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

Maricann Group Inc.

For the three and nine months ended September 30, 2018 and 2017

Maricann Group Inc.

Condensed interim consolidated statements of financial position

[Unaudited]

[Expressed in Canadian dollars]

As at

	September 30, 2018	December 31, 2017
	$	$
Assets		
Current		
Cash	**13,999,602**	24,572,873
Trade and other receivables	**419,743**	64,609
Inventories *[note 5]*	**4,256,118**	1,235,239
Biological assets *[note 6]*	**951,491**	430,001
Other current assets *[note 7]*	**5,159,393**	3,580,829
Total current assets	**24,786,347**	29,883,551
Other non-current assets *[note 7]*	**13,470,519**	767,944
Loan receivable	**451,664**	376,912
Property, plant and equipment, net *[note 8]*	**77,518,919**	28,438,345
Intangible assets, net *[note 10]*	**30,097,626**	33,866,045
Goodwill *[note 10]*	**8,703,417**	—
Total assets	**155,028,492**	93,332,797
Liabilities and shareholders' equity		
Current		
Trade and other payables	**14,489,215**	7,614,815
Deferred revenue	**30,587**	41,224
Current portion of finance leases	**182,120**	4,077
Current portion of Convertible debentures [note 11]	**1,931,670**	—
Total current liabilities	**16,633,592**	7,660,116
Finance leases	**261,490**	—
Convertible debentures *[note 11]*	**14,023,427**	24,150,672
Total liabilities	**30,918,509**	31,810,788
Commitments and contingencies *[note 15]*		
Shareholders' equity		
Share capital *[note 12]*	**180,802,196**	123,743,858
Contributed surplus *[note 12]*	**17,271,503**	15,525,257
Special warrants *[note 12]*	**34,676,653**	—
Warrants *[note 12]*	**6,524,799**	3,556,411
Accumulated other comprehensive loss	**(382,363)**	(33,853)
Deficit	**(114,782,805)**	(81,269,664)
Total shareholders' equity	**124,109,983**	61,522,009
Total liabilities and shareholders' equity	**155,028,492**	93,332,797

Subsequent events *[note 16]*

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

Approved on behalf of the Board:

(Signed) Paul Pathak
Director

(Signed) Ben Ward
Director

Maricann Group Inc.

Condensed interim consolidated statements of (loss) and comprehensive (loss)

[Unaudited]

[Expressed in Canadian dollars]

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	$	$	$	$
Revenue	**225,122**	721,035	**1,983,600**	2,525,804
Cost of sales - production costs *[note 5]*	**2,067,801**	859,332	**6,469,128**	2,654,723
Gross (loss) profit before fair value adjustments	**(1,842,679)**	(138,297)	**(4,485,528)**	(128,919)
Fair value adjustment on inventory sold	**(98,305)**	(671,331)	**(1,397,545)**	(1,701,007)
Fair value adjustment on growth of biological assets *[note 6]*	**2,803,014**	1,034,835	**3,761,862**	2,167,836
Gross profit (loss)	**862,030**	225,207	**(2,121,211)**	337,910
Expenses				
General and administrative *[note 12]*	**9,313,148**	3,958,243	**22,141,540**	9,751,889
Sales and marketing *[note 12]*	**1,785,245**	660,617	**2,300,876**	2,630,990
Share-based compensation *[note 12]*	**509,589**	717,814	**2,330,259**	3,106,482
Amortization, depreciation and accretion *[notes 8 and 10]*	**1,768,177**	266,944	**4,907,758**	704,049
Loss before the undernoted items	**(12,514,129)**	(5,378,411)	**(33,801,644)**	(15,855,500)
Finance expense	**(18,494)**	1,520	**(5,087)**	46,155
Listing expense *[note 3]*	**—**	—	**—**	4,486,850
Transaction costs	**—**	—	**62,245**	—
Insurance proceeds	**(306,928)**		**(306,928)**	
Other revenue	**(38,733)**		**(38,733)**	
Non-cash fair value change in convertible debenture and warrants liability related to changes in value of common shares	**—**	—	**—**	37,176,990
Net (loss) for the period	**(12,149,974)**	(5,379,931)	**(33,513,141)**	(57,565,495)
Other comprehensive (loss)				
Exchange differences on foreign operations	**(215,947)**	(27,013)	**(348,510)**	(21,128)
Total comprehensive (loss) for the period	**(12,365,921)**	(5,406,944)	**(33,861,651)**	(57,586,623)
Net (loss) per share, basic *[note 13]*	**(0.09)**	(0.08)	**(0.26)**	(1.01)
Weighted average number of common shares outstanding				
Basic and diluted	**134,890,901**	68,524,779	**127,602,909**	57,246,888

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

Maricann Group Inc.

Condensed interim consolidated statements of changes in shareholders' equity

[Unaudited]

[Expressed in Canadian dollars]

