

Halo Labs Inc.
Consolidated Financial Statements

For the years ended December 31, 2019 and 2018
Expressed in US dollars

Halo Labs Inc.

Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

Expressed in US dollars

Table of contents

Independent Auditors Report	3
Consolidated Statements of Financial Position	6
Consolidated Statements of Loss and Comprehensive Loss	7
Consolidated Statements of Changes in Shareholders' Equity (Deficiency)	8
Consolidated Statements of Cash Flows	9
Notes to the Consolidated Financial Statements	10

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Halo Labs, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Halo Labs, Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the consolidated financial statements, which indicates that the Company had continued losses and an accumulated deficit as at December 31, 2019. These conditions, along with the other matters set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis and the Annual information Form.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Peter Maloff.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

April 16, 2020

Halo Labs Inc.
Consolidated Statements of Financial Position

Expressed in US dollars

December 31, 2019 **December 31, 2018**

Assets			
Current			
Cash		4,384,131	722,649
Restricted cash	Note 15	1,684,283	-
Marketable securities	Note 6	1,610,257	99,496
Accounts receivable	Note 8	5,597,399	627,815
Inventory	Note 9, 10	7,250,776	8,077,764
Notes receivable	Note 11	1,914,993	704,338
Pre-paid expenses and other	Note 11	1,692,123	619,192
Total current assets		24,133,962	10,851,254
Long-term			
Property, plant and equipment	Note 12	6,655,716	3,768,653
Intangible assets	Note 13	11,198,844	4,772,081
Total long-term assets		17,854,560	8,540,734
Total assets		41,988,522	19,391,988
Liabilities			
Short-term liabilities			
Accounts payable and accrued liabilities		6,997,221	3,943,720
Other loans	Note 17	1,299,372	505,137
Income tax payable	Note 20	553,966	34,447
Sales & cultivation tax payable		-	152,561
Total current liabilities		8,850,559	4,635,865
Long-term liabilities			
Debenture liability	Note 15	6,952,605	-
Lease liability	Note 7	1,554,589	-
Other loans	Note 17	338,439	-
Total long-term liabilities		8,845,633	-
Total Liabilities		17,696,192	4,635,865
Shareholders' equity			
Share capital	Note 16	67,909,461	31,696,972
Share capital reserve	Note 16	5,452,012	5,246,763
Convertible debenture equity reserve		655,090	-
Accumulated other comprehensive income		(589,124)	72,419
Deficit		(49,135,109)	(22,260,031)
Total shareholders' equity		24,292,330	14,756,123
Total shareholders' equity and liabilities		41,988,522	19,391,988

Going concern Note 2

Commitments and contingencies Note 21

Subsequent events Note 22

These notes are an integral part of the consolidated financial statements

Approved on behalf of the Board of Directors:

Kiran Sidhu

CEO and Director

Philip van den Berg

CFO and Director

Halo Labs Inc.
Consolidated Statements of Loss and Comprehensive Loss

Expressed in US dollars

		<i>For the year ending:</i>	
		<i>December 31, 2019</i>	<i>December 31, 2018</i>
Revenue		28,148,488	10,898,277
Cost of finished cannabis inventory sold	Note 9, 10	25,262,113	10,990,078
Gross profit (loss), excluding fair value items		2,886,375	(91,801)
Unrealized fair value gain (loss) on growth of biological assets	Note 10	222,666	(176,393)
Gross profit (loss)		3,109,041	(268,194)
Operating expenses			
General and administration		5,086,112	2,652,976
Salaries		4,654,804	1,615,713
Professional fees		9,946,007	2,051,618
Sales and marketing		2,782,148	1,838,619
Investor relations		1,819,992	320,712
Loss on settlements and contingencies	Note 16, 21	1,277,880	-
Share based compensation	Note 16	1,405,665	1,208,500
Loss before undernoted items		(23,863,567)	(9,956,332)
Accretion expense		862,849	143,029
Fair value gain/loss on intangibles	Note 11, 13	2,739,742	(134,463)
Listing expenses		-	2,917,096
Gain on sale of investments	Note 11	(100,001)	(56,169)
Gain on sale of subsidiary	Note 11	(1,288,565)	-
Depreciation	Note 12, 13	799,495	48,452
Foreign exchange (gain)/loss		(600,749)	33,994
Interest expense		1,133,398	898,184
Loss before income taxes		(27,409,736)	(13,806,455)
Deferred income tax expense (recovery)	Note 20	(369,001)	-
Income tax expense / (recovery)	Note 20	576,400	(88,659)
Net loss		(27,617,135)	(13,717,796)
Other comprehensive income			
Unrealized loss on foreign currency translation		661,543	(72,419)
Comprehensive loss		(28,278,678)	(13,645,377)
Net loss per share, basic and diluted:		\$ (0.14)	\$ (0.22)
Weighted average number of outstanding common shares, basic and diluted:		196,491,587	62,501,637

These notes are an integral part of the consolidated financial statements

Halo Labs Inc.
Consolidated Statements of Change in Shareholders' Equity
Expressed in US Dollars

		Common shares	Common shares \$	Options \$	Warrants \$	Convertible conversion option \$	Accumulated OCI \$	Deficit \$	Total \$
Shareholders' equity, December 31, 2017		27,468,955	5,443,337	806,926	2,917,909	150,193	-	(8,692,428)	625,937
ANM shares repurchased and cancelled	Noe 16	(832,528)	(199,485)	-	-	-	-	-	(199,485)
Restricted shares issued to ANM shareholders	Noe 16	8,969,258	-	-	-	-	-	-	-
Shares issued on conversion of 2017 convertible	Note 15	9,771,981	1,797,835	-	-	-	-	-	1,797,835
Shares issued on conversion of 2018 convertible	Note 15	26,120,191	1,894,355	-	-	-	-	-	1,894,355
Shares issued on conversion of loans by related parties	Noe 16	7,885,884	1,450,833	-	-	-	-	-	1,450,833
Shares issued to Apogee shareholders	Noe 16	8,975,607	2,773,459	-	-	-	-	-	2,773,459
Warrants issued to Apogee warrant holders	Noe 16	-	-	-	4,547	-	-	-	4,547
Shares issued in Apogee offerings	Noe 16	36,414,620	11,204,498	-	-	-	-	-	11,204,498
Shares issued in Pre-RTO regulated offering	Noe 16	32,658,734	10,014,177	-	-	-	-	-	10,014,177
Share issue costs	Noe 16	-	(2,462,624)	-	-	-	-	-	(2,462,624)
Share-based compensation	Noe 16	-	-	732,406	476,094	-	-	-	1,208,500
Shares issued on exercise of warrants and options	Noe 16	67,500	11,942	-	(519)	-	-	-	11,423
Brokers' and finders' warrants issued	Noe 16	-	(309,400)	-	309,400	-	-	-	-
Recognition of equity component	Note 15	-	-	-	-	78,045	-	-	78,045
Conversion of convertible debt	Note 15	-	78,045	-	-	(78,045)	-	-	-
Reversal on settlement of debt	Note 15	-	-	-	-	(150,193)	-	150,193	-
Net loss and other comprehensive loss		-	-	-	-	-	72,419	(13,717,796)	(13,645,377)
Shareholders' equity (deficiency) December 31, 2018		157,500,202	31,696,972	1,539,332	3,707,431	-	72,419	(22,260,031)	14,756,123

		Common shares	Common shares \$	Options \$	Warrants \$	Convertible conversion option \$	Accumulated OCI \$	Deficit \$	Total \$
Shareholders' equity, December 31, 2018		157,500,202	31,696,972	1,539,332	3,707,431	-	72,419	(22,260,031)	14,756,123
Adjustment to retained earnings, IFRS 16 implementation	Note 3, 4	-	-	-	-	-	-	(109,373)	(109,373)
Share issuance in private placements	Note 16	16,126,376	3,784,656	-	-	-	-	-	3,784,656
Shares issued for acquisitions	Note 16	46,782,672	10,925,936	-	-	-	-	-	10,925,936
Shares issued to retire debt	Note 16	8,408,417	3,045,126	-	-	-	-	-	3,045,126
Shares issued as finders' fees	Note 16	558,246	284,201	-	-	-	-	-	284,201
Equity reserve for debenture	Note 15	-	-	-	-	1,867,273	-	-	1,867,273
Shares issued on conversion of debenture	Note 15	13,029,153	6,335,508	-	-	(841,964)	-	-	5,493,544
Share issue costs	Note 16	-	(109,400)	-	-	(370,219)	-	-	(479,619)
Share-based compensation for services	Note 16	28,298,209	8,574,616	-	147,002	-	-	-	8,721,618
Share-based compensation for staff	Note 16	3,698,142	1,298,307	684,119	-	-	-	-	1,982,426
Shares issued on exercise of warrants and options	Note 16	4,896,145	1,737,639	(64,072)	(55,117)	-	-	-	1,618,450
Shares issued on conversion of broker warrants	Note 16	973,753	335,900	-	344,747	-	-	-	680,647
Forfeiture warrants and options	Note 16	-	-	(509,762)	(341,668)	-	-	851,430	-
Net loss and other comprehensive loss		-	-	-	-	-	(661,543)	(27,617,135)	(28,278,678)
Shareholders equity, December 31, 2019		280,271,315	67,909,461	1,649,617	3,802,395	655,090	(589,124)	(49,135,109)	24,292,330

These notes are an integral part of the consolidated financial statements

Halo Labs Inc.
Consolidated Statements of Cash Flow

Expressed in US dollars

For the year ending:

December 31, 2019 December 31, 2018

Cash provided by (used in)

