

Halo Labs Inc.
Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2019 and 2018
Unaudited, expressed in US dollars

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NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements, in accordance with standards established by CPA Canada for a review of interim financial statements by an entity's auditor.

Halo Labs Inc.
Condensed Interim Consolidated Statements of Financial Position

Unaudited, expressed in US dollars

June 30, 2019 December 31, 2018

Assets			
Current			
Cash		5,337,727	722,649
Restricted cash		2,210,594	-
Accounts receivable	Note 7	6,887,266	627,815
Inventory	Note 8, 9	8,146,882	8,077,764
Notes receivable	Note 10	535,625	704,338
Marketable securities		68,670	99,496
Pre-paid expenses and other		1,262,055	619,192
Total current assets		24,448,818	10,851,254
Long-term			
Property, plant and equipment	Note 11	6,808,754	3,768,653
Intangibles	Note 12	7,080,554	4,772,081
Total long-term assets		13,889,309	8,540,734
Total assets		38,338,127	19,391,988
Liabilities			
Current			
Accounts payable and accrued liabilities		4,609,273	3,943,720
Other loans	Note 16	1,765,995	505,137
Income tax payable	Note 19	1,098,447	34,447
Sales & cultivation tax payable	Note 19	210,307	152,561
Lease liabilities	Note 3.3, 5	2,500,098	-
Total current liabilities		10,184,120	4,635,865
Long Term Liabilities			
Debenture Liability	Note 14	6,834,343	-
Total Long Term Liabilities		6,834,343	-
Total Liabilities		17,018,462	4,635,865
Shareholders' equity (deficiency)			
Share capital	Note 15	45,512,452	31,696,972
Warrant and option reserve	Note 15	5,463,219	5,246,763
Accumulated other comprehensive income		(190,065)	72,419
Deficit		(29,465,941)	(22,260,031)
Total shareholders' equity (deficiency)		21,319,664	14,756,123
Total shareholders' equity (deficiency) and liabilities		38,338,127	19,391,988

Going concern Note 2

Commitments and contingencies Note 14, 16, 20

Subsequent events Note 21

These notes are an integral part of the consolidated financial statements

Approved on behalf of the Board of Directors:

Kiran Sidhu
 CEO and Director

Philip van den Berg
 CFO and Director

Halo Labs Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

Unaudited, expressed in US dollars

	<i>For the 3 months ending:</i>		<i>For the 6 months ending:</i>	
	<i>June 30, 2019</i>	<i>June 30, 2018</i>	<i>June 30, 2019</i>	<i>June 30, 2018</i>
Revenue	9,552,012	2,093,468	18,270,515	4,262,444
Cost of finished cannabis inventory sold	8,005,913	1,938,393	14,279,843	4,121,962
Gross profit (loss), excluding fair value items	1,546,099	155,075	3,990,671	140,482
Unrealized fair value gain (loss) on growth of biological assets	(24,884)	-	(292,642)	-
Gross profit (loss)	1,521,215	155,075	3,698,029	140,482
Operating expenses				
General and administration	1,044,550	718,810	1,795,965	1,101,721
Salaries	1,285,771	224,898	2,180,984	385,770
Professional fees	523,429	604,808	1,054,408	918,818
Sales and marketing	657,023	288,247	1,186,923	548,713
Investor relations	747,463	50,000	1,225,710	118,235
Share based compensation	689,547	18,602	1,318,672	287,948
Total operating expenses	4,947,784	1,905,365	8,762,663	3,361,205
Loss before undernoted items	(3,426,569)	(1,750,290)	(5,064,634)	(3,220,723)
Accretion expense	227,197	-	227,197	191,865
Change in fair value of embedded derivative	-	-	-	(134,463)
Loss on the sale of property	10,015	-	60,318	-
Depreciation	41,551	-	540,401	-
Foreign exchange (gain)/loss	(348,530)	-	(431,021)	-
Interest expense	349,440	279,425	505,043	489,422
Loss before income taxes	(3,706,243)	(2,029,715)	(5,966,572)	(3,767,547)
Income tax expense / (recovery)	410,134	50,000	1,129,098	131,341
Net loss	(4,116,377)	(2,079,715)	(7,095,670)	(3,898,888)
Other comprehensive income				
Unrealized income on foreign currency translation	(204,176)	-	(262,484)	-
Comprehensive loss	(3,912,201)	(2,079,715)	(7,358,154)	(3,898,888)
Net loss per share, basic and diluted:	\$ (0.02)	\$ (0.08)	\$ (0.04)	\$ (0.14)
Weighted average number of outstanding common shares, basic and diluted:	182,418,186	27,410,126	170,150,795	27,439,452

These notes are an integral part of the consolidated financial statements

Halo Labs Inc.
Condensed Interim Consolidated Statements of Change in Shareholders' Equity (Deficiency)

Unaudited, expressed in US Dollars

		Common shares	Common shares \$	Options \$	Warrants \$	Debenture conversion option \$	Accumulated OCI \$	Deficit \$	Total \$
Shareholders' equity (deficiency) December 31, 2017		27,468,955	5,443,337	806,926	2,917,910	150,193	-	(8,692,427)	625,940
Common shares repurchased and cancelled	Note 15	(116,672)	18,832	-	-	-	-	-	18,832
Share-based compensation	Note 15	-	-	112,933	151,457	-	-	-	264,389
Share-based payments issued for services	Note 15	-	-	-	18,410	-	-	-	18,410
Forfeitures of options and warrants	Note 15	-	-	(504,252)	-	-	-	504,252	-
Conversion options on convertible debt	Note 14	-	-	-	-	48,835	-	-	48,835
Net loss and other comprehensive loss		-	-	-	-	-	-	(3,887,460)	(3,887,460)
Shareholders equity (deficiency) June 30, 2018		27,352,283	5,504,668	415,606	3,087,777	199,028	-	(12,075,635)	(2,868,555)
		Common shares	Common shares \$	Options \$	Warrants \$	Debenture conversion option \$	Accumulated OCI \$	Deficit \$	Total \$
Shareholders' equity (deficiency) December 31, 2018		157,500,202	31,696,972	1,477,952	3,707,431	-	72,419	(22,260,031)	14,694,743
Adjustment of retained earnings on implementation of IFRS 16	Note 3.3, 5	-	-	-	-	-	-	(121,554)	(121,554)
Share issuance in private placements	Note 15	558,246	295,787	-	-	-	-	-	295,786
Shares issued to acquire licenses	Note 15	7,324,816	2,459,826	-	-	-	-	-	2,459,826
Shares issued to retire debt	Note 14	2,497,195	748,250	-	-	-	-	-	748,250
Equity reserve for debenture	Note 14	-	2,238,204	-	-	-	-	-	2,238,204
Change in equity reserve	Note 14	-	(863,422)	-	-	-	-	-	(863,422)
Shares issued on conversion of debenture	Note 14	12,435,310	6,043,477	-	-	-	-	-	6,043,477
Share issue costs	Note 15	-	(333,610)	-	-	-	-	-	(333,610)
Share-based compensation for services	Note 15	1,071,400	500,657	-	51,960	-	-	-	552,617
Share-based compensation for staff	Note 15	2,060,326	849,262	683,409	-	-	-	(126)	1,532,545
Shares issued on exercise of warrants and options	Note 15	3,646,145	1,542,335	(63,947)	(338,538)	-	-	-	1,139,849
Shares issued on conversion of broker warrants	Note 15	969,886	334,715	-	(43,607)	-	-	-	291,107
Forfeiture warrants and options	Note 15	-	-	(11,440)	-	-	-	11,440	-
Net loss and other comprehensive loss		-	-	-	-	-	(262,484)	(7,095,670)	(7,358,153)
Shareholders equity (deficiency) June 30, 2019		188,063,526	45,512,452	2,085,973	3,377,246	-	(190,065)	(29,465,940)	21,319,664

