Condensed Interim Consolidated Financial Statements
(In Canadian dollars)

MEDRELEAF CORP.

Three and nine months ended December 31, 2017 and 2016
(Unaudited)

MEDRELEAF CORP.

Condensed Interim Consolidated Statements of Financial Position
(In thousands of Canadian dollars)
(Unaudited)

	December 31, 2017	March 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 114,581	$ 12,899
Accounts receivable (note 3)	8,425	9,953
Inventories (note 6)	24,862	9,511
Biological assets (note 7)	3,797	2,809
Advances to shareholder	101	211
Prepaid expenses	1,312	730
Income taxes receivable	2,192	–
Convertible note receivable (note 5)	139	132
Loan receivable (note 4)	–	307
	155,409	36,552
Non-current assets:		
Property, plant and equipment (note 8)	64,109	37,780
Intangible assets (note 9)	9,421	13
Security deposit	191	239
Prepaid expenses	273	301
	$ 229,403	$ 74,885
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 16,560	$ 7,235
Income taxes payable	–	1,798
Term credit facility (note 13)	1,000	–
Collateralized credit facility (note 13)	–	625
Shareholder loans payable (note 11)	–	2,189
	17,560	11,847
Non-current liabilities:		
Deferred tax liability	3,966	3,726
Asset retirement obligation (note 12)	211	204
Collateralized credit facility (note 13)	8,662	6,788
	30,399	22,565
Shareholders' equity:		
Share capital (note 10)	183,250	38,700
Contributed surplus (note 14)	10,231	1,408
Retained earnings	5,493	12,212
Accumulated other comprehensive income	30	–
	199,004	52,320
Commitments (note 18)		
	$ 229,403	$ 74,885

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

On behalf of the Board:

(signed) "Lloyd Segal" Director

(signed) "Neil Closner" Director

MEDRELEAF CORP.

Condensed Interim Consolidated Statements of Comprehensive (Loss) Income
(In thousands of Canadian dollars, except share
and per share amounts, unless otherwise noted)
(Unaudited)

	Three months ended December 31,		Nine months ended December 31,	
	2017	2016	2017	2016
Sales	$ 11,350	$ 10,426	$ 31,632	$ 29,979
Production costs (notes 6 and 8)	4,020	1,832	9,662	6,474
Gross profit before gain on fair value of biological assets	7,330	8,594	21,970	23,505
Cost of finished harvest inventory sold (note 6)	(8,232)	(5,110)	(20,446)	(16,564)
Gain on fair value changes of biological assets (note 7)	10,887	6,230	31,837	20,682
Gross profit before under noted	9,985	9,714	33,361	27,623
Expenses:				
Selling and marketing	2,610	1,742	6,950	5,120
General and administrative (note 17)	9,665	5,162	23,450	8,823
Research and development	187	150	886	553
Depreciation of property, plant and equipment	678	130	1,434	333
Amortization of intangible assets	157	–	157	–
Initial public offering related costs (note 10)	–	–	2,611	–
Fair value loss on shareholder loans (note 11)	–	–	192	–
Interest income (notes 4 and 5)	(223)	(13)	(362)	(19)
Finance costs (notes 11, 12 and 13)	169	16	518	62
	13,243	7,187	35,836	14,872
(Loss) income before income taxes	(3,258)	2,527	(2,475)	12,751
Income taxes (recovery):				
Current	(277)	400	1,530	2,000
Deferred	2,020	389	2,714	1,980
	1,743	789	4,244	3,980
Net (loss) income	$ (5,001)	$ 1,738	$ (6,719)	$ 8,771
Other comprehensive income				
Items that may subsequently be reclassified to income or loss:				
Foreign currency translation differences for foreign operations	30	–	30	–
Total comprehensive (loss) income	$ (4,971)	$ 1,738	$ (6,689)	$ 8,771
Weighted average number of shares – basic (note 10)*	91,746,531	82,074,293	88,766,665	76,295,636
Weighted average number of shares – diluted (note 10)	98,982,218	85,440,116	96,002,351	80,323,758
Earnings per share – basic (note 10)	$ (0.05)	$ 0.02	$ (0.08)	$ 0.11
Earnings per share – diluted (note 10)	(0.05)	0.02	(0.07)	0.11

*Weighted average number of shares, basic and diluted, for the three and nine months ended December 31, 2016 are presented on a converted basis of 116.0909:1 to reflect the capital reorganization (note 10).

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

MEDRELEAF CORP.

Condensed Interim Consolidated Statements of Shareholders' Equity
(In thousands of Canadian dollars, except share
and per share amounts, unless otherwise noted)
(Unaudited)

Nine months ended, December 31, 2016	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total
Balance, March 31, 2016	$ 11,595	$ 765	$ 1,254	–	$ 13,614
Net income	–	–	8,771	–	8,771
Exercise of stock options	2,444	(2,444)	–	–	–
Stock-based compensation (note 14)	–	2,449	–	–	2,449
Issuance of Class A common shares (note 10)	24,694	–	–	–	24,694
Balance, December 31, 2016	$ 38,733	$ 770	$ 10,025	–	$ 49,528

Nine months ended, December 31, 2017	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total
Balance, March 31, 2017	$ 38,700	$ 1,408	$ 12,212	$ –	$ 52,320
Net loss	–	–	(6,719)	–	(6,719)
Other comprehensive income	–	–	–	30	30
Shareholder loans converted to equity (note 10)	2,400	–	–	–	2,400
Issuance of common shares (note 10)	148,564	–	–	–	148,564
Share issuance costs	(9,511)	–	–	–	(9,511)
Tax effect of share issuance costs	2,475	–	–	–	2,475
Exercise of stock options	404	(200)	–	–	204
Class C conversion to Class B	218	(218)	–	–	–
Stock-based compensation (note 14)	–	9,241	–	–	9,241
Balance, December 31, 2017	$ 183,250	$ 10,231	$ 5,493	$ 30	$ 199,004

*Prior to the closing of the Company's initial public offering on June 7, 2017, the outstanding Class C shares were converted to Class B and any remaining contributed surplus attributable to the deemed conversion option on Class C shares was reallocated to Class B share capital.

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

MEDRELEAF CORP.