Operating activities:

Net loss (27,617,135) (13,717,796)

Items not involving cash

Depreciation	Note 12	1,667,927	653,149
Accrued interest		1,133,398	898,184
Accretion expense		862,849	143,029
Gain in fair value of biological assets	Note 10	(222,666)	(176,393)
Gain in foreign exchange		(600,750)	59,437
Loss on sale of investment		(100,001)	-
Loss on settlements and contingency	Note 16, 21	1,277,880	-
Gain on sale of subsidiary	Note 11	(1,288,565)	-
Deferred income tax expense (recovery)		(369,001)	-
Fair value gain/loss on intangibles and embedded derivatives	Note 11, 13	2,739,742	(134,463)
Unrealized change in fair value of marketable securities		-	(21,022)
Realized change in fair value of marketable securities		-	(56,344)
Transaction expense in relation to reverse take-over		-	2,917,096
Share based payments for goods and services		7,130,220	-
Share-based compensation	Note 16	1,405,665	1,208,500

Changes in working capital items

Accounts receivable	Note 8	(4,913,096)	(79,679)
Notes receivable		77,909	(193,501)
Accounts payable and accrued liabilities		3,204,568	1,169,523
Income tax payable	Note 20	366,958	(275,320)
Other liabilities		(56,488)	-
Inventory	Note 9, 10	1,049,653	(4,270,648)
Pre-paid expenses and other		(470,188)	(453,136)

Cash used in operating activities (14,721,121) (12,329,384)

Investing activities

Intangibles	Note 13	(690,212)	(1,477,834)
Purchase of property, plant and equipment	Note 12	(1,351,076)	(1,915,949)
Cash acquired on reverse -takeover transaction		-	19,884
Disposal of equipment		-	170,731
Proceeds on sale of marketable securities		186,472	30,038

Cash used in investing activities (1,854,816) (3,173,130)

Financing activities

Issuance of common shares & convertible debentures	Note 15, 16	24,119,432	20,647,286
Repayment of convertible debentures and loans		-	(2,103,754)
Lease payments		(718,111)	-
Share issuance costs	Note 16, 21	(1,479,619)	(2,462,624)

Cash and convertible debt raised in finance activities 21,921,702 16,080,908

Change in cash in during the year 5,345,765 578,394

Cash, beginning of the year 722,649 144,255

Cash end of year 6,068,414 722,649

Supplemental information: Notes 15, 17

These notes are an integral part of the consolidated financial statements

1. Nature of operations and background information

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

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

The merger and plan of reorganization became effective on September 28, 2018, when the newly incorporated subsidiary of Apogee, Apogee Opportunities (USA), Inc. amalgamated with ANM, and Apogee acquired 100% of the shares of the amalgamated entity, and the resulting issuer changed its name from Apogee to Halo Labs Inc. (“Halo Labs” or the “Company”) and continued with the business of ANM.

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

These consolidated financial statements present the financial position of the resulting issuer, Halo Labs at December 31, 2019 and 2018. Unless otherwise stated, all amounts in these financial statements have been presented in US dollars.

2. Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue its operations and will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The ability of the Company to continue as a going concern is dependent on generating profitable operations, raising additional financing, and continuing to manufacture its products. Having been prepared giving effect to the going concern assumption, these financial statements do not reflect any adjustments to the carrying values of assets and

liabilities and the reported amounts of expenses and classifications on the statement of financial position that would be necessary if the going concern assumption was not appropriate.

Historically, management has been successful in obtaining enough funding for operating and capital requirements.

- On March 29, 2019, the Company filed a short form prospectus in connection with a best effort offering of convertible debenture units of the Company at a price of \$1,000 per initial unit. The Company raised \$15,842,620 (C\$21,163,000), and after fees, proceeds were \$13,229,175 (C\$18,188,293). As at December 31, 2019, \$1,684,283 remains held in escrow at the transfer agent for future interest payments on the debenture (Note 15.2).
- On September 18, 2019, the Company entered into an unsecured debt financing agreement with a private lender for a principal amount of up to C\$10,000,000. The Agreement is for an initial twelve months term with interest accruing at a rate of 9%. At December 31, 2019, the balance owing on the debt financing was C\$1,000,000 excluding accrued interest. The Company has the ability to extend the initial term for an additional 12 months at an interest rate of 13% following the initial term (Note 17).
- On October 17, 2019, the Company closed a private placement raising total gross proceeds of \$3,003,129 (C\$3,965,843) and on December 31, 2019, the Company closed a second private placement with gross proceeds of \$769,842 (C\$1,000,000) (Note 16).

As at December 31, 2019, the Company had continued losses and an accumulated deficit. There is no assurance that the Company will generate profits from operations or that additional future funding will be available to the Company, or that such funding will be both adequate to cover its obligations and available on terms which are acceptable to the management of the Company over the long term.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

In the United States, 33 states, the District of Columbia, and the U.S. territories of Guam and Puerto Rico allow the use of medical cannabis. The District of Columbia and eleven states - Alaska, California, Colorado, Illinois, Maine, Massachusetts, Michigan, Nevada, Oregon, Vermont and Washington legalized the sale and adult-use of recreational cannabis. At the federal level, however, cannabis currently remains a Schedule I controlled substance under the Federal Controlled Substances Act of 1970 ("Federal CSA"). Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, even in those states in which marijuana is legalized under state law, the manufacture, importation, possession, use or distribution of cannabis remains illegal under U.S. federal law. This has created a dichotomy between state and federal law, whereby many states have elected to regulate and remove state-level penalties regarding a substance which is still illegal at the federal level. There remains uncertainty

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

These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

3. Basis of preparation

3.1 Basis of presentation and statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements have been authorized for release by the Company's Board of Directors on April 16, 2020.

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

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

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

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

Subsidiaries of Halo Labs Inc.	December 31, 2019	December 31, 2018
ANM, Inc.	100%	100%
AccuDab Medical Instruments Inc.	100%	0%
Coastal Harvest, LLC	100%	100%
Halo AccuDab Holdings Inc. (formerly Precisa Medical Instruments Corp.)	100%	0%
Halo DispensaryTrack Software Inc. (formerly CannPos Services Corp.)	100%	0%
Halo Labs (USA) Holdings Inc.	100%	0%
HLO Peripherals LLC	100%	0%
HLO Ventures (NV), LLC	100%	100%
Industrial Court L13, LLC	100%	0%
Industrial Court L9, LLC	100%	100%
PSG Coastal Holdings, LLC	100%	100%
Minera Cachinal S.A.	0%	80%

3.2 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 recoverable amount or carrying amount 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 (Note 20).

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.

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 10.

Useful lives of property, plant and equipment

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 transactions as asset acquisitions or business combinations

Management has had to apply judgment relating to the reverse takeover transaction between ANM and Apogee with respect to whether the acquisition was a business combination or an asset acquisition (Note 5). 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. Management took a similar approach with the recent acquisitions of Industrial Court L13, LLC, CannPos Services Corp. and Precisa Medical Instruments Inc. (Note 13).

Determination of purchase price allocations and intangible assets

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

Contingencies

Refer to Notes 2 and 21.

3.3 New standards adopted and changes in accounting policies

IFRS 16 Leases

The Company has adopted IFRS 16 Leases effective January 1, 2019 using the retrospective approach.

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is or contained a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease as explained in Note 7.

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

As a lessee

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

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

Impact on transition

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

IFRS 16 impact on leases as at January 1, 2019

Assets:	
Right-of-use assets presented in property, plant and equipment	\$ 2,422,857
Liabilities:	
Lease liabilities	2,532,230
Difference added to deficit	<u>\$ (109,373)</u>

When measuring lease liabilities for leases that were previously classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied was 14.72%.

IFRIC 23 Uncertainty over income tax treatments

IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, *Income taxes*, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes

about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 became effective for fiscal years beginning on or after January 1, 2019, with earlier application permitted. The Company has adopted this interpretation as of its effective date and has assessed no significant impact as a result of the adoption of this interpretation.

3.4 New standards and interpretations to be adopted in future periods

At the date of authorization of these financial statements, the IASB and 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.

IAS 1 Presentation of Financial Statements (Amendment)

In October 2018, the IASB issued amendments to IAS 1 which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in February 2019. The amendments clarify the definition of material and how it should be applied, as well as align the definition of material across IFRS standards and other publications. The amended definition of material states:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. Earlier application is permitted. The Company is in the process of evaluating the impact of IAS 1 on the Company's financial statements.

4. Summary of significant accounting policies

4.1 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and short-term deposits with original maturities of three months or less. As at December 31, 2019 and 2018, there were no cash equivalents.

4.2 Foreign currency

Foreign currency transactions are translated into U.S. dollars at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to U.S. dollars at the foreign exchange rate applicable at that date. Realized and unrealized exchange gains and losses are recognized through profit or loss. Non-

monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Assets and liabilities of foreign operations are translated into U.S. dollars at year-end exchange rates and any revenue and expenses are translated at the average exchange rate for the year. The resulting exchange differences are recognized in other comprehensive income.

4.3 Inventory

Inventory is valued at the lower of cost and net realizable value. Cost comprises all costs of purchases and other costs incurred in bringing inventories to their location and condition at period end date. The Company uses the weighted average method to track and cost inventory items. The Company maintains three categories of inventory: raw materials, work-in-process and finished goods inventory.

Inventory is written down to net realizable value by item when a decline in the price of items indicates that the cost is higher than the net realizable value. When events having caused a decline in the valuation of inventories no longer exist, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value.