These notes are an integral part of the consolidated financial statements

Halo Labs Inc.
Condensed Interim Consolidated Statements of Cash Flow

Unaudited, expressed in US dollars

		<i>For the 3 months ending:</i>		<i>For the 6 months ending:</i>	
		<i>June 30, 2019</i>	<i>June 30, 2018</i>	<i>June 30, 2019</i>	<i>June 30, 2018</i>
Cash provided by (used in)					
Operating activities:					
Net loss		(4,116,377)	(2,079,714)	(7,095,670)	(3,898,888)
Items not involving cash					
Depreciation	Note 11	352,342	83,076	540,401	186,902
Accrued interest		447,468	279,425	505,043	489,422
Accretion expense		227,197	-	227,197	191,865
Income tax		410,134	50,000	1,129,098	131,341
(Gain) loss in fair value of biological assets	Note 9	(24,884)	146,396	(292,642)	469,035
Foreign exchange (gain) loss		(348,530)	-	(431,021)	-
Change in the fair value of embedded derivative	Note 14	-	-		(134,463)
Share-based compensation	Note 15	689,547	18,602	1,318,672	287,948
		-			
		-			
Changes in working capital items					
Accounts receivable	Note 7	(3,944,122)	(19,056)	(6,259,451)	15,503
Notes receivable		38,491	79,837	168,713	79,837
Accounts payable and accrued liabilities		639,739	(457,896)	1,413,803	(199,289)
Income tax payable	Note 19	(197,303)	-	(7,352)	-
Other liabilities		(29,492)	-	(29,492)	-
Inventory	Note 8, 9	(127,845)	(534,583)	223,524	(837,281)
Pre-paid expenses and other		(691,701)	20,765	(642,863)	(71,325)
Cash used in operating activities		(7,174,187)	(2,413,147)	(9,232,040)	(3,289,393)
Investing activities					
Intangibles	Note 12	(59,874)	921,843	(94,874)	921,843
Purchase of property, plant and equipment	Note 11	(865,994)	(199,754)	(1,178,115)	-
Cash used in investing activities		(925,868)	722,089	(1,272,989)	921,843
Financing activities					
Issuance of convertible debentures and loans	Note 14	6,376,600	2,903,092	8,010,737	3,947,722
Issuance of common shares	Note 15	9,079,737	-	9,654,517	-
Share issuance costs	Note 15	(169,014)	-	(334,553)	-
Cash raised in finance activities		15,287,323	2,903,092	17,330,701	3,947,722
Change in cash in during the three months		7,187,268	1,212,034	6,825,672	1,303,781
Cash, beginning of the quarter		361,053	236,002	722,649	144,255
Cash end of June 30, 2019		7,548,321	1,448,036	7,548,321	1,448,036

Supplemental information: Notes 6, 15, 17

These notes are an integral part of the consolidated financial statements

1. Nature of operations and background information

Halo Labs Inc. (“Halo Labs” and the “Company”), formerly known as Apogee Opportunities Inc. (“Apogee”), was incorporated under the laws of the Province of British Columbia on May 25, 1987. The Company was continued under the laws of the Province of Ontario on January 21, 2005 and is listed on the NEO Exchange (“NEO”) under the symbol “HALO”. The Company operates under the assumed business name of Halo Labs. The Company’s US based business operations entail manufacturing cannabis oil and concentrates and distributing cannabis products for recreational use in the states of Oregon, Nevada and California. The Company’s registered corporate office is 65 Queen Street West, Suite 805, Toronto, Ontario M5H 2M5.

On August 10, 2018, ANM and Apogee entered into a definite agreement to complete a merger and plan of reorganization among Apogee Opportunities (USA), Inc. (“Apogee USA”), a wholly-owned subsidiary of Apogee in Delaware, and ANM, pursuant to which Apogee acquired all of the outstanding shares of capital stock of ANM by way of a merger between Apogee USA and ANM under Delaware General Corporate Law (“DGCL”) and the Oregon Business Corporation Act (“ORBCA”).

The merger and reorganization plan became effective on September 28, 2018, when Apogee completed a business combination (the “Business Combination”) with ANM and Apogee USA. The Business Combination resulted in a reverse takeover of the Company by ANM under applicable securities laws. Following the Business Combination, the Company carried on the business of ANM.

Management determined that this transaction constituted a reverse acquisition in accordance with the policies of NEO whereby ANM acquired Apogee USA and Apogee. For accounting purposes, ANM is treated as the accounting parent company (legal subsidiary), and Apogee is treated as the accounting subsidiary (legal parent) in these financial statements. As ANM was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these financial statements at their historical carrying value. Apogee’s results of operations and those of Apogee USA are included from the transaction date, September 28, 2018. The comparative figures are those of ANM prior to the reverse acquisition. The Company has adopted the fiscal year end of ANM, which is December 31.

These condensed interim consolidated financial statements present the financial position of the resulting issuer, Halo Labs at June 30, 2019 and June 30, 2018. Unless otherwise stated, all amounts in these financial statements have been presented in US dollars and indicated as “\$”.

2. Going concern

These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue its operations and will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The ability of the Company to continue as a going concern is dependent on generating profitable operations,

raising additional financing, and continuing to manufacture its products. Having been prepared giving effect to the going concern assumption, these financial statements do not reflect any adjustments to the carrying values of assets and liabilities and the reported amounts of expenses and balance sheet classifications that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

Historically, management has been successful in obtaining enough funding for operating and capital requirements. On March 29, 2019, the Company filed a short form prospectus in connection with a best effort offering of convertible debenture units of the company at a price of \$1,000 per initial unit for gross proceeds of up to \$20 million. Each convertible debenture unit will comprise one unsecured convertible debenture with an eight percent coupon of the company in the principal amount of \$1,000 with interest payable semi-annually on June 30 and December 31 of each year, commencing June 30, 2019, and maturing 36 months from the closing date, and 770 warrants, each warrant being exercisable for a period of 24 months following the closing date to purchase one common share of the company at an exercise price of C\$0.90 per warrant, subject to adjustment in certain events. Each convertible debenture will be convertible into common shares of the company at a price of C\$0.65 per debenture share at the option of the holder at any time prior to the earlier of either the last business day immediately preceding the maturity date or the business day immediately preceding the date specified for redemption of the convertible debentures upon a change of control, subject to acceleration in certain events. Beginning on the date that is four months and one day following the closing date, the company may force the conversion of the principal amount of the then outstanding convertible debentures at the conversion price on not less than 30 day notice should the daily volume-weighted average trading price of the company's outstanding common shares on the NEO Aequitas Exchange be equal to or greater than C\$1.35 per common share for the preceding 10 consecutive trading days.

The Company raised C\$21,163,000, and after fees the proceeds were C\$18,188,293 (\$13,618,485). Of total proceeds, \$2,210,594 is held in escrow at the transfer agent for interest payments on the debenture. The remainder of the funds were released on April 4, 2019. There is, however, no assurance that the Company will generate profits from operations or that additional future funding will be available to the Company, or that such funding will be both adequate to cover its obligations and available on terms which are acceptable to the management of the Company.

As at June 30, 2019 the Company had continued losses and an accumulated deficit.

In the United States, 33 states, the District of Columbia, and the U.S. territories of Guam and Puerto Rico allow the use of medical cannabis. The District of Columbia and eleven states - Alaska, California, Colorado, Illinois, Maine, Massachusetts, Michigan, Nevada, Oregon, Vermont and Washington legalized the sale and adult-use of recreational cannabis.

At the federal level, however, cannabis currently remains a Schedule I controlled substance under the Federal Controlled Substances Act of 1970 ("Federal CSA"). Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, even in those states in which

marijuana is legalized under state law, the manufacture, importation, possession, use or distribution of cannabis remains illegal under U.S. federal law. This has created a dichotomy between state and federal law, whereby many states have elected to regulate and remove state-level penalties regarding a substance which is still illegal at the federal level.

There remains uncertainty about the US federal government's position on cannabis with respect to cannabis-legal states. A change in its enforcement policies could impact the ability of the Company to continue as a going concern.

These items represent material uncertainties that cast significant doubt about the ability of the Company to continue as a going concern. See Note 21 for subsequent events.

3. Basis of preparation

3.1 Basis of presentation and statement of compliance

The accounting standard IAS 34 sets out the minimum content of an interim financial report and the principles for recognition and measurement in complete or condensed financial statements for an interim period. IAS 34 Interim Financial Reporting applies when an entity prepares an interim financial report, without mandating when an entity should prepare such a report. Permitting less information to be reported than in annual financial statements (on the basis of providing an update to those financial statements), the standard outlines the recognition, measurement and disclosure requirements for interim reports.

These condensed interim consolidated financial statements have been authorized for release by the Company's Board of Directors on August 9, 2019.

Applicable to the preparation of interim financial statements, including IAS 34, the condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements of Halo Labs Inc for the year ended December 31, 2018, filed on the system for electronic document analysis and retrieval ("SEDAR"), which have been prepared in accordance with IFRS as issued by the IASB.

The principal accounting policies adopted in the preparation of the consolidated financial statements are set forth below. The condensed interim consolidated financial statements are presented in US dollars. The CAD dollar serves as the functional currency of the parent. The Company's subsidiaries all have as functional currency the US dollar.

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The condensed interim consolidated financial statements are comprised of the financial results of the Company and its subsidiaries, which are the entities over which the Company has control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and can affect those returns through its power over the investee. Non-controlling interests in the equity of the Company's subsidiaries are shown separately in equity in the condensed interim consolidated statements of financial position.