Condensed Interim Consolidated Statements of Cash Flows
(In thousands of Canadian dollars, except share
and per share amounts, unless otherwise noted)
(Unaudited)

	Three months ended December 31, 2017	Three months ended December 31, 2016	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Cash provided by (used in):				
Operating activities:				
Net (loss) income	$ (5,001)	$ 1,738	$ (6,719)	$ 8,771
Items not involving cash:				
Gain from changes in fair value of biological assets	(10,887)	(6,230)	(31,837)	(20,682)
Cost of finished harvest inventory sold	8,232	5,110	20,446	16,564
Depreciation and amortization	1,777	432	3,673	1,104
Stock-based compensation	3,546	2,251	9,241	2,449
Unrealized foreign exchange loss	3	–	11	–
Finance costs	10	16	139	62
Interest income	1	–	(21)	–
Fair value loss on shareholder loans	–	–	192	–
Current income taxes	(277)	400	1,530	2,000
Deferred income taxes	2,020	389	2,714	1,980
Change in non-cash operating working capital:				
Accounts receivable	(2,505)	4,002	1,528	1,696
Inventories	(1,413)	(1,001)	(4,919)	(1,450)
Prepaid expenses	(196)	(77)	(582)	(186)
Income taxes receivable and payable	(958)	–	(5,520)	–
Other current assets	500	–	–	–
Security deposit	–	–	48	(131)
Accounts payable and accrued liabilities	6,906	2,420	9,325	3,634
	1,758	9,450	(751)	15,811
Financing activities:				
Shareholder loans repaid	–	(303)	–	(133)
Deferred finance costs paid	(18)	–	(364)	–
Interest paid	–	(149)	62	(178)
Term credit facility	–	(19)	10,000	(601)
Collateralized credit facility	–	–	(7,500)	7,500
Exercise of stock options	204	–	204	–
Issuance of share capital	60,002	5,008	140,702	24,694
Share issuance costs	(4,150)	–	(9,511)	–
	56,038	4,537	133,593	31,282
Investing activities:				
Loan receivable	–	–	250	–
Advances to shareholder	10	(3)	110	(81)
Additions to intangible assets	(1,703)	–	(1,703)	–
Additions to property, plant and equipment	(15,477)	(9,160)	(29,817)	(22,426)
	(17,170)	(9,163)	(31,160)	(22,507)
Increase in cash and cash equivalents	40,626	4,824	101,682	24,586
Cash and cash equivalents, beginning of period	73,955	20,679	12,899	917
Cash and cash equivalents, end of period	$ 114,581	$ 25,503	$ 114,581	$ 25,503
Income taxes paid	$ 957	$ –	$ 4,953	$ –
Finance costs paid	159	–	379	–
Interest income received	224	13	341	19
Shareholder loans contributed to common share capital	–	–	2,400	–

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

1. The Company and its operations:

MedReleaf Corp. (the "Company") is a publicly listed company on the Toronto Stock Exchange ("TSX") under the symbol "LEAF" and was incorporated on February 28, 2013 under the Ontario Business Corporations Act ("OBCA"). The principal activities of the Company are the production and sale of medical cannabis as regulated by the Access to Cannabis for Medical Purposes Regulations (Canada) (the "ACMPR"), pursuant to: (i) a licence issued by Health Canada to the Company on February 14, 2014, pursuant to the ACMPR in respect of the Company's facility located in Markham, Ontario (the "Markham Facility", and such licence is referred to as the "Markham Licence"); and (ii) a licence issued by Health Canada to the Company on April 12, 2017, pursuant to the ACMPR in respect of the Company's facility located in Bradford, Ontario (the "Bradford Facility", and such licence is referred to as the "Bradford Licence" and, together with the Markham Licence, the "Licences"). Prior to the expiry of the term of each of the Licences, the Company must apply for renewal to Health Canada which contains information prescribed by the ACMPR. The Company has renewed the Markham Licence and its current term will expire on February 14, 2020. The current term of the Bradford Licence expires on April 10, 2020. The Company's head office is located at Markham Industrial Park, Markham, Ontario L3R 6G4 and its registered and records office is located at Suite 3800, Royal Bank Plaza, South Tower, 200 Bay Street, Toronto, Ontario M5J 2Z4.

MedReleaf Holdings (Australia) Ltd. ("Holdings Australia"), a wholly owned subsidiary of the Company, was incorporated on January 23, 2017 under the OBCA. Holdings Australia has the same head office and registered office as the Company.

In February 2017, the Company licensed certain of its intellectual property to an Australian corporation in order to support an application for Australian cannabis cultivation and manufacturing licences by such corporation (the "licence agreements"). Under the terms of the licence agreements, the Company, through its subsidiary, Holdings Australia, acquired a 10% equity interest in the Australian corporation, for a nominal amount, which will operate as "MedReleaf Australia". As well, subject to the execution of additional documentation, it is contemplated that the Company would become entitled to receive certain royalties on the gross revenue of MedReleaf Australia, as well as Holdings Australia receiving potential additional equity in MedReleaf Australia. The Company's interest in MedReleaf Australia is recorded at cost which is equivalent to its fair value. On November 14, 2017 the Company's Australian partners received a license from the Australian Government Office of Drug Control for the cultivation and production of medical cannabis. The license to undertake authorized cannabis activities commences on November 10, 2018 in order to allow time to complete infrastructure development of the facility.

1. The Company and its operations (continued):

MedReleaf Germany GmbH, registered at Prinzenpark, 3rd and 5th Floor, Prinzenallee 7, 40549 Dusseldorf, Germany, a wholly owned subsidiary of the Company, was incorporated on June 2, 2017 in Germany with the main objective of cultivation, harvesting, marketing and distribution of cannabis and cannabis products for medical purposes. On June 6, 2017, MedReleaf Germany GmbH, submitted an application for Phase 1 of the domestic cultivation licensing process to the German Federal Institute for Drugs and Medical Devices ("BfArM").

On June 13, 2017, 2582394 Ontario Inc. ("Holdco"), registered at 5 Hazelton Avenue Suite 200, Toronto, Ontario M5R 2E1, a wholly owned subsidiary of the Company, was incorporated under the OBCA, for the purpose of owning property to be used by the Company in the production and sale of medical cannabis.

2. Basis of presentation:

(a) Statement of compliance:

These unaudited condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in preparation of these unaudited condensed interim consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended March 31, 2017.

These condensed interim consolidated financial statements do not include all the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements and, accordingly, should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended March 31, 2017 prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

These condensed interim consolidated financial statements were authorized for issuance by the Company's Board of Directors (the "Board") on February 12, 2018.

2. Basis of presentation (continued):

(b) Basis of measurement:

The condensed interim consolidated financial statements were prepared on a historical cost basis, except for biological assets and certain financial instruments, which are measured at fair value as explained in the accounting policies described in the Company's annual financial statements for the year ended March 31, 2017. Other measurement bases are described in the applicable notes.

(c) Basis of consolidation:

Subsidiaries for the purpose of preparing these condensed interim consolidated financial statements are entities controlled by the Company. Control exists when the Company has power over a subsidiary that exposes or gives rights to variable returns that are related to its involvement in the subsidiary and is able to use its power to affect, either directly or indirectly, the amount of those returns. On the date that control commences, the financial statements of the subsidiary are included in the condensed interim consolidated financial statements of the Company until the date that control ceases.

Subsidiary	Jurisdiction of incorporation
MedReleaf Holdings (Australia) Ltd.	Ontario
MedReleaf Germany GmbH	Germany
2582394 Ontario Inc.	Ontario

(d) Presentation currency:

These condensed interim consolidated financial statements are presented in thousands of Canadian dollars, except for earnings per share information which is presented in Canadian dollars, unless otherwise noted.