Inventories of harvested work-in-process and finished goods are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventories for resale and supplies and consumables are valued at the lower of costs and net realizable value, with cost determined using the average cost basis.

4.4 Biological assets

The Company's biological assets consist of cannabis plants. The Company capitalizes the direct and indirect costs incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labor related grow costs, grow consumables, materials, utilities, facilities costs, quality and testing costs, and production related depreciation. The Company then measures the biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost after harvest. Costs to sell include post-harvest production, shipping and fulfillment costs. The net unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the results of operations of the related year on the line "unrealized fair value gain (loss) on growth of biological assets".

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 with third party qualified valuers to perform the valuation when the assets are expected to be material.

The significant assumptions used in determining the fair value of the biological assets are as follows:

- stage in the overall growth cycle;
- estimated harvest yield by plant; and
- average selling prices.

The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield or quality will be reflected in future changes in the gain or loss on biological assets.

4.5 Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and any accumulated impairment losses. Expenditures are capitalized if future economic benefits will arise from the expenditures. All other expenditures, including repair and maintenance, are recognized in the statement of income (loss) as incurred.

Depreciation is charged to the statement of operations based on the cost, less estimated residual value, of the asset on a straight-line basis over its estimated useful life. Depreciation commences when the asset is placed into service. Estimated useful lives have been determined as follows:

Useful life of assets

Production equipment	1-15 years
Leasehold improvements	3-20 years
Office equipment	2-20 years

Property, plant and equipment are amortized over the estimated useful life of the asset. Changes in the estimated useful lives could significantly increase or decrease the amount of amortization recorded during the period.

4.6 Accounts payable and accrued liabilities

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the Company has a present obligation, and the costs to settle this obligation are both probable and able to be reliably measured.

4.7 Convertible debentures

Convertible debentures are separated into debt and equity components based on the fair value of each component at the date of issue. The value of the debt component is calculated at the estimated fair value of the future interest and principal payments due under the terms of the convertible

debentures, with the residual value assigned to the equity component.

Transaction costs directly related to the debt component reduce the carrying value of the convertible debentures. Transaction costs related to the equity component of convertible debentures are recognized in the value of the equity component, net of deferred income tax. After initial recognition, the liability component of convertible debentures is measured at amortized cost using the effective interest rate method and is accreted up to its face value. The equity component is not re-measured after initial recognition. For convertible debentures in which the conversion feature is determined to be an embedded derivative liability, the embedded derivative liability is valued first, with the residual value assigned to the debt component of the instrument at inception.

Transaction costs allocated to the embedded derivative component are recognized in profit or loss. An embedded derivative liability is recognized at fair value with changes in fair value recognized in profit or loss.

4.7 Related party transactions

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating policy decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered a related party transaction when there is a transfer of resources or obligations between related parties.

4.8 Revenue recognition

Revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods or services. The Company applies the following five-step analysis to determine whether, how much and when revenue is recognized: (1) Identify the contract with the customer; (2) Identify the performance obligation in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to the performance obligation in the contract; and (5) Recognize revenue when or as the Company satisfies a performance obligation.

Revenue from the sale of cannabis related products is recognized at a point in time when control over the goods has been transferred to the customer. Payment is receivable upon transfer of the goods and revenue is recognized upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control upon delivery and acceptance by the customer, the timing of which is consistent with the Company's previous revenue recognition policy.

The Company has adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). 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 consolidated financial statements and there were no adjustments required to be recognized at January 1, 2018.

4.9 Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares. Basic earnings (loss) per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise warrants and share options issued. For the years presented, this calculation proved to be anti-dilutive.

4.10 Taxation

The Company follows the deferred tax method of accounting for income taxes. Under this method of tax allocation, deferred tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary timing differences). Deferred tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantively enacted. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Offsetting of deferred tax assets and liabilities occurs when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The Company is subject to US Internal Revenue Code ("IRC") Section 280E. This section disallows deductions and credits attributable to a trade or business trafficking in controlled substances. Under US tax, cannabis is a Schedule I controlled substance. The Company has taken the position that any costs included in the cost of goods sold should be treated as amounts eligible for full absorption rules IRC Section 471.

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgements in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs after the issuance of the financial statements.

4.11 Financial instruments

The Company adopted all the requirements of IFRS 9 Financial Instruments ("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.

Adoption IAS 39 and IFRS 9 as of January 1, 2018

	IAS 39	IFRS 9
Assets		
Cash and investments	Fair value through profit or loss	Fair value through profit or loss
Accounts receivable	Fair value through profit or loss	Fair value through profit or loss
Marketable securities	Fair value through profit or loss	Fair value through profit or loss
Notes receivable	Amortized costs	Amortized costs
Liabilities		
Accounts payable	Amortized costs	Amortized costs
Long-term debt	Amortized costs	Amortized costs
Other loans	Amortized costs	Amortized costs
Convertible debentures	Amortized costs	Amortized costs

Financial assets

The Company will now classify its financial assets in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI"), or at amortized cost. The determination of the classification of financial assets is made at initial recognition. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL; for other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI.

The Company's accounting policy for each of the categories is as follows:

- Financial assets at FVTPL: Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of financial assets held at FVTPL are included in the statement of (loss) income in the period.
- Financial assets at FVTOCI: Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive (loss) income as they arise.
- Financial assets at amortized cost: A financial asset is measured at amortized cost if the objective

of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

- Impairment of financial assets at amortized cost: The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

Cash, restricted cash and marketable securities are classified as FVTPL. Accounts receivable and notes receivable are measured at amortized cost with subsequent impairments recognized in profit or loss.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

Fair value through profit or loss – This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

Other financial liabilities - This category includes accounts payable and accrued liabilities, other loans, other financial liabilities, convertible debentures and lease obligation that do not meet the requirements of IFRS 15 and IFRS 16, all of which are recognized at amortized cost using the effective interest method.

Transaction costs in respect of financial instruments at fair value through profit or loss are recognized in the statement of operations and comprehensive loss immediately, while transaction costs associated with all other financial instruments are included in the initial measurement of the financial instrument.

Accounts payable and accrued liabilities, other loans, other liabilities, debenture liability, lease liability and other financial liabilities are classified as amortized cost and carried on the consolidated statement of financial position at amortized cost.

4.12 Share capital

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of tax, from the proceeds. The Company may issue units including common shares and warrants. To value these units, the Company uses residual value method. Under this method the Company values the common share, the easier component to value, and assigns the residual value to the warrant.

4.13 Intangible assets

Intangible assets consist of licenses, brand names, software and intellectual property. Acquired intangibles are carried at cost less accumulated amortization and impairment. Intangible assets with indefinite lives are not amortized but are reviewed annually for impairment. Any impairment of intangible assets is recognized in the statement of operation and comprehensive loss but increases in intangible asset values are not recognized.

The Company uses the following useful lives to amortize its intangible assets:

- Licenses – Nevada – 20 years
- Licenses – California – 15 years
- Brand names – 5 years
- Software – 5 years
- Intellectual property – 5 years

Estimated useful lives of intangible assets with finite lives are the shorter of the economic life and the period the right is legally enforceable. The assets' useful lives are reviewed, and adjusted if appropriate, at each financial reporting date. At each financial position reporting date, the carrying amounts of the Company's long-lived assets, including property and equipment and intangible assets, are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

5. Reverse acquisition

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

On September 28, 2018, the merger and plan of reorganization became effective through a three-way amalgamation, pursuant to which Apogee acquired all the outstanding shares of capital stock of ANM by way of a merger between Apogee Opportunities (USA), Inc. and ANM. Apogee Opportunities (USA) Inc., is a wholly-owned subsidiary of Apogee incorporated in the State of Delaware. The resulting issuer changed its name from Apogee to Halo Labs and continued with the business of ANM. Apogee did not meet the definition of a business under IFRS 3.

The fair value, of the acquisition of 8,975,607 shares of Apogee at a fair value per share of \$0.31 (C\$0.40) and 1,123,077 warrants with fair value \$0.004 was \$2,778,006. The purchase price allocation of the merger

and plan of reorganization includes net liabilities assumed of \$139,090, resulting in a listing expense of \$2,917,096.

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

6. Marketable securities

At December 31, 2018, the Company had marketable securities valued at \$99,496. In 2019, these marketable securities were sold for total proceeds of \$194,310. A realized gain of \$100,001 was recorded on the sale.

The carrying value of marketable securities consist of:

Marketable securities

	Carrying value
Balance December 31, 2017	\$ -
Additions	99,496
Balance December 31, 2018	\$ 99,496
Additions	1,705,071
Transaction costs	-
Dispositions	(194,310)
Balance December 31, 2019	\$ 1,610,257

On December 9, 2019, the Company completed its investment in Ukiah Ventures Inc. ("Ukiah"). Pursuant to the transaction, (i) Halo and Ukiah entered into a share purchase agreement in which Halo acquired 1,333,333 common shares in the capital of Ukiah in exchange for 5,940,000 common shares of Halo. The

Ukiah shares acquired by Halo represent a 17.5% interest in Ukiah. The Halo shares issued pursuant to the transaction were issued at a fair value of \$1,570,657 (C\$2,079,000) (Note 16). At December 31, 2019, the investment was revalued at the year-end exchange rate of 1.2988 CAD/USD to \$1,600,709. Transaction costs of \$9,548 (C\$12,402) were also included in the cost of the investment. Certain directors of Halo own an aggregate of 45,303 Ukiah shares, representing approximately 0.6% of the issued and outstanding Ukiah shares following completion of the transaction.

