

Halo Labs Inc.
(formerly Apogee Opportunities, Inc.)
Management Discussion and Analysis
Twelve months ending December 31, 2018

This “Management’s Discussion and Analysis” (“MD&A”) has been prepared as at April 1, 2019 and should be read in conjunction with the audited consolidated financial statements of Halo Labs Inc., an Ontario corporation (“Halo Labs” or the “Company”), for the twelve months ended December 31, 2018.

Management's responsibility for financial reporting

The MD&A for the Company is the responsibility of management. The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the MD&A.

Forward looking statements

This MD&A includes certain forward-looking statements that are based upon current expectations which involve risks and uncertainties associated with the Company’s business and the economic environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements, which are often, but not always, identified by the use of words such as “seek”, “anticipate”, “budget”, “plan”, “continue”, “estimate”, “expect”, “forecast”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. The forward- looking statements are not historical facts, but reflect the Company’s current expectations regarding future results or events. Forward-looking statements contained in this MD&A are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the matters discussed in the section “Risks and Uncertainties” below.

Specifically, this MD&A includes, but is not limited to, forward-looking statements regarding management's goal of creating shareholder value, the ability to fund future operating costs, the timing for future research and development of the Company’s current and future technologies, sensitivity analysis on financial instruments that may vary from amounts disclosed, prices and price volatility of the Company’s products and general business and economic conditions.

Readers are cautioned that the above factors are not exhaustive. Although management has attempted to identify important factors that could cause actual events and results to differ materially from those described in the forward-looking information, there may be other factors that cause events or results to differ from those intended, anticipated or estimated.

Management believes the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and readers are cautioned not to place undue reliance on forward-looking information contained in this MD&A.

The forward-looking information contained in this MD&A is provided as of the date hereof and management undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as otherwise required by law. All of the forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

Basis of consolidation

The audited consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Subsidiaries of the parent Company, Halo Labs, are as follows:

Subsidiaries of Halo Labs, Inc.

	<i>December 31, 2018</i>	<i>December 31, 2017</i>
ANM, Inc.	100%	-
HLO Ventures (NV), LLC	100%	-
PSG Coastal Harvest, LLC	100%	100%
Coastal Harvest, LLC	100%	100%
East Evans Creek Farm, LLC	-	100%
Industrial Court L9, LLC	100%	-

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the audited consolidated statements of income and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. On September 13, 2018, East Evans Creek Farm LLC was dissolved.

All amounts in these financial statements have been presented in US dollars and indicated as “\$”. The CAD dollar serves as the functional currency of the parent. The Company’s subsidiaries all have as functional currency the US dollar.

All intercompany transactions, balances, revenue and expenses are eliminated in full on consolidation.

Critical judgements and estimations uncertainties

The preparation of the 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 consolidated financial statements and related notes to the 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 the 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 18 of the financial statements.

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 (“PPE”) 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 8 of the financial statements.

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 of ANM Inc. (“ANM”) and Halo Labs 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.

New standards adopted

IFRS 15 - The Company has initially adopted IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) and IFRS 9, Financial Instruments (“IFRS 9”) from January 1, 2018. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control-based approach to recognize revenue which is a change from the risk and reward approach under the previous standard, IAS 18, Revenue. The Company adopted IFRS 15 using the modified retrospective (cumulative effect) method, with the effect of initially applying this standard recognized at January 1, 2018. The adoption of IFRS 15 did not have a significant impact on the Company’s unaudited consolidated financial statements and there were no adjustments required to be recognized at January 1, 2018.

Financial Instruments IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities. The Company adopted all of the requirements of IFRS 9 at January 1, 2018. IFRS 9 does not require the restatement of comparative periods. Accordingly, the Company is required to reflect the retrospective impact of the adoption of IFRS 9 as an adjustment to opening components of equity at January 1, 2018. There were no adjustments required to be recognized at January 1, 2018 upon the Company’s adoption of IFRS 9. As a result of adopting this standard, the Company has changed its accounting with respect to financial instruments. The Company’s financial instruments are accounted for as follows under IFRS 9 as compared to the Company’s previous policy in accordance with IAS 39.

New standards and interpretations to be adopted in future periods

At the date of authorization of these financial statements, the IASB and IFRS Interpretations Committee (IFRIC) have issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company has not early adopted. However, the Company is currently assessing what impact the application of these standards or amendments will have on the financial statements.

IFRS 16 - Leases replaces IAS 17, Leases. The new model requires the recognition of almost all lease contracts on a lessee's statement of financial position as a lease liability reflecting future lease payments and a "right-of-use asset" with exception for certain short-term leases and leases of low-value assets. In addition, the lease payments are required to be presented on the statement of cash flow within the operating and financing activities for the interest and principal portions, respectively. IFRS 16 is effective for annual period beginning on or after January 1, 2019. The adoption of IFRS 16 is expected to have a material impact on the Company's consolidated financial statements. All leases currently disclosed in the Company's commitments (Note 19 of the financial statements) are expected to be recognized as financial leases. This is expected to increase both total assets and total liabilities materially as a result of recognition of the associated right of using assets and lease liabilities.

IFRS 23 – Uncertainty over income tax treatments. In June 2017 the IASB issued IFRIC 23, "Uncertainty over income tax treatments ("IFRIC 23"), to clarify the accounting of uncertainties in income taxes. The interpretation provides guidance and clarifies the application of recognition and measurement criteria in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning January 1, 2019. The Company does not anticipate a material impact from the adoption of IFRIC 23 on its consolidated financial statements.

Description of the business

ANM is a United States based manufacturer of cannabis oil and concentrates that cultivates cannabis plants and utilizes its proprietary technology to extract oils and manufacture concentrates. The Company sells to licensed retailers and wholesalers pursuant to recreational marijuana licenses issued to ANM in Oregon by the Oregon Liquor Control Commission ("OLCC") and marijuana manufacturing licenses issued to Coastal Harvest LLC (an indirect wholly-owned subsidiary of ANM) in California by the city of Cathedral City and the California Department of Public Health. ANM also finances and advises its operating partner in Nevada, Just Quality, LLC, ("Just Quality") pending the issuance of certain regulatory approvals in Nevada and the closing of an agreement to purchase cannabis licenses and related assets from Just Quality. Currently, substantially all of the Company's revenue is derived from the sale of cannabis products in the States of Oregon and California under the States' regulated recreational marijuana programs. The Company has subsidiaries for its planned expanded cannabis operations in California and Nevada.

ANM was incorporated under the laws of the state of Oregon in the United States of America ("USA" or "US") on March 18, 2016. ANM operates under the assumed business names "Hush Canna" and "Halo Labs".

Apogee Minerals Ltd. (“Apogee”) was incorporated under the laws of the Province of British Columbia on May 25, 1987 to engage in mineral exploration and development. Apogee was continued under the laws of the Province of Ontario on January 21, 2005. On March 15, 2011, Apogee amended its articles to change its name to “Apogee Opportunities Inc.” Apogee was listed on the NEO Exchange under the symbol “APE”. After the merger and reorganization plan became effective, Apogee changed its name to “Halo Labs Inc.” and the symbol was changed to “HALO”. The Company’s registered corporate office is located at 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 reorganization plan among Apogee Opportunities (USA), Inc. (“Apogee USA”) 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 the DGCL and the 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.

The principal steps of the merger and reorganization plan were as follows:

- Prior to the Merger and reorganization plan, Apogee and Apogee USA completed a brokered offering and a non-brokered offering for gross proceeds of approximately CAD\$14.4 million (the “Apogee Offerings”), and ANM completed a non-brokered offering for gross proceeds of approximately US\$9.7 million (the “Oregon Offering”);
- Apogee USA merged with and into ANM, with ANM remaining as the surviving entity of the merger; and,
- In connection with the consummation of the merger and reorganization plan, the special units and subscription receipts issued in the Apogee Offerings converted into units issued by the Company, comprised of common shares and common share purchase warrants; the convertible notes issued by ANM in the Oregon Offering were converted into units issued by the Company, comprised of common shares and common share purchase warrants, the outstanding convertible notes of the Company converted into common shares;

- Outstanding common shares, common share purchase warrants, and stock options of ANM converted into common shares, common share purchase warrants and stock options of the Company at an exchange ratio of 1.35 Company securities per ANM security.

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 and 1,123,077 warrants with a fair value of \$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.

The Company has 169,757,400 common shares that are issued and fully paid as at April 1, 2019. The Company also has 11,570,252 options and 131,844,306 warrants in issue.

Business strategy of the Company

The Company's strategy in the near term is to roll-out its business model of cultivation and manufacturing oil and concentrates as finished goods for sale to dispensaries and large wholesalers as either private label or branded product. The Company currently produces and sells over 50 products and uses an opening price point strategy across its product range. In the near term, the Company's geographic focus is in California, Nevada and Oregon. However, the Company is also engaged in discussion with various groups internationally to actively manage integrated seed to sale operations in foreign jurisdictions on a contracted basis and is establishing an office in Portland, Oregon to manage this effort.

The Company plans to leverage its core expertise in manufacturing cannabis oils and concentrates and cultivating low cost raw material for manufacturing. The founding shareholders have been investors, advisors, officers and directors of cannabis manufacturing businesses since 2013. The Company maintains proprietary trade secrets in its manufacturing processes developed by two of its founding

shareholders; Dr. Parkash Gill M.D. and Dr. Valery Krasnoperov PhD. The Company is actively collaborating with third parties to develop and launch proprietary products to fill market voids and has formed a relationship with Iconic Ventures, Inc. ("Iconic"). The first of these products is the DabTab™, which expands the user base for dabbables. The DabTab™ transforms the dabble product category from primarily an at-home use case to enable users to use the dabbables quickly on the go while making the entire dabbling process cleaner and more effective. DabTabs™ were launched in Oregon in January 2019 and launched at MedMen's dispensaries in Las Vegas, Nevada in February 2019 pursuant to a non-exclusive distribution arrangement with Iconic, the developer and owner of the DabTabs™ product line.

The Company also manages its own distribution in Oregon and plans to do the same in California and Nevada (when legally possible). The Company currently has its own direct sales force in Oregon and utilizes Just Quality's sales force in Nevada.

Overall performance

- Revenues in the twelve months ending December 31, 2018 were \$10,898,277 (twelve months ending December 31, 2017: \$10,013,680), an 8.8% increase. \$10,281,208 of revenues were generated in Oregon and \$617,070 in Nevada.
- Gross profits before the change in the value of biological assets were \$(91,801) compared with \$1,409,989 in the previous year.
- At December 31, 2018, the Company had \$722,649 in cash (December 31, 2017: \$144,255). Cash used for operations was \$12,329,384 (twelve months ending December 31, 2017: 4,351,717).
- The Oregon facility produced 361,511 grams of oil for cartridges (twelve months ending December 31, 2017: 142,592 grams), 692,459 grams of shatter (twelve months ending December 31, 2017: 648,793 grams) and 256,089 grams of raw oil (twelve months ending December 31, 2017: nil).
- The yield to convert raw material into oil was 9.4%. This compares with 10.5% in the twelve months ending December 31, 2017. The explanation for the decline in yield is frozen trim which contains water and a lower conversion yield.
- The Nevada operation sold 16,367 grams of oil. (twelve months ending December 31, 2017: nil). Revenues were \$579,143 (twelve months ending December 31, 2017: nil) and gross profits were \$131,807 (twelve months ending December 31, 2017: nil).
- ANM completed the merger and reorganization plan with Apogee and Apogee USA as described above.
- The Company raised \$10 million from the issuance of Pre-RTO notes and CAD\$14.4 million from proceeds of the Apogee Offerings of special units and subscription receipts.
- At December 31, 2018, all convertible promissory notes previously issued and outstanding by ANM were converted and certain loans were repaid during October. At December 31, 2018, the Company had short term loans due to shareholders of \$505,137.