2. Basis of presentation (continued):

(e) Use of judgments and estimates:

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, sales and expenses, and the related disclosures of contingent liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. There have not been any changes in the critical accounting estimates from those reported in the Company's annual audited financial statements for the year ended March 31, 2017, except as noted below:

In connection with the Company's Offering and listing of the Company's existing shares on the TSX (the "Listing") (note 10), the Company incurred underwriters' fees, legal costs, consulting fees, initial listing fees, travel and other professional fees. All costs that were incremental and directly attributable to the issuance of new common shares were recorded as a reduction to share capital. All other costs incurred in relation to the Company's listing of existing shares and preparing the Company to operate and report as a publicly listed Company were expensed to initial public offering costs. The Company's management applied judgment in determining which costs to attribute to the Offering and which to attribute to the Listing, where costs were incurred jointly, the Company allocated the costs based on the percentage (9%) of common shares applicable to the Offering (8,494,742 common shares) and the percentage (91%) applicable to the Listing (81,880,206 common shares).

3. Accounts receivable:

Accounts receivable represents amounts due from patients, insurance providers, and third-party e-commerce payment processing facilitators. As at December 31, 2017, the Company had accounts receivable of $8,425 (March 31, 2017 - $9,953), net of an allowance of $867 (March 31, 2017 - $530) and inclusive of $3,337 harmonized sales tax refunds receivable (March 31, 2017 - $872). During the three and nine months ended December 31, 2017, $190 and $270 of bad debt expense was included in general and administrative expenses (2016 - $87 and $138).

(In thousands of Canadian dollars, except share
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3. Accounts receivable (continued):

The table below summarizes the aged accounts receivable as at December 31, 2017 and March 31, 2017:

	December 31, 2017	March 31, 2017
Current	$ 4,024	$ 3,452
30 days	169	2,741
60 days	25	1,832
90+ days	1,737	1,586
Trade accounts receivable	5,955	9,611
Harmonized sales tax refunds receivable	3,337	872
Allowance for impairment of accounts receivable	(867)	(530)
Accounts receivable	$ 8,425	$ 9,953

The movement in the allowance for doubtful accounts in respect of trade accounts receivable during the nine months ended December 31, 2017 and the year ended March 31, 2017 were as follows:

	December 31, 2017	March 31, 2017
Balance, beginning of period	$ 530	$ 31
Additions	337	499
Balance, end of period	$ 867	$ 530

4. Loan receivable:

The Company entered into a loan agreement on December 25, 2015 with MMMG, LLC (the "Borrower"), a Nevada limited liability company for $250 bearing interest at 15% per annum and maturing in December 2017. On May 26, 2017, the Borrower repaid the full outstanding principal and accrued interest of $312.

(In thousands of Canadian dollars, except share
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5. Convertible note receivable:

On November 14, 2016, the Company entered into a strategic alliance agreement (the "Alliance") with Ehave, Inc. ("Ehave") to develop software and a branded application. On February 22, 2017, the Company purchased an unsecured convertible promissory note from Ehave with a principal amount denominated in $100 United States dollars. During the three and nine months ended December 31, 2017, the Company included in general and administrative expenses a foreign exchange loss of $3 and $11, respectively, related to the foreign currency conversion of the note (2016 - nil and nil). Interest accrues on the note at the rate of 10% per annum and will be due with principal at the earlier of February 22, 2018 or upon the closing of a registered direct offering of Equity Securities of Ehave that meet minimum gross proceed requirements as defined in the Alliance agreement ("Qualifying Offer"). At the option of the Company, upon closing of a Qualifying Offer, the outstanding note receivable plus unpaid accrued interest can be converted to Equity Securities of Ehave.

Interest accrued during the three and nine months ended December 31, 2017 was $7 and $15, respectively (2016 - nil and nil).

6. Inventories:

	Capitalized cost	Biological asset fair value adjustment	Deemed cost
Accessories, supplies and consumables	$ 320	$ –	$ 320
Work-in-process, dried cannabis and extracts	822	3,006	3,828
Finished goods, dried cannabis and extracts	1,191	4,172	5,363
Carrying amount, March 31, 2017	$ 2,333	$ 7,178	$ 9,511
Accessories, supplies and consumables	$ 752	$ –	$ 752
Work-in-process, dried cannabis and extracts	2,688	7,992	10,680
Finished goods, dried cannabis and extracts	3,549	9,881	13,430
Carrying amount, December 31, 2017	$ 6,989	$ 17,873	$ 24,862

(In thousands of Canadian dollars, except share
and per share amounts, unless otherwise noted)

6. Inventories (continued):

Inventories consist of, accessories available for resale; supplies and consumables for use in the production of inventories and the transformation of biological assets; capitalized inventory costs; and deemed costs of inventories arising from fair value gains on the transformation of biological assets.

The amount of inventories recognized as an expense during the three and nine months ended December 31, 2017 was $12,252 and $30,108, respectively (2016 - $6,942 and $23,038).

7. Biological assets:

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

	Cannabis on plants
Carrying amount, March 31, 2016	$ 1,816
Changes in fair value less costs to sell due to biological transformation	31,252
Production costs capitalized	5,024
Transferred to inventories upon harvest	(35,283)
Carrying amount, March 31, 2017	2,809
Changes in fair value less costs to sell due to biological transformation	31,837
Production costs capitalized	6,233
Transferred to inventories upon harvest	(37,082)
Carrying amount, December 31, 2017	$ 3,797

Biological assets consist of cannabis plants measured at fair value less cost to sell up to the point of harvest. The Company's estimates, by their nature, are subject to changes that could result from volatility of market prices, unanticipated regulatory changes, harvest yields, loss of crops, changes in estimates and other uncontrollable factors that could significantly affect the future fair value of biological assets.

7. Biological assets (continued):

These estimates include the following assumptions:

(a) Selling prices were determined by estimating the Company's average selling price and mix of product strains applicable to each three-month ending reporting period;

(b) Costs incurred and remaining costs to complete were estimated by calculating the average production costs up to the point of harvest over the total production period;

(c) The percentage of costs incurred for each stage of plant growth;

(d) The stage of plant growth at which point of harvest is determined;

(e) Costs to sell and other fulfillment costs were determined by estimating the Company's average cost per gram; and

(f) Expected yields of harvested plants are estimated and risk adjusted at each stage of growth.

8. Property, plant and equipment:

On July 22, 2016, the Company completed the purchase of a 210,596 square foot production facility on approximately 11 acres of land, located in an industrialized zone in Bradford, Ontario. The purchase price of the property was $8,750, excluding legal and transfer tax costs, and was primarily funded through a collateralized credit facility. The facility will be used for the production and sale of medical cannabis.

During the nine months ended December 31, 2017, the Company completed the first phase and began the second phase of its Bradford Facility construction project. On April 12, 2017, the Company received its licence issued under section 35 of the ACMPR for the production of dried cannabis in the two completed grow rooms of the Bradford Facility. The licence expires on April 11, 2018. On November 3, the Company received an additional amended licence which permits the activity of sale to clients from the Bradford Facility. The expiration of the amended licence is April 10, 2020.