Nine months ended September 30, 2018 and 2017

			Special Warrants		Warrants					
	Common shares	Share capital	Number of common shares issuable on exercise	Special Warrants	Number of common shares issuable on exercise	Warrants	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total shareholders' equity
	#	$	#	$	#	$	$	$	$	$
As at December 31, 2016	41,230,604	8,991,682	—	—	—	—	2,101,153	—	(14,328,994)	(3,236,159)
Net loss for the period	—	—	—	—	—	—	—	—	(57,565,495)	(57,565,495)
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	—	—	—	—	—	—	4,308,332	—	—	4,308,332
Forfeiture of stock options by employee	—	—	—	—	—	—	(31,877)	—	—	(31,877)
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	431,000	971,741	—	—	(431,000)	(432,992)	—	—	—	538,749
Issuance of warrants	—	—	—	—	450,000	242,373	—	—	—	242,373
Other comprehensive income - foreign exchange	—	—	—	—	—	—	—	(21,128)	—	(21,128)
As at September 30, 2017	73,461,441	74,021,930	—	—	11,269,000	11,111,371	3,387,778	(21,128)	(71,894,489)	16,605,462
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
Net loss for the period	—	—	—	—	—	—	—	—	(33,513,141)	(33,513,141)
Exercise of stock options *[note 12]*	122,040	90,204	—	—	—	—	(72,204)	—	—	18,000
Share-based compensation *[note 12v]*	—	—	—	—	—	—	2,061,591	—	—	2,061,591
Convertible debenture conversion *[note 11]*	5,960,625	10,626,377	—	—	—	—	(1,089,377)	—	—	9,537,000
Exercise of warrants *[note 12]*	1,564,914	3,586,116	—	—	(1,564,914)	(1,488,839)	—	—	—	2,097,277
Issuance of special warrants, net of issuance costs *[note 12]*	—	—	20,125,000	35,771,009	—	—	—	—	—	35,771,009
Exercise of special warrants *[note 12]*	21,131,250	31,563,782	(20,125,000)	(35,771,009)	10,565,625	4,207,227		—	—	—
Issuance of compensation options *[note 12]*	—	—	—	—	—	—	2,646,637	—	—	2,646,637
Issuance of warrants	—	—	—	—	87,108	250,000	(250,000)	—	—	—
Issuance of special warrants, net of issuance costs *[note 12]*	—	—	23,376,100	34,676,653	—	—	—	—	—	34,676,653
Exercise of compensation options *[note 12]*	799,800	1,109,175	—	—	—	—	(209,400)	—	—	899,775
Issuance of common shares as compensation *[note 12]*	433,000	1,405,090	—	—	—	—	409,284	—	—	1,814,374
Acquisition of Haxxon AG *[note 9]*	3,848,505	6,696,399	—	—	—	—	230,910	—	—	6,927,309
Issuance of common shares in settlement of contingent consideration *[note 9]*	953,604	1,981,195	—	—	—	—	(1,981,195)	—	—	—
Other comprehensive loss - exchange differences on foreign operations	—	—	—	—	—	—	—	(348,510)	—	(348,510)
As at September 30, 2018	**139,883,761**	**180,802,196**	**23,376,100**	**34,676,653**	**20,676,319**	**6,524,799**	**17,271,503**	**(382,363)**	**(114,782,805)**	**124,109,983**

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

Maricann Group Inc.

Condensed interim consolidated statements of cash flows

[Unaudited]

[Expressed in Canadian dollars]

For the nine months ended September 30,

	2018	2017
	$	$
Operating activities		
Net loss for the period	**(33,513,141)**	(57,565,495)
Add (deduct) items not involving cash		
Non-cash interest	**23**	6,013
Non-cash fair value change in convertible debenture and warrants liability related to changes in value of common shares	**—**	37,176,990
Unrealized gain from changes in fair value of biological assets	**(3,761,862)**	(2,167,836)
Share-based compensation expense	**2,330,259**	3,106,482
Cash-settled options expense (gain)	**(286,485)**	791,926
Share-based compensation expense to non-employees	**1,545,707**	1,229,465
Issuance of shares to Danbel on RTO	**—**	3,563,295
Amortization, depreciation and accretion	**4,907,758**	704,049
	(28,777,741)	(13,155,111)
Changes in non-cash working capital balances related to operations		
Trade and other receivables	**(355,134)**	12,578
Inventories	**(2,765,451)**	(535,516)
Biological assets	**3,260,254**	1,719,505
Other assets	**(1,493,179)**	(2,779,632)
Trade and other payables	**2,203,613**	1,477,731
Deferred revenue	**(10,637)**	(80,071)
Cash used in operating activities	**(27,938,275)**	(13,340,516)
Investing activities		
Purchase of and deposit on property, plant and equipment	**(40,192,133)**	(8,268,025)
Purchase of other non-current assets	**(13,470,519)**	(604,422)
Advancement for investments	**—**	(125,000)
Advance on loan receivable	**(75,100)**	—
Business Combination (net of cash acquired)	**(2,537,104)**	—
Net cash outflow on acquisition of subsidiary	**—**	(231,181)
Cash used in investing activities	**(56,274,856)**	(9,228,628)
Financing activities		
Proceeds from issuance of common shares	**—**	9,136,869
Issuance of Special warrants, net of issuance costs [note 12]	**73,094,299**	—
Proceeds from exercise of stock options	**18,000**	176,393
Proceeds from exercise of warrants	**2,097,277**	538,749
Proceeds from exercise of compensation options	**899,775**	—
Repayment on borrowings	**—**	(2,687,092)
Interest paid on convertible debentures	**(2,002,196)**	—
Repayment of obligations under finance leases	**(119,133)**	(115,706)
Cash provided by financing activities	**73,988,022**	7,049,213
Net decrease in cash during the period	**(10,225,109)**	(15,519,931)
Effect of foreign exchange on cash	**(348,162)**	(21,128)
Cash, beginning of period	**24,572,873**	16,192,662
Cash, end of period	**13,999,602**	651,603

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

Notes to the condensed interim consolidated financial statements

[Unaudited, expressed in Canadian dollars unless otherwise noted]

Three and nine months ended September 30, 2018 and 2017

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 "WAYL" 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. See Note 3.

The Company's wholly-owned subsidiary, Maricann Inc. is licensed to produce and sell medical marijuana under the Cannabis Act. 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. On April 20, 2018, Maricann Inc. received its third site license for its 138 8th Concession Road, Langton, Ontario 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.

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*, 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, 2017.

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

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], Nanoleaf Technologies Inc. [wholly-owned], Haxxon AG [wholly-owned], Proimaging AG [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 condensed interim consolidated financial statements are presented in Canadian dollars unless otherwise noted. The functional currency of Maricann B.V., Mariplant GmbH, Proimaging AG and Maricann GmbH is the European Euro, the functional currency of Haxxon AG is the Swiss Franc 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 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 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 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* 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 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 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 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. 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 11]* 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.