7. Leases

The Company has applied IFRS 16 using the retrospective approach. The impact of changes is disclosed in Note 3.3. IFRS 16 introduces a single on-balance sheet accounting model for lessees. As a result, the Company has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

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

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

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

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

On initial recognition, the carrying value of the lease liability also includes:

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

Right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability,

reduced for any lease incentives received, and increased for:

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

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

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

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

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

Lease liabilities

Balance as at December 31, 2018	-
Adoption of IFRS 16	\$ 2,532,230
Additions	-
Adjustments	(195,815)
Payments	(718,111)
Interest expense	345,750
Balance as at December 31, 2019	1,964,054
Current portion	409,465
Long-term portion	1,554,589

Right of use of assets

Balance as at December 31, 2018	-
Adoption of IFRS 16	\$ 2,422,857
Additions	417,200
Adjustments	97,873
Amortization	(503,437)
Balance as at December 31, 2019	2,434,493

For the year ended December 31, 2019 the Company incurred expenses of \$79,698 related to variable lease payments not included in lease liabilities.

On January 15, 2019, the Company extended the term on its second manufacturing facility in Cathedral City, CA from five years to ten years. The extension increased right of use assets by \$417,200.

8. Accounts receivable

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

Accounts receivable

As at:	December 31, 2019	December 31, 2018
1 - 30 days	\$ 1,640,290	\$ 497,919
30 - 60 days	493,010	75,850
60 - 90 days	46,348	54,046
> 90 days	3,417,751	-
Total	\$ 5,597,399	\$ 627,815

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

over 90 days is \$3,260,203 due from Mendo Distribution and Transportation, LLC which was acquired subsequent to December 31, 2019 (Note 22).

Accounts receivable

As at:	<i>December 31, 2019</i>	<i>December 31, 2018</i>
Accounts receivable - trade	\$ 6,209,267	\$ 721,469
Bad debt provision	(611,869)	(93,654)
Total accounts receivable	\$ 5,597,399	\$ 627,815

9. Inventory

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

The Company allocates various production and overhead costs and expenses to inventory items. As such, the cost of inventory is recognized as an expense, and included in cost of goods sold for the year ended December 31, 2019, in the amount of \$18,320,461 (2018: \$4,574,036) and valued at cost. Direct product costs are valued on a weighted average basis and major production cost such as labor and testing are allocated to inventory.

Inventory by class

As at:	<i>December 31, 2019</i>	<i>December 31, 2018</i>
Raw materials	\$ 2,218,084	\$ 2,122,432
Work in progress	2,465,084	4,398,221
Finished goods	2,052,300	1,557,111
Biological assets	515,308	
Total	\$ 7,250,776	\$ 8,077,764

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

10. 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. Biological assets are measured at their fair value less costs to sell in the statement of financial position. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are all subsequently recorded within the line item 'cost of finished cannabis inventory sold' on the consolidated statement of loss and comprehensive loss in the period that the related product is sold. Unrealized fair value gains/losses on growth of biological assets are recorded in a separate line in the consolidated statement of loss and comprehensive loss.

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

Change in carrying value of biological assets

Balance at December 31, 2017	\$	-
Production costs		957,985
Costs to sell due to biological transformation		(176,393)
Transferred to inventory upon harvest		(781,592)
<hr/>		
Balance at December 31, 2018	\$	-
Production costs		978,778
Costs to sell due to biological transformation		(362,344)
Transferred to inventory upon harvest		(616,434)
<hr/>		
Balance at December 31, 2019	\$	-

During the 2019 harvest, the Company harvested 2,572 cannabis plants (2018: 2,281 plants), with a realized yield of 15,910 pounds of biomass (2018: 5,527 Lbs) and an average yield per plant of 6.2 Lbs (2018: 2.4 Lbs). All material was transferred to the Company and used for processing and direct sales of flower to third parties. The fair value of biological assets produced during the year ended December 31, 2019 was \$1,366,694 (2018: \$618,181) based on actual output.

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;
- Costs to complete and sell: testing costs for bud (\$17/Lb), sales margin (2.5%), distribution (\$28/Lb for bud, \$5.60/Lb for trim), costs to complete (\$28.65/Lb for bud, \$20.76/Lb for trim);
- Post-harvest costs: calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants. Post-harvest, consisting of the cost of direct and indirect materials and labor related to labelling and packaging.

The table below shows the assumptions used in the biological assets model.

Significant assumptions utilized in cannabis plant model

	Year ending December 31, 2019		Year ending December 31, 2018	
	Bud	Trim	Bud	Trim
Bud vs. trim ratio of harvest output (dried)	16%	84%	19%	81%
Expected selling price per pound	\$ 450.00	\$ 90.00	\$ 300.00	\$ 115.00
Total Costs to sell	\$ 129.92	\$ 37.62	\$ 144.34	\$ 3.17
Total fair value less costs to sell	\$ 320.08	\$ 52.38	\$ 155.66	\$ 111.83

The table below shows the impact of a 10% increase and a 10% decrease on the fair valuation of cannabis plants biologicals assets as at December 31, 2019:

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

Assumption:	10% pos change	10% neg change
Change in expected yields for cannabis plants	\$ 62,742	\$ (62,742)
Change in weighted average number of growing weeks completed	62,742	(62,742)
Change in estimated selling price	57,038	(57,038)
Change in after harvest costs to complete and sell	6,478	(6,478)
Change in distribution margin	1,426	(1,426)

11. Prepaid expenses and other receivables

Included in prepaid expenses and other is the lease buydown of one of the Company's leased facilities in California. The terms of the lease state that lease payments are to commence once Cathedral City grants a Conditional Use Permit sufficient to allow the Company to conduct business at the location. The permit has not yet been obtained, as such the ROU asset and lease liability have not been recorded.

On June 22, 2018, the Company (formerly Apogee Opportunities Inc.) entered an agreement to sell 222,070 shares of Minera Cachinal S.A. ("Minera"), being approximately 80% of the issued shares in the capital of Minera, to Aftermath Silver Ltd. ("Aftermath"). On November 2, 2019, (the "Closing"), Halo Labs Inc. received a convertible debenture from Aftermath valued at C\$1,575,000 in consideration for the sale and transfer of the shares. The Company had recorded net liabilities of \$101,787 for its investment in Minera, resulting in a gain of \$1,288,565 on the sale.

Prepaid expenses and other receivables

As at:	December 31, 2019	December 31, 2018
Prepaid expenses and other	1,692,123	619,192
Notes receivables	1,914,993	704,338
Total	\$ 3,607,116	\$ 1,323,530

The debenture agreement provides the following payment schedule:

- \$250,000 at the Closing;
- \$250,000 on or before six months following the Closing;
- \$525,000 on or before the first anniversary of the Closing; and
- \$550,000 on or before 18 months following the Closing.

The debenture can be converted to Aftermath shares on notice to Aftermath prior to each of the payment dates.

The value of the conversion feature was calculated using the Black-Scholes model with the following assumptions:

Black-Scholes assumptions for convertible

	<i>Dec 31 2019</i>	<i>Nov 02 2019</i>
Risk free rate: 5-7 years	1.66%	1.66%
Expected life	1.5 years	1.3 years
Expected volatility	155%	155%
Expected dividend per share	Nil	Nil
Share price	\$ 0.23	\$ 0.40
Liquidity discount	64%	64%

On November 2, 2019, the conversion feature was valued at \$256,328.

Change in carrying value of convertible promissory note

Balance at December 31, 2018	\$	-
Additions		1,212,658
Payments received		(384,971)
Fair value gain/(loss) on conversion feature		335,849
Balance at December 31, 2019	\$	1,163,536

Notes receivable as at December 31, 2019 were \$1,914,993 (2018: \$704,338). In addition to the Aftermath convertible promissory note, notes receivable includes amounts due from an executive of the Company in the amount of \$126,546 (2018: \$Nil), a note receivable from a founding shareholder of \$NIL (2018: \$17,632) and from a supplier to the Company in the amount of \$624,911 (2018: \$686,706). The note receivable due from the executive of the Company is unsecured, interest-bearing and requires repayment in 2020; the note receivable from the supplier is non-interest bearing, unsecured and due on demand.

12. Property, plant and equipment

Property, plant and equipment

	Production equipment	Leasehold improvements	Office equipment	Leased assets	Total
Cost:					
Balance as at December 31, 2017	\$ 1,369,350	\$ 1,542,365	\$ 36,351	\$ -	\$ 2,948,066
Additions	934,380	944,757	36,812	-	1,915,949
Reclassifications	553,450	(569,949)	16,499	-	-
Dispositions	(101,990)	(129,113)	-	-	(231,103)
Balance as at December 31, 2018	\$ 2,755,190	\$ 1,788,060	\$ 89,662	\$ -	\$ 4,632,912
Additions	1,073,130	269,956	7,990	2,937,930	4,289,006
Dispositions	(34,988)	-	-	-	(34,988)
Balance as at December 31, 2019	\$ 3,793,332	\$ 2,058,016	\$ 97,652	\$ 2,937,930	\$ 8,886,930
Accumulated depreciation:					
Balance as at December 31, 2017	(443,035)	(53,975)	(6,364)	-	(503,374)
Depreciation	(289,647)	(123,012)	(8,598)	-	(421,257)
Dispositions	60,372	-	-	-	60,372
Balance as at December 31, 2018	(672,310)	(176,987)	(14,962)	-	(864,259)
Depreciation	(638,876)	(205,094)	(24,462)	(503,437)	(1,371,869)
Dispositions	4,914	-	-	-	4,914
Balance as at December 31, 2019	\$ (1,306,272)	\$ (382,081)	\$ (39,424)	\$ (503,437)	\$ (2,231,214)
Net book value:					
Net book value December 31, 2018	2,082,880	1,611,073	74,700	-	3,768,653
Net book value December 31, 2019	\$ 2,487,060	\$ 1,675,935	\$ 58,228	\$ 2,434,493	\$ 6,655,716

Balances at December 31, 2018 have been adjusted to reflect a reclassification of equipment. \$553,450 of leasehold improvements were reclassified to production equipment and \$16,499 of leasehold improvements were reclassified to office equipment. There was no change to total depreciation. Total depreciation expense for the year ended December 31, 2019 was \$1,371,869 (2018: \$421,257). Amounts totaling \$868,432 (2018: \$372,805) were recognized as costs of goods sold and \$315,632 (2018: \$48,452) as operating expenses.