8. Property, plant and equipment (continued):

As at March 31, 2017, total construction costs related to the first phase of the project were $17,550 and, at the time, were classified as construction in process. After the completion of the first phase of the project in April 2017, these costs were reclassified as production rooms ($5,674) and building improvements ($11,572) and depreciation commenced.

During the three months ended December 31, 2017, the Company completed the construction of additional cultivation capacity at the Bradford Facility. The related construction costs were reclassified from construction in process as production rooms ($5,266) and building improvements ($12,406) and depreciation commenced.

As of December 31, 2017, $2,127 in construction costs related to the second phase of the Bradford Facility project were classified as construction in process and were not depreciated.

Included in production costs for the three and nine months ended December 31, 2017 is depreciation in the amount of $941 and $2,054 (2016 - $302 and $771), respectively.

(In thousands of Canadian dollars, except share
and per share amounts, unless otherwise noted)

8. Property, plant and equipment (continued):

	Computer hardware/ software	Furniture and equipment	Leasehold improvements	Production rooms	Construction in process	Building	Building improvements	Land	Total
Cost									
Balance, March 31, 2016	$ 298	$ 2,145	$ 2,260	$ 4,588	$ –	$ –	$ –	$ –	$ 9,291
Additions	591	3,226	797	441	17,550	4,296	–	4,604	31,505
Balance, March 31, 2017	889	5,371	3,057	5,029	17,550	4,296	–	4,604	40,796
Additions	1,960	4,196	512	1,502	19,495	–	2,152	–	29,817
Asset reclassification	–	–	–	10,940	(34,918)	–	23,978	–	–
Balance, December 31, 2017	$ 2,849	$ 9,567	$ 3,569	$ 17,471	$ 2,127	$ 4,296	$ 26,130	$ 4,604	$ 70,613
Accumulated depreciation									
Balance, March 31, 2016	$ 126	$ 481	$ 355	$ 362	$ –	$ –	$ –	$ –	$ 1,324
Depreciation	168	750	290	463	–	–	–	–	1,671
Asset retirement	–	–	21	–	–	–	–	–	21
Balance, March 31, 2017	294	1,231	666	825	–	–	–	–	3,016
Depreciation	391	1,078	308	946	–	161	604	–	3,488
Balance, December 31, 2017	$ 685	$ 2,309	$ 974	$ 1,771	$ –	$ 161	$ 604	$ –	$ 6,504
Carrying amounts									
March 31, 2017	$ 595	$ 4,140	$ 2,391	$ 4,204	$ 17,550	$ 4,296	$ –	$ 4,604	$ 37,780
December 31, 2017	2,164	7,258	2,595	15,700	2,127	4,135	25,526	4,604	64,109

(In thousands of Canadian dollars, except share
and per share amounts, unless otherwise noted)

9. Intangible Assets:

On December 8, 2017, the Company completed the purchase of intangible assets for a purchase price of $9,450, of which $1,588 was paid in cash and the remainder paid through the issuance of Common Shares (note 10).

The Company has an obligation to purchase additional intangible assets by way of issuance of Common Shares contingent on the seller meeting specified targets. The agreed upon purchase price of each intangible asset is $3,750, $3,250, and $3,000, respectively.

Intangible assets consist of trademarks, patents, and other intangible assets.

	Cost	Accumulated amortization	Net book value
Balance, March 31, 2016	$ –	$ –	$ –
Additions	13	–	13
Balance, March 31, 2017	13	–	13
Additions	9,565	157	9,408
Balance, December 31, 2017	$ 9,578	$ 157	$ 9,421

(In thousands of Canadian dollars, except share
and per share amounts, unless otherwise noted)

10. Share capital:

Authorized:

Unlimited common shares
3,997.43 Class B shares (convertible to 464,054 common shares)

Initial public offering:

On May 30, 2017, the Company filed its final prospectus with the securities regulatory authorities in each of the provinces and territories of Canada in connection with the initial public offering and secondary offering (together, the "Offering") of an aggregate of 10,600,000 common shares (the "Offered Shares") of the Company at a price of $9.50 per Offered Share (the "Offering Price") for aggregate gross proceeds of $100,700, with certain selling shareholders receiving $20,000 of the gross proceeds as part of a secondary offering.

The Offering closed on June 7, 2017, and the Offered Shares commenced trading on the TSX under the symbol "LEAF".

Issued:

	Common shares		Class A common shares		Class B shares		Class C shares	
	Number of shares	Share capital	Number of shares	Share capital	Number of shares	Share capital	Number of shares	Share capital
Balance, March 31, 2016	**–**	**$ –**	**363,544**	**$ 11,595**	**226,416**	**$ –**	**8,175**	**$ –**
Issuance of Class A common shares	–	–	71,964	24,694	–	–	–	–
Conversion of Class C shares to Class A common shares	–	–	4,177	74	–	–	(4,177)	–
Exercise of stock options	–	–	39,214	2,337	–	–	–	–
Balance, March 31, 2017	**–**	**$ –**	**478,899**	**$ 38,700**	**226,416**	**$ –**	**3,998**	**$ –**
Conversion of Class A shares to common shares at 116:0909:1	55,595,369	38,700	(478,899)	(38,700)	–	–	–	–
Conversion of Class B shares to common shares at 116:0909:1	26,284,837	2,400	–	–	(226,416)	–	–	–
Conversion of Class C shares to common shares at 116:0909:1	–	–	–	–	3,998[1]	218	(3,998)	–
Initial public offering	8,494,742	80,700	–	–	–	–	–	–
Share issuance - bought deal	3,625,470	60,002	–	–	–	–	–	–
Share issuance costs	–	(9,511)	–	–	–	–	–	–
Tax effect of share issuance costs	–	2,475	–	–	–	–	–	–
Share issuance – intangible assets (note 9)	488,313	7,862	–	–	–	–	–	–
Exercise of stock options	310,052	404	–	–	–	–	–	–
Balance, December 31, 2017	**94,798,783**	**$183,032**	**–**	**$ –**	**3,998**	**$ 218**	**–**	**$ –**

[1] Class B shares are convertible to 464,054 common shares

10. Share capital (continued):

Class A common shares

Class A common shares were voting and participating and were entitled to dividends as and when declared by the Board, subject to the prior rights of other share classes. The Class A common shareholders were entitled to receive the remaining property of the Company upon liquidation, dissolution or winding up. Prior to the Offering, Class A shares were subdivided at a ratio of 116.0909:1 and re-designated as "common shares".

Common shares

Common shares are voting and participating and are entitled to dividends as and when declared by the Board. The holders of common shares will be entitled to receive, on a pro rata basis, the remaining property and assets available for distribution upon the Company's liquidation, dissolution or winding-up, whether voluntary or involuntary, subject to the rights of the Class B shares.

Class B shares

Prior to the Offering on June 7, 2017, Class B shares were voting, non-participating, convertible shares, redeemable by the Company. Each Class B share was issued at $0.001 and carried an entitlement of one vote. Immediately prior to the Offering, on June 7, 2017, the Class B shares were converted on a 1:1 basis into Class A common shares and were subdivided at a ratio of 116.0909:1 and re-designated as “common shares”.