The table below lists the Company's subsidiaries that are consolidated in these financial statements and the ownership interest held by non-controlling interests.

Subsidiaries of Halo Labs Inc.

	<i>June 30, 2019</i>	<i>December 31, 2018</i>
ANM, Inc.	100%	100%
HLO Ventures (NV), LLC	100%	100%
PSG Coastal Harvest, LLC	100%	100%
Coastal Harvest, LLC	100%	100%
Industrial Court L9, LLC	100%	100%
Industrial Court L13, LLC	100%	0%
HLO Peripherals LLC	100%	0%

3.2 Critical judgements and estimations uncertainties

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the condensed interim consolidated financial statements and related notes to the condensed interim consolidated financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Assets carrying values and impairment charge

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make decisions based on the best available information at each reporting period.

Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made. See Note 19.

Share-based payment transactions and warrants

The Company measures the cost of equity-settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield of the share option and forfeiture rate. Similar calculations are made in order to value warrants. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

To calculate the share-based compensation expense related to key employee performance milestones associated with the terms of an acquisition, the Company must estimate the number of shares that will be earned and when they will be issued based on estimated discounted probabilities.

Fair value of financial instruments

Certain of the Company's assets and liabilities are measured at fair value. In estimating fair value, the Company uses market-observable data to the extent it is available. In certain cases where Level 1 inputs are not available the Company expects to engage third party qualified valuers to perform the valuation.

Intangible assets

Purchased intangible assets are recognized as assets in accordance with IAS 38, Intangible Assets, where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably. Intangible assets acquired are initially recognized at cost of purchase and are subsequently carried at cost less accumulated amortization, if applicable, and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Impairment of non-financial assets

Non-financial assets include property, plant and equipment ("PP&E") and intangible assets. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate.

Biological assets and inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and oil conversion factors. In calculating final inventory values, management compares the inventory costs to estimated realizable value. Further information on estimates used in determining the fair value of biological assets is contained in Note 9.

Useful lives of property, plant and equipment and intangible assets

The Company estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of property, plant and equipment are based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease non-current assets.

Assessment of the transactions as asset acquisitions or business combinations

Management has had to apply judgment relating to the reverse takeover transaction between ANM and Apogee with respect to whether the acquisition was a business combination or an asset acquisition. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of each acquisition in order to reach a conclusion.

Determination of purchase price allocations and intangible assets

Estimates are made in determining the fair value of assets and liabilities, including the valuation of separately identifiable intangibles acquired as part of an acquisition. The estimates are based on management's best assessment of the related inputs used in the valuation models, such as future cash flows and discount rates. Future performance results that differ from management's estimates could result in changes to liabilities recorded, which are recorded as they arise through profit or loss.

Contingencies

Refer to Notes 2 and 20.

3.3 New standards adopted and changes in accounting policies

The Company has initially adopted IFRS 16 Leases from January 1, 2019 as disclosed below. A number of other new standards are effective from January 1, 2019 including IFRS 23 Uncertainty Over Income Tax Treatments, but they do not have a material effect on the Company's financial statements.

IFRS 16 Leases.

The Company has adopted IFRS 16 Leases using the retrospective approach.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is or contained a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease as explained in Note 5.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019.

As a lessee

As a lessee, the Company previously classified leases as operating or financing leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases.

The Company decided to apply the recognition exemptions for short-term leases of machinery, offices and IT equipment. For leases of other assets, which were classified as operating under IAS 17, the Company recognized right-of-use assets and lease liabilities.

Impact on transition

On transition to IFRS 16, the Company recognized additional right-of-use assets and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition is summarized below.

IFRS 16 impact on leases as at January 1, 2019

Assets:

Right-of-use assets presented in property, plant and equipment	\$ 2,582,517
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Liabilities:

Lease liabilities	2,702,891
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Difference added to retained earnings	\$ 120,373
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When measuring lease liabilities for leases that were previously classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied was 14.72%.

4. Summary of significant accounting policies

For a summary of significant accounting policies, refer to the annual consolidated financial statements of Halo Labs Inc. for the year ended December 31, 2018.

5. Leases

The Company has applied IFRS 16 using the retrospective approach. The impact of changes is disclosed in Note 3. IFRS 16 introduces a single on-balance sheet accounting model for lessees. As a result, the Company has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

Under IFRS 16 a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applies IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IFRS 17 and IFRIC 4 were not reassessed. All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets; and,
- Leases with a duration of twelve months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case The Company's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate. On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted in favor of The Company if it is reasonably certain to assess that option; and,
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of a termination option being exercised.

Right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and,
- The amount of any provision recognized where the Company is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortized over the remaining (revised) lease term. When the Company renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- If the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- In all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount; and,
- If the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognized in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

For contracts that both convey a right to the Company to use an identified asset and require services to be provided to the Company by the lessor, the Company has elected to account for the entire contract as a lease, i.e. it does not allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

6. Reverse acquisition

On August 10, 2018, ANM and Apogee entered into a definite agreement to complete a merger and plan of reorganization among Apogee Opportunities (USA), Inc. and ANM Inc. pursuant to which Apogee acquired all the outstanding shares of capital stock of ANM Inc. by way of a merger between Apogee USA and ANM under the DGCL and the ORBCA.

On September 28, 2018, the merger and plan of reorganization became effective through a three-way amalgamation, pursuant to which Apogee acquired all the outstanding shares of capital stock of ANM by way of a merger between Apogee USA and ANM. Apogee USA is a wholly owned subsidiary of Apogee incorporated in the State of Delaware. The resulting issuer changed its name from Apogee to Halo Labs Inc. and continued with the business of ANM. Apogee did not meet the definition of a business

under IFRS.

Purchase price allocation

Cash	\$	19,884
Marketable securities		55,206
Amounts receivable		166,734
Accounts payable and accrued liabilities		(380,914)
Net liabilities assumed		(139,090)
Purchase price paid:		
Fair value of 8,975,607 common shares at US\$0.31 per share		2,773,459
Fair value of 1,123,077 warrants at US\$0.004 per share		4,547
Total consideration		2,778,006
Excess of purchase price paid over net assets acquired, allocated to listing expenses		2,917,096

The fair value, of the acquisition of 8,975,607 shares of Apogee at a fair value per share of \$0.31 (C\$0.40) and 1,123,077 warrants with fair value \$0.004 was \$2,778,006. The purchase price allocation of the merger and plan of reorganization includes net liabilities assumed of \$139,090, resulting in a listing expense of \$2,917,096.

7. Accounts receivable

Accounts receivable

As at:	June 30, 2019	December 31, 2018
1 - 30 days	\$ 5,602,627	\$ 497,919
30 - 60 days	1,170,207	75,850
60 - 90 days	44,736	54,046
> 90 days	69,695	-
Total	\$ 6,887,266	\$ 627,815

Accounts receivable are measured at amortized cost net of allowance for uncollectible amounts. The Company determines its expected credit loss based on a number of factors, including length of time an account is past due, the customer's previous loss history, and the ability of the customer to pay its obligation to the Company.

The Company has entered into a financing arrangement with Nectar whereby Nectar will provide raw materials, at prevailing market rates, in lieu of cash to reduce the outstanding receivable. The risk associated with this financing arrangement relates to Nectar's ability to fulfill the raw materials purchase orders at the time of harvest and the Company's request. The Company expects to receive the accounts receivable balance during the fourth quarter of 2019. There are inherent risks associated with the agricultural business, as disclosed in the Company's 2018 Annual Information Form – *Risk Factors*. The Company continues to monitor Nectar's ability to continue operations and fulfill their obligations to provide raw materials to the Company. As at June 30, 2019, the Company's allowance for uncollectible accounts related to its financing arrangement with Nectar was \$0 (2018: \$0).

The Company writes off receivables when they become uncollectible.

Accounts receivable

As at:	June 30, 2019 December 31, 2018	
Accounts receivable		
Accounts receivable - trade	\$ 6,980,920	\$ 721,469
Bad debt provision	(93,654)	(93,654)
Total accounts receivable	\$ 6,887,266	\$ 627,815

Bad debt expense amounts are included in general and administration expenses. All the Company's trade and other receivables have been reviewed for indicators of impairment.

8. Inventory

Inventory by class

As at:	June 30, 2019 December 31, 2018	
Raw materials	\$ 2,319,767	\$ 2,122,432
Work in progress	524,253	4,398,221
Finished goods	5,302,862	1,557,111
Total	\$ 8,146,882	\$ 8,077,764

The Company maintains three classes of inventory: raw materials, work in process ("WIP") and finished goods. Raw materials consist of cannabis "trim" and various packaging and incidental items. WIP consists primarily of inventory in the process of being converted from trim to oil or live resin. Finished goods inventory includes cannabis oil in cartridges, bulk live resin, edibles, batteries for vaporizer pen cartridges, and packages of solidified cannabis oil ("shatter").