Discussion of operations

Oregon

The Company's flagship manufacturing facility is in Medford, Oregon. The Medford facility has approximately 12,000 square feet of indoor manufacturing space, as well as an enclosed courtyard of approximately 7,200 square feet. The Medford Facility also houses the Corporation's wholesale-licensed business, which occupies approximately 800 square feet and is one of the larger wholesalers in the state.

The Company previously operated one CO2 extractor, a PXP extractor and a PX1 extractor. During 2018, they were replaced by 2 M-E-P extractors, of which currently one is in use on a single shift. The M-E-P extractor has capacity to convert 62 pounds of raw material per day per shift, five days a week.

During 2018, the number of vacuum ovens was reduced to 15. Each oven has the capacity to cycle 900 grams per oven per four days. Total daily oven capacity is 3,375 grams of raw oil. There are four freezers in the Medford facility, which can winterize 20,000 grams of oil per day. Two short path distillation set-ups were installed during the year, with the capacity to produce 3,000 grams of distillate per day.

Production of shatter, oil for cartridges and raw oil was 1,568,285 grams in the twelve months ending December 31, 2018 (twelve months ending December 31, 2017: 1,164,983 grams), a 34.7% increase. This equates to an average daily production volume of 6,032 grams of oil.

In October 2018, the Company launched three edible products including single piece chews (Hush), a gummy ten pack (Drops™) and a syrup-based drink (Hush 4 oz Lean Back Syrup) in the state of Oregon.

DabTabs™, proprietary ceramic discs that store a pre-measured dose of either cannabis concentrate or oil, were launched in Oregon in January 2019 and launched at MedMen's dispensaries in Las Vegas, Nevada in February 2019 pursuant to a non-exclusive distribution arrangement with Iconic, the developer and owner of the DabTabs™ product line.

Nevada

In Nevada, the Company finances and advises Just Quality on the operation of a manufacturing facility located near the Las Vegas international airport under Just Quality's Nevada marijuana product manufacturing license and its Nevada medical marijuana product establishment certificate. The Company currently works with Just Quality on a 2,000 square foot portion of this facility and is working on designing the remainder of the 8,000 square foot facility. The Company is party to a management agreement dated June 8, 2017 with Just Quality, as amended, related to the operation of this facility, but the parties are not yet operating under the management agreement pending the issuance to the Company of a Marijuana Business Support License from Clark County. Under the terms of the management agreement, ANM is entitled to a percentage of gross revenue of the Nevada licensed manufacturing business in exchange for management services provided in connection with the operation of the Nevada manufacturing licensed business.

Clark County has permitted Just Quality to build out a 1,000 square foot build non-volatile extraction lab that can utilize ethanol or carbon dioxide. This facility also includes an adjacent courtyard area, which Just Quality is currently utilizing as temporary offices and intends to utilize for storage in the future. Upon closing of the asset purchase agreement with Just Quality (as discussed below), the Company intends to manufacture using both volatile extraction methods (e.g., butane and propane) in a Class 1, Division 1, explosive-proof room, and non-volatile methods (e.g., carbon dioxide and ethanol) in properly ventilated areas. This facility is currently being primarily used to assemble vaporizer cartridges and DabTabs™, however, the Company intends to produce its entire suite of cannabis oils and concentrates in this Las Vegas facility following the acquisition by the Company of the production license, which the Company expects to occur within 180 days pending the processing and approval of the transfer request by the Nevada Department of Transportation.

On July 19, 2018, ANM entered into a binding term sheet agreement with Just Quality to purchase from Just Quality: (i) a Nevada Medical Marijuana Production Establishment certificate, (ii) a Nevada Marijuana Product Manufacturing License, (iii) a Nevada Medical Marijuana Cultivation Establishment certificate, (iv) a Nevada Marijuana Cultivation Facility License, (v) Just Quality's rights under that certain conditional approval for a Nevada Marijuana Distributor License (collectively, the "Nevada Marijuana Licenses"), and (vi) all of Just Quality's assets used in the operations of the businesses operating under or in connection with the Nevada Marijuana Licenses for an aggregate purchase price of US\$4,900,000. Of this, \$1.79 million was paid, with \$3.11 million remaining. ANM and Just Quality have since entered into a definitive Asset Purchase Agreement dated September 27, 2018 for the acquisition of the Nevada Marijuana Licenses, which supersedes the original binding term sheet.

The purchase price includes cash as well as convertible promissory notes and common share purchase warrants issued by ANM, which were converted into common shares and common share purchase warrants of the Company in connection with the closing of the merger and reorganization plan.

In October 2018, the Company, through Just Quality, launched three of its leading brands, Black Hat, Mojave and Hush across numerous dispensaries in the state of Nevada. The Company also developed and launched a private label brand for Cannacopia.

California

On June 20, 2017, ANM acquired 100% of the outstanding membership interests of Coastal Harvest, which subleases a 1,600 square foot manufacturing facility in Cathedral City, California. Coastal Harvest holds a Cannabis Business Local license issued by the city of Cathedral City and an Annual Type 7 Manufacturing License from the California Department of Public Health.

In November of 2018, the Company commenced production in California, where the Company currently maintains two facilities. The first facility is approximately 1,600 square feet with approximately 500 square feet dedicated for volatile extraction as a Class 1, Division 1 explosive-proof room. This facility is currently being used to supply Industrial Court L11, LLC ("ICL11") with a minimum of 50,000 and up to 70,000 grams per week of bulk cannabis distillate to be used for vaping cartridges and disposable pens as well as manufacture live resin concentrates for sale to licensed distributors. The Company entered into a supply agreement with ICL11 to supply between 50,000 and 70,000 grams per week of bulk cannabis

distillate at US\$7.50 per gram totaling between approximately US\$1.6 million and US\$2.2 million in monthly revenue. The initial term of the agreement is until March 24, 2019.

The second facility which the Company intends to operate in Southern California is located within 400 yards from the first facility and is approximately 13,900 square feet. The Company's manufacturing operations at this facility will include volatile extraction, non-volatile extraction and light assembly. The Company intends to utilize a small portion of the second facility for its distribution business. Initially, the Company does not intend to launch a distribution business in California, but rather is using its distribution capabilities to prepare finished goods fully tested with a certificate of analysis to sell to established distributors in final form for them to sell onward to dispensaries and other smaller distributors.

In preparation for the commencement of production at this extraction facility, the Company is securing a supply of raw material inputs, trim and small buds, from multiple sources within the state of California in order to maintain a steady state of production. Production is expected to commence at this facility by the third quarter of 2019.

The Company operates 3 M-E-P extractors on three shifts per day with 254,000 grams of daily trim conversion capacity. In addition, there are 15 vacuum ovens with capacity of 900 grams per oven per three days and 4,500 grams per day capacity. Four freezers can winterize 20,000 grams per day and two Root Science VTA's have distillation capacity of 20,000 grams per day.

On July 12, 2018, ANM and PSG Coastal Holdings LLC ("PSG Coastal") entered into a Membership Interest Contribution Agreement ("MICA") with Elemental Concepts, LLC ("Elemental") and Compass Point, LLC ("Compass Point" and together with Elemental, the "ICL Vendors") for the acquisition of Industrial Court L9, LLC ("ICL9"), a California limited liability company which, as a condition to ANM's obligation to close the transaction, was required to obtain a manufacturing and distribution license from the City of Cathedral City. ICL9 holds a marijuana manufacturing license and a marijuana distribution license issued by the city of Cathedral City, California, and subleases a 7,800 square-foot manufacturing facility in Cathedral City, California. In exchange for the membership interests, ANM issued 10% coupon convertible promissory notes in the aggregate principle amount of \$2 million as well as common share purchase warrants, which were converted into 3,262,143 common shares and 6,499,143 common share purchase warrants of the Company in connection with the closing of the merger and reorganization plan. Interest in the amount of \$7,945 was paid. The transaction was completed on September 26, 2018. ICL9 is currently in the process of applying for annual (non-temporary) cannabis manufacturing and distribution licenses from the California Department of Public Health and Bureau of Cannabis Control. ICL9 is not currently occupying its subleased facility pending completion of licensing, permitting, and construction of the facility.

On February 7, 2019, the Company entered into a Membership Interest Contribution Agreement, by and among the Company, ANM, PSG Coastal, the ICL Vendors and certain other parties, whereby PSG Coastal acquired 100% of the issued and outstanding membership interests of Industrial Court L13, LLC ("ICL13") from the ICL Vendors in exchange for 7,324,816 Common Shares. The transaction was completed on March 5, 2019.

ICL13 is a California limited liability company which is party to a sublease (as subtenant) for a 6,120 square foot premises in Cathedral City, California (the "L13 Premises"), adjacent to the premises currently subleased to ICL9 (the "L9 Premises"). ICL13 intends to apply for manufacturing and distribution licenses from the City of Cathedral City California Department of Public Health and Bureau of Cannabis Control. ICL13 is not currently occupying its subleased facility pending completion of licensing, permitting, and construction of the facility. As part of the consideration for the issuance of the Common Shares to the ICL Vendors, the ICL Vendors also caused the sub-landlord of the L9 Premises to eliminate the obligation of one of the Company's indirect subsidiaries to pay production rent equal to USD\$1.00 for each gram of CBD or THC crude, distillate or isolate produced at the L9 Premises.

International

The Company announced on December 12, 2018, the execution of a letter of intent to enter into a partnership with Bophelo Bioscience and Wellness Pty Ltd. ("Bophelo Bioscience"), a Lesotho based cannabis company. The Company is to provide management services and expertise to build, design and operate cGAP cultivation and cGMP extraction facilities in exchange for a 20% equity position in Bophelo Bioscience, as well as a royalty on future extracted products. It is expected that the extraction and cultivation facilities will primarily be used to manufacture bulk distillate and isolate. The Corporation does not currently have any operations in Lesotho and the Corporation is not currently deriving any revenue from Lesotho. The Corporation expects to begin operations in Lesotho (through its partnership with Bophelo Bioscience) by August 2019, when the growing season commences.

On July 27, 2018, Bophelo Bioscience was issued a prohibited drug operator license by the Ministry of Health in Lesotho. The licence allows the following activities in respect of cannabis and cannabis resin: cultivate, manufacture, supply, hold, import, export and transit. In addition to the Company's ongoing growth activities in the United States and Lesotho, the Company is actively working with groups in Europe and Africa to license the Company's technologies and assist them to set up low cost cultivation and production facilities for exporting cannabis products primarily into Europe. The discussions with these international parties are still at a preliminary stage. In order to mitigate the Company's risk in any such international arrangement and not detract from its core focus on the Western United States, the Company's initial plan would only likely involve the management and supervision of potential projects for a fee, a royalty and nominal equity. The Company does not plan to make significant investments outside of the United States in the short term; however, should such opportunity present itself, management of the Company may decide to pursue such opportunities.

Biological assets

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. 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 goods 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. Biological assets are measured at their fair value less costs to sell in the statement of financial position.