- *Business combinations and asset acquisitions*

  Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgement. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition. [Note 9]

  In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. 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 an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

  Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the acquisition date.

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 condensed interim consolidated statements of loss and comprehensive loss when the asset is derecognized.

- *Goodwill and intangible asset impairment*

The Company performs an annual test for goodwill impairment in the fourth quarter for each of the cash generating units (CGUs with goodwill allocated), and whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit. Determining whether an impairment has occurred requires valuation of the respective CGU, which is estimated using a discounted cash flow method. When available and as appropriate, the comparative market multiple is used to corroborate discounted cash flow results. In applying this methodology, a number of factors, including actual operating results, future business plans, economic projections and market data. The Company tests intangible assets with indefinite lives annually for impairment using a fair value method such as discounted cash flows.

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. 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 12[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.

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 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.

[Unaudited, 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 nil for the three and nine months ended September 30, 2018, respectively (2017 - $nil and $4,486,850). The Company recorded a listing expense of $4,486,850 in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2017. 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

[Unaudited, expressed in Canadian dollars unless otherwise noted]

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, 2017.

New standards, interpretations and amendments adopted by the Company

The following new accounting standards applied or adopted during the period ended September 30, 2018 had no material impact on the condensed interim consolidated financial statements:

IFRS 9 Financial Instruments [“IFRS 9”]

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. The effective date of this standard was January 1, 2018. The Company has adopted this new standard as of its effective date on a retrospective basis with the exception of financial assets that were derecognized at the date of initial application, January 1, 2018. The 2017 comparatives were not restated. The new classification and measurement of the Company's financial assets are as follows:

(i) Equity instruments at fair value through other comprehensive income ("FVOCI")
This category only includes equity instruments, which the Company intends to hold for the foreseeable future and which the Company has irrevocably elected to so classify upon initial recognition or transition. Equity instruments in this category are subsequently measured at fair value with changes recognized in other comprehensive income, with no recycling of gains or losses to profit or loss upon derecognition. Equity instruments at FVOCI are not subject to an impairment assessment under IFRS 9.
(ii) Amortized cost
This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely principal and interest ("SPPI") criterion. Financial assets classified in this category are carried at amortized cost using the effective interest method.
(iii) Fair value through profit or loss
This category includes derivative instruments and quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in profit or loss. The assessment of the Company's business models was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognized before January 1, 2018.

	IAS 39	**IFRS 9**
Financial Assets		
Cash	Fair value through profit or loss	**Fair value through profit or loss**
Trade and other receivable	Amortized cost	**Amortized cost**
Note receivable	Amortized cost	**Amortized cost**

(iv) Impairment of financial assets
The adoption of IFRS 9 has fundamentally changed the Company's accounting of impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. IFRS 9 requires the Company to record an allowance for ECLs for all debt financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

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

IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. IFRS 15 became effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company has adopted this new standard as of its effective date using the full retrospective method of adoption, and have assessed no significant changes as a result of the adoption of this new standard on the current or prior periods.

Under IFRS 15, the revenue recognition model has changed from one based on the transfer of risks and rewards of ownership to the transfer of control. The Company’s contracts with customers for the sales of dried cannabis and cannabis oil include one performance obligation. As the transfer of risks and rewards generally coincides with the transfer of control at a point in time, upon delivery, the timing and amount of revenue considering discounts, rebates, and variable consideration, recognized from this principal revenue stream has not changed as a result of the adoption of this new standard.

The following is the Company's revenue recognition policy in accordance with IFRS 15:

(i) Revenue recognition
Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The Company's contracts with customers for the sales of dried cannabis and cannabis oil include one performance obligation. The Company has concluded that revenue from the sale of these products should be recognized at the point in time when control of the assets is transferred to the customer, generally on delivery.

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.

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.

[Unaudited, expressed in Canadian dollars unless otherwise noted]

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

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 condensed interim 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 condensed interim consolidated financial statements.

5. Inventories

	September 30, 2018 $	December 31, 2017 $
Finished goods – dry cannabis	**2,447,475**	184,470
Finished goods – cannabis oils	**154,111**	51,483
Work-in progress – dry cannabis	**1,137,804**	940,249
Work-in progress – cannabis oils	**142,657**	59,037
Gel capsules	**305,150**	-
Supplies inventory	**68,921**	
	4,256,118	1,235,239

[Unaudited, expressed in Canadian dollars unless otherwise noted]

Cost of sales – production costs for the three and nine months ended September 30, 2018 and 2017 is comprised of:

	For the three months ended		**For the nine months ended**	
	2018	**2017**	**2018**	**2017**
	$	$	**$**	$
Payroll costs for personnel involved in growing marijuana and hemp plants	847,024	532,928	2,154,042	1,404,218
Materials and utilities	578,470	256,567	1,441,752	636,448
Other overhead, rent, facility & equipment maintenance, cleaning, uniforms, quality and fulfillment and other	642,306	69,837	2,873,333	614,057
	2,067,800	859,332	**6,469,127**	2,654,723

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.

6. Biological assets

Biological assets are comprised of:

	September 30, 2018	December 31, 2017
	$	$
Cannabis plants	**314,796**	430,001
Hemp plants	**636,695**	-
	951,491	430,001

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

	$
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

[Unaudited, expressed in Canadian dollars unless otherwise noted]

Net increase in fair value less costs to sell due to biological transformation	3,691,563
Fair value of biological assets acquired	20,723
Transferred to inventory upon harvest	(3,190,796)
Balance at September 30, 2018	**951,491**

Biological assets are measured at fair value less costs to sell until harvest. All production costs related to biological assets are expensed as incurred. All direct and indirect costs related to both biological assets and inventory are included in the 'cost of sales – production costs' line on the statements of loss and comprehensive loss except for depreciation expense which is disclosed as a separate line in the statements of loss and comprehensive loss and disclosed separately by class in the Property, plant and equipment note.

