### 18. Commitments and contingencies

##### Commitments

The Company has committed to construction contracts associated with the expansion of its production facilities for a total of \$2,091,800 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 the production facilities lease arrangements to extend the leases by another five years. The following table presents the minimum payments due over the next five years and beyond until the termination of the leasing arrangement.

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Three and six months ended June 30, 2017 and 2016

	\$
2017	58,249
2018	103,998
2019	42,420
2020	43,803
2021 and beyond	62,707
	<u>311,177</u>

#### *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 condensed interim consolidated financial statements.

#### **19. Subsequent events**

In July 2017, the Company entered into capital market advisory agreements and granted 200,000 Warrants exercisable at \$2.00 per warrant for a period of two years. The Company further committed to an additional 200,000 Warrants under the same terms subject to service conditions, to be issued in eight months.

In July 2017, the Company entered into office leasing arrangements as part of its effort to expand the Company's operating and sales capabilities. The Company has committed to an office lease at a cost of \$16,500 per month for the next 17 months starting in August 2017.

In July 2017, the Company entered into a binding letter of intent ["LOI"] with a third-party retail network with regards to the development of patient and healthcare education programs for the sale and distribution of medicinal cannabis as well as the development of product accessibility initiatives to facilitate the sale and distribution of the Company's products. The Company has committed a funding of \$100,000 for the purposes of this LOI.

In July 2017, the Board of Directors approved the acceleration of vesting of 1,830,600 stock options to vest immediately on August 1, 2017. The stock options were previously granted to a key management employee and as a result \$364,000 was recorded to share-based compensation expense.

On August 22, 2017, the Company announced that it has entered into an agreement to acquire 100% of the issued and outstanding shares of NanoLeaf Technologies Inc. ("NanoLeaf"), a biotech company possessing licensing rights to a number of globally patented technologies that provide pharmaceutical, nutraceutical, cosmetic and functional beverage drug delivery formulations. NanoLeaf, through its licensing agreement with Vesifact AG, has developed a cannabinoid standardized dose soft gel capsule.

The Company will issue 18.3 million common shares of the Company at an agreed upon price of \$2.10 per share for total share consideration of \$38.5 million. In addition, the Company will also provide cash consideration of \$1.6 million to NanoLeaf for purpose of settling existing liabilities. The combined consideration of shares and cash is estimated to be \$40.1 million. The number of shares issued is subject to adjustment in certain circumstances following closing, including, on the date that is 179 days post-closing, if the volume weight average price of Maricann common shares for the preceding 20-day period is less than \$2.10, the Company will issue incremental

## **Maricann Group Inc.**

### **Notes to the condensed interim consolidated financial statements**

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shares to the former shareholders of NanoLeaf such that the value of the share consideration will equate to \$38.5 million. This adjustment is subject to a minimum per share price of \$1.40 per share resulting in a maximum number of adjusted shares of approximately 9.2 million common shares.

The transaction is expected to be completed by the end of September 2017.

On August 22, 2017, the Company announced that it has entered into an agreement with Canaccord Genuity Corp., as lead agent on behalf of a syndicate of investment dealers, including Industrial Alliance Securities Inc., Mackie Research Capital Corporation and Sprott Capital Partners (collectively, the "Agents") pursuant to which the Company will issue on a private placement basis up to \$35,000,000 aggregate principal amount of convertible debenture units (the "Convertible Debenture Units") at a price of \$1,000 per Convertible Debenture Unit on a best efforts basis. Each Convertible Debenture Unit will consist of \$1,000 principal amount of 9.0% secured convertible debentures (the "Convertible Debentures") and 278 common share purchase warrants (the "Warrants") of the Company (the "Offering"). Each Warrant will be exercisable to acquire one common share of the Company (a "Warrant Share") for a period of three years following the Closing Date (as hereinafter defined) of the Offering at an exercise price of \$2.60 per Warrant Share, subject to adjustment in certain events.

The Convertible Debentures will bear interest from the Closing Date at 9.0% per annum, payable semi-annually in arrears on the last day of August and February in each year, commencing February 28, 2018. The Convertible Debentures will mature on September 15, 2020 (the "Maturity Date").

Pursuant to the terms of the offering, the Agents have also been granted an option to arrange for the sale of up to an additional \$3,500,000 of additional Convertible Debenture Units, which option is exercisable by the Agents at any time up until 8:00 a.m. (Eastern time) on the date prior to the Closing Date (as hereinafter defined).

The Convertible Debentures will be convertible at the option of the holder into common shares of the Company (the "Common Shares") at any time prior to the close of business on the Maturity Date, subject to the approval of the Canadian Securities Exchange ("CSE") at a conversion price of \$1.80 per common share (the "Conversion Price"). Holders converting their Convertible Debentures will receive accrued and unpaid interest thereon, up to, and including, the date of conversion.

Upon a change of control of the Company, holders of the Convertible Debentures will have the right to require the Company to repurchase their Convertible Debentures, in whole or in part, on the date that is 30 days following the date of notice of the change of control, at a price equal to 104% of the principal amount of the Convertible Debentures then outstanding plus accrued and unpaid interest thereon up to and including the date of redemption (the "Offer Price"). If 90% or more of the principal amount of the Convertible Debentures outstanding on the date of the notice of the change of control have been tendered for redemption, the Company will have the right to redeem all of the remaining Convertible Debentures at the Offer Price.

Closing of the Offering is expected to occur on or about September 15, 2017.