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

Change in carrying value of biological assets

Balance at December 31, 2016	\$ -
Production costs	1,016,172
Net increase in fair value less costs to sell due to biological transformation	742,630
Transferred to inventory upon harvest	(1,758,802)
Balance at December 31, 2017	-
Production costs	957,985
Net increase in fair value less costs to sell due to biological transformation	(176,393)
Transferred to inventory upon harvest	(781,592)
Balance at December 31, 2018	\$ -

During the 2018 harvest, the Company harvested 2,281 cannabis plants, which yielded 5,527 pounds (year ending December 31, 2017: 8,848 pounds). All material was transferred to the Company and used for processing and 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. At December 31, 2018, \$325,538 was included in the cost of goods sold, and \$292,643 remains in inventory. Inventory is measured at lower of cost or net realizable value in the statement of financial position. Inventory is measured at lower of cost or net realizable value in the statement of financial position. The fair value is determined using a cash flow model which assumes that the biological assets at the date of statement of financial position will grow to maturity, be harvested and converted into finished goods inventory and sold. 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. These estimates are subject to volatility in market prices and uncontrollable factors, which could affect the fair value of biological assets.

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 model below shows the assumptions used in the cannabis plant model, in comparison to what was realized. All material was transferred to the processing facility of the Company. The production costs of the 2018 harvest were \$187.60 per pound, which is the transfer price. After harvest expenses were negligible, and there was no distribution margin.

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

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

Effect on the fair value of biological assets of 10% positive change and 10% negative change

Assumption:	10% pos change US\$	10% neg change US\$
Change in expected yields for cannabis plants	78,159	(78,159)
Change in weighted average number of growing weeks completed	78,159	(78,159)
Change in estimated selling price	61,818	(112,875)
Change in wastage	15,458	(23,218)

Selected annual information

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as are issued by the International Accounting Standards Board (IASB) and are reported in Canadian dollars. The selected consolidated financial information for the period under review is compared to the comparative period in the previous fiscal year. The information is

presented on the same basis as the audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements and the accompanying notes.

Selected Financial Information - Expressed in US dollars

	<i>For the 12 months ending:</i>	
	<i>December 31, 2018</i>	<i>December 31, 2017</i>
Revenue	10,898,277	10,013,680
COGS	10,990,078	8,603,691
Gross profit ex change in FV biological assets	(91,801)	1,409,989
Change in value of biological assets	(176,393)	742,630
Gross profit	(268,194)	2,152,619
Net income / (loss)	(13,717,796)	(8,667,158)
Net income / (loss) per share, basic & diluted:	\$ (0.22)	\$ (0.36)
Weighted average number of outstanding common shares, basic and diluted	62,501,637	24,119,775
Total assets	19,391,988	9,413,803
Long-term financial liabilities	-	-

Revenue

Revenues in the twelve months ending December 31, 2018 were \$10,898,277 (twelve months to December 31, 2017: \$10,013,680), an 8.8% year on year increase. The increase in revenues is explained by a 34.7% increase in grams of oil and shatter sold, a decline in the yield from 10.5% to 9.4% to convert trim into oil and a 37% decline in average achieved price in comparison with the twelve months ending December 31, 2017. Returns and discounts were 13.3% of revenues (twelve months ending December 31, 2017: 6.2%).

The Company produced 1,568,285 grams of oil in the facility in Oregon (twelve months ending December 31, 2017: 1,163,984 grams). The Company sold 692,459 grams of shatter, a 7% increase in comparison with the twelve months ending December 31, 2017. Shatter sold for an average price of \$5.41, a 53% decline in comparison with an average price of \$11.56 in the twelve months ending December 31, 2017. The Company sold 361,511 grams of oil for cartridges, a 154% increase in comparison with the twelve months ending December 31, 2017. The average price achieved for oil for cartridges was \$14.74, a 18% decline over the previous year. Nevada started to contribute with sales of approximately 1,000 grams of cartridge oil at a price of \$35 per gram. The Company purchased and sold 256,089 grams of raw oil. Management has increased its focus on shifting output away from low margin shatter to higher margin cartridge oil, to increase the overall gross margin mix for the Company.

In Nevada, the Company sold 16,367 grams of oil at an average achieved price of \$35.47 (twelve months ending December 31, 2017: nil). Revenues were \$579,143 (twelve months ending December 31, 2017: nil).

Distribution

The Company currently operates a licensed distribution (wholesale) business in Oregon, has acquired a local distribution license in Southern California pursuant to the MICA with ICL9 and has entered into an Asset Purchase Agreement with Just Quality to acquire a distribution license in Nevada.

The Company's distribution (wholesale) business in Oregon is focused almost exclusively on the wholesaling of the Company's products. The Company currently employs sales people that call on approximately 300 cannabis retailers in the state, and dedicated drivers to deliver products to these dispensary clients.

Just Quality began distributing the Company's branded products in Nevada in August of 2018. On behalf of the Company, Just Quality is currently distributing the Gilt, Black Hat, Mojave, and Hush branded product. Additionally, the Company has developed and launched a private label brand for Cannacopia.

In California, the Company intends to utilize a small portion of its second 13,900 square foot facility to house its distribution business for Southern California. Initially the Company does not intend to launch a distribution business in California, but rather is using its distribution capabilities to prepare finished goods fully tested with a certificate of analysis to sell to established distributors in final form for them to sell onward to dispensaries and other smaller distributors.

Gross profit and cost of sales

Cost of goods sold were \$10,990,078 (twelve months ending December 31, 2017: \$8,603,691). In Oregon, the average achieved selling price declined with 37% to \$8.00 per gram. The decline in selling price was more than offset by the 44% decline in the price of trim during the year and a 34.7% increase in the volume of grams sold.

Labor included in the cost of goods sold represented 32.7% (twelve months ending December 31, 2017: 18.7%) of revenues and 37.3% (twelve months ending December 31, 2017: 22.9%) of cost of goods sold. In particular extraction, production and packaging are labor intensive. Improving labor efficiency is a continuous focus of management. Testing represented 8.1% of revenues (twelve months ending December 31, 2017: 9.0%) and 9.3% (twelve months ending December 31, 2017: 11.6%) of cost of goods sold. The Company has re-negotiated testing costs for 2018.

In Nevada, the Company sold 16,367 grams of oil at an average achieved price of \$35.47 per gram. Revenues were \$579,143 and gross profits were \$131,807 (twelve months ending December 31, 2017: nil).

Operating expenses

The table below sets forth operating expenses for the twelve months ending December 31, 2018.

Operating expenses - Expressed in US dollars

	<i>For the 12 months ending:</i>	
	<i>December 31, 2018</i>	<i>December 31, 2017</i>
General and administration	2,652,976	1,701,310
Salaries	1,615,713	870,104
Professional fees	2,051,618	1,314,068
Sales and marketing	1,838,619	1,680,276
Investor relations	320,712	179,892
Depreciation	48,452	-
Share-based compensation	1,208,500	3,881,234
Total operating expenses	\$ 9,736,590	\$ 9,626,884

Operating costs were \$9,688,138 (twelve months ending December 31, 2017: \$5,745,650). Operating expenses in the twelve months ending December 31, 2018 included \$1,208,500 of non-cash share-based compensation (twelve months ending December 31, 2017: \$3,881,234).

General and administration costs for the twelve months ending December 31, 2018 were \$2,652,976 (twelve months ending December 31, 2017: \$1,701,310). They include IT, rent, utilities, office, security, insurance, travel and maintenance. In particular travel expenses and IT expenses declined and offset an increase in tax. Salaries were \$1,615,713 (twelve months ending December 31, 2017: \$870,104) following an increase in professional office staff in September of 2018. Professional fees were \$2,051,618 (twelve months ending December 31, 2017: \$1,314,068). They include legal, audit and consulting fees. The increase in professional fees is explained by an increase in legal fees and consulting fees as the Company prepared to go public. Sales and marketing expenses were \$1,838,619 (twelve months ending December 31, 2017: \$1,680,276). They include distribution, commissions, salaries of sales people, advertising and salaries of marketing staff. The increase follows from an increase in sales commissions, distribution expenses and higher salaries.

Summary of quarterly results

Summary of quarterly results - Expressed in US dollars

For three months to:	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Revenue	2,525,158	2,195,835	3,264,728	2,027,959	2,168,976	2,093,468	3,595,907	3,039,926
Cost of Cannabis inventory sold	1,458,446	1,951,921	2,663,526	2,529,798	1,860,930	1,792,003	4,001,075	3,336,070
Gross profit excluding FV changes	1,066,712	243,914	601,202	(501,840)	308,046	301,465	(405,168)	(296,143)
Unrealized fair value gain on growth of biological assets	-	-	-	742,630	(322,639)	(146,396)	928,491	(635,849)
Gross profit	1,066,712	243,914	601,202	240,790	(14,593)	155,069	523,323	(931,992)
Gross margin before fair value gains in biological assets	42.2%	11.1%	18.4%	nm	14.2%	14.4%	nm	nm
Net income / (loss)	(271,211)	(1,681,833)	(1,173,106)	(5,541,008)	(1,818,993)	(2,079,715)	(5,383,724)	(4,435,364)
Net income / (loss) per share	\$ (0.01)	\$ (0.07)	\$ (0.05)	\$ (0.24)	\$ (0.07)	\$ (0.08)	\$ (0.19)	\$ (0.03)
Weighted average number of outstanding common shares, basic and diluted	21,209,914	22,733,406	22,733,406	22,733,406	27,469,103	27,410,126	28,923,032	157,905,223
Total assets	9,413,803	6,116,017	7,197,635	9,413,803	9,514,611	10,228,119	27,739,861	19,391,988

The Company's quarterly consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as are issued by the International Accounting Standards Board (IASB) and are reported in U.S. dollars. The following quarterly information is presented on the same basis as the audited consolidated financial statements and should be read in conjunction with the statements and the accompanying notes. The fluctuation in the gross margin is explained by the timing of inventory movements, a change in the value of biological assets, and value adjustments of inventory.

Non-IFRS measures

Adjusted EBITDA - Expressed in US dollars

	<i>For the 12 months ending:</i>	
	<i>December 31, 2018</i>	<i>December 31, 2017</i>
IFRS measures from consolidated financial statements:		
Statement of loss:		
Net loss	(13,717,796)	(8,667,158)
Income tax	(88,659)	362,328
Interest income / (expense)	898,184	264,693
Depreciation and amortization	653,149	473,375
EBITDA	(12,255,122)	(7,566,762)
Adjustments:		
Share-based compensation for staff	1,208,500	3,881,234
Foreign exchange loss (gain)	33,994	-
Share-based compensation for services	-	86,413
Accretion expense	143,029	643,953
Transaction expense in relation to RTO	2,917,096	-
Change in the FV of embedded derivative	(134,463)	(449,273)
Change in the FV of biological assets	176,393	(742,630)
Unrealized change in fair value of marketable securities	(21,023)	-
Rrealized change in fair value of marketable securities	(56,344)	-
Transaction investigation expenses	-	348,708
Loss on the sale of property	-	22,484
Adjusted EBITDA	\$ (7,987,940)	\$ (3,775,874)

Management evaluates the Company's performance using a variety of measures. The non-IFRS measures discussed below should not be considered as an alternative to or to be more meaningful than net revenue or net loss. These measures do not have any standardized meaning prescribed by IFRS and many not be comparable to similar measures presented by other companies.

EBITDA and Adjusted EBITDA are calculated as described above, adjusted for specific items that are significant but not reflective of the Company's underlying operations. Adjustment of these specific items is subjective; however, management uses its judgment and informed decision-making when identifying items for adjustment.