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 or retail hemp flower market. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

Cannabis plants

The cannabis plant model utilizes the following significant assumptions:

	Assumption	**September 30, 2018**		**December 31, 2017**	
		Range	**Average**	**Range**	**Average**
[i]	Weighted average of expected loss of plants until harvest [a]	10-38%	26%	8% - 31%	24%
[ii]	Expected yields for cannabis plants (average grams per plant)	30 grams per plant	30 grams per plant	10 – 34.3 grams per plant	27 grams per plant
[iii]	Expected number of growing weeks	9 - 20 weeks	16 weeks	12 - 26 weeks	18 weeks
[iv]	Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	N/A	52%	N/A	44%
[v]	Estimated selling price (per gram) [b]	$3.08 - $7.30	$3.95	$6 - $15	$8.76
[vi]	After harvest cost to complete and sell (per gram)	$2.22	$2.22	$4.79 - $5.76	$5.37
[vii]	Reasonable margin on after harvest costs to complete and sell (per gram)	$0.27	$0.27	$0.48 - $0.62	$0.55

[a] Weighted average of expected loss of plants until harvest represents loss via plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.

[Unaudited, expressed in Canadian dollars unless otherwise noted]

[b] The estimated selling price (per gram) for September 30, 2018 represents the average contractual sales price for the Company's various strains sold as recreational products. For December 31, 2017, the estimated selling price (per gram) represents the average historical price for the Company's various strains sold as medical products.

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 following table presents the effect of 10% positive change and 10% negative change on the fair valuation of cannabis plants biological assets as at September 30, 2018 and December 31, 2017.

Assumption	**10% change as at September 30, 2018 $**	**10% change as at December 31, 2017 $**
Weighted average of expected loss of plants until harvest	7,868	9,996
Expected yields for cannabis plants	31,480	40,093
Expected number of growing weeks	4,212	76,105
Estimated selling price	89,768	176,756
After harvest cost to complete and sell	58,288	162,784
Reasonable margin on after harvest costs to complete and sell	6,297	20,548

The Company estimates the harvest yields for medical cannabis at various stages of growth. As of September 30, 2018, it is expected that the Company's cannabis plants biological assets will yield approximately 320,559 grams [December 31, 2017 – 437,499 grams] of 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.

Hemp plants

The hemp plants model utilizes the following significant assumptions:

	Assumption:	**September 30, 2018**	**December 31, 2017**
[i]	Weighted average of expected loss of plants until harvest [a]	2%	-
[ii]	Expected yields for hemp plants (average grams per plant)	12.5 grams per plant for indoor plants and 896	-

[Unaudited, expressed in Canadian dollars unless otherwise noted]

		KG per hectare for outdoor plants	
[iii]	Expected number of growing weeks	16 - 19 weeks	-
[iv]	Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	43% for indoor plants and 89% for outdoor plants	-
[v]	Estimated selling price (per gram) [b]	$3.09 per gram for indoor plants and $16.21 per KG for outdoor plants	-
[vi]	After harvest cost to complete and sell (per gram)	$0.09 per gram for indoor plants and $5.65 per KG for outdoor plants	-

[a] Weighted average of expected loss of plants until harvest represents loss via plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.

[b] The estimated selling price (per gram) represents the average historical sales price for products sold as retail products.

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 following table presents the effect of 10% positive/negative change in each input on the fair value of hemp plants biological assets as at September 30, 2018 and December 31, 2017:

Assumption	**10% change as at September 30, 2018 $**	**10% change as at December 31, 2017 $**
Weighted average of expected loss of plants until harvest	710	-
Expected yields for hemp plants	63,848	-
Weighted average number of growing weeks completed as a percentage of total growing weeks	49,986	-
Estimated selling price	67,633	-
After harvest cost to complete and sell	6,961	-

The Company estimates the harvest yields for hemp plants at various stages of growth. As of September 30, 2018, it is expected that the Company's hemp plant biological assets will yield approximately 264,600 grams [December 31, 2017 – nil] of hemp flower when harvested.

Notes to the condensed interim consolidated financial statements

[Unaudited, expressed in Canadian dollars unless otherwise noted]

Three and nine months ended September 30, 2018 and 2017

7. Other assets

The Company's other current assets include the following:

	September 30, 2018	December 31, 2017
	$	$
Prepayments and deposits	**3,158,940**	432,128
Input tax receivable	**2,000,453**	3,148,701
	5,159,393	3,580,829

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

	September 30, 2018	December 31, 2017
	$	$
Prepayments and deposits	**-**	767,944
Deposits made for equipment	**13,470.519**	-
	13,470,519	767,944

Other non-current assets include Nil [December 31, 2017 – €530,000 ($767,944)] of amounts paid for the purpose of acquiring an option to purchase property in Germany for €3,000,000 [$4,506,000]. 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 14]*. During the period ended September 30, 2018, the Company completed the purchase of the property in Germany. *[note 9]*

[Unaudited, expressed in Canadian dollars unless otherwise noted]

8. Property, plant and equipment

	Furniture and fixtures	Computer equipment	Agricultural equipment	Leasehold improvements	Land	Production Equipment	Building	Vehicles	Construction in Progress	Assets under Capital lease	Total
Cost	$	$	$	$	$	$	$	$	$	$	$
As at December 31, 2016	53,727	357,535	776,656	5,365,491	1,245,968	—	—	—	692,077	—	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**	**1,245,968**	**—**	**—**	**—**	**20,690,039**	**—**	**30,754,188**
Additions	1,189,764	2,996,818	4,615,012	102,247	302,597	67,289	8,019,743	549,641	31,667,795	557,843	50,068,750
As at September 30, 2018	**1,333,938**	**3,608,269**	**6,078,010**	**6,701,804**	**1,548,565**	**67,289**	**8,019,743**	**549,641**	**52,357,834**	**557,843**	**80,822,937**