Subsequent to the Offering, Class B shares, are restricted and can only be held by Igor Gimelshtein, Chief Financial Officer of the Company, pursuant to the terms of his employment agreement with the Company. The holder of Class B shares is not entitled to notice of, to attend at, nor to vote at any meeting of the shareholders of the Company, and is not entitled to any dividends. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the holder of the Class B shares shall be entitled to receive, in respect of each such share, before any distribution of any part of the assets of the Company among the holders of the common shares and any other class of shares of the Company ranking junior to the Class B shares, an amount equal to the Redemption Price (defined below) per Class B share held.

10. Share capital (continued):

All of the Class B shares outstanding on the date (the "Redemption Date") on which the holder of the Class B shares delivers a notice of resignation or the date on which employment is terminated for just cause, shall be automatically redeemed by the Company on the Redemption Date at a price per Class B Share equal to $0.001 (the "Redemption Price").

Subject to the foregoing, on the earlier of March 23, 2018 and the date of closing of a change of control, the 3,997.43 Class B shares will automatically convert into 464,054 common shares, subject to adjustment.

Class C Shares

Class C shares were non-voting, convertible, redeemable by the Company and issued pursuant to the terms of an employment agreement dated March 2, 2015. Each Class C share is issued at $0.001 per share. On each of the first, second and third anniversary of March 23, 2015, 4,177.33 Class C shares would automatically convert on a 1:1 basis into Class A common shares. In the event of a change of control, all outstanding unconverted shares would have been converted on a 1:1 basis into Class A common shares. Immediately prior to the Offering, on June 7, 2017, the Class C shares were converted on a 1:1 basis into Class B shares (as described above).

Period transactions

During the nine months ended December 31, 2017, the following series of transactions occurred:

(a) Immediately prior to the Offering, 478,899 Class A common shares converted on a basis of 1:1 into common shares and were subdivided into 55,595,369 shares at a ratio of 116.0909:1 (subject to rounding provisions).

(b) Immediately prior to the Offering, the Class B shares were converted on a 1:1 basis into Class A common shares and were subdivided at a ratio of 116.0909:1 and re-designated as 26,284,837 “common shares”. The non-interest bearing shareholder loans (held by Class B shareholders) with a face value of $2,400 were eliminated and contributed as common share capital (note 11).

10. Share capital (continued):

(c) Immediately prior to the Offering, on June 7, 2017, the Class C shares were converted on a 1:1 basis into Class B shares (as described above). Contributed surplus of $218 attributable to the Class C shares was reallocated to Class B share capital.

(d) On June 7, 2017, the Company completed its initial public offering and issued 8,494,742 common shares (excluding shares issued through the secondary offering) at price of $9.50 per Offered Share.

(e) The Company incurred various legal, consulting, professional, regulatory and underwriter fees in connection with its Offering. Underwriter fees and other legal professional and consulting fees associated with the Company's Offering of $5,361 were dispersed from gross proceeds and offset against common share capital, net of estimated incomes taxes of $1,437. In addition, the Company expensed and included in initial public company related costs for the three and nine months ended December 31, 2017 nil and $2,611 in other fees incurred in connection with the Listing of the Company's existing shares on the TSX.

(f) On December 4, 2017, the Company closed a short form prospectus offering on a “bought deal basis”, pursuant to which the Company issued an aggregate of 3,625,470 Common Shares at a price of $16.55 per Common Share, for aggregate gross proceeds to the Company of $60,002. Issuance costs in relation to the equity offering amounted to $4,150 and are reflected in shareholders’ equity, net of estimated incomes taxes of $1,038.

(g) On December 8, 2017, the Company issued 488,313 Common Shares at a price of $16.10 as consideration for the purchase of intangible assets (note 9).

(h) The holders of common stock options exercised 310,052 options for a stated share capital value of $404, for a total proceeds to the Company of $204.

(i) The holders of 119,967 common stock options were terminated resulting in forfeiture of unvested options at the time of termination.

Earnings per share ("EPS") has been calculated using the weighted average number of shares outstanding during the period on a total outstanding and fully dilutive basis. The potential conversion of options into common shares as determined using the treasury stock method, has a dilutive effect on EPS.

(In thousands of Canadian dollars, except share
and per share amounts, unless otherwise noted)

10. Share capital (continued):

EPS amounts for the three months ended December 31, 2017 and 2016 are presented in the table below:

Three months ended December 31,	2017	2016
Numerator:		
Net (loss) income	$ (5,001)	$ 1,738
Denominator – basic earnings per share:		
Weighted average number of shares - basic	91,746,531	82,074,293
Denominator – diluted earnings per share:		
Class B convertible shares	464,054	–
Total dilutive effect of outstanding stock options[1]	6,771,633	3,365,823
Weighted average number of shares - diluted	98,982,218	85,440,116
(Loss) earnings per share – basic	$ (0.05)	$ 0.02
(Loss) earnings per share - diluted	(0.05)	0.02

[1] Calculated using the treasury stock method which reduces the dilutive effect of outstanding stock options by the number of shares assumed to be repurchased with proceeds which includes the unrecognized deferred compensation of stock options.

(In thousands of Canadian dollars, except share
and per share amounts, unless otherwise noted)

10. Share capital (continued):

EPS amounts for the nine months ended December 31, 2017 and 2016 are presented in the table below:

Nine months ended December 31,	2017	2016
Numerator:		
Net (loss) income	$ (6,719)	$ 8,771
Denominator – basic earnings per share:		
Weighted average number of shares - basic	88,766,665	76,295,636
Denominator – diluted earnings per share:		
Class B convertible shares	464,054	–
Total dilutive effect of outstanding stock options[1]	6,771,633	4,028,122
Weighted average number of shares - diluted	96,002,351	80,323,758
(Loss) earnings per share – basic	$ (0.08)	$ 0.11
(Loss) earnings per share - diluted	(0.07)	0.11

[1] Calculated using the treasury stock method which reduces the dilutive effect of outstanding stock options by the number of shares assumed to be repurchased with proceeds which includes the unrecognized deferred compensation of stock options.

(In thousands of Canadian dollars, except share
and per share amounts, unless otherwise noted)

11. Shareholder loans payable:

Shareholder loans were comprised of non-interest bearing promissory notes carried in the amount of nil (March 31, 2017 - $2,189). These shareholder loans were unsecured and had no fixed terms of repayment. The non-interest bearing notes were recorded at fair value, representing an imputed interest of 4.7%, and had a face value of $2,400 as at March 31, 2017. Included in finance costs for the three and nine months ended December 31, 2017 are amortized interest charges of nil and $19 (2016 - $25 and $73), respectively relating to these shareholder loans.

In connection with the Offering (note 10), the $2,400 non-interest bearing promissory notes, which were held by the holders of all of the issued Class B shares, were eliminated and contributed as common share capital upon conversion of the Class B shares. As a result, the Company recorded a fair value loss of $192, which was included in net and comprehensive loss for the nine months ended December 31, 2017 (2016 - nil).

