

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT
OF 1934

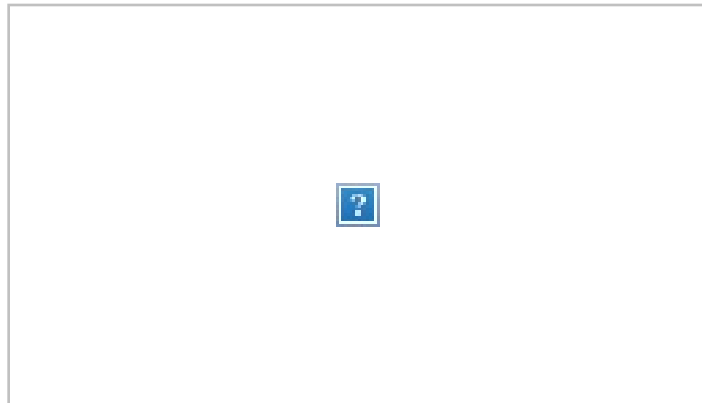
For the quarterly period ended:

March 31, 2017 OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the Transition Period from _____ to _____

Commission File Number: 000-15078



ETHEMA HEALTH CORPORATION
(Exact name of registrant as specified in its charter)

Colorado 84-1227328
(State or other jurisdiction of incorporation or organization)
(I.R.S. Employer Identification No.)

5734 Yonge Street, Suite 300 North York, Ontario, Canada M2M 4E7
(Address of principal executive offices and zip code)

(416) 222-5501
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation ST (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
(Do not check if a smaller reporting company)		Emerging growth company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 19, 2017, there were 108,738,855 shares outstanding of the registrant’s common stock.

ETHEMA HEALTH CORPORATION
(formerly known as GreeneStone Healthcare Corporation)

THREE MONTHS ENDED MARCH 31, 2017

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ETHEMA HEALTH CORPORATION
(formerly known as GreeneStone Healthcare Corporation)

PART I

Item 1. Financial Statements.

INDEX TO THE
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in US Dollars unless otherwise indicated)

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ETHEMA HEALTH CORPORATION
(Formerly known as GreeneStone Healthcare Corporation)
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets		
Cash	\$ 122,861	\$ 4,779
Accounts receivable	238,010	—
Prepaid expenses	25,759	2,710
Discontinued operations	—	183,219
Related party Receivables	24,480	84,867
Total current assets	411,110	275,575
Non-current assets		
Investment	—	110,000
Due on sale of subsidiary	1,192,584	—
Property, plant and equipment	10,828,117	—
Intangibles	1,438,525	—
Cash - Restricted	75,131	74,480
Total non-current assets	13,534,357	184,480
Total assets	\$ 13,945,467	\$ 460,055
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Bank overdraft	\$ 47,212	\$ 56,116
Accounts payable and accrued liabilities	479,676	374,317
Taxes payable	371,424	2,798,824
Convertible loans	405,498	250,258
Loans payable	3,042,972	—
Derivative liability	183,048	—
Related party payables	2,035,747	157,596
Total current liabilities	6,565,577	3,637,111
Non-current liabilities		
Loan payable	2,997,500	—
Total liabilities	9,563,077	3,637,111
Stockholders' equity (deficit)		
Preferred stock - Series A; \$0.01 par value, 3,000,000 authorized, nil outstanding as of March 31, 2017 and December 31, 2016.	—	—
Preferred Stock - Series B; \$0.01 par value, 10,000,000 authorized, nil outstanding as of March 31, 2017 and December 31, 2016.	—	—
Common stock; \$0.01 par value, 500,000,000 shares authorized; 108,738,855 and 48,738,855 shares issued and outstanding as of March 31, 2017 and December 31, 2016, respectively.	1,087,389	487,389
Additional paid in capital	18,198,699	16,509,906
Accumulated other comprehensive income	616,617	807,563
Accumulated deficit	(15,520,315)	(20,981,914)
Total stockholders' equity (deficit)	4,382,390	(3,177,056)
Total liabilities and stockholders' equity (deficit)	\$ 13,945,467	\$ 460,055

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements

ETHEMA HEALTH CORPORATION
(Formerly known as GreeneStone Healthcare Corporation)
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended March 31, 2017	Three Months ended March 31, 2016
Revenues		
In-Patient services	\$ 280,473	\$ —
Rental income	42,037	—
	<u>\$ 322,510</u>	<u>\$ —</u>
Operating expenses		
General and administrative	200,797	7,228
Professional fees	539,604	21,500
Salaries and wages	209,245	6,000
Total operating expenses	<u>949,647</u>	<u>34,728</u>
Operating loss	(627,137)	(34,728)
Other Income (expense)		
Other income	504,348	—
Other expense	(1,519,874)	—
Interest income	32,074	—
Interest expense	(63,017)	8
Amortization of debt discount	(187,659)	—
Loss on change in fair value of derivative liability	(73,048)	—
Foreign exchange movements	(157,908)	733
Net loss before taxation from continuing operations	<u>(2,092,221)</u>	<u>(33,988)</u>
Taxation	—	—
Net loss from continuing operations	<u>(2,092,221)</u>	<u>(33,988)</u>
Gain on disposal of business	7,494,828	—
Operating income from discontinued operations, net of tax	58,992	177,518
Net income from discontinued operations	<u>7,553,820</u>	<u>177,518</u>
Net income	<u>5,461,599</u>	<u>143,530</u>
Accumulated other comprehensive loss		
Foreign currency translation adjustment	(190,946)	(223,104)
Total comprehensive income (loss)	<u>\$ 5,270,653</u>	<u>\$ (79,574)</u>
Basic loss per common share from continuing operations	\$ (0.03)	\$ —
Basic income per share from discontinued operations	\$ 0.10	\$ —
Basic income per common share	<u>\$ 0.07</u>	<u>\$ —</u>
Diluted loss per common share from continuing operations	\$ (0.03)	\$ —
Diluted income per share from discontinued operations	\$ 0.10	\$ —
Diluted income per common share	<u>\$ 0.07</u>	<u>\$ —</u>
Weighted average common shares outstanding - Basic	<u>78,738,855</u>	<u>47,738,855</u>
Weighted average common shares outstanding - Diluted	<u>79,005,555</u>	<u>48,005,555</u>

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements

ETHEMA HEALTH CORPORATION
(Formerly known as GreeneStone Healthcare Corporation)
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

	Common Shares	Common Amount	Additional Paid in Capital	Comprehensive Income	Accumulated Deficit	Total
Balance at January 1, 2017	48,738,855	\$ 487,389	\$ 16,509,906	\$ 807,563	\$ (20,981,914)	\$ (3,177,056)
Shares issued to acquire subsidiary	60,000,000	600,000	1,584,000	-	-	2,184,000
Beneficial conversion feature on issuance of convertible notes and warrants	-	-	104,793	-	-	104,793
Foreign currency translation	-	-	-	(190,946)	-	(190,946)
Net income	-	-	-	-	5,461,599	5,461,599
Balance as of March 31, 2017	108,738,855	\$1,087,389	\$ 18,198,699	\$ 616,617	\$ (15,520,315)	\$ 4,382,390