Accumulated depreciation	Furniture and fixtures	Computer equipment	Agricultural equipment	Leasehold improvements	Land	Production Equipment	Building	Vehicles	Construction in Progress	Assets under Capital lease	Total
	$	$	$	$	$	$	$	$	$	$	$
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
Depreciation	51,662	184,492	131,200	597,391	—	561	21,612	—	—	1,258	988,175
As at September 30, 2018	96,531	508,263	364,197	2,311,597	—	561	21,612	—	—	1,258	3,304,018

	Furniture and fixtures	Computer equipment	Agricultural equipment	Leasehold improvements	Land	Production Equipment	Building	Vehicles	Construction in Progress	Assets under Capital lease	Total
Net book value	$	$	$	$	$	$	$	$	$	$	$
As at December 31, 2017	99,305	287,680	1,230,002	4,885,351	1,245,968	—	—	—	20,690,039	—	28,438,345
As at September 30, 2018	**1,237,408**	**3,100,006**	**5,713,813**	**4,390,207**	**1,548,565**	**66,729**	**7,998,131**	**549,641**	**52,357,834**	**556,585**	**77,518,919**

The Company is constructing a 225,000 square foot production facility in Langton, Ontario. Property, plant and equipment includes $63,495,530 [December 31, 2017 – $21,936,007] of expenditures related to the construction of this facility and expansion of German facilities, 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 $1,070,361 and $3,343,621 for the three and nine months ended September 30, 2018 [2017 – $nil] were capitalized as land and buildings during the three and nine months ended September 30, 2018.

[Unaudited, expressed in Canadian dollars unless otherwise noted]

9. Acquisitions

(a) 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. During the nine-months ended September 30, 2018, the Company issued 953,604 Adjustment Shares with a value of $1,981,195 to the Nanoleaf shareholders, this value was reallocated from contributed surplus to share capital.

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.

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 which was recorded to contributed surplus as at December 31, 2017.

[Unaudited, expressed in Canadian dollars unless otherwise noted]

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

(b) Haxxon AG ["Haxxon"]

On May 10, 2018, the Company, through its wholly-owned subsidiary, Maricann B.V., completed the acquisition of Haxxon, a Swiss company that cultivates female hemp cannabis flowers, with less than 1% THC to the Swiss market. The Company acquired all of the issued and outstanding shares of Haxxon for aggregate consideration of $9,476,109. The transaction was accounted for as a business combination.

	$
Consideration:	
Cash (CHF2,000,000)	2,548,800
3,848,505 common shares	6,696,399
Contingent consideration (1)	230,910
	9,476,109

(1) Contingent consideration payable of $230,910 represents the value of 132,707 common shares that are issuable after the second anniversary of the closing of the transaction, provided certain representations and warranties of the seller remain in good standing. The contingent consideration was recorded to contributed surplus on the condensed interim consolidated statement of financial position as at September 30, 2018 as the number of common shares issuable is fixed.

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

	$
Cash	11,696
Prepaid expenses and deposits	85,385
Inventories	255,428
Biological assets	19,881
Property and equipment	594,141
Accounts payable and other payables	(193,839)
Goodwill	8,703,417
	9,476,109

Goodwill represents expected synergies, estimated income, future growth, and other intangibles that do not qualify for separate recognition. The Company estimates $nil goodwill to be deductible for tax purposes.

[Unaudited, expressed in Canadian dollars unless otherwise noted]

Net cash outflow on acquisition of Haxxon was as follows:

	$
Cash consideration	2,548,800
Less: cash acquired	(11,696)
	2,537,104

During the nine months ended September 30, 2018, acquisition related costs of $62,245 have been excluded from the consideration transferred and have been recognized as an expense in the current period.

For the nine months ended September 30, 2018, Haxxon accounted for $126,402 in net income since May 10, 2018. This amount included revenues of $184,558.

The purchase price allocation is based on management's preliminary assessment of the fair value of the assets acquired and liabilities assumed at the date of acquisition and is subject to change. Management expects to complete the assessment within the next fiscal year.

(c) Proimaging AG ["Proimaging"]

On August 15, 2018, the Company completed the acquisition of all the issued and outstanding shares of Proimaging AG ["Proimaging"]. Proimaging is a Swiss company with title to a 400,000 square foot proposed clean-room cultivation, processing and extraction plant located in Ebersbach, Germany. The facility is comprised of multiple individual clean rooms that are ideal for cultivation of cannabis. The transaction was accounted for as an asset acquisition.

The Company acquired all of the common shares of Proimaging for a total consideration of €3,410,000 ($5,062,340) consisting of:

	$
Consideration	
Cash	5,062,340

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

	$
Cash	24,588
Working capital	157,420
Equipment	82,487
Land	302,597
Building	4,495,248
	5,062,340

[Unaudited, expressed in Canadian dollars unless otherwise noted]

10. Intangible assets and Goodwill

A continuity of the intangible assets for the nine months ended September 30, 2018 is as follows:

	Balance at December 31, 2017	**Acquisition Additions**	**Amortization**	**Balance at September 30, 2018**
Cost	$	$	$	$
Intellectual property *[note 9]*	32,588,515	**—**	**(3,576,789)**	**29,011,726**
Exclusivity agreement *[i]*	1,277,530	**—**	**(191,630)**	**1,085,900**
Total	33,866,045	**—**	**(3,768,419)**	**30,097,626**

[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 was paid as at September 30, 2018. 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. The first tranche has been issued as at September 30, 2018. 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 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.

A continuity of the goodwill for the nine months ended September 30, 2018 is as follows:

	Balance at December 31, 2017	Acquisition Additions	Balance at September 30, 2018
	$	$	$
Haxxon AG *[note 9]*	—	**8,703,417**	**8,703,417**
	—	**8,703,417**	**8,703,417**

[Unaudited, expressed in Canadian dollars unless otherwise noted]

11. Convertible debentures and warrants

Convertible debentures (issued in 2017)	2017 Debentures $
Balance, as at December 31, 2016	—
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
Less: Conversion of convertible debentures	(9,537,000)
Less: Interest paid	(2,002,730)
Accretion and accrued interest	3,344,155
Balance, as at September 30, 2018	**15,955,097**
Current as at September 30, 2018	**(1,931,670)**
Long term as at September 30, 2018	**14,023,427**

[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.