13. Intangible assets

Intangibles					
	Licenses and Facility Option	Brand names	Software	Intellectual property	Total
Cost:					
Balance as at December 31, 2017	\$ 2,129,219	\$ 1,225	\$ -	\$ -	\$ 2,130,444
Additions	3,807,320	7,209	-	-	3,814,529
Purchase agreement modification	(941,000)	-	-	-	(941,000)
Impairment	-	-	-	-	-
Balance as at December 31, 2018	\$ 4,995,539	\$ 8,434	\$ -	\$ -	\$ 5,003,973
Additions	2,535,475	220	4,229,394	3,280,402	10,045,491
Impairments	-	-	(2,115,436)	(1,019,430)	(3,134,866)
Balance as at December 31, 2019	\$ 7,531,014	\$ 8,654	\$ 2,113,958	\$ 2,260,972	\$ 11,914,598
Accumulated amortization:					
Balance as at December 31, 2017	-	-	-	-	-
Amortization	(230,804)	(1,088)	-	-	(231,892)
Balance as at December 31, 2018	(230,804)	(1,088)	-	-	(231,892)
Amortization	(482,152)	(1,710)	-	-	(483,862)
Balance as at December 31, 2019	\$ (712,956)	\$ (2,798)	\$ -	\$ -	\$ (715,754)
Net book value:					
Net book value December 31, 2018	4,764,735	7,346	-	-	4,772,081
Net book value December 31, 2019	\$ 6,818,058	\$ 5,856	\$ 2,113,958	\$ 2,260,972	\$ 11,198,844

Total amortization expense for the year ended December 31, 2019 of \$483,862 (2018: \$231,892) was recognized in operating expenses.

Medford, Oregon

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

Cathedral City, California

During the year ended December 31, 2017, the Company signed a membership interest purchase

agreement for the purchase of a volatile extraction license for Cathedral City, California. The transaction was recorded as an asset acquisition. The purchase price of the license was \$2,000,000. The license is renewed each year. The Company made a down payment of \$100,000 and issued convertible promissory notes for the balance of \$1,900,000 (Note 15). The value of the consideration and transaction costs were attributed to the intangible assets in the amount of \$2,129,219, and to prepaid expenses in the amount of \$33,850 for certain lease deposits acquired in the same transaction. During the year ended December 31, 2018, the Company entered into an amended agreement to terminate certain intangibles acquired as part of this 2017 transaction and to reduce the promissory notes payable from \$1,900,000 to \$959,500. The Company repaid these promissory notes in October 2018.

Also, during the year ended December 31, 2018, the Company signed a membership interest contribution agreement which includes two pending licenses for manufacturing and distribution in Cathedral City, California in consideration for Pre-RTO notes totaling \$2,000,000 (Note 17). The Company incurred \$15,890 in transaction costs on this transaction. The resulting total of \$2,015,890 was capitalized to intangible assets.

On March 5, 2019, the Company acquired a 100% interest in Industrial Court L13, LLC, a California limited liability company which is party to a sublease (as subtenant) for a facility in Cathedral City, California for total consideration of \$2,535,475 consisting of 7,324,816 common shares of the Company valued at \$2,459,826 and other costs of \$75,649. As part of the consideration for the issuance of the common shares to the vendors, the vendors also caused the sub-landlord of the premises to eliminate the obligation of one of the Company's indirect subsidiaries to pay production rent.

Las Vegas, Nevada

During the year ended December 31, 2018, the Company entered into a definitive agreement for the purchase of: (i) a Nevada Marijuana Product Manufacturing License, (ii) a Nevada Medical Marijuana Cultivation Establishment certificate, (iii) a Nevada Marijuana Cultivation Facility license, (iv) a Nevada Medical Marijuana Production Establishment license; and (v) rights under a certain conditional approval for a Nevada Marijuana Distributor license (collectively, the "Nevada Marijuana Licenses"), together with certain property, plant and equipment used in the operations of the businesses operating under or in connection with the Nevada Marijuana Licenses. The agreement contemplates total payments required to be made of \$4,900,000. As the timing and ability to transfer the licenses is dependent on approval from certain regulatory authorities, the Company has only capitalized payments made. The Company paid \$500,000 as a non-refundable deposit on signing the term sheet, issued \$1,291,430 in Pre-RTO Notes payable (Note 17) and made additional payments of \$39,654 in 2019. The total payments of \$1,831,084 were capitalized to intangible assets. The remaining payments required to complete the transaction are \$3,068,916.

Halo DispensaryTrack Software Inc.

On October 11, 2019, the Company, through its newly created wholly owned subsidiary, Halo DispensaryTrack Software Inc., acquired CannPos Services Corp. ("CannPos"). Total consideration for the acquisition was \$4,229,394, consisting of 18,785,714 common shares valued at \$3,698,821 and closing

costs of \$530,573. The fair market value of the transaction was C\$0.26. The transaction was recorded as an asset acquisition. The total value was attributed to intangible assets as the company's sole asset was its software under development. The Company also granted the vendors 1,250,000 performance share units, each exercisable into one common share if the holders develop and make available a software application on or before October 11, 2020. The value of these performance share units will be recorded on satisfaction of the performance condition. Because the intangible asset was not available for use as at December 31, 2019, the carrying value was compared to the recoverable amount and tested for impairment. This test was based on a depreciated replacement cost model using level 3 inputs. An impairment loss of \$2,115,436 was recorded as at December 31, 2019.

Halo AccuDab Holdings Inc.

On December 31, 2019, the Company, through its newly created wholly owned subsidiary, Halo AccuDab Holdings Inc., acquired Precisa Medical Instruments Corp. ("Precisa"). Total consideration for the acquisition was \$3,280,402 consisting of 13,392,857 common shares valued at \$2,887,281 and closing costs of \$393,121. The fair market value of the transaction was C\$0.28. The transaction was recorded as an asset acquisition. The total value was attributed to intangible assets as the company's sole asset was the intellectual property related to the Accu-Dab THC and CBD oil oral delivery device under development. At December 31, 2019, the carrying value was compared to the recoverable amount and tested for impairment. This test was based on a depreciated replacement cost model using level 3 inputs. An impairment loss of \$1,019,431 was recorded for the year ended December 31, 2019.

14. Related party relationships, transactions and balances

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

Compensation key executives

	For the year ending:	
	December 31, 2019	December 31, 2018
Salaries, commissions, bonuses, consulting fees	\$ 559,968	\$ 1,021,167
Share-based compensation	1,593,672	480,843
Total	\$ 2,153,640	\$ 1,502,010

In the year ended December 31, 2019, remuneration to executives including share-based compensation was \$2,153,640 (2018: \$1,502,010). Note, the table above lists all share-based compensation received by key executives, which includes shares issued in lieu of salary which are recorded as salaries in the consolidated statement of loss. Options and warrants were granted on May 12, 2017, September 28, 2018 and December 19, 2019 to staff, directors and consultants. Options and warrants granted to employees and directors vest over a period of two years. Share-based compensation is recognized on a graded vesting basis and is expensed and included in operations.

As at December 31, 2019, due from shareholders and related parties is \$126,546 (2018: \$42,306) in relation to a note receivable from an executive of the Company (see Note 11). As at December 31, 2019, due to shareholders and related parties was \$342,997 (2018: \$918,113), related to accrued salaries to certain board members and executives of the Company which are to be issued in shares as well as business expenses incurred by related parties.

Related parties

As at:	<i>December 31, 2019</i>	<i>December 31, 2018</i>
Due from shareholders and other related parties	\$ 126,546	\$ 42,306
Due to directors, officers and their close family	375,941	686,654
Accounts payable and accrued liabilities due to related parties	5,047	231,459

During 2019 the Company issued promissory notes in the aggregate principal amount of \$1,700,000 bearing interest at a rate of 15% per annum and maturing on December 31, 2019. Certain promissory notes were issued to related parties.

On April 4, 2019, the promissory note financings were converted into the 2019 debenture. Of the total gross debenture proceeds, \$200,000 (C\$271,000) related to the conversion of promissory financings by related parties. At December 31, 2019, all convertible debt issued to related parties had been converted to Halo shares and issued to the convertible debtholders.

15. Convertible debentures

15.1 Conversion of convertible debentures and promissory notes in 2018

Continuity 2017 convertible debentures

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

During the year ended December 31, 2017, the Company issued convertible debentures in four tranches. The note purchase agreement was dated July 13, 2017. Interest at a rate of 12% on these debentures is computed monthly and, at the Company's discretion, may be accrued or paid monthly. In the event the Company consummates a qualifying equity financing, the outstanding principal and any accrued and unpaid interest under this issuance automatically converts into common shares at a

price per share equal to 95% of the price per share paid by cash investors in the qualifying equity financing. The discount was amended to 60% of the price paid by cash investors on January 8, 2018. The conversion feature of the convertible debt is considered an embedded derivative liability because the conversion price varies based on the conversion date and closing sales price of the Company's common shares. As at September 28, 2018, the convertible debentures automatically converted as all conditions of the proposed merger and plan of reorganization between ANM and Apogee were met. As at December 31, 2018, the embedded derivative liability was classified as a current liability on the statement of financial position at a fair value of \$Nil.