Adjusted EBITDA is provided to assist management and investors in determining the Company's operating performance before income taxes, depreciation and amortization, and certain other income and expenses. Income taxes, depreciation and amortization are excluded from the EBITDA calculation, as they do not represent cash expenditures that are directly affected by operations. Management believes

that presentation of this non-IFRS measure provides useful information to investors and shareholders as it provides predictive value and assists in the evaluation of performance trends. Management uses adjusted EBITDA to compare financial results among reporting periods and to evaluate the Company's operating performance and ability to generate funds from operating activities.

In calculating Adjusted EBITDA, certain non-cash and nonrecurring transactions are excluded. Adjusted EBITDA excluded non-cash expenses related to share-based compensation and foreign exchange gains and losses.

Liquidity

The Company's objectives when managing its liquidity and capital structure are to generate sufficient cash to fund operating and organic growth requirements.

As at December 31, 2018, the Company had cash of \$722,649. As at December 31, 2017 the Company had continued losses, an accumulated deficit and a working capital surplus. The Company's working capital consists of current assets including cash minus current liabilities including short term loans and the current portion of long-term debt. The table below sets forth the cash and working capital position of the Company as at December 31, 2018.

Cash and working capital position - Expressed in US dollars

As at:	<i>December 31, 2018</i> <i>December 31, 2017</i>	
Cash	\$ 722,649	\$ 144,255
Working capital	6,215,389	(3,949,200)

The table below sets forth the Company's cash flows for the year ended December 31, 2018.

Cash flow - Expressed in US dollars

Cash provided by (used in):	<i>For the 12 months ending:</i>	
	<i>December 31, 2018</i> <i>December 31, 2017</i>	
Operating activities	(12,329,384)	(4,351,717)
Finance activities	16,080,908	6,887,463
Investing activities	(3,173,130)	(2,690,944)

- Cash used in operating activities

The cash used in operating activities was \$12,329,384 (twelve months to December 31, 2017: \$4,351,717).

- Cash provided by financing activities

The Company's cash provided by financing activities was \$16,080,908 (twelve months to December 31, 2017: \$6,887,463). The cash from financing activities was due to proceeds from the proceeds from the Pre-RTO regulated offering and the Apogee offerings.

- Cash used in investing activities

The Company's cash used in investing activities was a \$3,173,130 (twelve months to December 31, 2017: \$2,690,944 for expansion in Nevada and California).

Capital resources

Continuity of common shares as at December 31, 2018

	Shares	Amount
Balance December 31, 2017	27,468,955	\$ 5,443,337
Share issuance costs	-	-
Balance June 30, 2018	27,468,955	5,443,337
ANM shares repurchased and cancelled	(832,528)	(199,485)
Restricted shares issued to ANM shareholders	8,969,258	-
Shares issued on conversion of 2017 convertible	9,771,981	1,797,835
Shares issued on conversion of 2018 convertible	26,120,191	1,894,355
Shares issued on conversion of loans by related parties	7,885,884	1,450,833
Shares issued to Apogee shareholders	8,975,607	2,773,459
Warrants issued to Apogee warrant holders	-	-
Shares issued in Apogee offerings	36,414,620	11,204,498
Shares issued in Pre-RTO regulated offering	32,658,734	10,014,177
Share issue costs	-	(2,462,624)
Share-based compensation	-	-
Shares issued on exercise of warrants and options	67,500	11,942
Brokers' and finders' warrants issued	-	(309,400)
Conversion of convertible debt	-	78,045
Shareholders' equity December 31, 2018	157,500,202	\$ 31,696,972

On March 22, 2017, the Company issued 3,591,279 common shares for \$2,283,314 at a price of \$0.64 per share.

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.

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

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 approved and granted 8,969,258 restricted shares ("RSUs") under the Company's Stock Incentive Plan. The RSU's granted to management were subject to the successful completion of the merger and plan of reorganization which occurred during the year. The RSUs 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 of the financial statements). 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. 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 \$2,464,624 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.

At December 31, 2018, the Company had 12,301,308 common shares in escrow (2017: Nil).

The Company's capital is primarily composed of shareholders' equity. The Company utilizes cash flow from operations and equity investment to support development and continued operations and to meet liabilities and commitments as they come due. The Company had working capital surplus of \$6,215,369 as at December 31, 2018.

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. As at December 31, 2018, the Company is not subject to any externally imposed capital requirements.

The Company's principal capital needs are for funds to expand its market presence, design and develop propriety products, and general working capital requirements to support growth.

Off-balance sheet arrangements

The Company does not have any off-balance sheet arrangements.

Related party transactions

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

12 months ending:	December 31, 2018	December 31, 2017
Salaries, commissions, bonuses, consulting fees	\$ 1,021,167	\$ 243,482
Share-based compensation	480,843	714,196
Total	\$ 1,502,010	\$ 957,678

In the twelve months ending December 31, 2018, remuneration to executives was \$1,021,167 (twelve months ending December 31, 2017: \$243,482). 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.

At the end of December 31, 2018, due from shareholders and related parties is \$42,306 (December 31, 2017: \$80,278) in relation to a note receivable from a founding shareholder. At the end of December 31, 2018, due to shareholders and related parties was \$918,113 (December 31, 2017: \$1,209,204), related

to advances to the Company by shareholders.

Related parties

As at:	<i>December 31, 2018</i>	<i>December 31, 2017</i>
Due from shareholders and other related parties	\$ 42,306	\$ 80,278
Due to directors, officers and their close family	686,654	1,209,204
Accounts payable and accrued liabilities due to related parties	231,459	127,861

Fourth quarter

The table below sets out selected audited financial information for the three months to December 31, 2018 compared to the comparative period in the previous fiscal year. The information is presented on the same basis as the audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements and the accompanying notes.

Selected Financial Information - Expressed in US dollars

	<i>For the 3 months ending:</i>	
	<i>December 31, 2018</i>	<i>December 31, 2017</i>
Revenue	3,039,927	2,027,959
COGS	3,336,076	2,529,797
Gross profit ex change in FV biological assets	(296,149)	(501,838)
Change in value of biological assets	(635,849)	742,630
Gross profit	(931,998)	240,792
Net income / (loss)	(4,435,364)	(5,541,008)
Net income / (loss) per share, basic & diluted:	\$ (0.03)	\$ (0.24)
Weighted average number of outstanding common shares, basic and diluted	157,905,223	22,733,406
Total assets	19,391,988	9,413,803
Long-term financial liabilities	-	-

Revenue

Revenues in the fourth quarter of 2018 were \$3,039,927 (three months ending December 31, 2017: \$2,027,959), a 49.9% increase.

Oil production in the facility in Oregon increased with 57.5% to 518,000 grams, which more than offset the 23% average price decline. Trim converted increased with 77.9% to 5,912,179 grams (13,000 pounds) with a conversion yield of 9.3%. The average trim price, the Company's most important raw material, declined with 32% to \$85 per pound. Grams of oil produced for cartridges increased with 211.6% to 116,317 grams and shatter production increased with 7.1% to 153,811 grams for the quarter.

Sales in Nevada were 16,367 grams at an average achieved price of \$35.47.

Gross profit and cost of sales

Cost of goods sold in were \$3,336,076 in the fourth quarter in 2018 (twelve months ending December 31, 2017: \$2,529,797). There was no gross profit in the fourth quarter of 2018.

Labor represented 18.3% of revenues and 21.5% of the cost of goods sold. In particular extraction, production and packaging are labor intensive. Improving labor efficiency is a continuous focus of management. Testing represented 3.1% of revenues and 4.5% of cost of goods sold. Testing expenses declined by more than 50% as testing contracts were re-negotiated.

Operating expenses

The table below sets forth operating expenses for the three months ended December 31, 2018 and December 31, 2017. Operating expenses declined in the fourth quarter due to much higher non-cash share-based compensation in 2017. Other operating expenses increased as operations in Nevada and California were built out.

Operating expenses - Expressed in US dollars

	<i>For the 3 months ending:</i>	
	<i>December 31, 2018</i>	<i>December 31, 2017</i>
General and administration	839,443	431,844
Salaries	477,428	203,120
Professional fees	409,329	133,181
Sales and marketing	802,957	375,765
Investor relations	146,320	179,892
Share-based compensation	720,644	3,881,234
Total operating expenses	\$ 3,396,121	\$ 5,205,036

Subsequent events

- 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 US\$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 US\$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 February 7, 2019, the Corporation entered into a membership interest contribution agreement, by and among the Corporation, ANM, PSG Coastal, the ICL Vendors and certain other parties, whereby PSG Coastal acquired 100% of the issued and outstanding membership interests of Industrial Court L13, LLC ("ICL13") from the ICL Vendors in exchange for 7,324,816 Common Shares. The purchase of the membership interests of ICL13 was completed on March 5, 2019. ICL13 is a California limited liability company which is party to a sublease (as subtenant) for a 6,120 square foot premises in Cathedral City, California (the "L13 Premises"), adjacent to the premises (the "L9 Premises") currently subleased to ICL9. As part of the consideration for the issuance of the Common Shares to the ICL Vendors, the ICL Vendors also caused the sub-landlord of the L9 Premises to eliminate the obligation of one of the Corporation's indirect subsidiaries to pay production rent equal to USD\$1.00 for each gram of CBD or THC crude, distillate or isolate produced at the L9 Premises.
- 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 \$0.40 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 ending December 31, 2018.
- On March 26, 2019, the Corporation 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 ending December 31, 2018.
- 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 8 per cent unsecured convertible debenture 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 share, 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 days 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.

- After the year ending December 31, 2018, 350,624 options were exercised with an exercise price of \$0.31 (C\$0.40) and 249,375 options with exercise price (\$0.31 (C\$0.40) were forfeited as employees left the Company.
- After the year ending December 31, 2018, 1,915,639 warrants with exercise price \$0.62 (C\$0.80) and 2,768,501 warrants with exercise price \$0.38 (C\$0.50) were issued to investors as a correction to issuance in September 2018. Also, 1,123,079 warrants with exercise price \$2.69 (C\$3.50) were forfeited, 1,207,891 warrants with exercise price \$0.38 (C\$0.50) and 361,571 brokers' and finders' warrants with exercise price \$0.31 (C\$0.40) were exercised.

Commitments

The Company has commitments under operating leases for its facilities.

The Company has entered into various independent contractor agreements with consultants which include termination clauses upon 30 days' notice. The maximum amount payable under these contracts is approximately \$40,000. As no triggering event has taken place, the contingent payments have not been reflected in these financial statements.

Committed lease obligations

	Amount due
2019	\$ 910,589
2020	891,426
2021	601,074
2022	440,497
2023	342,997
2024	206,497
2025	206,497
2026	206,497
2027	206,497
2028	189,289

ANM holds processing, cultivation and wholesaling licenses issued by the Oregon Liquor Control Commission ("OLCC"). While ANM has implemented a system of policies and procedures to help ensure compliance with the laws and regulations that govern the Recreational Marijuana Program, ANM was recently sanctioned and fined by the OLCC for regulatory violations. The OLCC imposed a fine of US\$6,930 because of such violations. On March 20, 2018, ANM accepted responsibility to pay the fine and reiterated to the OLCC ANM's commitment to ongoing regulatory compliance. While the investigation

is now concluded, and ANM has remedied the violations identified by the OLCC, ANM may be subject to additional regulatory investigations in the future. Any future instances or allegations of regulatory non-compliance could lead to more significant fines or sanctions, including potential loss of licenses, particularly considering the previous findings of non-compliance by the OLCC. Management believes ANM it is currently in compliance with Oregon state law and OLCC licensing requirements.