During the nine months ended September 30, 2018, the Company paid interest of $2,002,730 (2017 – nil) and issued 5,960,625 (2017 – nil) common shares on partial conversion of $9,537,000 (2017 – nil) convertible debentures. As at September 30, 2018, the remaining principal amount outstanding is $21,463,000.

[Unaudited, expressed in Canadian dollars unless otherwise noted]

12. 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.

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

	Common shares	
	#	$
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
Common shares issued	34,813,738	57,058,338
Balance, as at September 30, 2018	**139,883,761**	**180,802,196**

[i] On January 9, 2018, the Company closed a private placement offering [the "SW Offering"] of special warrants [the "Special Warrants"] for aggregate gross proceeds of $40,250,000. 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 entitles the holder thereof to one Special Warrant Unit consisting of 1.05 common shares of the Company and 0.525 of a common share purchase warrant of the Company. Each full 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. Insiders of the Company or their associates participated in the SW Offering for an aggregate amount of $929,500. On Closing, the Company paid the agent a commission of $1,941,900 and legal fees and expenses of $513,970. The issued 970,950 compensation options at a fair value of $2,023,021. The compensation options have the same terms as the Special Warrants and expire on January 9, 2020, subject to adjustment in certain events. The fair value of the compensation options at the date of grant was estimated as $2.08 per compensation options based on the following weighted average assumptions: stock price volatility – 88.69%; risk-free interest rate – 1.79%; dividend yield - 0%; and expected life - 2 years. A receipt for the final prospectus was obtained on March 28, 2018. On April 4, 2018, the Special Warrants were exercised into Units of the Company and as a result the Company issued 21,131,250 common shares and 10,565,625 common share purchase warrants of the Company. The issued 10,565,625 warrants were attributed a fair value of $4,213,367 net of issuance costs of $527,568. The fair value of the warrants at the date of grant was estimated as $0.96 per warrant based on the following weighted average assumptions: stock price volatility – 96.81%; risk-free interest rate – 1.94%; dividend yield - 0%; and expected life – 2.77 years.

[ii] On January 26, 2018, 122,040 common shares were issued on the exercise of 122,040 stock options for gross proceeds of $18,000. Non-cash compensation charges of $72,204 were reclassified from contributed surplus to share capital on the exercise of these stock options.

[iii] During the nine-month period ended September 30, 2018, 1,435,500 warrants were exercised at $1.25 for gross proceeds of $1,794,510, 24,414 warrants were exercised at $2.30 for gross proceeds of $56,152 and 105,000 warrants were exercised at $2.35 for gross proceeds of $246,750. An amount of $1,488,839 was reclassified from contributed surplus to share capital.

[iv] During the nine-month period ended September 30, 2018, the Company issued 433,000 common shares at a fair value of $1,405,090 to consultants pursuant to consulting agreements, of this amount $1,242,090 was recognized within production costs during the nine months ended September 30, 2018 and $163,000 was included within general and administrative on the consolidated statement of loss and comprehensive loss for the year ended December 31, 2017. Non-cash compensation charges of $163,000 were reclassified from contributed surplus to share capital on the issuance of these common shares.

[v] During the nine-month period ended September 30, 2018, the Company issued 5,960,625 common shares on partial conversion of $9,537,000 convertible debentures. An amount of $1,089,377 was reclassified from contributed surplus to share capital upon the conversion.

[vi] During the nine-month period ended September 30, 2018, the Company issued 953,604 Adjustment Shares valued at $1,981,195 to the Nanoleaf shareholders *[note 9]*.

[vii] On May 10, 2018, the Company issued 3,848,505 common shares of the Company at a fair value of $6,696,399 pursuant to the acquisition of Haxxon. *[note 9].*

[viii] During the nine-month period ended September 30, 2018, 799,800 common shares were issued upon the exercise of compensation options for gross proceeds of $899,775. An amount of $209,400 was reclassified from contributed surplus to share capital.

[ix] During the nine-month period ended September 30, 2018, the Company closed a private placement offering (the “August SW Offering”) of special warrants (the “August Special Warrants”) for aggregate gross proceeds of $37,401,760. Pursuant to the August SW Offering, the Company issued 23,376,100 August Special Warrants, at a price of $1.60 per August Special Warrant. Each August Special Warrant is automatically exercisable, for no additional consideration, into units of the Company (the “Units”) on the earlier of: (i) the date that is three business days following the date on which the Company obtained receipt from the applicable securities regulatory authorities (the “Securities Commissions”) for a (final) prospectus (the “Qualifying Prospectus”) qualifying distribution of the Units issuable upon exercise of the Special Warrants; and (ii) the date that is four months and one day after the closing of the offering, subject to adjustment in certain events. Each August Special Warrant, entitles the holder thereof to one Unit consisting of one common share of the Company (each, a “Common Share”) and one Common Share purchase warrant of the Company (a “Warrant”). Each Warrant is exercisable to acquire one Common Share at a price of $1.75 per Common Share until August 10, 2020, subject to adjustment in certain events. In connection with the August SW Offering, the agents received a cash commission and 930,680 compensation warrants. Each compensation warrant entitles the holder thereof to acquire one Unit at a price of $1.60 per Unit until August 10, 2020, subject to adjustment in certain events. In connection with the completion of the offering, two officers entered into securities lending agreements pursuant to which they lent (together, the "Loans") two of the subscribers in the offering an aggregate of 2,708,000 freely-tradeable common shares (the "Loaned Shares") until the date that is four months and one day following closing of the offering (the “Securities Lending”). As collateral for the Securities Lending, the borrowers of the Loaned Shares have pledged a total of 2,708,000 Special Warrants which they acquired in connection with the Offering. In connection with the provision of the Loans, the Issuer has agreed to pay the officers an aggregate fee in an amount equal to $216,640, to be allocated between such officers pro rata based on the number of Loaned Shares lent by each of them pursuant to the Securities Lending agreements. On Closing, the Company paid the agent a commission of $1,489,088 and legal fees and expenses of $103,637. The issued 930,680 compensation options at a fair value of $623,616.