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

Continuity 2017 convertible debentures

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

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

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

15.2 2019 Debentures

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 C\$1,000 per initial unit for gross proceeds of \$15,842,620 (C\$21,163,000). Each convertible debenture unit was comprised of one unsecured convertible debenture with an 8% coupon of the Company in the principal amount of C\$1,000 with interest payable semi-annually on June 30 and December 31 of each year, commencing June 30, 2019, and maturing 36 months from the closing date, and 770 warrants, each warrant being exercisable for a period of 24 months following the closing date to purchase one common share of the Company at an exercise price of C\$0.90 per warrant, subject to adjustment in certain events.

Continuity 2019 convertible debenture

Convertible debenture - April 4, 2019	\$ 15,842,620
Brokers fees	(1,060,034)
Legal and other fees	(1,553,411)
Convertible debenture after fees	\$ 13,229,175
Value of the equity component at issue	\$ (1,867,273)
Liability portion of conversions in the year	(5,488,967)
Interest paid	(612,785)
Accretion of loan discount	862,849
Accrued interest	633,140
Foreign exchange gain	196,466
Balance December 31 , 2019	\$ 6,952,605

Each convertible debenture is convertible into common shares of the Company at a price of C\$0.65 per debenture share at the option of the holder at any time prior to the earlier of either the last business day immediately preceding the maturity date or the business day immediately preceding the date specified for redemption of the convertible debentures upon a change of control, subject to acceleration in certain events. Beginning on the date that is four months and one day following the closing date, the Company may force the conversion of the principal amount of the then outstanding convertible debentures at the conversion price on not less than 30 day notice should the daily volume-weighted average trading price of the Company's outstanding common shares on the NEO Aequitas Exchange be equal to or greater than C\$1.35 per common share for the preceding 10 consecutive trading days. On April 4, 2019, the Company issued 21,163 debentures for total gross proceeds of \$15,842,620 (C\$21,163,000). As at December 31, 2019, 8,469 debentures were converted into 13,029,153 common shares of the Company and 12,694 debentures were in issue. Pursuant to the prospectus agreement, the Company is required to hold in escrow, funds sufficient to cover interest payment to December 31, 2020. These funds are recorded as restricted cash on the consolidated statement of financial position. At December 31, 2019 the Company had sufficient funds in escrow for these interest payments.

16. Share capital

16.1 Share capital

Authorized shares

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

Fiscal 2019

- 13,029,153 common shares were issued following conversion of the 2019 convertible debenture (Note 15.2);
- 4,896,145 common shares were issued for proceeds of \$1,618,450 as a result of warrant and option exercises. A loss of \$471,023 was recorded on 1,250,000 shares issued on the exercise of warrants in which funds were not received as at December 31, 2019. While the Company believes it will receive these funds, there is no certainty to the amount or timing of any payment (Note 21);
- 973,753 shares were issued for proceeds of \$335,900 on exercise of broker warrants;
- 28,298,209 common shares were issued in relation to services provided to the Company by contractors valued at \$8,574,616, included in the statement of change in equity;
- 8,408,417 common shares valued at \$3,045,126 were issued for repayment of debt of \$2,238,169 resulting in a loss on settlement of \$806,957;
- 3,698,142 common shares value at \$1,298,307 were issued to staff in lieu of salaries. Of these, 1,380,077 common shares valued at \$721,547 were included in share based compensation and 2,318,065 valued at \$576,760 were included in salaries expense;
- 558,246 common shares valued at \$284,201 were issued as finders' fees.

On March 5, 2019, the Company closed the acquisition of Industrial Court L13, LLC, for total consideration of \$2,535,475 consisting of 7,324,816 common shares of the Company valued at \$2,459,826 and other costs of \$75,649.

On October 11, 2019, the Company closed its acquisition of CannPos Services Corp., issuing 18,785,714 valued at \$3,698,821 (C\$4,884,286). The Company also closed the first tranche of its concurrent financing, issuing 9,677,420 shares for gross proceeds of \$2,283,455 (C\$3,000,000).

On October 17, 2019, the Company closed the second tranche of its concurrent financing, issuing 3,115,622 common shares for gross proceeds of \$731,259 (C\$965,843). The Company also issued 3,997,648 shares as payment for services to certain staff and consultants valued at \$832,342, included in professional expenses.

On December 9, 2019, the Company issued 5,940,000 common shares valued at \$1,570,657 (C\$2,079,000) in exchange for a 17.5% interest in Ukiah (Note 6).

On December 31, 2019, the Company closed its acquisition of Precisa, issuing 13,392,857 common shares valued at \$2,887,281. The Company also issued 1,339,285 finders' shares valued at \$309,351 as part of the transaction and closed a concurrent financing, issuing 3,333,334 for gross proceeds of \$769,942 (C\$1,000,000).

As at December 31, 2019, the Company had 280,271,315 shares in issue including 3,300,428 common shares in escrow (2018: 12,301,308).

Fiscal 2018

On September 28, 2018, 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 15). On conversion of these debentures the Company increased share capital by \$1,797,835 and \$1,894,355 respectively. An equity component of the 2018 convertible debentures of \$78,045 was recognized during the year on issuance, then adjusted to share capital on conversion of the debentures. Further, 7,885,884 common shares were issued on conversion of related party loans (Note 16). On conversion, the Company increased share capital by \$1,450,833.

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

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

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

management were valued at a nominal value and subject to escrow provisions on conversion. The 6,644,643 RSUs granted to consultants were valued at \$0.31 (C\$0.40) per share for a total of \$2,759,772 and vested immediately. During the year ended December 31, 2018, the Company redeemed 832,528 common shares. Share capital was reduced pro-rata by \$199,485.

16.2 Share purchase warrants

Warrants issued and outstanding as at December 31, 2019

Expiry date	Term - years	Warrants granted	Warrants vested	Exercise price US\$	Description
30-May-20	2.00	28,922,297	28,922,297	\$0.38	Warrant
18-Jun-20	0.75	5,000,000	1,000,000	\$0.23	Warrant
28-Sep-20	2.00	1,687,766	1,687,766	\$0.31	Broker warrants
30-Sep-20	2.00	616,500	616,500	\$0.31	Warrant
31-Dec-20	2.00	86,631,179	86,631,179	\$0.62	Warrant
31-Dec-20	2.00	963,441	963,441	\$0.62	Broker warrants
04-Apr-21	2.00	1,891,938	1,891,938	\$0.50	Broker warrants
04-Apr-21	2.00	16,295,010	16,295,010	\$0.69	Warrant
14-May-21	3.00	405,000	405,000	\$0.17	Warrant
30-Sep-21	3.00	625,000	625,000	\$0.38	Warrant
30-Sep-21	3.00	100,000	100,000	\$0.62	Warrant
14-May-23	5.00	135,000	135,000	\$0.59	Warrant
30-Sep-23	5.00	300,000	300,000	\$0.31	Warrant
27-Sep-24	6.00	625,000	562,500	\$0.31	Warrant
10-Oct-27	10.00	712,500	712,500	\$0.08	Warrant
11-May-27	10.00	6,243,750	6,243,750	\$0.67	Warrant
Total	0.75-10 years	151,154,381	147,091,881	\$0.56	

During the year ended December 31, 2018, 123,070,457 warrants with average exercise price \$0.56 (C\$0.74) were granted and 1,410,000 warrants with exercise price \$0.48 (C\$0.53) were forfeited.

On September 9, 2019, the Company announced that the warrants issued in connection with the Company's private placement which closed on June 29, 2018 and business combination which closed on October 2, 2018 were approved for listing on the NEO Exchange. The Warrants commenced trading on September 11, 2019 under the symbol HLO.WT.A.

On September 18, 2019, 5,000,000 warrants with exercise price of \$0.23 (C\$0.295) were granted in relation to a C\$10,000,000 line of credit received by the Company. The warrants only vest as funds are drawn on the line of credit and expire on June 30, 2020. 1 warrant vests for each CAD dollar drawn up to a maximum of 5,000,000 warrants. At December 31, 2019, 1,000,000 warrants have

vested, and Nil have been exercised.

During the year ended December 31, 2019, 28,835,027 warrants with average exercise price \$0.55 (C\$0.71) were granted, 5,519,273 warrants with average exercise price \$0.34 (C\$0.44) were exercised, while 2,014,080 warrants with average exercise price \$1.80 (C\$2.34) were forfeited. Included in the warrants granted were 2,768,501 ANM Pre-RTO \$0.38 (C\$0.50) warrants and 1,915,637 ANM Pre-RTO \$0.62 (C\$0.80) granted on February 27, 2019 which were not issued with the earlier ANM Pre-RTO warrants at the time of the RTO due to a calculation error in converting from ANM to Halo warrants.

During the year ended December 31, 2019, 963,441 warrants with exercise price \$0.62 (C\$0.80) were issued to brokers, on exercise of 963,441 broker warrants with exercise price \$0.32 (C\$0.40), which were issued in conjunction with the Apogee offering in 2018.