The Company is party to legal proceedings and other claims in the ordinary course of its operations. 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 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.

Financial instruments

All financial assets and financial liabilities are initially recognized at fair value. The fair value of financial instruments is measured using 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 the following classifications:

- Cash – Held-for-trading
- Accounts receivable – Loans and receivables
- Due from related parties – Loans and receivables
- Accounts payable and accrued liabilities – Other liabilities
- Due to shareholder – Other liabilities
- Loan payable – Other liabilities

All are recognized as Level One measurements.

As at the end of December 31, 2018, both the carrying and fair value amounts of all the Company's financial instruments are approximately equivalent due to their short-term nature.

Risk exposures as it relates to financial instruments

- 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, accounts receivable and due from related parties. The Company has no significant concentration of credit risk arising from operations. Cash consists of cash on hand deposited with reputable financial institutions which is closely monitored by management.

Management believes credit risk with respect to accounts receivable and due from related parties is minimal. The Company's maximum exposure to credit risk is the carrying value of cash held in merchant accounts and accounts receivable.

- 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.

- 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.

- Foreign currency risk

The Company buys inventory and sells products in several countries. The Company is exposed to foreign currency risk from fluctuations in foreign exchange rates and the degree of volatility in these rates due to the timing of their accounts payable balances. This risk is mitigated by timely payment of creditors and monitoring of foreign exchange fluctuations by management. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Transactions in foreign currencies are translated to the respective functional currencies at the spot rate on the dates of the transactions.

At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction.

Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in income.

- 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. The Company is not exposed to significant other price risk.

- Seasonality

The Company does not consider its business to be seasonal with the exception for April 20 (“Four Twenty”) sales.

- Inflation and changing prices

Neither inflation nor changing prices for the twelve months ended December 31, 2018 had a material impact on operations of the Company.

Risk factors related to the Company and U.S. cannabis regulatory overview

- United States federal overview

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. In the states of Alaska, California, Colorado, Maine, Massachusetts, Michigan, Nevada, Oregon, and Washington the sale and adult-use of recreational cannabis is legal.

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 cannabis 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.

Although federally illegal, the U.S. federal government’s approach to enforcement of such laws has, at least until recently, trended toward non-enforcement. On August 29, 2013, the U.S. Department of Justice (“U.S. DOJ”) issued a memorandum known as the “Cole Memorandum” to all U.S. attorneys’ offices (“U.S. Attorneys”). The 2013 Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal cannabis laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly-regulated medical or adult-use cannabis

programs. The 2013 Cole Memorandum, while not legally binding, assisted in managing the tension between state and federal laws concerning state-regulated cannabis businesses.

Rescission of the 2013 Cole Memorandum

- a) On January 4, 2018, former U.S. Attorney General Jeff Sessions rescinded the 2013 Cole Memorandum, replacing it with the “Sessions Memorandum”. The stated rationale of the U.S. DOJ in doing so was that the 2013 Cole Memorandum was “unnecessary” due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorneys’ Manual (the “USAM”). The USAM enforcement priorities, like those of the 2013 Cole Memorandum, are also based on the federal government’s limited resources, and include “law enforcement priorities set by the Attorney General”, the “seriousness” of the alleged crimes, the “deterrent effect of criminal prosecution” and “the cumulative impact of particular crimes on the community”.
- b) While the Sessions Memorandum is not law itself and therefore does not change U.S. federal law, it does add to the uncertainty of U.S. federal enforcement of the Federal CSA in states where cannabis is legal under state law. The Sessions Memorandum gives U.S. Attorneys discretion in deciding whether to prosecute cannabis-related activities, including in such states that have legalized cannabis. While the Sessions Memorandum emphasized that cannabis is a Schedule I controlled substance and reiterated the statutory view that cannabis is a “dangerous drug and marijuana activity is a serious crime”, it does not otherwise confirm for U.S. Attorneys that prosecution of cannabis-related offenses is now a U.S. DOJ priority.
- c) Jeff Sessions resigned as the Attorney General of the United States on November 7, 2018. On February 14, 2019, William Barr was confirmed by the United States Senate and sworn in as the next Attorney General. Mr. Barr’s enforcement policies concerning marijuana are not yet clear. The U.S. DOJ may revoke, supplement or change its enforcement policies at any time, with or without advance notice.

Anti-Money laundering laws, banking regulations and bankruptcy protection

- a) Under U.S. federal law, it may be a violation of federal money laundering statutes for financial institutions to take any proceeds from the sale of cannabis or any other Schedule I controlled substance under the Federal CSA. Canadian banks are likewise hesitant to deal with cannabis companies due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions, particularly those that are federally chartered in the U.S., could be prosecuted and possibly convicted of money laundering for providing services to businesses with operations or a connection to cannabis.
- b) Despite the laws, the U.S. Department of the Treasury’s Financial Crimes Enforcement Network (“FinCEN”) issued a memorandum on February 14, 2014 (the “FinCEN Memorandum”) outlining the pathways for financial institutions to bank state-sanctioned cannabis businesses in compliance with federal enforcement priorities. The FinCEN Memorandum echoed the enforcement priorities of the 2013 Cole Memorandum. Under these guidelines, financial institutions must submit a Suspicious Activity Report (“SAR”) in connection with all cannabis-

related banking activities by any client of such financial institution, in accordance with federal money laundering laws. These cannabis-related SARs are divided into three categories, being marijuana limited, marijuana priority and marijuana terminated, which are based on the financial institution's belief that the business in question follows state law, is operating outside of compliance with state law or where the banking relationship has been terminated, respectively.

- c) On the same day the FinCEN Memorandum was published, the U.S. DOJ issued a memorandum (the "2014 Cole Memorandum") directing prosecutors to apply the enforcement priorities of the 2013 Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of cannabis-related conduct. The 2014 Cole Memorandum was also rescinded as of January 4, 2018, along with the 2013 Cole Memorandum, removing guidance that enforcement of applicable financial crimes against state-compliant actors was not a U.S. DOJ priority.
- d) However, former U.S. Attorney General Jeff Sessions' rescission of the 2013 Cole Memorandum and the 2014 Cole Memorandum has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memorandum and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to be a standalone document which explicitly lists the eight enforcement priorities originally cited in the 2013 Cole Memorandum. As such, the FinCEN Memorandum remains intact.
- e) While the FinCEN Memorandum has not been rescinded by the U.S. DOJ at this time, it remains unclear whether the current administration will follow its guidelines. Overall, the U.S. DOJ continues to have the right and power to prosecute crimes committed by banks and financial institutions, such as money laundering and violations of the Bank Secrecy Act, that occur in any state, including in states that have legalized the applicable conduct, and the U.S. DOJ's current enforcement priorities could change for any number of reasons, including a change in the opinions of the President of the United States or the U.S. Attorney General. A change in the U.S. DOJ's enforcement priorities could result in the U.S. DOJ prosecuting banks and financial institutions for crimes that previously were not prosecuted.
- f) Banks often refuse to provide banking services to businesses involved in the cannabis industry due to the present state of the laws and regulations governing financial institutions in the United States. The lack of banking and financial services presents unique and significant challenges to businesses operating in and ancillary to the cannabis industry. The potential lack of a secure place in which to deposit and store cash, the inability to pay creditors through the issuance of checks and the inability to secure traditional forms of operational financing, such as lines of credit, are some of the many challenges presented by the lack of traditional banking and financial services available to businesses operating in or ancillary to the cannabis industry.
- g) Additionally, the Company does not have protection under U.S. bankruptcy laws. U.S. bankruptcy laws were adopted to protect financially troubled businesses and to provide for orderly distributions to business creditors. All bankruptcy cases are handled in U.S. federal courts, and

the U.S. DOJ has stated that it is the U.S. Trustee Program's ("USTP") position that no assets associated with the cannabis industry can be liquidated or restricted following bankruptcy without violating the Federal CSA. In addition, the Director of the USTP recently issued a letter to 1,100 trustees who administer bankruptcy cases urging the trustees to monitor and report to the U.S. DOJ cannabis companies looking to declare bankruptcy.

- h) If any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the United States are found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends and could affect other distributions, including the Company's ability to transfer funds into Canada. Furthermore, while the Company has no current intentions to declare or pay dividends in the foreseeable future, if a determination was made that the Company's proceeds from operations (or any future operations or investments in the United States) could reasonably be shown to constitute proceeds of crime, the Company may decide, or be required, to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Enforcement of U.S. Federal Laws

- a) Enforcement of U.S. federal law is a significant risk to cannabis businesses operating in the United States, including the Company. The rescission of the 2013 Cole Memorandum increased the uncertainty and risk associated with the enforcement of U.S. federal laws regarding the production, manufacture, processing, possession, distribution, sale and use of cannabis. There is no certainty as to how the U.S. DOJ, the U.S. Federal Bureau of Investigation and other government agencies will handle cannabis matters now that the 2013 Cole Memorandum is no longer in effect.
- b) There can be no assurance that the U.S. federal government will not seek to prosecute cases involving cannabis businesses, including those of the Company, notwithstanding compliance with state law. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition, as well as the Company's reputation and ability to raise capital.
- c) Further, violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the
- d) U.S. federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its ability to list its securities on stock exchanges, its financial position, its operating results, its profitability or liquidity or the value of its securities. In addition, the time of management and advisors of the

Company and resources that would be needed for the investigation of any such matters or their final resolution could be substantial.

- e) U.S. Enforcement proceedings and the Leahy amendment. Although the 2013 Cole Memorandum and 2014 Cole Memorandum have been rescinded, one legislative safeguard for the medical cannabis industry remains in place. U.S. Congress has used a rider provision in the Leahy Amendment to prevent the U.S. federal government from using congressionally appropriated funds to enforce federal cannabis laws against regulated cannabis actors operating in compliance with state and local law. The Leahy Amendment was included in the fiscal year 2019 budget signed on February 15, 2019 meaning that, the Leahy Amendment is in effect until September 30, 2019 when the fiscal year ends. It is uncertain whether the U.S. Congress will extend this prohibition beyond such expiration date. As the Leahy Amendment protects only state medical cannabis, there can be no assurance that U.S. federal prosecutors will not use U.S. DOJ funds to interfere with state adult-use cannabis.

Ability to access public and private capital

- a) While the Company is not able to obtain bank financing in the United States or financing from other federally regulated entities, the Company's executive team and board of directors have relationships with potential sources of private capital (such as funds and high net worth individuals).
- b) Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. While there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to participants in the United States cannabis industry. There can be no assurance that additional financing will be available to the Company when needed or on acceptable terms. The Company's inability to raise financing to fund its ongoing operations, capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability and operations.

State-Level regulatory overview

The following sections present a summary overview of the cannabis regulatory framework in the states in which the Company is currently operating, namely Oregon, Nevada and California. Strict compliance with such laws may neither absolve the Company of liability under U.S. federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company.