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements

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ETHEMA HEALTH CORPORATION
(Formerly known as GreeneStone Healthcare Corporation)
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Three months ended March 31, 2017	Three months ended March 31, 2016
Operating activities		
Net income	\$ 5,461,599	\$ 143,530
Net income from discontinued operations	\$ (7,553,820)	\$ (177,518)
Net loss from continuing operations	\$ (2,092,221)	\$ (33,988)
Adjustment to reconcile net loss to net cash (used in) provided by operating activities :		
Depreciation	57,065	—
Non cash compensation expense on acquisition of subsidiary	1,519,874	—
Other foreign exchange movements	(8,699)	6,758
Amortization of debt discount	187,659	—
Derivative liability movements	73,048	—
Provision against receivable on sale of subsidiary	(446,476)	—
Changes in operating assets and liabilities		
Accounts receivable	(96,535)	—
Prepaid expenses	(23,049)	(7,500)
Accounts payable and accrued liabilities	(52,559)	(161,540)
Taxes payable	(2,427,270)	206,958
Net cash used in operating activities - continuing operations	(3,309,163)	10,688
Net cash provided by operating activities - discontinued operations	242,211	30,146
	(3,066,952)	40,834
Investing activities		
Investments in Seastone	(2,960,000)	—
Purchase of fixed assets	(8,878)	—
Net cash used in investing activities - continuing operations	(2,968,878)	—
Net cash provided by investing activities - discontinued operations	6,302,244	—
	3,333,366	—
Financing activities		
(Decrease) Increase in bank overdraft	(8,904)	29,108
Repayment of loan payable	—	(1,658)
Proceeds from short-term notes	—	36,815
Repayment of short-term note	—	(21,870)
Repayment of mortgage liability	(78,050)	—
Proceeds from convertible notes	181,000	—
(Repayment of) proceeds from related party notes	(51,432)	143,244
Net cash provided by financing activities	42,614	185,639
Effect of exchange rate on cash	(190,946)	(223,104)

Net change in cash	118,082	3,369
Beginning cash balance	4,779	174
Ending cash balance	<u>\$ 122,861</u>	<u>\$ 3,543</u>
Supplemental cash flow information		
Cash paid for interest	\$ —	\$ 1,263
Cash paid for income taxes	<u>\$ —</u>	<u>\$ —</u>
Non cash investing and financing activities		
Common shares issued to acquire subsidiary	\$ 2,184,000	\$ —
Assumption of mortgage liabilities on acquisition of subsidiary	<u>\$ 3,145,549</u>	<u>\$ —</u>
Initial derivative liability on note payable	<u>\$ 110,000</u>	<u>\$ —</u>
Initial beneficial conversion feature transferred to additional paid in capital	\$ 104,793	\$ —
Assignment of receivable to acquire subsidiary	<u>\$ 504,442</u>	<u>\$ —</u>

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements

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ETHEMA HEALTH CORPORATION
(formerly known as GreeneStone Healthcare Corporation)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business

Ethema Health Corporation (the “Company”) was incorporated under the laws of the state of Colorado, USA, on April 1, 1993. Effective April 4, 2017, the Company changed its name to Ethema Health Corporation and prior to that, on May 2012, the Company had changed its name to GreeneStone Healthcare Corporation from Nova Natural Resources Corporation. As of March 31, 2017, the Company owned 100% of the outstanding shares of GreeneStone Clinic Muskoka Inc., incorporated in 2010 under the laws of the Province of Ontario, Canada; Cranberry Cove Holdings Ltd., incorporated on January 9, 2004 under the laws of the Province of Ontario, Canada. and Seastone Delray Healthcare, LLC, incorporated on May 17, 2016 under the laws of Florida, USA; and Delray Andrews RE, LLC, incorporated on May 17, 2016 under the laws of Florida, USA.

During December 2016, the Company obtained a license to operate and provide addiction treatment healthcare services in Florida, USA. The company commenced operations under this license with effect from January 2017.

On February 14, 2017, the Company completed a series of transactions (referred to collectively as the “Restructuring Transactions”), including a Share Purchase Agreement (the “SPA”) whereby the Company acquired 100% of the stock of Cranberry Cove Holdings Ltd., which holds the real estate on which the Company’s Rehabilitation Clinic (“the Canadian Rehab Clinic”) operates, an asset purchase agreement (the “APA”) and lease (the “Lease”) whereby the Company sold all of the Canadian Rehab Clinic business assets and leased the real estate to the buyer, and a real estate purchase agreement and asset purchase agreement whereby the Company purchased the real estate and business assets of Seastone Delray (the “Florida Purchase”).

The Share Purchase Agreement

Under the SPA, the Company acquired 100% of the stock of Cranberry Cove Holdings Ltd. (“CCH”) from Leon Developments Ltd. (“Leon Developments”), a company wholly owned by Shawn E. Leon, who is the President, CEO, and CFO of the Company (“Mr. Leon”). CCH owns the real estate on which the Canadian Rehab Clinic is located. The total consideration paid by the Company was CDN\$3,517,062, including the assumption of certain liabilities of CCH, which was funded by the assignment to Leon Developments of certain indebtedness owing to the Company in the amount of CDN\$659,918, and the issuance of 60,000,000 shares of the Company’s common stock to Leon Developments, valued at US\$0.0364 per share.

The Asset Purchase Agreement and Lease

Under the APA, the assets of the Canadian Rehab Clinic were sold by the Company, through its subsidiary, GreeneStone Clinic Muskoka Inc. (“Muskoka”), to Canadian Addiction Residential Treatment LP (the “Purchaser”), for a total consideration of CDN\$10,000,000, plus an additional performance payment of up to CDN\$3,000,000 as a performance payment to be received in 2019 if certain clinic performance metrics are met. The Purchaser completed the sale with cash proceeds to the Company of CDN\$10,000,000, of which CDN\$1,500,000 will remain in escrow for up to two years to cover indemnities given by the Company. The proceeds of the Muskoka clinic asset sale were used to pay down certain tax debts and operational costs of the Company and to fund the Florida Purchase, mentioned below.

Through the APA, substantially all of the assets of the Canadian Rehab Clinic were sold, leaving Ethema with only the underlying clinic real estate, which the Company, through its newly acquired subsidiary, CCH concurrently leased to the Purchaser. The Lease is a triple net lease and provides for a five (5) year primary term with three (3) five year renewal options, annual base rent for the first year at CDN\$420,000 with annual increases, an option to tenant to purchase the leased premises and certain first refusal rights.

The Florida Purchase

Immediately after closing on the sale of the assets of the Canadian Rehab Clinic, the Company closed on the acquisition of the business and real estate assets of Seastone Delray pursuant to certain real estate and asset purchase agreements. This business will be operated through its wholly owned subsidiary Seastone. The purchase price for the Seastone assets was US\$6,070,000 financed with a purchase money mortgage of US\$3,000,000, and US\$3,070,000 in cash.

The accompanying unaudited condensed consolidated financial statements have been prepared in

accordance with accounting principles generally accepted in the United States of America for interim consolidated financial information and Rule 8-03 of Regulation SX. Accordingly, these unaudited condensed consolidated financial statements do not include all the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements.

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ETHEMA HEALTH CORPORATION

(formerly known as GreeneStone Healthcare Corporation)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business (continued)

All adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included in these unaudited condensed consolidated financial statements. Operating results for the three month period presented are not necessarily indicative of the results that may be expected for any other interim period or for the full year. The balance sheet at December 31, 2016 has been derived from audited consolidated financial statements. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto for the year ended December 31, 2016.

2. Summary of Significant Accounting Policies

a) Use of Estimates

The preparation of unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

b) Principals of consolidation and foreign currency translation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company, its subsidiary. All intercompany transactions and balances have been eliminated on consolidation.

The Company previously owned an operational subsidiary whose functional currency was the Canadian dollar, while the Company's reporting currency is the U.S. dollar. The Company recently acquired a property owning subsidiary, CCH, whose functional currency is the Canadian dollar. All transactions initiated in Canadian dollars are translated into US dollars in accordance with ASC 830, "Foreign Currency Translation" as follows:

- Monetary assets and liabilities at the rate of exchange in effect at the balance sheet date.
- Equity at historical rates.
- Revenue and expense items at the average rate of exchange prevailing during the period.

Adjustments arising from such translations are deferred until realization and are included as a separate component of stockholders' deficit as a component of accumulated other comprehensive income or loss. Therefore, translation adjustments are not included in determining net income (loss) but reported as other comprehensive income (loss).