The Company allocates various production and overhead costs and expenses to inventory items. As such, the cost of inventory is recognized as an expense, and included in cost of goods sold for the six months ended June 30, 2019, in the amount of \$10,698,276 (December 31, 2018: \$4,574,036) and valued at cost. Direct product costs are valued on a weighted average basis and major production cost such as labor and testing are allocated to inventory.

The direct and indirect costs of inventory initially include the fair value of the biological asset at the time of harvest. They also include subsequent costs such as materials, labor and depreciation expense on equipment involved in packaging, labeling and inspection. All direct and indirect costs related to inventory are capitalized as they are incurred, and they are subsequently recorded within 'cost of finished cannabis inventory sold' in the consolidated statement of loss and comprehensive loss at the time cannabis is sold. Since all the biological assets are consumed in the production process, subsequent costs are negligible as trim is transferred to the processing facility of the Company.

9. Biological assets

Change in carrying value of biological assets

Cost of biological assets:	
Net increase in the fair value to sell due to biological assets transformation	\$ 957,985
Costs to sell due to biological transformation	(176,393)
Net increase in the fair value minus costs to sell due to biological assets transformation	781,592
Transferred to inventory upon harvest	<u>(781,592)</u>
Balance at December 31, 2018	\$ -
Biological assets processed:	
At December 31, 2018	(488,950)
At June 30, 2019	(781,592)
<u>Balance to be processed at June 30, 2019</u>	<u>\$ -</u>

While the Company's biological assets are within the scope of IAS 41 Agriculture, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 Inventories. They include the direct cost of seeds and growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Labor for individuals involved in the growing and quality control process is also included. Biological assets are measured at their fair value less costs to sell in the statement of financial position. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are all subsequently recorded within the line item 'cost of finished cannabis inventory sold' on the consolidated statement of loss and comprehensive loss in the

period that the related product is sold. Unrealized fair value gains/losses on growth of biological assets are recorded in a separate line in the consolidated statement of loss and comprehensive loss. The changes in the carrying value of biological assets, which consist of cannabis plants, are as follows:

During the 2018 harvest, the Company harvested 2,281 cannabis plants, which yielded 5,527 pounds (year ended December 31, 2017: 8,848 pounds). All material was transferred to the Company and used for processing. No flower from the 2018 harvest was sold to third parties.

The fair value of biological assets produced during the year ended December 31, 2018 was \$781,592 and at harvest this amount was moved to inventory. During the six months ended June 30, 2019, \$24,884 was included in the cost of goods sold and \$nil remains in inventory. Inventory is measured at lower of cost or net realizable value in the statement of financial position.

The following significant unobservable inputs, all of which are classified as Level 3 on the fair value hierarchy, were used by management as part of this model:

- Selling price: calculated as the weighted average historical selling price for all strains of cannabis sold by the Company, which is expected to approximate future selling prices.
- Stage of growth; represents the weighted average number of weeks out of the 14 weeks growing cycle that biological assets have reached as of the measurement date.
- Yield by plant: represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant.
- Wastage: represents the weighted average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested.
- Post-harvest costs: calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants. Post-harvest, consisting of the cost of direct and indirect materials and labor related to labelling and packaging.

The table below shows the yield achieved, the number of weeks it took from seed to harvest and the trim price applied to the biological assets model.

Significant assumptions utilized in cannabis plant model

	Realized
Yield for cannabis plants (average pounds per plant)	2.42
Number of growing weeks	14 weeks
Growing weeks completed as a percentage of total growing weeks at period end	100%
Trim price used for biological assets	\$ 112

10. Notes receivable

Notes receivable as at June 30, 2019 were \$535,625 (December 31, 2018: \$704,338). A note receivable is due from a founding shareholder of the Company in the amount of \$17,632 (December 31, 2018: \$17,632). In addition is the note receivable from a supplier to the Company in the amount of \$517,993 (December 31, 2018: \$686,706).

11. Property, plant and equipment

Property, plant and equipment

	Production equipment	Leasehold improvements	Office equipment	Leased assets	Total
Cost:					
Balance as at December 31, 2018	2,755,190	1,788,060	89,662	-	4,632,912
Additions	338,202	3,995	-	2,582,519	2,924,716
Reclassified	-	-	-	-	-
Dispositions	(34,988)	-	-	-	(34,988)
Balance as at March 31, 2019	3,058,404	1,792,055	89,662	2,582,519	7,522,640
Additions	636,911	191,018	7,990	-	835,918
Reclassified	-	-	-	-	-
Dispositions	-	-	-	-	-
Balance as at June 30, 2019	3,695,314	1,983,072	97,652	2,582,519	8,358,558
Accumulated depreciation:					
Balance as at December 31, 2018	(672,310)	(176,987)	(14,962)	-	(864,260)
Depreciation	(132,908)	(48,959)	(6,192)	(146,590)	(334,649)
Dispositions	4,913	-	-	-	4,913
Balance as at March 31, 2019	(800,305)	(225,946)	(21,154)	(146,590)	(1,193,996)
Depreciation	(153,853)	(49,459)	(5,906)	(146,590)	(355,808)
Dispositions	-	-	-	-	-
Balance as at June 30, 2019	(954,158)	(275,405)	(27,060)	(293,180)	(1,549,803)
Net book value:					
Net book value December 31, 2018	\$ 2,082,880	\$ 1,611,073	\$ 74,700	\$ -	\$ 3,768,652
Net book value March 31, 2019	2,258,099	1,566,109	68,508	2,435,929	6,328,644
Net book value June 30, 2019	2,104,246	1,516,650	62,602	2,289,339	5,972,837

Total depreciation expense for the six months ended June 30, 2019 was \$690,457 (six months ended June 30, 2018: \$186,902). Amounts totaling \$388,008 were recognized as costs of goods sold (six months ended June 30, 2018: \$186,902) and \$302,448 as operating expenses (six months ended June 30, 2018: \$ Nil).

12. Intangible assets

Intangibles	License	Brand names	Total
Cost:			
Balance as at December 31, 2018	4,995,539	8,434	5,003,973
Additions	2,495,821	-	2,495,821
Balance as at March 31, 2019	7,491,360	8,434	7,499,794
Additions	59,654	220	59,874
Balance as at June 30, 2019	7,551,014	8,654	7,559,668
Accumulated amortization:			
Balance as at December 31, 2018	(230,804)	(1,088)	(231,892)
Amortization	(350,574)	(1,687)	(352,261)
Balance as at March 31, 2019	(581,378)	(2,775)	(584,153)
Amortization	104,196	843	105,039
Balance as at June 30, 2019	(477,181)	(1,932)	(479,114)
Net book value:			
Net book value December 31, 2018	\$ 4,764,735	\$ 7,346	\$ 4,772,081
Net book value March 31, 2019	6,909,982	5,659	6,915,641
Net book value June 30, 2019	7,073,833	6,722	7,080,554

Total amortization expense for the six months ended June 30, 2019 of \$247,222 (six months ended June 30, 2018: \$ Nil) was recognized in costs of goods sold.

Medford, Oregon

The Company has four producer licenses for its farm, East Evans Creek. The Company also has a

wholesale distribution license and a producer license for its production facility in Medford. The licenses are renewed each year. The Company has not capitalized intangible assets related to these licenses.

Cathedral City, California

During the year ended December 31, 2017, the Company signed a membership interest purchase agreement for the purchase of a volatile extraction license for Cathedral City, California. The transaction was recorded as an asset acquisition. The purchase price of the license was \$2,000,000. The license is renewed each year. The Company made a down payment of \$100,000 and issued convertible promissory notes for the balance of \$1,900,000 (Note 14). The value of the consideration paid in addition to transaction costs of \$163,069 were attributed to the intangibles in the amount of \$2,129,219 and to prepaid expenses in the amount of \$33,850 for certain lease deposits acquired in the same transaction.

During the year ended December 31, 2018, the Company entered into an amended agreement to terminate certain intangibles acquired as part of this 2017 transaction and to reduce the promissory notes payable from \$1,900,000 to \$959,500. The Company repaid these promissory notes in October 2018.

Also, during the year ended December 31, 2018, the Company signed a membership interest contribution agreement which includes two pending licenses for manufacturing and distribution in Cathedral City, California in consideration for Pre-RTO notes totaling \$2,000,000 (Note 16). The Company incurred \$15,890 in transaction costs on this transaction. The resulting total of \$2,015,890 was capitalized to intangible assets.