Summary of Oregon regulatory framework

In 1998, Oregon voters passed a limited non-commercial patient/caregiver medical cannabis law allowing physicians to recommend cannabis for certain qualifying conditions such as chronic pain. In 2013, the Oregon legislature passed, and the governor signed, House Bill 3460 to create a regulatory structure for the existing unlicensed medical cannabis program. This program is known as the Oregon Medical Marijuana Program ("**OMMP**"). However, the regulations created by the Oregon Health Authority ("**OHA**")

under House Bill 3460 were minimal and only regulated dispensaries, leaving cultivators and processors within the unregulated patient/caregiver system. In November 2014, Oregon voters passed Measure 91, creating the Recreational Marijuana Program for individuals 21 years of age or older. In June 2015, Oregon Governor Brown signed House Bill 3400 into law, which improved on the existing OMMP and created a licensing process for businesses hoping to enter the Recreational Marijuana Program. The OHA regulates OMMP participants while the OLCC regulates the Recreational Marijuana Program, which includes producers, processors, wholesalers, laboratories and retailers who sell recreational cannabis to consumers as well as medical grade cannabis to OMMP patients tax-free.

The laws and rules that govern the Recreational Marijuana Program do not impose a limit on the number of licenses an entity can hold. Further, the OLCC currently accepts applications for either medical or recreational cannabis businesses on a rolling basis. Local governments have the authority to prohibit or restrict the number of medical or recreational cannabis businesses within their jurisdictions. There are no residency requirements for medical or recreational licenses in Oregon. In May of 2018, the OLCC announced that it would temporarily halt accepting any new license applications for recreational cannabis businesses submitted after June 15, 2018. The OLCC has not stated how long this moratorium is expected to continue. License renewals, change in ownership applications, and changes in financial interest applications are not included in this moratorium, and the OLCC continues to process these applications as usual.

In response to the rescission of the Cole Memorandum, United States Attorney for the District of Oregon Billy J. Williams issued a public statement and enforcement memo, stating that his office would continue working with state, local, and tribal authorities, as well as federal officials, to "pursue shared public safety objectives" in line with those prioritized under the Cole Memorandum. Governor Kate Brown has stated her support for the industry, stating, "Voters in Oregon were clear when they chose for Oregon to legalize the sale of marijuana and the federal government should not stand in the way of the will of Oregonians. My staff and state agencies are working to evaluate reports of the Attorney General [Sessions]'s decision and will fight to continue Oregon's commitment to a safe and prosperous recreational marijuana market." Oregon Attorney General Ellen Rosenblum has stated that "At the Oregon Department of Justice we will continue to make sure Oregon's marijuana industry thrives under our carefully considered state regulatory requirements," and that she will do everything within her legal authority to protect an industry that Oregonians have chosen.

To the knowledge of the Corporation, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Oregon.

Summary of Nevada regulatory framework

Nevada has a medical marijuana program and passed an adult-use legalization through the ballot box in November 2016. In 2000, Nevada voters passed an amendment to the Nevada state constitution allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a limited non-commercial medical marijuana patient/caregiver system. Senate Bill 374, which passed the legislature and was signed by the Governor in 2013, expanded this program and established a for-profit regulated medical marijuana industry.

The Nevada Division of Public and Behavioral Health licensed medical marijuana establishments up until July 1, 2017 when the state's medical marijuana program merged with adult-use marijuana enforcement under the NV DOT. In 2014, Nevada accepted medical marijuana business applications and a few months later the Division approved 182 cultivation licenses, 118 licenses for the production of edibles and infused products, 17 independent testing laboratories, and 55 medical marijuana dispensary licenses. The number of dispensary licenses was then increased to 66 by legislative action in 2015. The application process is merit-based, competitive, and is currently closed. Residency is not required to own or invest in a Nevada medical cannabis business. In addition, vertical integration is neither required nor prohibited. Nevada's medical law includes patient reciprocity, which permits medical patients from other states to purchase marijuana from Nevada dispensaries. Nevada also allows for dispensaries to deliver medical marijuana to patients.

Each medical marijuana establishment must register with the NV DOT and apply for a medical marijuana establishment registration certificate. Among other requirements, there are minimum liquidity requirements and restrictions on the geographic location of a medical marijuana establishment as well as restrictions relating to the age and criminal background of employees, owners, officers and board members of the establishment. All employees must be over 21 and all owners, officers and board members must not have any previous felony convictions or had a previously granted medical marijuana registration revoked. Additionally, each volunteer, employee, owner, officer and board member of a medical marijuana establishment must be registered with the NV DOT as a medical marijuana agent and hold a valid medical marijuana establishment agent card. The establishment must have adequate security measures and use an electronic verification system and inventory control system. If the proposed medical marijuana establishment will sell or deliver edible marijuana products or marijuana-infused products, the establishment must provide proposed operating procedures for handling such products which must be preapproved by the NV DOT.

In response to the rescission of the Cole Memorandum, then Nevada Attorney General Adam Laxalt issued a public statement, pledging to defend the law after it was approved by voters. Former Nevada Governor Brian Sandoval also stated, "Since Nevada voters approved the legalization of recreational marijuana in 2016, I have called for a well-regulated, restricted and respected industry. My administration has worked to ensure these priorities are met while implementing the will of the voters and remaining within the guidelines of both the Cole and Wilkinson federal memos," and that he would like for Nevada to follow in the footsteps of Colorado, where the U.S. attorneys do not plan to change the approach to prosecuting crimes involving recreational marijuana.

Although Nicholas Trutanich, U.S. Attorney for the District of Nevada, has been relatively quiet on the issue of marijuana enforcement priorities, the Nevada Governor Steve Sisolak has repeatedly voiced his support of the marijuana industry and has not indicated that he would enforce the federal prohibition on marijuana. Moreover, Governor Sisolak, as one of his initial actions taken in January 2019 after he was sworn-in, named an advisory panel to write rules and procedures for a new compliance board to regulate Nevada's exploding cannabis industry.

To our knowledge, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Nevada.

In determining whether to issue a medical marijuana establishment registration certificate pursuant to NRS 453A.322, the NV DOT, in addition to the application requirements set out, considers various criteria of merit, such as the total financial resources of the applicant, previous business experience, medical marijuana experience, and the impact of the proposed establishment location on the surrounding community, among other relevant criteria of merit.

A medical marijuana establishment registration certificate expires one year after the date of issuance and may be renewed upon resubmission of the application information and renewal fee to the NV DOT.

Adult-Use Retail Marijuana Program

The sale of marijuana for adult-use in Nevada was approved by ballot initiative on November 8, 2016 and Nevada Revised Statute 453D exempts a person who is 21 years of age or older from state or local prosecution for possession, use, consumption, purchase, transportation or cultivation of certain amounts of marijuana and required the NV DOT to begin receiving applications for the licensing of marijuana establishments on or before January 1, 2018. The legalization of retail marijuana does not change the medical marijuana program.

In February 2017, the NV DOT announced plans to issue "early start" recreational marijuana establishment licenses in the summer of 2017. These licenses, beginning on July 1, 2017, allowed marijuana establishments holding both a retail marijuana store and dispensary license to sell their existing medical marijuana inventory as either medical or adult-use marijuana.

Starting July 1, 2017, medical and adult-use marijuana have incurred a 15% excise tax on the first wholesale sale (calculated on the fair market value) and adult-use cannabis have incurred an additional 10% special retail marijuana sales tax in addition to any general state and local sales and use taxes.

On January 16, 2018, the Marijuana Enforcement Division of the NV DOT issued final rules governing its adult-use marijuana program, pursuant to which up to 60 permanent adult-use marijuana dispensary licenses will be issued.

Under Nevada's adult-use marijuana law, the NV DOT licenses marijuana cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. After merging medical and adult-use marijuana regulation and enforcement, the single regulatory agency is now known as the "Marijuana Enforcement Division of the NV DOT." For the first 18 months, applications to the Department for adult-use establishment licenses can only be accepted from existing medical marijuana establishment certificate holders and existing liquor distributors for the adult-use distribution license. After November 2018, the NV DOT may open up the application process to those not holding a medical marijuana establishment certificate.

There are five types of retail marijuana establishment licenses under Nevada's retail marijuana program:

1. Cultivation Facility - licensed to cultivate (grow), process, and package marijuana; to have marijuana tested by a testing facility; and to sell marijuana to retail marijuana stores, to marijuana product manufacturing facilities, and to other cultivation facilities, but not to consumers.

2. Distributor - licensed to transport marijuana from a marijuana establishment to another marijuana establishment. For example, from a cultivation facility to a retail store.
3. Product Manufacturing Facility - licensed to purchase marijuana; manufacture, process, and package marijuana and marijuana products; and sell marijuana and marijuana products to other product manufacturing facilities and to retail marijuana stores, but not to consumers. Marijuana products include things like edibles, ointments, and tinctures.
4. Testing Facility - licensed to test marijuana and marijuana products, including for potency and contaminants.
5. Retail Store - licensed to purchase marijuana from cultivation facilities, marijuana and marijuana products from product manufacturing facilities, and marijuana from other retail stores; can sell marijuana and marijuana products to consumers.

The NV DOT conducted public consultation and received public comments on its Adult-Use Marijuana Regulations (LCB File No. R092-17) dated December 13, 2017 (the "**Nevada Adult-Use Regulation**"). On February 27, 2018, the NV DOT adopted the Nevada Adult-Use Regulations (now codified as Nevada Administrative Code §453D). Under its new regulations, the NV DOT accepted applications for up to 60 additional retail marijuana store licenses for various local jurisdictions throughout the state. On December 5, 2018, the NV DOT announced its decision on each of the submitted applications. Those persons awarded a retail marijuana store license have 12 months from the date of conditional approval in which to have the facility become operational.

In Nevada, the Company is party to a management agreement dated June 8, 2017 with Just Quality, LLC ("Just Quality"), as amended, related to the operation of a 10,000 square-foot marijuana manufacturing business in Clark County, Nevada under Just Quality's Nevada marijuana product manufacturing license and its Nevada medical marijuana product establishment certificate. Under the terms of the management agreement, ANM is entitled to a percentage of gross revenue of the Nevada licensed manufacturing business in exchange for management services provided in connection with the operation of the Nevada manufacturing licensed business.

The local business licensing jurisdiction, Clark County, requires that a company apply for and obtain a marijuana support business license prior to acting in a management capacity such as contemplated by ANM's agreement with Just Quality, with which ANM will comply prior to commencing such management services under the agreement.

On September 27, 2018, ANM entered into an Asset Purchase and Sale Agreement and Joint Escrow Instructions with Just Quality, LLC ("APA"), to acquire certain assets of Just Quality, LLC, including a Nevada marijuana product manufacturing license, a medical marijuana production establishment certificate, a Nevada marijuana cultivation facility license, a medical marijuana cultivation establishment certificate, and a pending Nevada marijuana distribution license, together with all the assets used in the operation of the businesses operating under or in connection with the licenses. The purchase price is US\$4.9 million and included cash as well as convertible promissory notes and common share purchase

warrants issued by ANM, which were converted into common shares and common share purchase warrants of the Company in connection with the closing of the Merger and reorganization plan.

In connection with the entry into the APA described above, ANM also entered into a Temporary Cultivation Management Agreement with Just Quality LLC, pursuant to which, during the pendency of the completion of the transaction contemplated under the APA, ANM is entitled to a percentage of gross revenue of the Nevada licensed cultivation business in exchange for management services provided in connection with the operation of the Nevada cultivation licensed business. Provision of the management services under the Temporary Cultivation Management Agreement is likewise subject to the same requirements of the local jurisdiction, Clark County, for applying for and obtaining a marijuana support business license prior to providing management services at the licensed cultivation facility.

The Company believes that its contractual operating structure with Just Quality is compliant with Nevada state law and the Department of Taxation's regulations; regardless, there is a risk that regulators will disagree with this assessment.