For foreign currency transactions, the Company translates these amounts to the Company's functional currency at the exchange rate effective on the invoice date. If the exchange rate changes between the time of purchase and the time actual payment is made, a foreign exchange transaction gain or loss results which is included in determining net income for the period.

The relevant translation rates are as follows: For the three months ended March 31, 2017; a closing rate of CAD\$1.0000 equals US\$0.7513 and an average exchange rate of CAD\$1.0000 equals US\$0.7555.

c) Cash and cash equivalents

The Company's policy is to disclose bank balances under cash, including bank overdrafts with balances that fluctuate frequently from being positive to overdrawn and term deposits with a maturity period of three months or less from the date of acquisition.

The Company has \$75,131 (CAD\$100,000) in restricted cash held by their bank to cover against the possibility of credit card charge backs, for services not performed. The Company is working on releasing these funds as it no longer operates the Canadian Rehab Clinic, which was sold on February 14, 2017.

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ETHEMA HEALTH CORPORATION

(formerly known as GreeneStone Healthcare Corporation)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

d) Revenue Recognition

The Company has two operating segments from which it derives revenues, i) rental income from leasing of a rehabilitation facility to third parties and ii) in-patient revenues for rehabilitation services provided to customers. Revenue is recognized as follows:

i. Rental Income

- in terms of the lease agreement entered into, on a monthly basis as long as the facility is utilized by the tenant

ii. In-patient revenue

- the customers have been treated and provided with services by the Company;
- there is clear evidence that an arrangement exists;
- the amount of revenue and related costs can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company.

the customers have been treated and provided with services by the Company; the amount of revenue and related costs can be

In particular, the Company recognizes:

- fees for inpatient addiction treatments proportionately over the term of the patient's treatment.

e) Recent accounting pronouncements

In January 2017, the FASB issued Accounting Standards Update No. ("ASU") 2017-02, an amendment to Topic 805, Business Combinations. The amendments in this Update clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this Update affect all reporting entities that must determine whether they have acquired or sold a business. The amendments in this Update provide a more robust framework to use in determining when a set of assets and activities is a business. The amendments in this Update apply to annual periods beginning after December 15, 2017. The amendments in this Update should be applied prospectively on or after the effective date. No disclosures are required at transition. The Company does not expect this guidance to have a material impact on its financial statements.

In January 2017, the FASB issued ASU 2017-04, an amendment to Topic 350, Intangibles – Goodwill and Other, an entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Because these amendments eliminate Step 3 2 from the goodwill impairment test, they should reduce the cost and complexity of evaluating goodwill for impairment. An entity should apply the amendments in this Update on a prospective basis. The amendments in this Update are effective for Goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the effect ASU 2017-04 will have on our

consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, an amendment to Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets. The amendments in this Update are required for public business entities and other entities that have goodwill reported in their financial statements, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The amendments in this Update modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. An entity should apply the amendments in this Update on a prospective basis. The amendments in this Update are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the effect ASU 2017-05 will have on our consolidated financial statements.

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ETHEMA HEALTH CORPORATION

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

e) Recent accounting pronouncements (continued)

In March 2017, the FASB issued ASU 2017-07, Compensation Retirement Benefits (Topic 715). This Update is being issued primarily to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. This Update also includes amendments to the Overview and Background Sections of the FASB Accounting Standards Codification. Under generally accepted accounting principles (GAAP), defined benefit pension cost and postretirement benefit cost (net benefit cost) comprise several components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits provided to employees. Those components are aggregated for reporting in the financial statements. The amendments in this Update apply to all employers, including not-for-profit entities, that offer to their employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715. 2. The amendments in this Update require that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. The amendments in this Update are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those 3 annual periods. For other entities, the amendments in this Update are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance. The amendments in this Update should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. We are currently evaluating the effect ASU 2017-07 will have on our consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20) Premium Amortization of Purchased Callable Debt Securities. The amendments in this Update affect all entities that hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest call date (that is, at a premium). The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. Under current GAAP, premiums and discounts on callable debt securities generally are amortized to the maturity date. The amendments in this Update more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities. As a result, the amendments more closely align interest income recorded on bonds held at a premium or a discount with the economics of the underlying instrument. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. We are currently evaluating the effect ASU 2017-08 will have on our consolidated financial statements.

Any new accounting standards, not disclosed above, that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption.

ETHEMA HEALTH CORPORATION

(formerly known as GreeneStone Healthcare Corporation)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

f) Financial instruments

The Company is exposed to various risks through its financial instruments. The following analysis provides a measure of the Company's risk exposure and concentrations at the balance sheet date, March 31, 2017 and December 31, 2016.

i. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments that subject the Company to credit risk consist primarily of accounts receivable.

Credit risk associated with accounts receivable of Seastone of Delray is mitigated as only a percentage of the revenue billed to health insurance companies is recognized as income until such time as the actual funds are collected. The revenue is concentrated amongst several health insurance companies located in the US.

In the opinion of management, credit risk with respect to accounts receivable is assessed as low.

ii. Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company is exposed to liquidity risk through its working capital deficiency of \$6,154,467 and accumulated deficit of \$15,520,315. As disclosed in note 6, the Company will be dependent upon the raising of additional capital in order to implement its business plan. There is no assurance that the Company will be successful with future financing ventures, and the inability to secure such financing may have a material adverse effect on the Company's financial condition. In the opinion of management, liquidity risk is assessed as high, material and remains unchanged from the prior year.

iii. Market risk

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

a. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to minimal interest rate risk on its bank indebtedness as there is a balance owing of \$47,212 as of March 31, 2017. This liability is based on floating rates of interest that have been stable during the current reporting period. In the opinion of management, interest rate risk is assessed as low, not material and remains unchanged from the prior year.

b. Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is subject to currency risk as its subsidiaries operate in Canada and are subject to fluctuations in the Canadian dollar. A substantial portion of the Company's financial assets and liabilities are denominated in Canadian dollars. Based on the net exposures at March 31, 2017, a 5% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in an approximate \$19,500 increase or decrease in the Company's after tax net income from operations. The Company has not entered into any hedging agreements to mediate this risk. In the opinion of management, currency risk is assessed as low, material and remains unchanged from the prior year.

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2. Summary of Significant Accounting Policies

f) Financial instruments (continued)

iii. Market risk (continued)

c. Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. In the opinion of management, the Company is not exposed to this risk and remains unchanged from the prior year.

g) Derivative instrument liability

The Company accounts for derivative instruments in accordance with ASC815, which establishes accounting and reporting standards for derivative instruments and hedging activities, including certain derivative instruments embedded in other financial instruments or contracts and requires recognition of all derivatives on the balance sheet at fair value, regardless of hedging relationship designation. Accounting for changes in fair value of the derivative instruments depends on whether the derivatives qualify as hedging relationships and the types of relationships designated are based on the exposures hedged. At March 31, 2017 the Company had a derivative liability amounting to \$183,048.

h) Convertible Instruments

The Company evaluates and accounts for conversion options embedded in its convertible instruments in accordance with professional standards for "Accounting for Derivative Instruments and Hedging Activities." Professional standards generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. Professional standards also provide an exception to this rule when the host instrument is deemed to be conventional as defined under professional standards as "The Meaning of Conventional Convertible Debt Instrument." The Company accounts for convertible instruments (when it has determined that the embedded conversion options should not be bifurcated from their host instruments) in accordance with professional standards when "Accounting for Convertible Securities with Beneficial Conversion Features," as those professional standards pertain to "Certain Convertible Instruments." Accordingly, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying Common Stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption. The Company also records when necessary deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying Common Stock at the commitment date of the note transaction and the effective conversion price embedded in the note.