12. Asset retirement obligation:

The Company has recorded an asset retirement obligation for the estimated costs to remediate the Company's building upon termination of the lease. The liability is $211 as at December 31, 2017 (March 31, 2017 - $204). The following is a reconciliation of the changes in the decommissioning liability:

	Asset retirement obligation
Balance, March 31, 2016	$ 195
Accretion	9
Balance, March 31, 2017	204
Accretion	7
Balance, December 31, 2017	$ 211

12. Asset retirement obligation (continued):

The provision for the asset retirement obligation is based on the following key assumptions:

- the total undiscounted cash flows as at December 31, 2017 and March 31, 2017 is $275;
- the expected settlement is in fiscal 2024;
- the current market-based pre-tax discount rate is 3.45%; and
- an inflation rate of 1.25%.

13. Collateralized credit facility and term credit facility:

On July 22, 2016, the Company secured a real property loan, in the amount of $7,500 (the "Former Credit Facility"). The Former Credit Facility was collateralized and provided the lender with first ranked security against the new production facility as well as all personal property of the Company. The lender was ranked second behind registered landlord(s) for all improvements to leased properties. The Former Credit Facility was an open variable rate loan with a five-year term, ending August 1, 2021.

On April 17, 2017, the Company entered into a new $20,000 credit agreement with a major Canadian bank (the "Credit Agreement"). The Credit Agreement provides the Company with a $10,000 term credit facility (the “Term Facility”) and a $10,000 revolving credit facility (the “Revolving Facility” and together with the Term Facility, the "New Credit Facility"), subject to covenant requirements. The Former Credit Facility lender continues to hold 50% of the Company's outstanding debt under the New Credit Facility, which is administered by and payable to the New Credit Facility lender (the "debt reorganization"). The Company utilized the proceeds of the Term Facility to repay all principal and interest outstanding of $7,500 on the Former Credit Facility, the balance was used to fund the build-out of the Bradford Facility.

The New Credit Facility can be issued as Bankers' Acceptance ("BA") rate based borrowing or Canadian Prime ("Prime") rate based borrowing. Any portion of the New Credit Facility issued as a BA rate based borrowing incurs interest, payable monthly, at an annual variable interest rate of 3.25% plus a discount equal to the lessor of the annual Canadian Dollar Offered Rate plus 0.10% or the lenders offered discount rate. Any portion of the New Credit Facility issued as a Prime rate based borrowing incurs monthly interest at an annual variable interest rate equal to the Canadian Prime rate applicable on the issue date plus 2.25%.

13. Collateralized credit facility and term credit facility (continued):

As at December 31, 2017, the Term Facility was rolled into a 30-day BA rate based borrowing, maturing on January 2, 2018 at a rate of 3.25% per annum plus a discount rate of 1.32% per annum, payable monthly.

The Credit Agreement restricts the use of proceeds of the New Credit Facility provided thereunder. Advances under the Term Facility may be used solely for the purpose of repaying the Former Credit Facility or other indebtedness of the Company and funding the build-out of the Bradford Facility. Advances under the Revolving Facility may fund working capital and other general corporate purposes of the Company.

The Term Facility requires quarterly principal repayments of $250 and monthly payments of accrued interest and fees. The Company can elect to defer the principal payments as long as a total leverage ratio below 2:1 is maintained.

The Credit Agreement contains events of default customary for agreements of this nature as well as certain restrictive covenants including, subject to certain exceptions, restrictions on the Company's ability to incur indebtedness, grant liens, make corporate changes, dispose of assets, make investments including acquisitions and pay dividends. The Company must maintain its Health Canada Licences and observe certain financial covenants including with respect to: (i) maintaining an interest coverage ratio of not less than 3.00 to 1.00; (ii) maintaining a total leverage ratio of not more than 2.50 to 1.00; (iii) maintaining a capitalization ratio of not more than 1.00 to 2.00; and (iv) not permitting any earnings before interest, taxes, depreciation and amortization decrease (as defined therein as "EBITDA") to exceed 30.0% (the "EBITDA Decrease Covenant"), in each case as particularly provided in the Credit Agreement.

On November 10, 2017, the Company amended the Credit Agreement (the "Amended Credit Agreement"). Under the Amended Credit Agreement, the EBITDA Decrease Covenant was removed for the reporting period ending December 31, 2017 and the remaining term of the Credit Agreement. The Amended Credit Agreement also removed the election to defer principal payments, and as such, the quarterly principal repayments of $250 are required each three-month period ended December 31, March 31, June 30, and September 30. The first payment was made on January 2, 2018.

13. Collateralized credit facility and term credit facility (continued):

As at December 31, 2017, the Company was in compliance with all covenants contained in the Amended Credit Agreement and no material breach of such agreement has occurred or been waived. The Company did not draw against the Revolving Facility as of the date of these condensed interim consolidated financial statements.

In securing the New Credit Facility, the Company incurred $364 of finance related costs during the nine months ended December 31, 2017. The unamortized finance fees of $87 related to the Former Credit Facility were expensed to finance costs during the nine months ended December 31, 2017. As at December 31, 2017, $338 of unamortized deferred finance fees were netted against the New Credit Facility. During the three and nine months ended December 31, 2017, $9 and $26 (2016 - $19 and $38) of deferred finance fees were amortized and included in finance costs for the period.

14. Stock-based compensation:

The Company has stock option plans to encourage ownership of the Company's common shares by its officers, directors, employees and certain non-employees. Stock options for employees have a maximum term of six years. The options vesting period ranges between one and five years. Stock options for certain executives and non-employees, vest based on performance milestones and have an indefinite term.

(In thousands of Canadian dollars, except share
and per share amounts, unless otherwise noted)

14. Stock-based compensation (continued):

During the period and prior to the closing of the Offering, the Board established an incentive stock option plan, under which options were granted to executive officers, employees and consultants of the Company and its subsidiaries. After giving effect to the Capital Reorganization (refer to note 10) and the Closing Option Grant, an aggregate of 4,354,543 common shares were reserved for issuance under options granted under the Stock Option Plan and an aggregate of 2,655,226 common shares were reserved for issuance under Legacy Option Agreements.

A summary of the Company's plans and changes during the respective periods is presented below:

	Number	Exercise price	Weighted average exercise
Outstanding options, March 31, 2016	79,429	$ 0.01 – 98.05	$ 8.01
Granted	13,322	0.01 – 343.45	131.28
Cancelled	(22,490)	0.01	0.01
Exercised	(43,391)	0.00 – 0.01	0.01
Outstanding options, March 31, 2017	26,870	$ 0.00 – 343.45	$ 88.75
Opening options converted at 116.0909:1	2,655,226	$ 0.00 – 2.96	$ 0.90
Granted	4,627,043	9.50 – 17.90	9.95
Forfeited unvested	(119,967)	9.50	9.50
Exercised	(310,052)	0.00 – 9.50	0.66
Outstanding options, December 31, 2017	6,852,250	$ 0.00 – 17.90	$ 6.87
Options exercisable, March 31, 2017*	574,534	$ 0.00 – 2.96	$ 1.24
Options exercisable, December 31, 2017	2,025,988	$ 0.00 – 9.50	2.58

*Options outstanding and exercisable as at March 31, 2017 are presented on a converted basis of 116.0909:1.