Summary of California regulatory framework

In 1996, California voters passed a medical marijuana law allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain. The law established a not-for-profit patient/caregiver system but there was no state licensing authority to oversee the businesses that emerged as a result of the system. In September of 2015, the California legislature passed three bills, collectively known as the "Medical Marijuana Regulation and Safety Act" ("**MAUCRSA**"). In 2016, California voters passed "The Adult Use of Marijuana Act", which legalized adult-use cannabis for adults 21 years of age and older and created a licensing system for commercial cannabis businesses. On June 27, 2017, Governor Brown signed SB-94 into law. SB-94 combined California's medicinal and adult-use cannabis regulatory frameworks into one licensing structure under MAUCRSA.

Pursuant to MAUCRSA: (1) the California Department of Food and Agriculture, via CalCannabis, issues licenses to cannabis cultivators; (2) the California Department of Public Health, via the Manufactured Cannabis Safety Branch, issues licenses to cannabis manufacturers; and (3) the California Department of Consumer Affairs, via the Bureau of Cannabis Control, issues licenses to cannabis distributors, testing laboratories, retailers, event organizers, and micro-businesses. These agencies also oversee the various aspects of implementing and maintaining California's cannabis landscape, including the statewide track and trace system. All three agencies have begun issuing licenses. Each agency submitted proposed final regulations to the California Office of Administrative Law (the "**OAL**"), and the OAL approved all three agencies' regulations in January 2019.

To operate legally under state law, cannabis operators must obtain a state license and local approval. Local authorization is a prerequisite to obtaining state licensure, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license approval process is not competitive and there is no limit on the number of state licenses an entity may hold. Although vertical integration across multiple license types is allowed under MAUCRSA,

testing laboratory licensees may not hold any other licenses aside from a laboratory license. There are also no residency requirements for ownership under MAUCRSA.

Below is an overview of some of the principal license types issued in California:

- Type 6: authorized to manufacture cannabis products using mechanical or non-volatile solvent extractions.
- Type 7: authorized to manufacture cannabis products using volatile solvent extractions.
- Type N: authorized to manufacture cannabis products (other than extracts or concentrates) using infusion processes, but does not conduct extractions.
- Type P: authorized only to package or repackage cannabis products or relabel the cannabis product container.
- Type 8: authorized to test the chemical composition of cannabis and cannabis products.
- Type 9: authorized to conduct retail cannabis sales exclusively by delivery.
- Type 10: authorized to sell cannabis goods to customers.
- Type 11: authorized to transport and store cannabis goods purchased from other licensed entities, and sell them to licensed retailers, and is responsible for laboratory testing and quality assurance to ensure packaging and labeling compliance.
- Type 13: authorized only to transport cannabis goods between licensed cultivators, manufacturers, and distributors.

In California, at least one U.S. Attorney has made comments indicating a desire to enforce the CSA, stating that the Sessions Memorandum and the rescission of the Cole Memorandum "returns trust and local control to federal prosecutors" to enforce the CSA. These and other so called "enforcement hawks" in California or elsewhere may choose to enforce the CSA in accordance with federal policies prior to the issuance of the Cole Memorandum.

To our knowledge, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in California.

Additional risk factors

In addition to the foregoing U.S. regulatory overview and risk discussion, prospective investors should carefully consider each of the additional Risk Factors set out below before deciding to invest in the Company.

A purchase of securities of the Company is speculative, involving a high degree of risk and should be undertaken only by purchasers whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. An investment in the securities of the Company should not constitute a major portion of an individual's investment portfolio and should be made only by persons who can afford a total loss of their investment. Prospective purchasers should carefully evaluate the following risks associated with an investment in the Company's securities.

These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties may also impair the operations of the Company. If any such risks occur, investors of the Company could lose all or part of their investment; the business, financial condition, liquidity, results of operations and prospects of the Company could be materially affected; and, the ability of the Company to implement its growth plans could be adversely affected.

- Risks related to the United States statutory and regulatory framework

The Company's U.S. cannabis operations are illegal under U.S. federal law and the enforcement of relevant laws is a significant risk.

Under the Federal CSA, cannabis is classified as a Schedule I drug. Even in those states in which the use of cannabis has been legalized under state law, its production, manufacture, processing, possession, distribution, sale and use remains a federal crime. Since U.S. federal law criminalizing cannabis pre-empts state laws that legalize it, strict enforcement of U.S. federal law regarding cannabis would result in our inability to proceed with our business plan. There can be no assurance that the U.S. federal government will not seek to prosecute cases involving cannabis-related businesses, including the business of the Company. Companies and individuals involved with or in our business, including investors, may be exposed to criminal liability, and any real or personal property used in connection with our business could be subject to seizure and forfeiture to the U.S. federal government or its agencies.

As a result of the conflicting views between state legislatures and the U.S. federal government regarding the legality of cannabis, cannabis-related businesses in the United States are subject to inconsistent legislation, regulation and enforcement. Unless and until the United States Congress amends the Federal CSA with respect to cannabis or the Drug Enforcement Agency reschedules or de-schedules cannabis (and there can be no assurance as to the timing or scope of any such potential amendments), there is a risk that U.S. federal authorities may enforce current U.S. federal law, which would adversely affect the Company. As a result of the inconsistency between state and federal law, there are a number of risks associated with the Company's existing and proposed operations in the United States.

- The Company's business is highly regulated and evolving rapidly.

The Company operates in a new industry that is highly regulated and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict

how such risks may result in actual results differing from the results contained in any forward-looking statements.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with applicable regulations may result in additional costs for corrective measures, penalties or restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations or increased compliance costs, or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

- The Company's ability to expand our business to California, Nevada, Canada and other jurisdictions is uncertain.

The Company intends to continue expanding its operations in California, Nevada, Canada and other jurisdictions. The ability of the Company to do so, from both an operational and regulatory perspective, is subject to significant uncertainty and risks. The Company will need to obtain and maintain licenses, permits and other authorizations to operate a business involving cannabis in these jurisdictions, and the Company cannot guarantee it will be able to successfully do so, or the amount of time and resources that will be required to do so. In addition to regulatory uncertainty, we expect the cannabis market in California, Nevada and Canada to be highly competitive. We cannot provide any assurances that we will be able to successfully expand our business to these or other jurisdictions.

The Company does not hold a license in Nevada but has entered into a Management Agreement with a cannabis business licensed in Nevada.

- Laws will continue to change rapidly for the foreseeable future and local laws and ordinances could restrict the Company's business operations.
- Local, state and federal laws and enforcement policies concerning cannabis-related conduct are changing rapidly and will continue to do so for the foreseeable future. There can be no assurance that existing state laws that legalize and regulate the production, sale and use of cannabis will not be repealed, amended or overturned. In addition, local governments have the ability to limit, restrict and ban cannabis-related businesses from operating within their jurisdictions. Land use, zoning, local ordinances, and similar laws could be adopted or changed in a manner that makes it extremely difficult or impossible to transact business in certain jurisdictions. These potential changes in state and local laws are unpredictable and could have a material adverse effect on the Company's business.
- The Company may be subject to heightened scrutiny by Canadian regulatory authorities.

For the reasons set forth herein, the Company's existing investments and operations in the United States, and any future investments and operations, may become the subject of heightened scrutiny by regulators, stock exchanges, third party service providers, financial institutions, depositories and other authorities in Canada and the United States. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this

heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate in the United States, Canada and other jurisdictions.

On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("MOU") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange and the TSX Venture Exchange. The MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures and regulatory oversight of the exchanges and the Canadian Depository for Securities ("CDS") as it relates to issuers with cannabis-related activities in the United States. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the stock exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented at a time when the Company's common shares are listed on a Canadian stock exchange, it would have a material adverse effect on the ability of holders of the Company's common shares to make and settle trades. In particular, the Company's common shares would become highly illiquid until an alternative was implemented, and investors would have no ability to effect a trade of the Company's common shares through the facilities of the applicable stock exchange.

- Banking regulations in the cannabis industry may create significant challenges to the Company's operations.
 - a) Because banks in the U.S. often refuse to provide banking services to businesses involved in the cannabis industry due to the present state of the laws and regulations governing financial institutions, the Company faces unique and significant challenges in operating its business. Canadian banks are likewise hesitant to deal with cannabis companies due to the uncertain legal and regulatory framework of the industry. Therefore, the Company may face a potential lack of a secure place in which to deposit and store cash, the inability to pay creditors through the issuance of checks and the inability to secure traditional forms of operational financing, such as lines of credit.
 - b) The Company's investments in the United States may be subject to applicable U.S. anti-money laundering laws and regulations.
 - c) Under U.S. federal law, it may be a violation of money laundering statutes for financial institutions to take any proceeds from the sale of cannabis or any other Schedule I controlled substance under the Federal CSA. Banks and other financial institutions, particularly those that are federally chartered in the United States, could be prosecuted and possibly convicted of money laundering for providing services to businesses with operations or a connection to cannabis. Therefore, investments held in U.S. banks are subject to seizure by the U.S. federal government.
 - d) If any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the United States were

found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends and could affect other distributions, including the Company's ability to transfer such funds into Canada.

- e) Furthermore, while the Company has no current intentions to declare or pay dividends in the foreseeable future, in the event that a determination was made that the Company's proceeds from operations (or any future operations or investments in the United States) could reasonably be shown to constitute proceeds of crime, the Company may decide, or be required, to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Risks related to the business of the Company

- The Company has limited operating history and faces the risks associated with any new business operating in a competitive industry.

The Company's business was formed in 2016 and has a limited operating history. We have only manufactured and sold products in the State of Oregon, and we have yet to commence manufacturing and sales in California or provide management services in Nevada. We face the general risks associated with any new business operating in a competitive industry, including the ability to fund our operations from unpredictable cash flow and capital-raising transactions. The likelihood of the Company's success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the formation of a new business, the development of a new strategy and the competitive environment in which the Company operates. There can be no assurance that the Company will achieve its anticipated investment objectives or operate profitably.

Any financial projections and business plans that have been disclosed to you (in writing, orally or otherwise) reflect the Company's intentions and estimates, but they may not be realized and are subject to change in all respects.

Any financial projections and business plans that have been disclosed to you were based on a variety of estimates and assumptions, which may not be realized and are inherently subject to significant business, economic, legal, regulatory and competitive uncertainties, many of which are beyond the Company's control. There can be no assurance that any projections and plans that have been disclosed to you will be realized, and actual results may materially differ from such projections and plans.

- The Company will need to raise additional financing to fund its operations and satisfy its obligations.

The continued development of the Company will require additional financing. The Company intends to fund its future business activities by way of additional offerings of equity and/or debt financing, as well as through anticipated positive cash flow from operations in the future. The failure to raise or procure such additional funds or the failure to achieve positive cash flow could result in delays or

failure to obtain our current business objectives. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, will be on terms acceptable to the Company. If additional funds are raised by offering equity securities, existing shareholders could suffer significant dilution. Any debt financing secured in the future could involve the granting of security against assets of the Company and could also contain restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

The OLCC requires pre-approval of investments of US\$ 50,000 or more, which could delay the Company's ability to raise the additional capital it needs to fund its ongoing operations. Under OLCC regulations and existing policy, any equity or debt investment in an OLCC-licensed business of US\$ 50,000 or more is considered a "financial interest", which requires the approval of the OLCC prior to the issuance of the financial interest. The OLCC has also notified the Company that any person investing an amount of US\$ 50,000 or greater must be fingerprinted and pass a criminal background check as part of the pre-approval process. All investors in the proposed offering of convertible promissory notes and warrants by the Company must go through this criminal background check process before investing in the Company. This approval process could lead to delays in the Company's ability to raise the additional capital it needs to fund its ongoing operations, as described below.