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3. Disposal of Business

On February 14, 2017, in terms of the details outlined in note 1 above, the Company disposed of the business and certain assets of its Canadian Rehab Clinic for gross proceeds of CDN\$10,000,000., a total of CDN\$1,500,000 of the gross proceeds is being held in escrow for up to two years, in addition there is an earnout payment of up to CDN\$3,000,000 to be received in 2019, if certain clinic performance metrics are met, see note 8 below.

The proceeds realized from the sale of the Canadian Rehab Clinic were used to settle outstanding tax liabilities, refer note 11 below, and to acquire the business of Seastone of Delray, refer note 5 below.

The proceeds realized on disposal have been allocated as follows:

	<u>Amount</u>
Proceeds on disposal	\$ 7,644,000
Assets sold:	
Accounts receivable	113,896
Plant and equipment	109,075
	<u>222,971</u>
Liabilities assumed by purchaser	
Deferred revenue	(73,799)
	<u>149,172</u>
Net assets and liabilities sold	149,172
Net profit realized on disposal	\$ 7,494,828

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4. Acquisition of subsidiary

On February 14, 2017, the Company acquired 100% of the equity of CCH, from Leon Developments, a company wholly owned by our CEO. The total consideration paid by the Company was CDN\$3,517,062, including the assumption of certain liabilities of CCH, which was funded by the assignment to Leon Developments of certain indebtedness owing to the Company in the amount of CDN\$659,918 (US\$504,442) on the disposal of a subsidiary, 1816191 Ontario, which principal amount had previously been fully provided for during 2015; and the issuance of 60,000,000 shares of the Company's common stock at US\$0.0364 per share for proceeds of \$2,184,000.

The allocation of the purchase price is as follows:

	Amount
Purchase price paid:	
Common shares issued to Seller	\$ 2,184,000
Receivable assumed by the Seller	504,442
	2,688,442
Allocated as follows:	
Assets acquired:	
Property	6,497,400
Receivable from Ethema Health Corporation	299,743
	6,797,143
Liabilities assumed:	
Accounts payable and other accruals	158,093
Related party payable to Leon Developments	2,057,392
Mortgage liability owing to Ethema Health Corporation	267,540
Mortgage liability	3,145,549
	5,628,575
Net assets acquired	1,168,568
Excess purchase consideration allocated to shareholders compensation	\$ 1,519,874

5. Acquisition of the business of Seastone of Delray

The Company, utilized a portion of the proceeds realized on the sale of the Canadian Rehab Clinic to acquire certain assets of Seastone of Delray.

The Company obtained its own license to run a rehabilitation Clinic in Florida in December 2016 and began operations, through its wholly owned subsidiary, Seastone of Delray, LLC, effective January 2017.

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5. Acquisition of the business of Seastone of Delray (continued)

The assets acquired were as follows:

	<u>Amount</u>
Purchase price paid:	
Cash paid to seller	\$ 2,960,000
Deposits previously paid to seller	110,000
Mortgage liability funds	3,000,000
	<u>6,070,000</u>
Assets acquired:	
Property	4,410,000
Furniture and fixtures	80,000
Intangibles - to be classified	1,438,525
Receivables	141,475
	<u>\$ 6,070,000</u>

6. Going Concern

The Company's unaudited condensed consolidated financial statements have been prepared in accordance with US GAAP applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations in the normal course of business. As of March 31, 2017, the Company has a working capital deficiency of \$6,154,467 and accumulated deficit of \$15,520,315. Management believes that current available resources will not be sufficient to fund the Company's planned expenditures over the next 12 months. Accordingly, the Company will be dependent upon the raising of additional capital through placement of common shares, and/or debt financing in order to implement its business plan, and, or generating sufficient revenue in excess of costs. If the Company raises additional capital through the issuance of equity securities or securities convertible into equity, stockholders will experience dilution, and such securities may have rights, preferences or privileges senior to those of the holders of common stock or convertible senior notes. If the Company raises additional funds by issuing debt, the Company may be subject to limitations on its operations, through debt covenants or other restrictions. If the Company obtains additional funds through arrangements with collaborators or strategic partners, the Company may be required to relinquish its rights to certain geographical areas, or techniques that it might otherwise seek to retain. There is no assurance that the Company will be successful with future financing ventures, and the inability to secure such financing may have a material adverse effect on the Company's financial condition. These unaudited condensed consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The ability of the Company to continue as a going concern is dependent on the Company generating cash from the sale of its common stock or obtaining debt financing and attaining future profitable operations. Management's plans include selling its equity securities and obtaining debt financing to fund its capital requirement and ongoing operations; however, there can be no assurance the Company will be successful in these efforts.

7. Discontinued Operations

On February 14, 2017, the Company completed a series of transactions, including an APA whereby the Company sold certain of the Canadian Rehab Clinic assets. The assets disposed of business represented substantially all of the operating assets of the Canadian Rehab Clinic and has been disclosed as a discontinued operation for comparative purposes as of December 31, 2016 and for the three month period ended March 31, 2017 and 2016. Refer note 3 above.

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7. Discontinued Operations

The assets and liabilities of discontinued operations as of December 31, 2016, respectively is as follows:

	December 31, 2016
Current assets	
Accounts receivable, net	\$ 123,358
Prepaid expenses and other current assets	11,253
Total current assets	134,611
Non-current assets	
Plant and equipment, net	129,127
Deposits	—
Total assets	263,738
Current liabilities	
Deferred revenues	80,519
Total liabilities	80,519
Discontinued operation	\$ 183,219

The statement of operations for the discontinued operations is as follows:

	Three months ended March 31, 2017	Three months ended March 31, 2016
Revenues	\$ 232,152	\$ 822,837
Operating expenses		
Depreciation and amortization	4,196	15,333
General and administrative	86,080	181,519
Professional fees	648	48,765
Rent	44,518	6,144
Salaries and wages	233,636	388,517
Total operating expenses	369,078	640,278
Operating (loss) income	(136,926)	182,559
Other Income		
Interest expense	(788)	(38,196)
Foreign exchange movements	196,706	33,155
Total other income	195,918	(5,041)
Net income before taxation	58,992	177,518
Taxation	—	—
Net income from discontinued operations	\$ 58,992	\$ 177,518

The profit on sale of business of \$7,494,828 is disclosed in note 3 above.

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8. Due from sale of subsidiary

A net amount of CDN\$617,960 was due to the Company on the sale of the Endoscopy Clinic as of December 31, 2016. This amount was past due and had fully provided for as of December 31, 2016.

On February 14, 2017, the Company acquired CCH from Leon Developments and settled a portion of the purchase consideration by assigning the proceeds due to the Company on the sale of the Endoscopy Clinic to Leon Developments. The note together with accrued interest thereon of CDN\$41,959 amounted to CDN\$659,919 (US\$504,442). The provision raised against the note was reversed and the unrecorded interest thereon was recognized during the current quarter.

On February 14, 2017, the Company sold its Canadian Rehab Clinic for gross proceeds of CDN\$10,000,000, of which CDN\$1,500,000 (US\$1,126,950) has been retained in an escrow account for a period of up to two years in order to guarantee the warranties provided by the Company in terms of the APA. In addition, the Company may earn up to an additional CDN\$3,000,000 as a performance payment based on the attainment of certain clinic performance metrics. The Company estimates that the earnout will approximate \$663,000 and is accruing this additional amount over a period of twenty three and a half months. The accrual is recorded as other income, as of March 31, 2017, the company had accrued \$42,329 as additional income.

9. Property, plant and equipment

Plant and equipment consists of the following:

	<u>March 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Cost</u>	<u>Amortization and Impairment</u>	<u>Net book value</u>	<u>Net book value</u>
Property	\$ 10,805,005	\$ (53,888)	\$ 10,751,117	\$ —
Furniture and fixtures	80,000	(3,000)	77,000	—
	<u>\$10,885,005</u>	<u>(56,888)</u>	<u>\$10,828,117</u>	<u>\$ —</u>

Depreciation expense for the three months ended March 31, 2017 and 2016 was \$57,065 and \$0, respectively.