On February 7, 2019, the Company entered into a membership interest contribution agreement to acquire a 100% interests of a California limited liability company which is party to a sublease (as subtenant) for a facility in Cathedral City, California in exchange for 7,324,816 Common Shares valued at \$0.34 (C\$0.45) on the date of issuance. The purchase of the membership interests was completed on March 5, 2019. As part of the consideration for the issuance of the Common Shares to the vendors, the vendors also caused the sub-landlord of the premises to eliminate the obligation of one of the Company's indirect subsidiaries to pay production rent equal to \$1.00 for each gram of CBD or THC crude, distillate or isolate produced at the premises.

Las Vegas, Nevada

During the year ended December 31, 2018, the Company entered into a definitive agreement for the purchase of: (i) a Nevada Marijuana Product Manufacturing License, (ii) a Nevada Medical Marijuana Cultivation Establishment certificate, (iii) a Nevada Marijuana Cultivation Facility license, (iv) a Nevada Medical Marijuana Production Establishment license; and (v) rights under a certain conditional approval for a Nevada Marijuana Distributor license (collectively, the "Nevada Marijuana Licenses"), together with certain property, plant and equipment used in the operations of the businesses operating under or in connection with the Nevada Marijuana Licenses. The agreement contemplates total payments required to be made of \$4,900,000. As the timing and ability to transfer the licenses is dependent on approval

from certain regulatory authorities, the Company has only capitalized payments made. The Company paid \$500,000 as a non-refundable deposit on signing the term sheet and issued \$1,281,250 in Pre-RTO Notes payable (Note 15). The total payments of \$1,791,430 were capitalized to intangible assets. The remaining payments required to complete the transaction are \$3,108,570.

13. Related party relationships, transactions and balances

Key employees include the Company's directors, senior officers and any employees with authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

Compensation key executives

6 months ending:	June 30, 2019	June 30, 2018
Salaries, commissions, bonuses, consulting fees	\$ 309,593	\$ 138,500
Share-based compensation	1,240,692	233,658
Total	\$ 1,550,285	\$ 372,158

In the six months ended June 30, 2019, remuneration to executives including share-based compensation was \$1,550,285 (six months ended June 30, 2018: \$372,158). Options and warrants were granted on May 12, 2017 and September 28, 2018 to staff, directors and consultants. Options and warrants granted to employees and directors vest over a period of two years every twelve months in equal amounts. Share-based compensation is recognized on a graded vesting basis and is expensed and included in operations.

Related parties

As at:	June 30, 2019	December 31, 2018
Due from shareholders and other related parties	\$ 93,079	\$ 42,306
Due to directors, officers and their close family	187,721	686,654
Accounts payable and accrued liabilities due to related parties	-	231,459

As at June 30, 2019, due from shareholders and related parties is \$93,079 (December 31, 2018: \$42,306) in relation to a note receivable from a founding shareholder (see note 9). As at June 30, 2019, due to shareholders and related parties was \$187,721 (December 31, 2018: \$918,113), related to advances to the Company by shareholders (See Note 15 for shareholder loans).

On January 15, 2019, the Company completed the first tranche of a promissory note financing, pursuant to which the Company issued promissory notes in the aggregate principal amount of \$800,000. Each such promissory note bears interest at a rate of 15% per annum and matures on December 31, 2019.

Certain promissory notes were issued to related parties.

On February 20, 2019, the Company completed the second tranche of a promissory note financing, pursuant to which the Company issued promissory notes in the aggregate principal amount of \$900,000. Each such promissory note bears interest at a rate of 15% per annum and matures on December 31, 2019. Certain promissory notes were issued to related parties.

On April 4, 2019, the promissory note financings were converted into the 2019 debenture. Of the total gross debenture proceeds of \$15,842,620 (C\$21,163,000), \$2,260,772 (C\$3,020,000) relates to the conversion of promissory financings by related parties.

14. Convertible debentures

14.1 Conversion of convertible debentures and promissory notes in 2018

During the year ended December 31, 2017, the Company issued convertible debentures in four tranches. The note purchase agreement was dated July 13, 2017. Interest at a rate of 12% on these debentures is computed monthly and, at the Company's discretion, may be accrued or paid monthly. In the event the Company consummates a qualifying equity financing, the outstanding principal and any accrued and unpaid interest under this issuance automatically converts into common shares at a price per share equal to 95% of the price per share paid by cash investors in the qualifying equity financing. The discount was amended to 60% of the price paid by cash investors on January 8, 2018. The conversion feature of the convertible debt is considered an embedded derivative liability because the conversion price varies based on the conversion date and closing sales price of the Company's common shares.

Continuity 2017 convertible debentures

Balance December 31, 2017	1,681,810
Accretion of loan discount	30,248
Accrued interest	142,385
Repayments	(56,608)
Convertible debentures converted	(1,797,835)
Balance December 31, 2018	\$ -

As at September 28, 2018, the convertible debentures automatically converted as all conditions of the proposed merger and plan of reorganization between ANM and Apogee were met. As at December 31, 2018, the embedded derivative liability was classified as a current liability on the statement of financial position at a fair value of \$ nil.

Continuity June 2017 promissory notes

Balance December 31, 2017	1,822,238
Accretion of loan discount	75,309
Accrued interest	9,422
Reduction in promissory note	(945,025)
Repaid	(961,944)
Balance December 31, 2018	\$ -

On June 20, 2017, the Company signed a membership interest purchase agreement among multiple parties (see Note 11). In connection with the agreement, the Company issued convertible promissory notes, the June 2017 promissory notes, with a face value of \$1,900,000. The notes matured on April 15, 2018, bore interest at 1% per annum and were convertible at \$0.86 per common share to March 31, 2018. The conversion feature was recognized in equity as it met the definition of an equity instrument. The liability component was recognized at its fair value, calculated as the present value of its contractually determined future cash flows discounted at a rate of 35%. On issuance, the estimated fair value of the promissory note was \$1,649,807. The residual amount of \$250,193 after deducting the fair value of the liability component from the fair value of the instrument as a whole was assigned to the equity component, which was recorded net of deferred tax of \$100,000. During the year ended December 31, 2018, the convertible promissory notes were reduced from \$1,900,000 to \$959,500 (Note 11). The remaining promissory notes were repaid prior to December 31, 2018.

Continuity 2018 convertible debenture

Convertible debenture - January 26, 2018	\$ 1,679,900
Value of the equity component at issue	(78,045)
Accretion of loan discount	38,337
Accrued interest	138,827
Balance June 30, 2018	1,779,019
Accretion of loan discount	22,755
Accrued interest	116,201
Convertible loan converted	(1,917,974)
Balance September 30, 2018	\$ -

The 2018 convertible debentures bear interest at the rate of 28% per annum. The debentures were convertible at a price per share equal to \$0.074 (C\$0.096), until either January 1, 2019 or in the event the Company completes a qualifying financing. During the year ended December 31, 2018, the debentures were converted into 26,120,191 common shares of the Company.

The conversion feature has been recognized in equity as it meets the definition of an equity

instrument. The liability component was recognized at its fair value, calculated as the present value of its contractually determined future cash flows discounted at a rate of 35%. The residual amount after deducting the fair value of the liability component from the fair value of the instrument as a whole was assigned to the conversion option of the equity component.

14.2 Convertible debenture 2019

On March 29, 2019, the Company filed a short form prospectus in connection with a best effort offering of convertible debenture units of the Company at a price of \$1,000 per initial unit for gross proceeds of up to \$20 million. Each convertible debenture unit will comprise one unsecured convertible debenture with an eight percent coupon of the Company in the principal amount of \$1,000 with interest payable semi-annually on June 30 and Dec. 31 of each year, commencing June 30, 2019, and maturing 36 months from the closing date, and 770 warrants, each warrant being exercisable for a period of 24 months following the closing date to purchase one common share of the Company at an exercise price of C\$0.90 per warrant, subject to adjustment in certain events. Each convertible debenture will be convertible into common shares of the Company at a price of C\$0.65 per debenture share at the option of the holder at any time prior to the earlier of either the last business day immediately preceding the maturity date or the business day immediately preceding the date specified for redemption of the convertible debentures upon a change of control, subject to acceleration in certain events. Beginning on the date that is four months and one day following the closing date, the company may force the conversion of the principal amount of the then outstanding convertible debentures at the conversion price on not less than 30 day notice should the daily volume-weighted average trading price of the company's outstanding common shares on the NEO Aequitas Exchange be equal to or greater than \$1.35 per common share for the preceding 10 consecutive trading days. On April 4, 2019, the Company issued 2,163 debentures for total gross proceeds of \$15,842,620 (C\$21,63,000). As at June 30, 2019, 8,083 debentures were converted, and 13,080 debentures were in issue.