The compensation options have the same terms as the Special Warrants and expire on August 10, 2020, subject to adjustment in certain events. The fair value of the compensation options at the date of grant was estimated as $0.67 per compensation option based on the following weighted average assumptions: stock price volatility – 76.41%; risk-free interest rate – 2.10%; dividend yield - 0%; and expected life - 2 years. A receipt for the final prospectus was obtained on October 2, 2018. On October 4, 2018, the Special Warrants were exercised into Units of the Company and as a result the Company issued 23,376,100 common shares and 23,376,100 common share purchase warrants of the Company.

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.

[Unaudited, expressed in Canadian dollars unless otherwise noted]

[i] Share-based payment arrangements

As at September 30, 2018, 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 September 30, 2018			
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	2,333,334	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
On January 8, 2018	280,000	25% vesting quarterly from start of employment	5 years
On January 15, 2018	80,000	25% vesting quarterly from start of employment	5 years
Options granted to non-employees and outstanding as at September 30, 2018			
On December 6, 2017	150,000	Fully vested	3 years
On December 19, 2017	314,417	Fully vested	5 years
On December 19, 2017	157,209	Fully vested	5 years
On January 15, 2018	36,385	Fully vested	5 years
Total share options	**3,881,345**		

[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 nine-month periods ended September 30, 2018 and 2017 was estimated at the date of grant using the Black-Scholes option pricing model using the following inputs:

[Unaudited, expressed in Canadian dollars unless otherwise noted]

Employee options

	Equity-settled arrangements	
	September 30, 2018	September 30, 2017
Employee options		
Grant date fair value [weighted average]	**$2.31**	n/a
Exercise price [weighted average]	**$3.33**	n/a
Expected dividend yield	**0%**	n/a
Risk-free interest rate [weighted average]	**1.98%**	n/a
Expected option life in years [weighted average]	**5.00**	n/a
Expected volatility [weighted average]	**88.89%**	n/a

Non-employee options

	Equity-settled arrangements		**Cash-settlement arrangements**	
	September 30, 2018	**September 30, 2017**	**September 30, 2018**	**September 30, 2017**
Non-employee options				
Grant date fair value [weighted average]	$2.16	$2.37	n/a	$1.90
Exercise price [weighted average]	$3.10	$0.90	n/a	$0.62
Expected dividend yield	0%	0%	n/a	0%
Risk-free interest rate [weighted average]	1.99%	0.75%	n/a	0.75%
Expected option life in years [weighted average]	5.00	2	n/a	4
Expected volatility [weighted average]	89.24%	98.89%	n/a	94.17%

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.

[Unaudited, expressed in Canadian dollars unless otherwise noted]

[iii] Reconciliation of outstanding equity-settled share options

	Options Issued #	**Weighted average exercise price** $
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
Options issued	396,385	3.30
Options exercised	(122,040)	0.15
Options forfeited	(971,766)	1.48
Outstanding as at September 30, 2018	**3,881,345**	**2.20**

The following table is a summary of the Company's share options outstanding as at September 30, 2018:

Exercise price $	**Options outstanding** #	**Expiry date**	**Weighted average remaining contractual life [years]**	**Options exercisable** #
1.52	**250,000**	October 2, 2020	**2.01**	**125,000**
2.18	**150,000**	December 6, 2020	**2.18**	**150,000**
2.14	**125,000**	December 7, 2022	**4.19**	**93,750**
2.13	**2,333,334**	December 15, 2022	**4.21**	**1,000,000**
2.05	**626,626**	December 19, 2022	**4.22**	**587,876**
3.39	**280,000**	January 8, 2023	**4.28**	**140,000**
3.10	**116,385**	January 15, 2023	**4.30**	**76,385**
2.20	**3,881,345**		**4.00**	**2,173,011**

[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. During the nine-months ended September 30, 2018, the vesting of this award was accelerated.

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 September 30, 2018, 1,240,231 [December 31, 2017 – 1,240,231] share-based awards were outstanding. Subsequent to September 30, 2018, these common shares were issued to the key management employee.

Non-employee

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 (issued in December 2017); 333,000 on January 18, 2018 (issued) and 333,000 on January 18, 2019. For the nine-month period ended September 30, 2018, the Company issued 333,000 common shares and recognized an expense of $1,242,090 within production costs with a corresponding amount in share capital. The consultant is also entitled to certain additional cash payments based on cannabis yield.

[v] Share-based compensation expense

Employee options

The Company recognized $509,589 and $2,330,259 [three and nine months ended September30, 2017 - $749,691 and $3,138,359] of share-based compensation expense to employees during the three and nine-months ended September 30, 2018 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 $71,343 of share-based compensation to non-employees during the three- months ended September 30, 2018 and $156,044 of share-based compensation to non-employees during the nine months ended September 30, 2018 [three and nine months ended September 30, 2017 – $308,744 and expense of $1,531,547]. Of this amount, a recovery of $215,142 [2017 – expense of $791,926] are cash settled options, accordingly has been accounted for as a liability to the Company, the balance of $371,186 [2017 – $739,621] 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. In addition, during the nine-month period ended September 30, 2018, 305,100 options valued at $639,853 were forfeited and were reversed from contributed surplus.