10. Intangibles

In terms of the acquisition of Seastone of Delray, the Company paid an amount of \$1,438,525 (Note 1 above) in excess of the fair market value of the assets acquired. This amount will be allocated to different classes of intangible assets when an independent valuation of the intangibles is performed.

11. Taxes Payable

The Company settled the tax liabilities owing to the Canadian Revenue Authorities out of the proceeds of the disposal of the Canadian Rehab Clinic on February 14, 2017. The Company paid CDN\$2,929,886 to settle outstanding payroll liabilities, CDN\$441,598 to settle outstanding GST/HST liabilities and a further CDN\$ 57,621 to settle other Canadian tax liabilities.

The Company has assets and operates businesses in Canada and is required to disclose these operations to the US taxation authorities, the requisite disclosure has not been made and management has reserved the maximum penalty due to the IRS in terms of non disclosure. This noncompliance with US disclosure requirements is currently being addressed. An amount of \$250,000 has been accrued for any potential exposure the Company may have.

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12. Short-term Convertible Notes

The short-term convertible notes consist of the following:

	<u>Interest rate</u>	<u>Maturity date</u>	<u>Principal Outstanding</u>	<u>Accrued interest</u>	<u>Unamortized Discount</u>	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Labrys Fund, LP	8.0%	August 2, 2017	\$ 110,000	\$ 1,374	\$ (75,359)	\$ 36,015	\$ -
Series L Convertible notes	0.0%	June 30, 2017 to July 17, 2017	539,969	-	(170,486)	369,483	250,258
			\$ 649,969	\$ 1,374	\$ (245,845)	\$ 405,498	\$ 250,258

Disclosed as follows:

Short-term portion	\$ 405,498	\$ 250,258
Long-term portion	-	-
	\$ 405,498	\$ 250,258

Labrys Fund, LP

On February 2, 2017, The Company entered into a Securities Purchase Agreement with LABRYS FUND LP, in terms of the agreement the Company borrowed \$110,000 in terms of an unsecured convertible promissory note with a maturity date of August 2, 2017. The note bears interest at a rate of 8% per annum. The note is only convertible upon a repayment default, at the lower of 60% of the lowest traded price over the preceding 30 day trading period prior to the issuance of this note or 60% of the lowest traded price 30 days prior to the conversion date. The Company issued 1,200,000 common shares to the note holder as a commitment fee which returnable shares will be returned to the company if fully repaid prior to August 2, 2017.

Series L convertible notes

The Company entered into Series L Convertible Securities Purchase Agreements with 8 individuals on December 30, 2016. In terms of these agreements, the Company borrowed an aggregate principal amount of \$468,969 in terms of a senior ranking convertible promissory note with a maturity date six months from the issue date and bearing interest at 0% per annum. The notes are convertible at the option of the holder into shares of common stock of the Company at a conversion price of \$0.03 per share, subject to certain recapitalization adjustments. On December 30, 2016 it was determined that the beneficial conversion feature related to the discounted note and warrant issuances amounting to \$218,711 would be amortized over the life of the loans. The amortization charge of the debt discount for the three months ended March 31, 2017 was \$109,355.

During January 2017, the Company borrowed a further aggregate principal amount of \$71,000 in terms of three senior ranking convertible promissory notes with a maturity date six months from the issue date and bearing interest at 0% per annum. The notes are convertible at the option of the holder into shares of common stock of the Company at a conversion price of \$0.03 per share, subject to certain recapitalization adjustments. In January 2017 it was determined that the beneficial conversion feature related to the discounted note and warrant issuances amounting to \$104,793 would be amortized over the life of the loans. The amortization charge of the debt discount for the three months ended March 31, 2017 was \$43,664.

In terms of the Series L Convertible notes issued above, during January 2017, the Company granted three year warrants to the Series L Convertible noteholders, exercisable for 2,366,667 shares of common stock at an exercise price of \$0.03, subject to certain recapitalization adjustments, per share, expiring between January 16 and January 17, 2020. (Refer note 16 (b) below).

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13. Derivative liability

The short-term convertible note issued to Labrys Fund LP, disclosed in note 12 above, have variable priced conversion rights with no fixed floor price and will reprice dependent on the share price performance over varying periods of time. This gives rise to a derivative financial liability, which was initially valued at inception of the convertible note at \$110,000, the maximum amount permissible, using a BlackScholes valuation model. The value of this derivative financial liability was reassessed at March 31, 2017 and \$73,048 was charged to the statement of operations and comprehensive loss. The value of the derivative liability will be re assessed at each financial reporting period, with any movement thereon recorded in the statement of operations in the period in which it is incurred. The amortization charge of debt discount for the three months ended March 31, 2017 was \$34,641.

The following assumptions were used in the Black-Scholes valuation model:

	Three months ended March 31, 2017
Calculated stock price	\$0.03 to \$0.06
Risk free interest rate	0.64% to 0.91%
Expected life of convertible notes	3 to 6 months
expected volatility of underlying stock	134.9% to 180.5%
Expected dividend rate	0%

The movement in derivative liability is as follows:

	Three months ended March 31, 2017
Derivative liability arising from convertible notes	\$ 110,000
Fair value adjustment to derivative liability	73,048
	\$ 183,048

14. Related Party Transactions

Greenstone Clinic Inc.

As of March 31, 2017 and December 31, 2016, the Company had a payable of \$0 and \$79,592, respectively. Greenstone Clinic Inc., is controlled by one of the Company's directors. The balance payable is noninterest bearing, not secured and has no specific repayment terms.

1816191 Ontario

As of March 31, 2017 and December 31, 2016, the Company had a payable of \$13,574 and \$70,763, respectively, to 1816191 Ontario, the Endoscopy Clinic, which was sold at the end of the prior year. The receivable and payable is noninterest bearing, and has no specific repayment terms.

Shawn E. Leon

As of March 31, 2017 and December 31, 2016 the Company had a receivable of \$24,480 and a payable of \$8,492, respectively to Shawn E. Leon, a director and CEO of the Company. The balances receivable and payable are noninterest bearing and have no fixed repayment terms.

Mr. Leon was paid management fees of \$100,000 during the three months ended March 31, 2017. In addition to this the Company recorded a once-off compensation expense in other expenses, relating to the excess of the fair value of the assets acquired in Cranberry Cove Holdings, Ltd. Mr. Leon is the owner of Leon Developments, the counterparty in the acquisition of the Cranberry Cove subsidiary referred to in note 1 and 4 above.

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14. Related Party Transactions (continued)

Leon Developments, Ltd.

The Company acquired CCH from Leon Developments, Ltd., on February 14, 2017, refer note 1 and 4 above. CCH owns the facility utilized by the Canadian Rehab Clinic which was sold to a third party on February 14, 2017. CCH owed CDN\$2,692,512 to Leon Developments, this amount has remained unchanged since acquisition. The amount owing is valued at \$2,022,173 as of March 31, 2017.

Cranberry Cove Holdings Ltd.

The Company acquired CCH on February 14, 2017. CCH owns the real estate previously utilized by the Canadian Rehab Clinic and now utilized by the purchaser of the business. As of December 31, 2016, the Company had a receivable of \$84,867 from CCH.

Prior to the acquisition of CCH, the Company paid rental expense to CCH of CDN\$58,925 and CDN\$102,045 for the three months ended March 31, 2017 and 2016, respectively.

15. Loans payable

On February 14, 2017, the Company acquired 100% of the equity of CCH, from Leon Developments. The subsidiary has certain mortgage indebtedness amounting to CDN\$4,115,057 (US\$3,145,549) at the date of acquisition, which was assumed by the Company.