Warrants outstanding

	<i>Year ended Dec. 31, 2019</i>		<i>Year ended Dec. 31, 2018</i>	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of year	129,852,707	\$ 0.57	8,259,750	\$ 0.67
Granted	28,835,027	\$ 0.55	123,070,457	\$ 0.56
Exercised	(5,519,273)	\$ 0.34	(67,500)	\$ 0.17
Forfeited	(2,014,080)	\$ 1.80	(1,410,000)	\$ 0.48
Outstanding, end of year	151,154,381	\$ 0.55	129,852,707	\$ 0.56

The Company recognized no share-based compensation in warrants during the year ended December 31, 2019 (2018: \$476,094) and \$148,041 in share-based payments issued for services for the year ended December 31, 2019 (2018: \$Nil). As at December 31, 2019, the weighted average exercise price of each Halo Labs warrant granted is \$0.55 (2018: \$0.56). the weighted average remaining contractual life of the warrants is 1.21 years (2018: 1.90 years).

Assumptions used for the calculation of the grant date fair value of warrants granted during the years ended December 31, 2019 and 2018 are:

Black-Scholes assumptions for warrants

	<i>12 months ended December 31,</i>	
	<i>2019</i>	<i>2018</i>
Risk free rate:	1.51% - 2.62%	1.99% - 2.40%
Expected life	0.75 - 2 years	2 - 6 years
Expected volatility	70% - 100%	70%
Expected dividend per share	Nil	Nil
Share price	\$0.23 - \$0.61	\$0.17 - \$0.62

16.3 Options

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

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

Options outstanding

	<i>Year ended Dec. 31, 2019</i>		<i>Year ended Dec. 31, 2018</i>	
	<i>Number of options</i>	<i>Weighted average exercise price</i>	<i>Number of options</i>	<i>Weighted average exercise price</i>
Outstanding, beginning of year	12,170,251	\$ 0.36	2,713,500	\$ 0.67
Issued	2,162,000	\$ 0.23	10,311,433	\$ 0.31
Exercised	(350,625)	\$ 0.30	-	\$ -
Forfeited/cancelled	(4,709,317)	\$ 0.34	(854,682)	\$ 0.64
Outstanding, end of year	9,272,309	\$ 0.35	12,170,251	\$ 0.37

On September 28, 2018, 10,311,433 options with an exercise price of \$0.31 (C\$0.40) and expiring on the date that is six years from the date of issuance were granted to employees and consultants with a weighted average fair value of options granted of \$0.15 (C\$0.19) using the Black-Scholes Option Pricing Model. Options granted vest over a period of two years on a quarterly basis.

On December 19, 2019, 2,162,000 options with an exercise price of \$0.23 (C\$0.30) and expiring on

the date that is five years from the date of issuance were granted to employees with a weighted average fair value of options granted of \$0.19 (C\$0.25) using the Black-Scholes Option Pricing Model. Options granted vest over a period of two years on a quarterly basis.

During the year ended December 31, 2018, 854,682 options with exercise price \$0.64 (C\$0.84) were forfeited.

During the year ended December 31, 2019, 4,709,317 options were forfeited as employees left the Company, 350,625 options with exercise price \$0.30 (C\$0.40) were exercised.

The Company recognized \$684,118 in share-based compensation related to options vesting during the year ended December 31, 2019 (2018: \$732,406). The following table summarizes information regarding stock options outstanding by exercise price and number of options exercisable as at December 31, 2019. Actual exercise prices are in Canadian dollars.

Options outstanding by exercise price - December 31, 2019

Grant Date	Exercise price	Issued & outstanding	Exercisable
May 12, 2017	\$ 0.67	1,525,500	1,525,500
September 28, 2018	\$ 0.31	5,584,809	3,490,503
December 19, 2019	\$ 0.23	2,162,000	540,500
Total		9,272,309	5,556,503
Weighted average life (years)		5.2	
Weighted average exercise price		\$ 0.35	

The assumptions used for the calculation of the fair value of options at grant date during the years ended December 31, 2019 and 2018, are:

Black-Scholes assumptions for options

	<i>12 months ended December 31,</i>	
	2019	2018
Risk free rate: 5-7 years	1.68%	2.40%
Expected life	5 years	6 years
Expected volatility	100%	70%
Expected dividend per share	Nil	Nil
Share price	\$0.20	\$0.31

16.4 Performance Share Units

On October 11, 2019 the Company granted the vendors of CannPos 1,250,000 performance share units. Each performance share unit is exercisable into one common share for no additional consideration if the holders develop a software application and it make available to the Company on or before October 11, 2020 (Note 13).

17. Other loans

Continuity other loans			
	Short-term	Long-term	Total
Balance December 31, 2017	\$ 1,543,744	\$ -	\$ 1,543,744
Additions	1,343,161	-	1,343,161
Interest	309,961	-	309,961
Repayments	(1,240,896)	-	(1,240,896)
Conversion to shares	(1,450,833)	-	(1,450,833)
Balance December 31, 2018	505,137	-	505,137
Additions	4,447,574	338,439	4,786,013
Interest payable and accrued interest	44,508	-	44,508
Repayments	(3,697,847)	-	(3,697,847)
Balance December 31, 2019	\$ 1,299,372	\$ 338,439	\$ 1,637,811

AV Oregon LLC loan

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

Shareholder loans - 2017

As at December 31, 2017, the Company had shareholder loans outstanding of \$1,543,744. The loans were subject to interest rates between 12-24% and matured December 28, 2018. Additional loans were issued during the year ended December 31, 2018 with similar terms on receipt of \$843,161 in proceeds. Interest was recognized during the year ended December 31, 2018 of \$309,961. Upon the completion of the merger and plan of reorganization, \$1,450,833 was converted into 7,885,884 common shares of the Company. The remaining loans and interest of \$1,240,896 were repaid prior to December 31, 2018, with \$Nil owing at year end.

Pre-RTO notes

During the year ended December 31, 2018, the Company issued Pre-RTO notes with principal balances of \$10,014,177. Pre-RTO notes of \$6,607,789 were issued on receipt of proceeds. A further \$3,281,250 in Pre-RTO notes were issued as payments regarding the Company's intangible asset agreements (Note 15). The notes accrued interest at 10% and were due on December 28, 2018 or mandatorily convertible at C\$0.40 on completion of the merger and plan and reorganization. On completion of the merger and plan of reorganization, the balance of \$10,014,177, including interest at \$138,423, were converted into 32,658,734 common shares, 32,658,734 warrants exercisable at C\$0.80 for two years, and 29,535,069 warrants exercisable at C\$0.50 for two years.

Shareholder loans - 2018

As at December 31, 2018, the Company owed \$505,137, regarding loans received of \$500,000 and interest of \$5,137, to executives, directors and close family. The interest rate charged is 15% per year. The loans mature December 31, 2019. On April 4, 2019, these loans were replaced as part of the company's 2019 convertible debenture issuance (see below).

Other loans – 2019

During 2019, the Company issued promissory notes in the aggregate principal amount of \$1,700,000 bearing interest at a rate of 15% per annum and maturing on December 31, 2019. On April 4, 2019, the promissory note financings were converted into the 2019 debenture.

In May 2019, the Company received three installments totaling \$1,492,710 of a short-term loan with interest payable of 8% per year paid monthly in arrears. The loan was converted to 5,911,222 common shares which were issued on September 6, 2019. The fair value of the shares was \$1,782,279, resulting in a loss on settlement of debt of \$289,569.

As at December 31, 2019, the Company owed \$1,031,649 regarding new loans received during the year. \$769,941 relates to funds drawn on the Company's C\$10,000,000 line of credit. Interest on the line of credit is 9% per year and is paid monthly in arrears. The remaining balance of \$261,707 relates to vendor financing of raw materials purchases in California.

Sale and leaseback – Xtraction Services Inc.

On November 25, 2019, the Company executed the sale and leaseback of production equipment at its California subsidiary, Coastal Harvest, LLC. The lease term is three years with buyback options after 18 months and at the end of the lease. Total cash received was \$600,000. Transaction costs incurred were \$23,000. Due to the buyback options provided to the Company in the contract, the sale and leaseback did not meet the definition of a sale per IFRS 15. As such, the agreement was classified as a financing arrangement and the lease payments were recorded as a financial liability. At December 31, 2019, \$223,216 of the financial liability was included in the short-term portion of other loans and \$338,439 was included in the long-term portion of other loans.

18. Capital management

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

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

Capital structure

As at:	<i>December 31, 2019</i>	<i>December 31, 2018</i>
Shareholders' equity	\$ 24,292,330	\$ 14,756,123
Long-term loans	6,952,605	-
Short-term loans	1,299,372	505,137

Management does not establish quantitative return on capital criteria. However, management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is appropriate. At December 31, 2019, the Company is not subject to any externally imposed capital requirements.

19. Financial instruments

19.1 Fair value of financial instruments

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

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

The Company has designated its cash and restricted cash as Level 1. The fair value of the notes receivable from Aftermath and the fair value of convertible promissory notes at time of issue are determined using Level 3 of the hierarchy.

At December 31, 2019, both the carrying and fair value amounts of all the Company's financial instruments are approximately equivalent.

19.2 Financial instrument risk exposures

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, restricted cash, accounts receivable and notes receivable. The amounts disclosed in the statement of financial position are net of allowance for doubtful accounts, estimated by the management of the Company based on its assessment of the current economic environment. The Company does not have significant exposure to any individual customer, with the exception of \$3,260,203 due from Mendo which was acquired subsequent to December 31, 2019 (Note 22). The Company's maximum exposure to credit risk as at December 31, 2019 is the carrying value of cash, restricted cash, accounts receivable, and notes receivable. The Company believes that there is limited risk that notes receivables are not settled. The Company takes a provision to allow for accounts receivable not being settled, which it believes is enough.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying its financial obligations. The Company manages its liquidity risk by forecasting its operations and anticipating its operating and investing activities. As at December 31, 2019, the Company had current assets of \$24,133,962 (2018: \$10,851,254) and current liabilities of \$8,850,558 (2018: \$4,635,865). All current liabilities are due within one year.