[Unaudited, expressed in Canadian dollars unless otherwise noted]

[vi] Liabilities arising from cash-settled options

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

	September 30, 2018	December 31, 2017
	$	$
Total carrying amount of liability	**414,291**	629,434
Total intrinsic value of liabilities for vested options	**394,294**	610,915

[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 three and nine months ended September 30, 2018, the Company recognized $nil and $23,117 (2017 - $nil) as consulting expense within general and administrative expenses on the condensed interim consolidated statements of loss and comprehensive loss for 250,000 warrants to be issued related to the additional Warrants. As at September 30, 2018, $184,938 (December 31, 2017 - $161,821) was recognized in contributed surplus.

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 three and nine months ended September 30, 2018, the Company recognized $nil and $19,167 (2017 - $nil) as consulting expense within general and administrative expenses on the condensed interim consolidated statements of loss and comprehensive loss for 200,000 warrants to be issued related to the additional Warrants. As at September 30, 2018, $153,332 (December 31, 2017 - $134,166) was recognized in contributed surplus.

[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:

[Unaudited, expressed in Canadian dollars unless otherwise noted]

	Warrants classified as equity #	Weighted average exercise price $
Balance, as at December 31, 2016	—	—
Issued	21,403,000	1.74
Exercised	(9,814,500)	1.25
Balance, as at December 31, 2017	11,588,500	2.16
Issued	10,652,733	2.35
Exercised	(1,564,914)	1.34
Balance, as at September 30, 2018	**20,676,319**	**2.32**

The following table summarizes the warrants that remain outstanding as at September 30, 2018:

Exercise Price $	Warrants #	Expiry Date
2.00	**250,000**	June 29, 2019
2.00	**200,000**	July 1, 2019
2.30	**9,678,586**	October 27, 2020
2.87	**87,108**	January 2, 2020
2.35	**10,460,625**	January 9, 2021
	20,676,319	

[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, 2016[(1)]	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
Issued	1,901,630	1.98
Exercised	(399,900)	1.00
Balance, as at September 30, 2018	**2,629,503**	**2.10**

[(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.

13. (Loss) per share

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

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 period.

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

14. 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 notes 11 and 12.

[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 [$4,560,600] 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. During the nine month period ended September 30, 2018, the Company acquired this German entity, Proimaging. [see note 9].

[Unaudited, 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 three and nine months ended September 30, 2018 and 2017 is as follows:

	Three months ended September 30, 2018 $	Three months ended September 30, 2017 $	**Nine months ended September 30, 2018 $**	Nine months ended September 30, 2017 $
Salaries and other benefits	**441,107**	228,462	**1,758,142**	805,895
Share-based compensation	**332,116**	577,591	**1,279,905**	1,433,086
	773,223	806,053	**3,038,047**	2,238,981

15. Commitments and contingencies

Commitments

The Company's production facility at 150 8th Concession, Langton, Ontario under an operating lease arrangement expires on October 31, 2023 and the Company has administrative offices under operating lease arrangements until 2023. 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	191,924
2019	552,120
2020	534,003
2021	546,464
2022	532,644
2023 and beyond	229,050
	2,586,205

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.

16. Subsequent events

- Subsequent to September 30, 2018, the Company granted 6,059,250 stock options with an exercise price of $2.00 each.
- Subsequent to September 30, 2018, the Company entered into the South American market through a transaction in Colombia. The Company has entered into a definitive agreement to acquire 100% of the outstanding shares of Colma Pharmaceutical S.A.S. (“Colma”), a licenced producer of THC cannabis in Colombia, holding four licences for cultivation and processing on a leased premise in Ibague, Colombia. Under the terms of the agreement, the Company will issue 11 million common shares as consideration for the shares of Colma with shares being issued at a deemed price of CAD$2.00 per share.
- Subsequent to September 30, 2018, the Company announced that it has closed a bought deal financing of units (the “Units”) at a price of $1.65 per Unit (the “Offering Price”) for aggregate gross proceeds of $50,077,500 (the “Offering”). Each Unit consists of one common share (a "Common Share") and one-half of one common share purchase warrant (each full common share purchase warrant, a "Warrant") of the Company. Each Warrant is exercisable to acquire one Common Share for a period of three years at an exercise price of $2.15 per Common Share, subject to adjustment in certain events. In the event that the volume weighted average trading price of the Common Shares for 10 consecutive trading days exceeds $3.25, the Company shall have the right to accelerate the expiry date of the Warrants upon not less than 30 days' notice. Also subsequent to September 30, 2018, the Company announced that in connection with its previously announced bought deal financing, it has issued an additional 4,552,500 Units at a price of $1.65 per Unit for total gross proceeds of $7,511,625, pursuant to the exercise in full of the Underwriters’ over-allotment option. The aggregate gross proceeds of the Offering, including the over-allotment option, total $57,589,125.
- Subsequent to September 30, 2018, the Company completed a definitive joint venture agreement with CBD Italian Factory S.S., a company of Group San Martino for the production of high quality cannabis products in Italy. CBD Italian Factory S.S. and San Martino Group will bring mass-scale agricultural skills to the joint venture with a focus on local sustainable practices and expertise in Biomass Energy production. The joint venture will be a split of 50.1% (the Company)/49.9% (CBD Italian Factory) with Massimiliano Umberto Signorini assuming the role of CEO for the new joint venture.
- Subsequent to September 30, 2018, the Company entered into an agreement to acquire 51% of United Kingdom based Theros Pharma Ltd. (“Theros”), an early stage company that has successfully imported cannabis to the United Kingdom for patients with a prescription for medical cannabis. Pursuant to the terms of the agreement the Company has agreed to make an initial payment of 3,800,000GBP followed by a second payment of 24,000,000GBP following certain milestones being achieved, including issuance to Theros of a license to cultivate cannabis in the United Kingdom or a license to import medical cannabis for use in the United Kingdom. Both payments will be satisfied by the issuance of common shares of the Company based on then-current market prices, but subject to a floor issue price of $1.65 per Common Share. The payments are conditional on receipt of applicable stock exchange approval, approval of holders of at least two-thirds of the Company's outstanding debentures and any other applicable approvals.