On February 14, 2017, the Company acquired certain assets of Seastone of Delray, including fixed property. A portion of the purchase consideration was funded by a purchase money mortgage secured over the properties acquired, amounting to \$3,000,000.

The loans payable is as follows:

	<u>Interest rate</u>	<u>Maturity date</u>	<u>Principal Outstanding</u>	<u>Accrued interest</u>	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Cranberry Cove Holdings						
First Mortgage	8.0%	August 14, 2017	\$ 2,753,611	\$ 13,911	\$ 2,767,522	\$ -
Second Mortgage	12.0%	November 4, 2017	262,960	-	262,960	-
Seastone of Delray						
Mortgage	5.0%	February 13, 2020	2,997,500	12,490	3,009,990	-
			<u>\$ 6,014,071</u>	<u>\$ 26,401</u>	<u>\$ 6,040,472</u>	<u>\$ -</u>
Disclosed as follows:						
Short-term portion					\$ 3,042,972	\$ -
Long-term portion					2,997,500	-
					<u>\$ 6,040,472</u>	<u>\$ -</u>

The future aggregate principal outstanding will be repaid as follows:

	<u>Amount</u>
2017	\$ 3,016,571
2018	—
2019	—
2020	2,997,500
Total	\$ 6,014,071

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15. Loans payable (continued)

Cranberry Cove Holdings

The first mortgage with an aggregate principal amount outstanding of CDN\$3,500,000, including late charges, interest and penalties of CDN\$165,057 for a gross aggregate amount outstanding of CDN\$3,665,057, over the Cranberry Cove Holdings properties is secured by the property located at 3571 Muskoka Road, #169, Bala, described as PT LT 15 CON F Medora PT1 35R5958, PT 2 & 3 35R11290, Muskoka Lakes. The mortgage bears interest at the rate of 8% per annum on the aggregate principal outstanding of \$3,500,000 and matures on August 14, 2017, with monthly interest payments of \$23,333.

During March 2017, the Company made a principal payment of CDN\$100,000 on the first mortgage.

The second mortgage with an aggregate principal amount outstanding of CDN\$350,000, over the Cranberry Cove Holdings properties is secured by the property located at 3571 Muskoka Road, #169, Bala, described as PT LT 15 CON F Medora PT1 35R5958, PT 2 & 3 35R11290, Muskoka Lakes. The mortgage bears interest at the rate of 12% per annum on the aggregate principal outstanding of \$350,000, and matures on November 4, 2018, with monthly interest payments of \$3,500.

Seastone of Delray

The Company entered into a Mortgage and Security Agreement with Seastone Delray Healthcare, LLC on February 13, 2017 for the aggregate principal sum of \$3,000,000, bearing interest at the rate of 5% per annum, maturing on February 13, 2020, with monthly interest payments of \$12,500. The proceeds of the mortgage of \$3,000,000 was used to fund the acquisition of the Seastone Delray properties, described as follows:

Parcel 1, Moore's Landing according to the Plat thereof, as recorded in Plat Book 42, page 72, Public Records of Palm Beach County, Florida

Unit numbers 1 to 10, inclusive of Seastone Condominium Apartments, a Condominium, according to The Declaration of Condominium recorded on O.R.T. Book 3313, Page 122 and all exhibits thereof, Public Records of Palm Beach County, Florida.

16. Stockholders' equity (deficit)

a) Common shares

On February 2, 2017, the Company issued 1,200,000 common shares to a convertible note holder in terms of a returnable commitment fee. The shares are returnable to the Company if the convertible note is repaid prior to maturity, failing which the commitment fee will be earned. These shares are not accounted for as issued until such time as the probability of the commitment fee is assessed as probable or certain, refer note 12 above.

On February 14, 2017, in terms of the acquisition of 100% of the capital stock of Cranberry Cove Holdings Ltd. ("CCH") from Leon Developments, the Company funded a portion of the acquisition by the issuance of 60,000,000 shares of the Company's common stock at a market value of US\$0.0364 per share, totaling \$2,184,000, refer note 1 and 4 above.

b) Warrants

In terms of the short-term Series L Convertible notes entered into with 3 parties, as disclosed in note 12 above, the Company awarded three year warrants exercisable over 2,366,666 shares of common stock, at an exercise price of \$0.03 per share.

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16. Stockholders' equity (deficit)

b) Warrants (continued)

The fair value of Warrants awarded during the three months ended March 31, 2017 were valued at \$94,620 using the Black Scholes pricing model utilizing the following weighted average assumptions:

	Three months ended March 31, 2017
Calculated stock price	\$ 0.04
Risk free interest rate	1.48%
Expected life of warrants (years)	3 years
expected volatility of underlying stock	398%
Expected dividend rate	0%

The movement in warrants outstanding is summarized below:

	No. of shares	Exercise price per share	Weighted average exercise price
Outstanding January 1, 2016	6,300,000	\$0.0033 to \$0.03	\$ 0.14
Granted	19,337,409	0.03	0.0300
Forfeited/cancelled	(6,000,000)	0.15	0.1500
Exercised	-	-	-
Outstanding January 1, 2017	19,637,409	\$0.0033 to \$0.03	0.0030
Granted	2,366,666	0.03	0.0300
Forfeited/cancelled	-	-	-
Exercised	-	-	-
Outstanding March 31, 2017	22,004,075	\$0.0033 to \$0.03	\$0.0300

The following table summarizes information about warrants outstanding at March 31, 2017:

	Warrants outstanding		Warrants exercisable		
	No. of shares	Weighted average remaining years	Weighted average exercise price	No. of shares	Weighted average exercise price
\$0.0033	300,000	*		300,000	
\$0.03	21,704,075	2.94		21,704,075	
	22,004,075	2.94	\$ 0.03	22,004,075	\$ 0.03

* In terms of an agreement entered into with an investor relations company, 300,000 warrants were to be issued as part of the Investor Relations Agreement. These warrants have not been issued as yet, therefore the warrant terms are uncertain.

All of the warrants outstanding as of March 31, 2017 are vested. The warrants outstanding as of March 31, 2017 have an intrinsic value of \$8,001.

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16. Stockholders' equity (deficit)

c) Stock options

Our board of directors adopted the GreeneStone Healthcare Corporation 2013 Stock Option Plan (the "Plan") to promote our long-term growth and profitability by (i) providing our key directors, officers and employees with incentives to improve stockholder value and contribute to our growth and financial success and (ii) enable us to attract, retain and reward the best available persons for positions of substantial responsibility. A total of 10,000,000 shares of our common stock have been reserved for issuance upon exercise of options granted pursuant to the Plan. The Plan allows us to grant options to our employees, officers and directors and those of our subsidiaries; provided that only our employees and those of our subsidiaries may receive incentive stock options under the Plan. We have granted a total of 480,000 options as of March 31, 2017 under the Plan.

No options were issued, exercised or cancelled for the period under review.

The following table summarizes information about options outstanding as of March 31, 2017.

<u>Exercise price</u>	<u>Options outstanding</u>			<u>Options exercisable</u>	
	<u>No. of shares</u>	<u>Weighted average remaining years</u>	<u>Weighted average exercise price</u>	<u>No. of shares</u>	<u>Weighted average exercise price</u>
\$0.12	480,000	2.59		480,000	
	480,000	2.59	\$ 0.12	480,000	\$ 0.12

As of March 31, 2017, there was no unrecognized compensation costs related to these options and the intrinsic value of the options is \$0.