Continuity 2019 convertible debenture

Convertible debenture - April 4, 2019	\$ 15,842,620
Brokers fees	(1,060,034)
Legal and other fees	(1,164,101)
Convertible debenture after fees	13,618,485
Value of the equity component at issue	(1,933,434)
Liability portion of conversions	(5,197,401)
Interest payable	(225,735)
Accretion of loan discount	226,540
Accrued interest	225,735
Balance June 30 , 2018	\$ 6,714,190

15. Share capital

15.1 Share capital

Authorized shares

The authorized number of common shares is unlimited without par value. During the year ended December 31, 2018, as part of a merger and plan of reorganization, the Company's capital was affected by an exchange ratio which resulted in an increase in the number of securities at a rate of 1.35 to one. Unless otherwise stated, all share and per-share amounts have been restated to reflect the effects of this exchange ratio.

Share issuances

On March 22, 2017, the Company issued 3,591,280 common shares for \$2,283,314 at a price of \$0.64 per share.

On March 22, 2017, the Company converted convertible debentures into 2,062,275 common shares, recognizing \$1,176,260 to equity on conversion (Note 13).

On April 21, 2017, the Company issued 345,611 common shares for \$219,737 at a price of \$0.64 per share.

On May 15, 2017, the Company issued 2,299,606 common shares for \$1,462,075 at a price of \$0.64 per share.

On May 15, 2017, the Company issued 346,515 common shares for \$220,312 at a price of \$0.64 per share.

On September 1, 2017, the Company issued 540,000 common shares for \$40,000 at a price of \$0.074 per share.

On September 8, 2017, the Company issued 156,977 common shares in settlement of accounts payable of \$100,000.

During the year ended December 31, 2017, the Company redeemed 2,643,903 common shares of a former director and employee of the Company and cancelled these shares. Their pro-rata value totaling \$32,229 was accordingly transferred to deficit.

During the year ended December 31, 2018, the Company issued 8,969,256 common shares on conversion of restricted share units ("RSUs") granted under the Company's Stock Incentive Plan. The RSU's granted to management and consultants were subject to the successful completion of the merger and plan of reorganization which occurred during the year. The 2,324,613 RSU's

granted to management were valued at a nominal value and subject to escrow provisions on conversion. The 6,644,643 RSUs granted to consultants were valued at \$0.31 (C\$0.40) per share for a total of \$2,759,772, and vest immediately.

During the year ended December 31, 2018, the Company redeemed 832,528 common shares. Share capital was reduced pro-rata with \$199,485.

On completion of the merger and plan of reorganization, the Company issued 9,771,981 and 26,120,191 common shares on conversion of the 2017 convertible debentures and 2018 convertible debentures (Note 13). On conversion of these debentures the Company increased share capital by \$1,797,835 and \$1,894,355 respectively. An equity component of the 2018 convertible debentures of \$78,045 was recognized during the year on issuance, then adjusted to share capital on conversion of the debentures. Further, 7,885,884 common shares were issued on conversion of related party loans (Note 16). On conversion, the Company increased share capital by \$1,450,833.

Also, on completion of the merger and plan of reorganization, the Company converted the 2018 Pre-RTO debentures valued at \$10,014,177 into 32,658,734 common shares of the Company and 32,658,734 warrants exercisable at \$0.62 (C\$0.80) for two years, and 29,535,067 warrants exercisable at \$0.38 (C\$0.50) for two years.

The Company completed a financing concurrent with the closing of the merger and plan of reorganization of 36,414,620 units, including both special units and subscription receipts, at \$0.31 (C\$0.40) for total proceeds of \$11,204,498. Each special unit and subscription receipt consisted of the same two components, a common share and a warrant exercisable at \$0.62 (C\$0.80) for two years. Total issuance costs of \$2,462,624 were recognized on the financing. The Company also issued 2,661,519 brokers' and finders' warrants, exercisable for two years at \$0.31 (C\$0.40) into one common share and one warrant with each such warrant exercisable into one common share at a price of \$0.62 (C\$0.80) per share. The brokers' and finders' warrants were valued at \$309,400.

In the three months ended March 31, 2019 the Company issued 12,257,198 common shares and raised \$574,781 in cash from the exercises of warrants and brokers' and finders' warrants. As a result of warrant exercises 1,207,891 common shares were issued and 361,570 common shares were issued following the exercises of brokers' and finders' warrants.

On March 6, 2019, the Company issued 7,324,816 common shares for the purchase of a license in Cathedral City (California).

On March 26, 2019, the Company retired an aggregate of \$792,287 of indebtedness in exchange for the issuance of 2,497,195 common shares at a price of \$0.31 (C\$0.40) per common share.

On March 26, 2019, the Company issued 125,101 Common Shares to independent directors of

the Company in lieu of aggregate cash consideration of \$37,000 payable to such directors as compensation from the period beginning September 28, 2018 and ended December 31, 2018.

On March 26, 2019, the Company issued 390,000 Common Shares to certain employees and independent contractors of the Company in lieu of aggregate cash consideration of \$156,000 payable to such employees and independent contractors as compensation from the period beginning September 28, 2018 and ended December 31, 2018.

In the three months ended June 30, 2019, 18,306,120 shares were issued. 13,205,773 shares were issued following conversion of the 2019 convertible debenture, 2,087,630 shares were issued following the exercise of warrants, 608,315 shares were issued following the exercise of broker warrants, 558,246 shares were issued to brokers as finders fees and 1,846,156 shares were issued in relation to services provided to the Company.

As at June 30, 2019 the Company had 188,063,526 shares in issue. As at that date, the Company had 6,600,861 common shares in escrow (December 31, 2018: 12,301,308).

Continuity of common shares

	Shares	Amount
Balance December 31, 2018	157,500,202	\$ 31,696,972
Share issuance in private placements	558,246	295,787
Shares issued to acquire licenses	7,324,816	2,459,826
Shares issued to retire debt	2,497,195	748,250
Equity reserve for debenture	-	2,238,204
Change in equity reserve	-	(863,422)
Shares issued on conversion of debenture	12,435,310	6,043,477
Share issue costs	-	(333,610)
Share-based compensation for services	1,071,400	500,657
Share-based compensation for staff	2,060,326	849,262
Shares issued on exercise of warrants and options	3,646,145	1,542,335
Shares issued on conversion of broker warrants	969,886	334,715
Shareholders' equity June 30, 2019	188,063,526	\$ 45,512,452

15.2 Share purchase warrants

During the three months ended June 30, 2017, 9,137,250 warrants were granted to staff, directors and service providers. Of these warrants, 7,539,750 warrants having a life of 10 years were granted to employees and directors on May 12, 2018 and the remainder to service providers. Of the

7,539,750 warrants issued, 3,577,500 vested immediately and the remainder vest on a quarterly basis over a period of two years with the first tranche vesting on grant. In the three months ended September 31, 2017, 877,500 of these warrants were forfeited.

Warrants granted as at June 30, 2019

Expiry date	Term - years	Warrants granted	Exercise price US\$	Description
12-May-24	6	6,662,250	\$ 0.67	Warrants
14-Jul-19	2	472,500	\$ 0.67	Warrants
13-May-22	4	135,000	\$ 0.59	Warrants
13-May-20	2	911,250	\$ 0.17	Warrants
10-Oct-19	2	1,012,500	\$ 0.09	Warrants
28-Sep-23	5	125,000	\$ 0.31	Warrants
28-Sep-23	5	175,000	\$ 0.31	Warrants
28-Sep-20	2	866,500	\$ 0.31	Warrants
28-Sep-21	3	100,000	\$ 0.31	Warrants
28-Sep-21	3	425,000	\$ 0.38	Warrants
28-Sep-21	3	100,000	\$ 0.62	Warrants
28-Sep-24	6	500,000	\$ 0.31	Warrants
28-Sep-21	3	300,000	\$ 0.38	Warrants
28-Sep-20	2	29,535,067	\$ 0.38	Warrants
28-Sep-20	2	48,400,922	\$ 0.62	Warrants
28-Sep-20	2	1,123,079	\$ 2.69	Warrants
28-Sep-20	2	36,414,620	\$ 0.62	Warrants
28-Sep-20	2	2,661,519	\$ 0.62	Broker warrants
25-Jan-19	2	10,312	\$ 0.62	Warrants
04-Mar-19	2	35,473	\$ 0.62	Warrants
08-Mar-19	2	315,785	\$ 0.62	Warrants
19-Mar-19	2	1,915,639	\$ 0.62	Warrants
19-Mar-19	2	2,768,501	\$ 0.38	Warrants
04-Apr-19	2	612,182	\$ 0.80	Warrants
04-Apr-19	2	16,295,510	\$ 0.90	Warrants
04-Apr-19	2	1,891,938	\$ 0.65	Broker warrants
Total	2-6 years	153,765,547	\$ 0.61	

On July 12, 2017, 472,500 warrants exercisable until the date that is two year from the date of issuance were granted to a service provider. These vest quarterly over a period of one year beginning from the date that is three months after issuance.