(In thousands of Canadian dollars, except share
and per share amounts, unless otherwise noted)

14. Stock-based compensation (continued):

The following table summarizes the range of exercise prices and the weighted average of exercise prices as at December 31, 2017 and March 31, 2017:

Exercise price	Outstanding options	Weighted average remaining term (in years)	Options exercisable	Weighted average exercise
\$0.00 - \$0.01 converted at 116.0909 to \$0.00	1,311,361	2.62	118,761	0.00
\$98.05 converted at 116.0909 to \$0.84	752,732	3.56	301,140	0.84
\$343.45 converted at 116.0909 to \$2.96	591,133	4.95	154,633	2.96
Outstanding options, March 31, 2017	2,655,226	3.40	574,534	1.24
\$ 0.00	1,160,096	1.95	1,008,597	0.00
\$ 0.84	602,046	2.80	376,599	0.84
\$ 2.96	591,132	4.20	180,173	2.96
\$ 9.50	4,226,476	4.44	460,619	9.50
\$ 17.09	272,500	4.88	-	17.09
Outstanding options, December 31, 2017	6,852,250	3.87	2,025,988	6.87

The estimated fair value of options granted was determined on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	December 31, 2017	March 31, 2017
Fair value of options	\$2.59 - \$7.15	\$0.00 - \$2.96
Exercise price	\$9.50 - \$17.09	\$0.00 - \$2.96
Risk-free interest rate	0% - 1%	0% - 1%
Volatility factor of the future expected market price of shares	75%	75%
Weighted average expected life of the options	2 – 5 years	2 – 5 years

*Fair value of options and exercise prices as at March 31, 2017 are presented on a converted basis of 116.0909:1 to reflect the capital reorganization (note 10).

During the three and nine month period ended December 31, 2017, share-based compensation expense relating to stock options of \$3,545 and \$9,241, respectively, (2016 - \$2,251 and \$2,449) was included as part of general and administrative ("G&A") expenses in the condensed interim consolidated statements of comprehensive (loss) income.

15. Deferred share units:

The Company has a deferred share unit ("DSU") plan for non-executive directors to enhance the Company's ability to attract and retain talented and experienced individuals to serve as members of its Board and to promote greater alignment of interest between such persons and the shareholders of the Company.

Under the DSU plan, eligible directors may elect to receive up to 100% of their director compensation in the form of DSUs, subject to any requirements that may be imposed by the Board. The number of DSU grants is determined by dividing the cash amount of the director compensation to be converted to DSUs by the market value of the share as of the last business day of the three month period ended for which the director compensation is paid (the "Valuation Date"). Each DSU awarded under the plan will vest immediately unless otherwise stated. DSUs granted to directors of the Company as part of their annual cash retainer shall vest as to 25% of the total number of DSUs granted per director, on each of June 30, 2017; September 30, 2017; December 31, 2017 and March 31, 2018. During the three and nine months ended December 31, 2017 $110 and $530 of director compensation was included in general and administrative expenses (2016 – nil and nil), of which $78 and $434 were in the form of DSUs.

Eligible directors can elect to receive settlement of the DSUs credited to their account by way of a lump sum cash payment on any date the eligible director ceases to be a director of the Company or any of its subsidiaries (the "Settlement Date"). The settlement amount is equal to the market value on the Settlement Date of one share for each DSU credited to the director's account on the Settlement Date. The DSU liability to remeasured at its fair value at the end of each fiscal reporting period and on the Settlement Date, with changes in fair value recognized through net (loss) income. Due to the increase in share price, during the three and nine months ended December 31, 2017, $412 and $412 fair value increase on the re-measurement of the DSU liability was included in general and administrative expenses.

If, and when dividends are paid on shares, unless the Board decides otherwise, additional DSUs shall be credited to each Eligible Director who holds DSUs on the record date for such dividend, equal to the number (rounded down to the nearest whole DSU) determined by dividing: (i) product of the amount of the dividend by the number of DSUs held by the Eligible Director on such record date by (ii) the market value of a share on the date on which the dividends were paid on the Shares. As at December 31, 2017 the Company did not pay any dividends on outstanding shares.

(In thousands of Canadian dollars, except share
and per share amounts, unless otherwise noted)

15. Deferred share units (continued):

A summary of the Company's DSU liability and changes during the respective periods is presented below:

	Valuation date price	Measurement date price	DSUs granted	DSUs vested	Fair Value
As at March 31, 2017	$ –	$ –	–	–	$ –
Granted	9.50	18.53	53,893	45,683	846,311
As at December 31, 2017	$ 9.50	$ 18.53	53,893	45,683	$ 846,311

16. Financial instruments and risk management:

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, advances to shareholders, loan receivable, convertible note receivable, accounts payable and accrued liabilities and term credit facility. As at December 31, 2017 and March 31, 2017, the carrying values of these instruments approximate their fair values based on the nature of these financial instruments.

(a) Fair value measurements of assets and liabilities recognized at fair value in the condensed interim consolidated statements of financial position:

Financial assets and liabilities are categorized using a fair value hierarchy as follows:

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

16. Financial instruments and risk management (continued):

The levels in the fair value hierarchy into which the Company's assets and liabilities are measured and recognized in the condensed interim consolidated statements of financial position at fair value are categorized as follows:

Cash and cash equivalents	Level 1
Biological assets (note 7)	Level 3

There were no transfers between levels during the periods ended December 31, 2017 and March 31, 2017.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company manages its liquidity risk by monitoring its operating requirements. The Company prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from the March 31, 2017 year end.

(c) Credit risk:

The Company is exposed to credit risk related to cash and cash equivalents invested in short-term securities, outstanding accounts receivable, and loan receivable.

The Company manages credit risk from cash and cash equivalents by selecting high quality issuers and low risk investments which minimizes the potential to default by the issuer of the certificates. All cash and cash equivalents are held with major Canadian financial institutions.

Credit risk from accounts receivable is mitigated by regular monitoring of aged receivables and managing the underlying business relationships with insurance providers. A significant concentration of receivable, are held with insurance providers. Receivables due from non-insurance providers, require advance payment through third-party credit card processing agents, which minimizes credit risk.

Credit risk from the loan receivable arises from the possibility that principal and/or interest due may become uncollectible. The Company mitigates this risk by managing and monitoring the underlying business relationships.

16. Financial instruments and risk management (continued):

(d) Interest rate risk:

The Company is exposed to the risk of interest rate fluctuations on its term credit facility subject to variable Canadian Prime borrowing and Bankers' Acceptance borrowing rates. If the variable interest rate were to increase 1%, the Company would incur additional finance costs of $100 per year which would reduce future cash flows and net income. Interest rate risk exposure on short-term investments is mitigated by selecting low risk, cashable, guaranteed income investments. As at December 31, 2017, the full outstanding Term Facility was in the form of a Bankers' Acceptance rate based borrowing subject to a rate of 3.25% per year, with a 30-day rollover period.