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17. Segment Information

Due to the recent acquisition of the Cranberry Cove subsidiary on February 14, 2017, the Company has two reportable operating segments;

- i. Rental income from the property owned by Cranberry Cove subsidiary located at 3571 Muskoka Road, #169, Bala, on which the operations of the Canadian Rehab Clinic were located prior to disposal on February 14, 2017 and subsequently leased to the purchasers of the business of the Canadian Rehab Clinic, for a period of 5 years renewable for a further three five year periods and with an option to acquire the property at a fixed price.
- ii. Rehabilitation Services provided to customers, during the three months ended March 31, 2016, these services were provided to customers at our Canadian Rehab Clinic and for the three months ended March 31, 2017, these services are now provided through our Seastone of Delray business acquired on February 14, 2017. The Rehabilitation services for the three months ended March 31, 2016 are reported under discontinued operations and have not been reported as part of the Segment Information.

The segment operating results of the reportable segments are disclosed as follows:

	<u>Rental Operations</u>	<u>In-Patient services</u>	<u>Total</u>
Revenue	\$ 42,037	\$ 280,473	\$ 322,510
Operating expenditure	29,548	920,099	949,647
Operating income (loss)	12,489	(639,626)	(627,137)
Other income (expense)			
Other income	—	504,348	504,348
Other expense	(1,519,874)		(1,519,874)
Interest income	—	32,074	32,074
Interest expense	(36,653)	(26,364)	(63,017)
Amortization of debt discount	—	(187,659)	(187,659)
Loss on change in fair value of derivative liability	—	(73,048)	(73,048)
Foreign exchange movements	—	(157,908)	(157,908)
Net loss before taxation from continuing operations	(1,544,038)	(548,183)	(2,092,221)
Taxation	—	—	—
Net loss from continuing operations	\$ (1,544,038)	\$ (548,183)	\$ (2,092,221)

EIHEMA HEALTH CORPORATION

(formerly known as GreeneStone Healthcare Corporation)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The operating assets and liabilities of the reportable segments are as follows:

	<u>Rental Operations</u>	<u>In-Patient services</u>	<u>Total</u>
Purchase of fixed assets	—	8,878	8,878
Assets			
Current assets	7,769	403,341	411,110
Non-current assets	2,887,063	10,647,294	13,534,357
Liabilities			
Current liabilities	(5,175,717)	(1,389,860)	(6,565,577)
Non-current liabilities	—	(2,997,500)	(2,997,500)
Intercompany balances	(88,544)	88,544	—
Net (liability) asset position	<u>(2,369,429)</u>	<u>6,751,819</u>	<u>4,382,390</u>

18. Net income (loss) per common share

For the three months ended March 31, 2017 the computation of basic and diluted earnings per share is as follows:

	<u>Amount</u>	<u>Number of shares</u>	<u>Per share amount</u>
Basic earnings per share			
Net loss per share from continuing operations	\$ (2,092,221)	78,738,855	\$ (0.03)
Net income per share from discontinued operations	7,553,820	78,738,855	\$ 0.10
Basic income per share	<u>5,461,599</u>	<u>78,738,855</u>	<u>0.07</u>
Effect of dilutive securities			
Warrants	—	266,700	
Options	—	—	
Diluted earnings per share			
Net loss per share from continuing operations	(2,092,221)	79,005,555	(0.03)
Net income per share from discontinued operations	7,553,820	79,005,555	0.10
	<u>\$ 5,461,599</u>	<u>79,005,555</u>	<u>\$ 0.07</u>

For the three months ended March 31, 2016 the computation of basic and diluted earnings per share is as follows:

	<u>Amount</u>	<u>Number of shares</u>	<u>Per share amount</u>
Basic earnings per share			
Net loss per share from continuing operations	\$ (33,988)	47,738,855	\$ (0.00)
Net income per share from discontinued operations	177,518	47,738,855	\$ 0.00
Basic income per share	<u>143,530</u>	<u>47,738,855</u>	<u>0.00</u>
Effect of dilutive securities			
Warrants	—	266,700	
Options	—	—	
Diluted earnings per share			
Net loss per share from continuing operations	(33,988)	48,005,555	(0.00)
Net income per share from discontinued operations	177,518	48,005,555	0.00
	<u>\$ 143,530</u>	<u>48,005,555</u>	<u>\$ 0.00</u>

ETHEMA HEALTH CORPORATION
(formerly known as GreeneStone Healthcare Corporation)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. Commitments and contingencies

a. Contingency related to outstanding penalties

The Company has provided for potential US penalties of \$250,000 due to noncompliance with the filing of certain required returns. The actual liability may be higher due to interest and penalties assessed by these taxing authorities.

b. Other

From time to time, the Company and its subsidiaries enter into legal disputes in the ordinary course of business. The Company believes there are no material legal or administrative matters pending that are likely to have, individually or in the aggregate, a material adverse effect on its business or results of operations.

20. Income taxes

The Company is not current in its tax filings as of March 31, 2017.

21. Subsequent events

On April 20, 2017, the Company received an advance of CDN\$400,000 from a related party. The advance is short term in nature, is non-interest bearing and has no fixed terms of repayment. The funds are designated for general working capital purposes.

Other than disclosed above, the Company has evaluated subsequent events through the date of the unaudited condensed consolidated financial statements were available to be issued and has concluded that no such events or transactions took place that would require disclosure herein.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking Statements

This quarterly report on Form 10Q and other reports filed by Etheta Health Corporation (“we,” “us,” “our,” or the “Company”) from time to time with the SEC contain or may contain forward-looking statements and information that are based upon beliefs of, and information currently available to, the Company’s management as well as estimates and assumptions made by Company’s management. Readers are cautioned not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date hereof. When used in the filings, the words “anticipate,” “believe,” “estimate,” “expect,” “future,” “intend,” “plan,” or the negative of these terms and similar expressions as they relate to the Company or the Company’s management identify forward-looking statements. Such statements reflect the current view of the Company with respect to future events and are subject to risks, uncertainties, assumptions, and other factors. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended, or planned.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance, or achievements. Except as required by applicable law, including the securities laws of the United States, the Company does not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). These accounting principles require us to make certain estimates, judgments, and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments, and assumptions are made. These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our financial statements would be affected to the extent there are material differences between these estimates. This discussion and analysis should be read in conjunction with the Company’s financial statements and accompanying notes to the financial statements for the year ended December 31, 2016.

Plan of Operation

During the next twelve months, the Company plans to continue and expand its operations as a provider of addiction and aftercare treatment services through marketing efforts undertaken to expand its patient base in Florida. The Company plans to focus on the growth of its addiction and aftercare treatment units by seeking out potential acquisitions.

Results of Operations

For the three months ended March 31, 2017 and the three months ended March 31, 2016.

Revenue

Revenues amounted to \$322,510 and \$0 for the three months ended March 31, 2017 and 2016, respectively, an increase of \$322,510. The Company disposed of its Canadian Rehab Clinic on February 14, 2017 and simultaneously acquired the operations of Seastone of Delray. Revenue includes rental income of \$42,037 earned by our recently acquired Cranberry Cove subsidiary. The revenues earned for patient treatments from the Canadian Rehab Clinic have been reclassified to discontinued operations. There is no meaningful comparative data to compare our revenues.

Operating Expenses

Operating expenses amounted to \$949,647 and \$34,728 for the three months ended March 31, 2017 and 2016, respectively, an increase of \$914,919. The operations of the Canadian Rehab Clinic have been reclassified to discontinued operations as the business unit was sold effective February 14, 2017.

The operating expenses incurred during the prior three month period are minimal and consist of general corporate overhead expenses. The operating expenses in the current three month period include the following:

- General and administrative expenses of \$200,798, primarily operating costs incurred by our recently acquired Seastone of Delray business and depreciation related to the purchase of the Cranberry Cove Holding subsidiary, which consists primarily of Real Estate and the Real Estate acquired with the Seastone of Delray operation.
- Professional fees of \$539,604 includes \$206,803 of legal fees and other professional fees of \$332,802, primarily incurred during the restructuring process, that resulted in the disposal of our Canadian Rehab Clinic and the acquisition of Seastone of Delray during February 2017.
- Salary expenses of \$209,245, primarily due to salaries paid to employees at our recently acquired Seastone of Delray operations.