On October 10, 2017, 1,125,000 warrants were granted to a lender to the Company in conjunction with a loan provided to ANM. These warrants vest immediately and may be exercised up until the date that is two years from the grant date.

On November 27, 2018, 67,500 warrants with exercise price \$0.17 (C\$0.22) were exercised. The Company received cash proceeds of \$11,475.

In the three months ended March 31, 2019, 5,045,708 warrants with exercise price \$0.49 (C\$0.65) were granted. 1,569,461 warrants with exercise price \$0.31 (C\$0.40) were exercised. Proceeds were \$470,683. 1,123,079 former Apogee warrants with exercise price \$2.69 (C\$3.50) were forfeited.

In the three months ended June 30, 2019, 18,799,630 warrants with average exercise price \$0.67 (C\$0.90) were granted following the issuance of the 2019 convertible debenture. 16,295,510 warrants with exercise price \$0.69 (C\$0.90) were issued, 1,891,938 broker warrants with exercise price \$0.50 (C\$0.65) were issued and 612,182 warrants with exercise price \$0.62 (C\$0.80) were issued on conversion of broker warrants that consisted of a share and a warrant.

In the three months ended June 30, 2019, 2,699,812 warrants with average exercise price \$0.34 (C\$0.40) were exercised. This includes the exercise of 608,315 broker warrants. Proceeds were \$879,262.

As at June 30, 2019, the weighted average fair value of each Halo Labs warrant granted is \$0.07 (C\$0.09) using the Black-Scholes Option Pricing Model. The average value of each warrant in issue after exercises and forfeitures is \$0.07 (C\$0.09).

The Company recognized no share-based compensation in warrants during the six months ended June 30, 2019 (six months ended June 30, 2018: \$151,457) and \$51,960 in share-based payments issued for services at the value of the warrants earned as at June 30, 2019 (six months ended June 30, 2018: \$18,410).

As at June 30, 2019, the Company had 148,305,691 warrants in issue with average exercise price \$0.56 (C\$0.76).

As at June 30, 2019, the weighted average remaining contractual life of the warrants is 1.47 years (June 30, 2018: 3.98 years).

As at June 30, 2019, 148,165,066 (June 30, 2018: 6,238,750) of the issued and outstanding warrants were exercisable.

Prices in the table below are in US dollars. Actual exercise prices are in Canadian dollars.

Warrants outstanding	6 months ended June 30, 2019		6 months ended June 30, 2018	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of year	129,852,707	\$ 0.56	8,259,750	\$ 0.67
Granted	23,845,337	\$ 0.62	1,046,250	\$ 0.23
Exercised	(4,269,274)	\$ 0.33	-	\$ -
Forfeited	(1,123,079)	\$ 2.69	(112,500)	\$ -
Outstanding, end of year	148,305,691	\$ 0.56	9,193,500	\$ 0.67

The assumptions used for the calculation of the grant date fair value of warrants granted during the six months ended June 30, 2019 and 2018 are:

Black-Scholes assumptions for warrants

	6 months ended June 30	
	2019	2018
Risk free rate: US 2 year Treasurys	1.51% - 2.62%	1.89% - 2.53%
Expected life	2 years	2 - 6 years
Expected volatility	70%	70%
Expected dividend per share	Nil	Nil
Share price - Bloomberg US\$	\$0.23 - \$0.61	\$0.16 - \$0.28

15.3 Options

The Company has established a stock option plan for directors, employees, and consultants. The aggregate number of common shares issuable pursuant to options granted under the plan is 10% of the issued and outstanding common shares. The board of directors has the exclusive power over the granting of options, the exercise price and their vesting and cancellation provisions.

In the event of a change of control, unless otherwise specified in the stock option agreement for a particular grant, any right to repurchase an optionee's shares at the original exercise price shall lapse and all such shares shall become vested if such change of control occurs during the optionee's term of service and the repurchase right is not assigned to the entity immediately after the change of control.

On May 12, 2017, 3,678,750 options with an exercise price of \$0.67 (C\$0.87) and expiring on the date that is ten years from the date of issuance were granted to employees and consultants with a

weighted average fair value of options granted of \$0.48 (C\$0.63) using the Black-Scholes Option Pricing Model. Options granted vest over a period of two years on a quarterly basis.

On September 28, 2018, 10,311,433 options with an exercise price of \$0.31 (C\$0.40) and expiring on the date that is ten years from the date of issuance were granted to employees and consultants with a weighted average fair value of options granted of \$0.19 (C\$0.25) using the Black-Scholes Option Pricing Model. Options granted vest over a period of two years on a quarterly basis.

In the three months ended December 31, 2018, 71,682 options with exercise price \$0.38 (C\$0.50) were forfeited.

During the three months ended March 31, 2019, 249,375 options were forfeited as employees left the Company, resulting in a reduction in share-based payment expense of \$11,209. 350,625 options with exercise price \$0.31 (C\$0.40) were exercised.

During the three months ended June 30, 2019, 124,933 options with exercise price \$0.31 (C\$0.40) forfeited as employees left the Company.

As at June 30, 2019, the weighted average fair value of each Halo Labs option granted is \$0.26 (C\$0.35) using the Black-Scholes Option Pricing Model. The average fair value of each option in issue after exercises and forfeitures is \$0.24 (C\$0.32).

The Company recognized \$683,409 in share-based compensation during the six months ended June 30, 2019 (six months ended June 30, 2018: \$112,933).

The following table summarizes information regarding stock options outstanding by exercise price and number of options exercisable as at June 30, 2019:

Options outstanding by exercise price - June 30, 2019

Number of options outstanding	11,195,943
Number of options exercisable	5,490,118
Weighted average life (years)	5.7
Weighted average exercise price	\$ 0.37

As at June 30, 2019, the weighted average remaining contractual life of the options is 5.69 years (June 30, 2018: 8.87 years). As at June 30, 2019, 5,490,118 (June 30, 2018: 1,498,500) of the issued and outstanding options were exercisable.

The following is a summary of the changes in the Company's stock option plan for the six months ended June 30, 2019 and 2018. Prices in the table below are in US dollars. Actual exercise prices

are in Canadian dollars.

Options outstanding

	6 months ended June 30, 2019		6 months ended June 30, 2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	12,170,251	\$ 0.37	2,713,500	\$ 0.67
Granted	-	\$ -	-	\$ -
Exercised	(350,625)	\$ 0.31	-	\$ -
Forfeited/cancelled	(374,308)	\$ 0.31	(715,500)	\$ 0.67
Outstanding, end of year	11,445,318	\$ 0.37	1,998,000	\$ 0.67

The assumptions used for the calculation of the fair value of options at grant date during the six months ended June 30, 2019, are:

Black-Scholes assumptions for options

	6 months ended June 30	
	2019	2018
Risk free rate: US 5 year Treasuries	1.42% - 2.62%	2.20% - 2.82%
Expected life	6 years	10 years
Expected volatility	70%	70%
Expected dividend per share	Nil	Nil
Share price - Bloomberg US\$	\$0.23 - \$0.61	\$0.16 - \$0.28

16. Other loans

AV Oregon LLC loan

The Company received \$750,000 and issued a senior secured promissory note to AV Oregon, LLC dated October 10, 2017. The loan bore interest at 15% per annum, was secured against the assets of the Company, was payable on January 11, 2018. On January 18, 2018, the agreement was amended to extend the maturity date to December 28, 2018 and to waive interest accrued to date. The loan was repaid on October 2, 2018. The total amount including accrued interest was \$806,250.

Shareholder loans - 2017

As at December 31, 2017, the Company had shareholder loans outstanding of \$1,543,744. The loans

were subject to interest rates between 12-24% and matured December 28, 2018. Additional loans were issued during the year ended December 31, 2018 with similar terms on receipt of \$843,161 in proceeds. Interest was recognized during the year ended December 31, 2018 of \$309,961. Upon the completion of the merger and plan of reorganization, \$1,450,833 was converted into 7,885,884 common shares of the Company. The remaining loans and interest of \$1,240,896 were repaid prior to December 31, 2018, with \$Nil owing at year end.