- Customers for the Company's U.S. cannabis business are limited.

The customers of our U.S. cannabis business are limited to other licensed cannabis businesses within the states in which we operate. The sale of cannabis and cannabis-related products across state lines in the United States is not permitted. Consequently, we have a limited customer base.

The Company's business is highly competitive.

The regulated cannabis market is intense, rapidly evolving and competitive. There can be no assurance that our competitors, some of which have longer operating histories and more resources than us, will not develop products and services that achieve greater market share than our products and services. Such competitive forces could have a material adverse impact on our business, operating results and financial condition.

- The Company will not be able to deduct many normal business expenses for U.S. federal income tax purposes.

Under Section 280E of the U.S. Internal Revenue Code ("Section 280E"), many normal business expenses incurred in the trafficking of cannabis and its derivatives are not deductible in calculating U.S. federal income tax liability. As a result, businesses that are subject to Section 280E have significantly higher tax expenses than non-Section 280E businesses and often owe federal income taxes even if the business is not profitable. The application of Section 280E likely will have a material adverse effect on the Company's U.S. federal income tax obligations.

- The Company is classified a U.S. domestic corporation for U.S. federal income tax purposes

Although the Company is and will continue to be a Canadian corporation, the Company is classified as a U.S. corporation for U.S. federal income tax purposes under Section 7874(b) of U.S. Internal Revenue Code. As a result, the Company will be subject to U.S. income tax on its worldwide income. Furthermore, the Company will be subject to Canadian income tax on its worldwide income. Consequently, it is anticipated that the Company may be liable for both U.S. and Canadian income tax, which could have a material adverse effect on its financial condition and results of operations.

- Third party service providers could suspend or withdraw services as a result of our cannabis business.

As a result of any adverse change to the approach in enforcement of U.S. cannabis laws, adverse regulatory or political change, additional scrutiny by regulatory authorities, adverse changes in public perception in respect of the consumption of cannabis or otherwise, third party service providers to the Company could suspend or withdraw their services, which may have a material adverse effect on the Company's business, revenues, operating results, financial condition or prospects.

Courts may not enforce the Company's contracts.

It is a fundamental principle of law that a contract will not be enforced if it involves a violation of law or public policy. Because cannabis remains illegal in the United States at the federal level, judges in multiple states have on a number of occasions refused to enforce contracts for the repayment of money when the loan was used in connection with activities that violate U.S. federal law, even if there was no violation of state law. There remains doubt and uncertainty that the Company will be able to legally enforce contracts it enters into, if necessary. The Company cannot be assured that it will have a remedy for breach of contract, which would have a material adverse effect on the Company.

- The Company faces possible competition from synthetic cannabis production and technological advances.

The pharmaceutical industry may attempt to enter the cannabis industry, and in particular, the medical cannabis industry, through the development and distribution of synthetic products that emulate the effects of and treatment provided by naturally-occurring cannabis. If synthetic cannabis products are widely adopted, the widespread popularity of such synthetic cannabis products could change the demand, volume and profitability of the cannabis industry. This could adversely affect the ability of the Company to secure long-term profitability and success through the sustainable and profitable operation of its business.

- There are risks inherent in an agricultural business.

Cannabis is an agricultural product. There are risks inherent in the agricultural business, such as damage to crops caused by insects, plant diseases, pesticide contamination and similar agricultural risks. There can be no assurance that such elements will not have a material adverse effect on the production of the Company's products.

- The Company's success depends on the skills and expertise of its officers, key employees and advisors.

The Company's success substantially depends on the skills, talents, abilities and continued services of our officers, key employees and advisors. There is no guarantee that our officers and employees will manage our business successfully.

The Company's success depends on its ability to hire and retain additional qualified individuals.

The Company's success substantially depends on our ability to hire and retain individuals to implement our business plan. There is no assurance that we will be able to hire or retain qualified individuals, or that the individuals hired will be able to successfully implement our business plan.

- Environmental risk and regulation could adversely affect the Company's operations.

Our operations are subject to environmental regulation in the various jurisdictions in which we operate. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which may require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's business, revenues, operating results, financial condition or prospects.

- The Company may not be successful in obtaining required government approvals and permits.

Government approvals and permits are currently, and may in the future, be required in connection with the Company's operations. To the extent such approvals are required and are not obtained or lapse, the Company may be curtailed or prohibited from its proposed production of medical or adult-use cannabis or from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities, causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or other remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed on it for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing the production of medical and adult-use cannabis, or a more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in expenses, capital expenditures or production costs, could cause a reduction in levels of production or could require abandonment or delays in development.

Public opinion, consumer perception or unfavorable publicity could influence the regulation of the cannabis industry.

Public opinion may also significantly influence the regulation of the cannabis industry in Canada, the United States or elsewhere. Public opinion and support for medical and adult-use cannabis has traditionally been inconsistent and has varied from jurisdiction to jurisdiction. A negative shift in the public's perception of cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation of cannabis. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical and/or adult-use cannabis, thereby limiting the number of new jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, results of operations or prospects.

- The Company could face product liability claims.

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis involves the risk of injury to consumers due to tampering by unauthorized third parties or by product contamination. Previously unknown adverse reactions resulting from human consumption of products sold or marketed by the Company, alone or in combination with other medications or substances, could occur. As a manufacturer, distributor and retailer of adult-use and medical cannabis, or in its role as an investor in, or service provider to, an entity that is a manufacturer, distributor and/or retailer of adult-use or medical cannabis, the Company may be subject to various product liability claims, including, among others, that the cannabis product that caused injury or illness included inadequate instructions for the use of the product, or included inadequate warnings concerning possible side effects of or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the business, results of operations, financial condition or prospects of the Company. There can be no assurances that the Company will be able to maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms or at all. The inability to maintain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products or otherwise have a material adverse effect on the business, results of operations, financial condition or prospects of the Company.

Product recalls could adversely affect the Company's operations. Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. Such recalls can cause unexpected expenses, legal proceedings and the loss of a significant amount of sales. In addition, a product recall may require significant management attention, and the reputation of the

recalled product's brand and the Company could be harmed. Additionally, product recalls can lead to increased scrutiny of operations by applicable regulatory agencies, requiring further management attention and potential legal fees and other expenses.

- Results of future clinical research could influence the regulation of the cannabis industry and may have an adverse effect on the Company's business.

The Company believes the medical and adult-use cannabis industries are highly dependent upon consumer perception regarding the safety, efficacy and quality of cannabis. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research or findings, regulatory investigations, litigation, media attention or other publicity will be favorable to the cannabis industry or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory investigations, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or other publicity could have a material adverse effect on the demand for medical or adult-use cannabis and on the business, results of operations, financial condition, cash flows or prospects of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or associating the consumption of medical and adult-use cannabis with illness or other negative effects or events, could have such a material adverse effect on the business, results of operations or prospects of the Company. There is no assurance that such adverse publicity reports or other media attention will not arise.

- The Company is reliant on key inputs to manufacture its products, and changes in the availability or pricing of such key inputs could adversely affect the Company's operations.

The Company's cannabis business is dependent on a number of key inputs, including raw materials and supplies related to growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition, results of operations or prospects of the Company. Some of these inputs may be available from only a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the Company might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to the Company in the future. Any inability to secure required supplies and services or to do so on reasonable terms could have a material adverse effect on the business, financial condition, results of operations or prospects of the Company.

- The Company may not be able to adequately protect its intellectual property.

The Company has certain proprietary intellectual property, including, but not limited to, brands, trademarks, trade names, trade secrets and proprietary processes. The Company relies on this intellectual property, know-how and other proprietary information, and requires employees, consultants and suppliers to sign confidentiality agreements. However, these confidentiality agreements may be breached, and the Company may not have adequate remedies for such

breaches. Third parties may independently develop substantially equivalent proprietary information without infringing upon any proprietary intellectual property or may otherwise gain access to the Company's proprietary information and adopt it in a competitive manner. Any loss of intellectual property protection may have a material adverse effect on the Company's business, results of operations or prospects.

As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the Federal CSA, the benefit of certain U.S. federal laws and protections which may be available to most businesses, such as federal trademark and patent protection for the intellectual property of a business, may not be available to the Company. As a result, the Company's intellectual property may never be adequately or sufficiently protected against use or misappropriation by third parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Company can provide no assurance that it will ever obtain any protection of its intellectual property, whether on a federal or state level. While many states do offer trademark protection independent of the federal government, patent protection is wholly unavailable on the state level, and state-registered trademarks provide a lower degree of protection than federally-registered marks.

- The Company's insurance coverage may not sufficiently cover claims against the Company.

Although the Company maintains insurance to protect against certain risks in amounts that it considers to be reasonable, our insurance does not cover all the potential risks associated with our operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in our operations are not generally available on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its business, results of operations, financial condition or prospects.

The Company's directors and officers may have a conflict of interest due to their involvement in other businesses.

Certain of the Company's directors and officers of the Company are involved with other business ventures that may be competitive with the Company's business. Situations may arise where the personal interests of these directors and officers conflict with or diverge from the Company's interests. In accordance with applicable corporate law, directors who have a material interest in or who are parties to a material contract or a proposed material contract with the Company are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve such contracts. In addition, directors and officers are required to act honestly with a view to the Company's best interests. However, in conflict of interest situations, the Company's directors and officers may owe the same duty to another company and will need to balance their competing interests

with their duties to the Company. Circumstances (including future corporate opportunities) may arise that may be resolved in a manner that is unfavorable to the Company.

- The Company faces risks associated with potential acquisitions.

As part of the Company's overall business strategy, the Company intends to pursue select strategic acquisitions, which would provide additional product offerings, vertical integrations, additional industry expertise and a stronger industry presence in both existing and new jurisdictions. The success of any such acquisitions will depend, in part, on the ability of the Company to realize the anticipated benefits and synergies from integrating those companies into the businesses of the Company. Future acquisitions may expose the Company to potential risks, including risks associated with: (i) the integration of new operations, services and personnel, (ii) unforeseen or hidden liabilities, (iii) the diversion of resources from the Company's existing business and technology, (iv) potential inability to generate sufficient revenue to offset new costs, (v) the expense of acquisitions, and (vi) the potential loss of or harm to relationships with both employees and existing customers resulting from its integration of new businesses. In addition, any proposed acquisitions may be subject to regulatory approval.

While the Company intends to conduct reasonable due diligence in connection with such strategic acquisitions, there are risks inherent in any acquisition. Specifically, there could be unknown or undisclosed risks or liabilities of such companies for which the Company is not sufficiently indemnified. Any such unknown or undisclosed risks of liability could materially and adversely affect the Company's financial performance and result of operations. The Company could encounter additional transaction and integration related costs or other factors such as failure to realize all of the benefits from the acquisition. All of these factors could cause dilution to the Company's earnings per share or decrease or delay the anticipated accretive effect of the acquisition and cause a decrease in the market price of the Company's shares.

The Company may not be able to successfully integrate and combine the operations, personnel and technology infrastructure of any such strategic acquisition with its existing operations. If integration is not managed successfully by the Company's management, the Company may experience interruptions in its business activities, deterioration in its employee and customer relationships, increased costs of integration and harm to its reputation, all of which could have a material adverse effect on the Company's business, financial condition and results of operations.