(e) Market risk:

The Company operates in an industry regulated by ACMPR. Changes in legislation could have a significant impact on the Company's operations. As at December 31, 2017 there have been no changes that impact the Company’s operations.

(f) Capital management:

The Company's managed capital as at December 31, 2017 was comprised of share capital in the amount of $183,250 (March 31, 2017 - $38,700), a term credit facility of $10,000 (March 31, 2017 - nil), a revolving credit facility of $10,000 (March 31, 2017 – nil), and a former credit facility of nil (March 31, 2017 - $7,500). As of December 31, 2017, the revolving facility was not drawn against. The Company's objectives in managing capital include: maintaining a capital structure that provides financing opportunities and options while maintaining compliance with debt facility covenants; maintaining its ability to meet capital and operating expenditure requirements; maintaining and, where necessary, raising sufficient capital to support future development of the business; maintaining the ability to meet short and long-term debt servicing and financing obligations; and providing the ability to continue as a going concern.

16. Financial instruments and risk management (continued):

The Company's capital management strategy is designed to maintain a flexible capital structure consistent with its capital management objectives that optimizes the cost of capital within management's assessed level of acceptable risk and positions the Company to respond to changes in economic conditions.

The Company reviews its approach to capital management and associated risks on an on-going basis. There were no changes to the Company's approach to capital management during the three and nine months ended December 31, 2017.

17. Related party transactions:

Included in G&A expenses in the condensed interim consolidated statements of comprehensive income for the three and nine months ended December 31, 2017, were nil and nil (2016 - nil and $122) in consulting fees paid to Two Plus Management Corp. a consulting company whose principal is Neil Closner, an executive officer and shareholder of the Company.

Included in G&A expenses in the condensed interim consolidated statements of comprehensive (loss) income for the three and nine months ended December 31, 2017 were nil and $15 (2016 - $17 and $42) in consulting fees paid to Vive Technologies Inc., whose principal is Jeremy Friedberg, a consultant and shareholder of the Company.

On July 17, 2013, the Company entered into a licence and distribution agreement ("Licence Agreement") for a term of 12 years (renewable for a further five-year period) with Tikun Olam Ltd., a corporation incorporated under the laws of Israel and a shareholder of the Company. The Licence Agreement grants the Company exclusive licence to use Tikun Olam Ltd.'s intellectual property, as defined in the Licence Agreement, for the cultivation, processing, marketing, sale and other commercialization of medical cannabis in Canada and New York State.

17. Related party transactions (continued):

Under the Licence Agreement, the Company is subject to royalties on certain net revenue in connection with Tikun Olam Ltd.'s intellectual property commencing in the third year of the term of the Licence Agreement (July 18, 2015). Total royalties included in selling and marketing expenses for the three and nine months ended December 31, 2017 were nil and $127 (2016 - $95 and $269), respectively. In accordance with the share purchase promissory note (note 11), these royalties, less applicable withholding taxes, have been offset against the share purchase loan outstanding. In consideration for certain licensing concessions, Tikun Olam Ltd. agreed to reduce future royalties owed by the Company under the terms of the original licence agreement by an amount equal to $250 (the "Royalty Rebate"), which is to be offset against future royalties owed by the Company commencing July 17, 2017. During the three and nine months ended December 31, 2017, $134 and $247 of royalty fees were applied against the $250 Royalty Rebate. As at December 31, 2017 $3 of the Royalty Rebate was available to be applied to future royalties. As at December 31, 2017, the Company included in accrued liabilities $122 (2016 - nil) of withholding taxes payable on behalf of Tikun Olam Ltd. and $254 (2016 - nil) of royalty fees payable.

(In thousands of Canadian dollars, except share
and per share amounts, unless otherwise noted)

18. Commitments:

The Company is committed to payments under two operating leases for leased premises. Under the terms of the lease agreements, the Company is required to pay a proportion of common area costs, such as, realty taxes, maintenance and insurance in addition to the minimum lease payments.

The approximate future minimum lease payments, exclusive of common area costs, are as follows:

	December 31, 2017	March 31, 2017
Less than 1 year	$ 286	$ 275
1 – 3 years	613	593
4 – 5 years	669	648
Thereafter	445	703
	$ 2,013	$ 2,219

During the nine months ended December 31, 2017 and as at March 31, 2017, the Company was committed to principal and interest payments under its open variable rate Former Credit Facility. Under the terms of the Former Credit Facility, the Company was required to pay interest only payments from December 1, 2016 through to August 1, 2017.

On April 17, 2017, the Company entered into a new loan agreement with a major Canadian bank which provided for a $10,000 Term Facility and a $10,000 revolving credit facility. As of December 31, 2017, the Revolving Facility was not drawn against. The Term Facility was used to fully repay the Former Credit Facility.

(In thousands of Canadian dollars, except share
and per share amounts, unless otherwise noted)

18. Commitments (continued):

The approximate future principal payments of the term credit facility are as follows:

	December 31, 2017	March 31, 2017
Less than 1 year	$ 1,000	$ –
1 – 3 years	2,000	–
4 – 5 years	2,000	–
Thereafter	5,000	–
	$ 10,000	$ –

The Company has made commitments to specific vendors for capital projects related to on-going construction projects. As at December 31, 2017, approximately $8,978 of future payments have been committed and are required to be paid within one year related to capital commitments.

19. Subsequent events:

January 2018 offering

On January 31, 2018, the Company closed a short form prospectus offering on a “bought deal basis”, pursuant to which the Company issued an aggregate of 5,000,000 units (the “Units”) of the Company at a price of $26.50 per Unit for aggregate gross process of $132,500. Issuance costs in relation to the equity offering are estimated to be $7,288.

The Company has granted the underwriters an over-allotment option (the "Over-Allotment Option") exercisable in whole or in part, at the sole discretion of the underwriters on or before March 2, 2018, to purchase up to an additional 750,000 Units at a price of $26.50, or up to 750,000 additional Unit Shares (the "Additional Unit Shares") at a price of $26.05 per Additional Unit Share, or up to 375,000 additional Warrants (the "Additional Warrants") at a price of $0.90 per Additional Warrant, or any combination of the foregoing, so long as the aggregate number of Additional Unit Shares and Additional Warrants issued under the Over-Allotment Option does not exceed 750,000 Additional Unit Shares and 375,000 Additional Warrants.

If the Over-Allotment Option is exercised in full, an additional $19,875 in gross proceeds will be raised and the aggregate gross proceeds of the January 2018 Offering will be $152,375.

19. Subsequent events (continued):

Each Unit will consist 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 will be exercisable to acquire one common share of the Company for a period of two years following the closing date of the January 2018 Offering at an exercise price of $34.50 per common share, subject to adjustment in certain events. In the event that the volume weighted average trading price of the Common Shares for ten (10) consecutive trading days exceeds $51.75, the Company shall have the right to accelerate the expiry date of the Warrants upon not less than fifteen (15) trading days' notice.