Pre-RTO notes

During the year ended December 31, 2018, the Company issued Pre-RTO notes with principal balances of \$10,014,177. Pre-RTO notes of \$6,607,789 were issued on receipt of proceeds. A further \$3,281,250 in Pre-RTO notes were issued as payments regarding the Company's intangible asset agreements (Note 12). The notes accrued interest at 10% and were due on December 28, 2018 or mandatorily convertible at C\$0.40 on completion of the merger and plan and reorganization. On completion of the merger and plan of reorganization, the balance of \$10,014,177, including interest at \$138,423, were converted into 32,658,734 common shares, 32,658,734 warrants exercisable at C\$0.80 for two years, and 29,535,069 warrants exercisable at C\$0.50 for two years.

Shareholder loans - 2018

As at December 31, 2018, the Company owed \$505,137, regarding loans received of \$500,000 and interest of \$5,137, to executives, directors and close family. The interest rate charged is 15% per year. The loans mature December 31, 2019.

Shareholder loans – 2019

On January 15, 2019, the Company completed the first tranche of a promissory note financing, pursuant to which the Company issued promissory notes in the aggregate principal amount of \$800,000. Each such promissory note bears interest at a rate of 15% per annum and matures on December 31, 2019. Certain promissory notes were issued to related parties.

On February 20, 2019, the Company completed the second tranche of a promissory note financing, pursuant to which the Company issued promissory notes in the aggregate principal amount of \$900,000. Each such promissory note bears interest at a rate of 15% per annum and matures on December 31, 2019. Certain promissory notes were issued to related parties.

On April 4, 2019, the promissory note financings were converted into the 2019 debenture. Of the total gross debenture proceeds of \$15,842,620 (C\$21,163,000), \$2,260,772 (C\$3,020,000) relates to the conversion of promissory financings by related parties.

As at June 30, 2019, the Company owed \$1,765,995 regarding new loans received during the second quarter. Interest payable is eight percent per year and is paid monthly in arrears.

Continuity other loans			
	AV Oregon	Pre-RTO Notes	Shareholders loans
Additions	-	9,889,039	1,343,161
Interest	56,250	125,138	309,961
Repayments	(806,250)	-	(1,240,896)
Conversion to shares	-	(10,014,177)	(1,450,833)
Balance December 31, 2018	\$ -	\$ -	\$ 505,137
Additions	-	-	3,154,793
Interest payable and accrued interest	-	-	304,784
Repayments	-	-	(2,198,719)
Balance June 30, 2019	\$ -	\$ -	\$ 1,765,995

17. Capital management

The Company's objectives for managing capital are: (i) to maintain a flexible capital structure which optimizes the cost/risk equation; and (ii) to manage capital in a manner which maximizes the interests of shareholders. The Company considers capital as the total equity and debt disclosed on the statement of financial position. The Company has not had any significant objections in its approach to managing capital.

Capital structure

As at:	June 30, 2019	December 31, 2018
Shareholders' equity (deficiency)	\$ 21,319,664	\$ 14,756,123
Long-term loans	6,834,343	-
Convertible debentures and other loans	1,765,995	505,137

The Company manages the capital structure and adjusts informed by changes in economic conditions and the risk characteristics of the underlying assets. The Company's capital structure is managed in conjunction with the financial needs of the day-to-day operations. The Company currently funds the working capital requirements out of its cash, internally generated cash flows, various loans, and periodic infusions from investors.

Management does not establish quantitative return on capital criteria. However, management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is appropriate. At June 30, 2019, the Company is not subject to any externally imposed capital requirements.

18. Financial instruments

18.1 Fair value of financial instruments

Financial instruments that are measured at fair value use inputs which are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level One includes quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level Two includes inputs that are observable other than quoted prices included in Level One;
- Level Three includes inputs that are not based on observable market data.

The Company has designated its cash as Level 1-3. The fair value of the embedded derivative liability, options, warrants, and the fair value of convertible promissory notes at time of issue are determined using Level 3 of the hierarchy.

At June 30, 2019, both the carrying and fair value amounts of all the Company's financial instruments are approximately equivalent. They are of a short -term nature.

18.2 Financial instrument risk exposures

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, accounts receivable and notes receivable. The Company's credit risk is primarily attributable to accounts receivables. The amounts disclosed in the statement of financial position are net of allowance for doubtful accounts, estimated by the management of the Company based on its assessment of the current economic environment. The Company does not have significant exposure to any individual customer. The Company's maximum exposure to credit risk as at December 31, 2018 is the carrying value of cash, accounts receivable, and notes receivable. The Company believes that there is limited risk that notes receivables (See Note 10) are not settled. The Company takes a provision to allow for accounts receivable not being settled, which it believes is enough.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying its financial obligations. The Company manages its liquidity risk by forecasting its operations and anticipating its operating and investing activities. As at June 30, 2019, the Company had current assets of \$24,448,818 and current liabilities of \$10,184,120. All current liabilities are due within one year.

Financial liabilities - June 30, 2019					
	Carrying value	1 - 30 days	30 - 60 days	60 - 90 days	> 90 days
Accounts payable and accrued liabilities	4,609,273	2,801,848	929,882	288,352	589,190
Other loans	1,765,995	-	1,765,995	-	-
Carrying value	\$ 6,375,268	\$ 2,801,848	\$ 2,695,878	\$ 288,352	\$ 589,190

Market risk

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

Interest rate risk

Interest rate risk consists of a) the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, and b) to the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities. The Company is not exposed to interest rate price risk, as its convertible notes are carried at a fixed interest rate throughout their term.

Foreign currency risk

Foreign currency risk derives from fluctuations in exchange rates between currencies when transacting business in multiple currencies. The Company's business is substantially all conducted in US dollars in the U.S. and so it is not subject to any significant foreign currency risk. The Company holds Canadian dollars in the bank account of Hal Labs in Canada and is subject to exchange rate fluctuations.

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 foreign currency risk and a change in the price of cannabis. The Company is not exposed to significant other price risk.

19. Taxation

The Company reconciles the expected income tax expense at the average US statutory income tax rate of 21% to the amount recognized in the statement of operations. The Company's income tax expense is calculated based on gross profits not including 280E deductions.

The Company's US income is apportioned to the State of Oregon, Nevada and California, as there are

no revenues in other states. The production and sale of marijuana and related products for medical purposes is legal in the State of Oregon and therefore normal business expenses are deductible at the state level. The tax rate in the State of Oregon is the greater of 6.6% or the corporate gross receipts minimum tax.

Internal Revenue Code (“IRC”) Section 280E denies, at the US federal level, deductions and credits attributable to a trade or business trafficking in controlled substances. Case law shows that “cost of goods sold” has been permitted as a deduction in determining taxable income. Because the Company is subject to IRC Section 280E, the Company has computed its US tax based on gross receipts less cost of goods sold. The tax provision for the six months ended June 30, 2019, has been prepared based on the assumption “cost of goods sold” is a valid expense for income tax purposes.

20. Commitments and contingencies

The Company has commitments under certain leases for its facilities. The cash amounts are:

Committed lease obligations	Amount due
2019	\$ 683,483
2020	891,907
2021	601,073
2022	440,496
2023	342,996
2024	288,959
2025	206,496
2026	206,496
2027	206,496
2028	189,288

On January 1, 2019, the Company adopted IFRS 16 *Leases* (Note 5) and now records a right-of-use asset for each lease commitment that meet the requirements of the policy. The table below provides undiscounted cash payments required for those right-to-use assets as well as other commitments that do not meet the definition of a lease.

The Company is party to legal proceedings and other claims in the ordinary course of its operations. Management commitments, litigation and other claims are subject to many uncertainties and the outcome of individual matters is not predictable. Where management can estimate that there is a loss probable, a provision has been recorded in its financial statements. Where proceedings are at a premature stage or the ultimate outcome is not determinable, no provision is recorded. It is possible that

the final resolution of these matters may require the Company to make expenditures in a range of amounts that cannot be reasonably estimated and may differ significantly from any amounts recorded in these condensed interim consolidated financial statements. Should the Company be unsuccessful in its defense or settlement of one or more of these legal actions, there could be a materially adverse effect on the Company's financial position, future expectations, and cash flows.

21. Subsequent events

After June 30, 2019, 1,428,629 warrants with exercise price \$0.37 (C\$0.50) were issued and 16,623 options with exercise price \$0.31 (C\$0.40) were forfeited. 116 2019 convertible debentures were converted into 178,462 shares at \$0.50 (C\$0.65) per share.

2,987,277 shares were issued in relation to a reduction in lease payments to the base rate of \$1.25 per square foot for ICL9 and ICL13 in Cathedral City, California.