Operating loss

Operating loss amounted to \$627,137 and \$34,728 for the three months ended March 31, 2017 and 2016, respectively, an increase of \$592,409, primarily due to the operations incurred on our recently acquired Seastone of Delray business. Included in the operating loss are professional fees of \$539,604 which we do not expect to be recurring.

Other income

Other income of \$504,348 in the current period consists of i) the reversal of a provision raised against a receivable on the disposal of our Endoscopy Clinic in prior years amounting to \$472,368, the receivable was assigned to Leon Developments as part of the purchase consideration paid on the acquisition of the Cranberry Cove subsidiary and ii) an accrual of \$31,980 relating to expected proceeds on the earnout provision on the disposal of the Canadian Rehab Clinic.

Other expense

Other expense of \$1,519,874 consists of the excess of the purchase price paid over the fair market value of the assets of Cranberry Cove Holdings Ltd. This expenditure is classified as once-off compensation expense to our CEO who owns 100% of Leon Developments, the counterparty to the purchase of the Cranberry Cove Subsidiary.

Interest income

Interest income of \$32,074 consists primarily of interest earned on the receivable from the sale of our Endoscopy Clinic in prior years. The interest due on this receivable was reversed in prior periods due to uncertainty as to the collectability of this amount. The Receivable was assigned to Leon Developments as part of the purchase consideration for Cranberry Cove Holdings Ltd.

Interest expense

Interest expense of \$63,017 consists primarily of interest due on the mortgage loans assumed by the Company when it acquired Cranberry Cove Holdings, Ltd and on the purchase money mortgage loan entered into to acquire the properties associated with Seastone of Delray.

Debt Discount

The debt discount of \$187,659 represents the amortization of the value of the warrants issued in terms of the convertible loan agreements entered into during December 2016 and January 2017 and the amortization of the fair value of the beneficial conversion feature of the convertible note issued to a note holder during February 2017, the fair value of the warrants and the beneficial conversion feature are amortized over a six month period, the term of the underlying convertible securities.

Derivative liability movement

The derivative liability movement of \$73,048 represents the mark to market of the derivative liability arising on the beneficial conversion feature of the variable priced note issued to a note holder in February 2017.

Foreign exchange movements

Foreign exchange movements of \$(157,908) and \$733 for the three months ended March 31, 2017 and 2016, respectively, represents the realized exchange losses and gains, respectively, on monetary assets and liabilities settled during each period as well as mark to market adjustments on monetary assets and liabilities reflected on the balance sheet and denominated in Canadian Dollars.

Net income from discontinued operations

The net income from discontinued operations of \$7,553,820 and \$177,518 consists of the following:

- Revenues of \$232,152 and \$822,837 for the periods ended March 31, 2017 and 2016, respectively. The revenues for the 2017 period represent revenues for a one-and-a-half-month period prior to the disposal of the operations on February 14, 2017. Revenues were lower than anticipated as management was focused on closing the transaction mentioned in note 1 to the unaudited condensed consolidated financial statements.
- Operating expenses of \$369,078 and \$640,278 for the periods ended March 31, 2017 and 2016, respectively. These operating expenses were in line with expectations.
- Profit on sale of the business of the Canadian Rehab Clinic of \$7,494,828 represents the excess of the proceeds received over the assets disposed of as reflected in note 1 and 3 to the unaudited condensed consolidated financial statements.
- Foreign exchange movements of \$196,706 and \$33,155 for the periods ended March 31, 2017 and 2016, which represents the realized exchange losses and gains, respectively, on monetary assets and liabilities settled during each period as well as mark to market adjustments on monetary assets and liabilities reflected on the balance sheet and denominated in Canadian Dollars.

Net Income

Net Income amounted to \$5,461,599 and \$143,530 for the three months ended March 31, 2017 and 2016, respectively, an increase of \$5,318,069, primarily due to the profit realized on the disposal of the Canadian Rehab Clinic, offset by the other expense of \$1,519,874 and the increased expenditure incurred on professional fees in concluding the transaction as contemplated in note 1 to the unaudited condensed consolidated financial statements.

Liquidity and Capital Resources

The following table summarizes working capital as of March 31, 2017 and December 31, 2016.

	March 31, 2017	December 31, 2016	Increase (decrease)
Current Assets	\$ 411,110	\$ 275,575	\$ 135,535
Current Liabilities	(6,565,577)	(3,637,111)	(2,928,466)
Working capital Deficit	\$ (6,154,467)	\$ (3,361,536)	\$ (2,792,931)

The Company realized proceeds of CDN\$8,500,000 (US\$6,479,400) from the disposal of its Canadian Rehab Clinic in February 2017. These proceeds were used to settle outstanding tax liabilities of CDN\$3,429,105 (US\$2,621,208) and to purchase the property and assets associated with the Seastone of Delray operations on February 14, 2017 amounting to US\$2,960,000, the remaining funds were used for working capital purposes and to fund the restructuring transactions.

The Company borrowed an additional \$181,000 in terms of convertible short-term notes during January and February 2017 to fund the working capital requirements of the business. We estimate that the Company will require an additional \$1,000,000 for working capital purposes and will have to renegotiate the mortgage loans payable, in the short term. The company will have to raise equity or secure debt. There is no assurance that the Company will be successful with future financing ventures, and the inability to secure such financing may have a material adverse effect on the Company's financial condition. In the opinion of management, the Company's liquidity risk is assessed as high and remains unchanged from the prior year.

PART II

Item 1. Legal Proceedings.

We are currently not involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

Item 1A. Risk Factors.

Not applicable because we are a smaller reporting company.

Item 2. Unregistered sales of equity securities and use of proceeds

In the securities transactions described below, shares were issued pursuant to the exemptions from the registration requirements of the Securities Act of 1933, as amended, afforded the Company under Section 4(a)(2) promulgated thereunder due to the fact that the issuance did not involve a public offering because of the insubstantial number of persons involved in each offering, the size of the offering, manner of the offering and number of shares offered. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(a) (2) of the Securities Act for these transactions.

The Company issued 1,200,000 returnable shares to a note holder as a commitment fee should the note not be repaid prior to maturity. These shares are not recorded as issued until such time as the commitment fee is probable or likely to occur.

On February 14, 2017, the Company issued 60,000,000 shares to Leon Developments as purchase consideration for the acquisition of its wholly owned subsidiary Cranberry Cove Holdings Ltd.

Item 3. Defaults upon senior securities

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

Not applicable.

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Item 6. Exhibits

Exhibit No.	Description
31.1	<u>Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 302 of 2002 *</u>
32.1	<u>Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the SarbanesOxley Act of 2002 *</u>
101.INS XBRL Instance *	
101.SCH XBRL Taxonomy Extension Schema *	
101.CAL XBRL Taxonomy Extension Calculation *	
101.DEF Taxonomy Extension Definition *	
101.LAB Taxonomy Extension Labels *	
101.PRE Taxonomy Extension Presentation *	

* filed herewith

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ETHEMA HEALTH CORPORATION

Date: May 22, 2017

By: /s/ Shawn E. Leon Name: Shawn E. Leon

Title: Chief Executive Officer and Chief Financial Officer (Principal Executive Officer and Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Position	Date
<u>/s/ Shawn E. Leon</u> Shawn Leon	Chief Executive Officer (Principal Executive Officer), Chief Financial Officer (Principal Financial Officer), President and Director	May 22, 2017
<u>/s/ John O'Bireck</u> John O'Bireck	Director	May 22, 2017
<u>/s/ Gerald T. Miller</u> Gerald T. Miller	Director	May 22, 2017

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