Financial liabilities - December 31, 2019

	Accounts payable and accrued liabilities	Loans	Total
Carrying value	\$ 6,997,221	\$ 8,251,977	\$ 15,249,198
1 - 30 days	3,497,141	451,044	3,948,185
30 - 60 days	433,850	32,000	465,850
60 - 90 days	736,091	224,485	960,576
> 90 days	2,330,139	7,544,448	9,874,587

Market risk

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

Interest rate risk

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

Foreign currency risk

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

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk and a change in the price of cannabis. The Company is not exposed to significant other price risk.

20. Taxation

The Company reconciles the expected income tax expense the corporate head office statutory income tax rate of 27% to the amount recognized in the statement of operations. The Company's income tax expense is calculated based on gross profits not including 280E deductions.

The Company's US income is apportioned to the State of Oregon, Nevada and California, as there are no revenues in other states. The production and sale of marijuana and related products for medical purposes is legal in the State of Oregon and therefore normal business expenses are deductible at the state level. The tax rate in the State of Oregon is the greater of 6.6% or the corporate gross receipts minimum tax.

Internal Revenue Code ("IRC") Section 280E denies, at the US federal level, deductions and credits attributable to a trade or business trafficking in controlled substances. Case law shows that "cost of goods sold" has been permitted as a deduction in determining taxable income. Because the Company is subject to IRC Section 280E, the Company has computed its US tax based on gross receipts less cost of goods sold. The tax provision for the year ended December 31, 2019, has been prepared based on the assumption "cost of goods sold" is a valid expense for income tax purposes.

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

Income tax reconciliation	December 31, 2019	December 31, 2018
Loss for the year	\$ (27,409,737)	\$ (13,806,455)
Expected income tax (recovery)	(7,457,000)	(3,635,000)
Change in statutory, foreign tax, and foreign exchange rates	127,000	59,000
Permanent differences and other	1,980,000	3,236,000
Share issue cost	(29,000)	(637,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	32,000	-
Change in unrecognized deductible temporary differences	5,554,000	888,341
Total income tax expense (recovery)	\$ 207,000	\$ (88,659)
Current income tax expense (recovery)	\$ 576,000	\$ 51,341
Deferred tax expense (recovery)	\$ (369,000)	\$ (140,000)

The significant components of the Company's temporary differences, unusual tax losses that have not been included on the consolidated statement of financial position are as follows:

Temporary differences	December 31, 2019	Expiry date range	December 31, 2018	Expiry date range
Property and equipment	\$ 942,000	No expiry date	\$ 864,000	No expiry date
Share issue costs	3,141,000	2040 to 2043	1,887,000	2039 to 2042
Lease liability	2,032,000	No expiry date	-	No expiry date
Intangible assets	3,482,000	No expiry date	232,000	No expiry date
Allowable capital losses	71,000	No expiry date	-	No expiry date
Non-capital losses available for future periods	14,985,000	2038 to 2039	579,000	2038

21. Commitments and contingencies

The Company has commitments under certain leases for its facilities. On January 1, 2019, the Company adopted IFRS 16 Leases (Note 7) and now records a right-of-use asset for each lease commitment that meet the requirements of the policy. The table below provides undiscounted cash payments required for those right-to-use assets as well as other commitments that do not meet the definition of a lease.

Committed lease obligations

	Amount due
2020	\$ 1,135,020
2021	737,025
2022	507,279
2023	333,775
2024	336,320
2025	338,917
2026	341,565
2027	472,941
2028	340,066

The Company is party to legal proceedings and other claims in the ordinary course of its operations. Management commitments, litigation and other claims are subject to many uncertainties and the outcome of individual matters is not predictable. Where management can estimate that there is a loss probable, a provision has been recorded in its financial statements. Where proceedings are at a premature stage or the ultimate outcome is not determinable, no provision is recorded. It is possible that the final resolution of these matters may require the Company to make expenditures in a range of amounts that cannot be reasonably estimated and may differ significantly from any amounts recorded in these condensed interim consolidated financial statements. Should the Company be unsuccessful in its defense or settlement of one or more of these legal actions, there could be a materially adverse effect on the Company's financial position, future expectations, and cash flows.

On February 6, 2020, the Company, as plaintiff, filed a statement of claim against its transfer agent, Odyssey Trust Company ("Odyssey"), as defendant. The Corporation is claiming damages for an alleged error that Odyssey made while issuing certain Warrants. As a result of the alleged error, a subscriber that was entitled to receive warrants was erroneously issued the common shares underlying such warrants, without having paid the exercise price for such common shares. As a result, the Company is seeking damages in the amount of \$549,980 (C\$714,315), being the amount it would have been entitled to receive upon the exercise of such warrants, and such other costs as the court may deem appropriate.

22. Subsequent events

Bophelo bioscience & Wellness

On November 27, 2019, the Company signed a definitive agreement for a proposed acquisition of Bophelo Bioscience & Wellness (Pty) Ltd in exchange for 43,712,667 common shares of Halo. The closing of the Transaction is subject to certain customary conditions, including the receipt of all necessary approvals, including local Lesotho regulatory approvals.

Mendo Distribution and Transportation, LLC

On January 9, 2020, the Company acquired Mendo Distribution and Transportation, LLC (“MDT”) for an aggregate of 20,907,553 Halo common shares which were priced at C\$0.315, being the volume-weighted average trading price of Halo shares for the period ending on the close of markets on November 19, 2019, and representing the aggregate consideration of \$4,950,300. Of Halo's shares, 8,446,985 were issued to the sole member of MDT at closing, while the remaining 12,460,568 were to be held in escrow. Of the escrowed Halo shares, 4,223,492 of the Halo shares will be held for a period of 12 months and subject to a claw back provision to protect from any unforeseen or undisclosed liabilities, while the other escrowed Halo shares will be released in twelve equal monthly instalments.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

Purchase price allocation

	Book value	Adjustments	Fair value
Accounts receivable	\$ 113,955	\$ (44,715)	\$ 69,240
Inventory	5,006,798	(1,237,719)	3,769,079
Fixed assets	20,598	(4,828)	15,770
Goodwill	-	7,020,062	7,020,062
Accounts Payable	(4,726,957)	11,303	(4,715,654)
Other liabilities	(1,208,197)	-	(1,208,197)
Net purchase price	\$ (793,803)	\$ 5,744,103	\$ 4,950,300

The fair value of consideration paid for 20,907,553 Halo common shares was \$4,095,300. Pursuant to IFRS 3, acquisition costs are expensed. Acquisition costs incurred to December 31, 2019 were \$103,426. Additional acquisition costs have not been finalized.

The purchase price allocation for acquisitions reflect the various fair value estimates which are subject to change within the measurement period. The primary areas of purchase price allocation that are subject to change relate to the fair values of certain tangible assets, the valuation of intangible assets acquired, and residual goodwill. Measurement period adjustments the Company determines to be material will be applied retrospectively to the period of acquisition in the Company's consolidated financial statements and, depending on the nature of the adjustments, other periods subsequent to the period of acquisition could also be affected.

Outer Galactic Chocolates LLC

On January 15, 2020, the Company exercised MDT's option to purchase Outer Galactic Chocolates LLC (OGC), holder of a Type N manufacturing license. Pursuant to the terms of the transaction, the sole owner of all membership interests of OGC is expected to be issued 1,982,979 shares of Halo common shares

based on a purchase price of US \$500,000 and 30-day VWAP of Halo commons shares of \$0.25 per share. The transaction is expected to be recorded as an asset acquisition.

High Tide Inc.

On February 14, 2020, the Company announced that it had completed an asset purchase agreement with High Tide Inc. for purchase of three licensed retail cannabis stores, five development permits to build new cannabis stores in Alberta, and a number of trademarks, copyrights and digital assets. The total purchase price is expected to be C\$12 million payable in common shares of Halo Labs Inc. On February 18, 2020 the Company issued 13,461,538 common shares as a deposit per the terms of the agreement. The Company also issued a total of 2,307,692 shares as finders' fees valued at 5% of the total deal value. The Transaction is subject to the review and approval of the Alberta, Gaming, Liquor, and Cannabis Commission ("AGLC") and the satisfaction or waiver of other customary conditions.

Issuance of Common Shares to Employees and Consultants

On March 2, 2020, the Company issued 9,591,307 common shares (the "Compensation Shares") to certain employees and consultants of the Company in lieu of cash consideration. The Company issued the Compensation Shares at a price of C\$0.095 per share, being the closing price of the common shares of the Company on the trading day prior to the date of the issuance of the Compensation Shares, in satisfaction of C\$911,175 of payables owed by the Company. An aggregate of 750,415 of the Compensation Shares were issued to related parties of the Company at a price of C\$0.095 per Compensation Share, in satisfaction of approximately C\$71,289 of payables owed by the Company.

LKJ11, LLC

On March 5, 2020, the Company signed definitive agreements to acquire a controlling interest in LKJ11, LLC ("LKJ11") a North Hollywood cannabis dispensary applicant and to acquire 100% of the outstanding membership interest in LKJ11's retail manager, Crimson & Black, LLC ("C&B") for total consideration of \$11.5 million to be paid in Halo common shares. The transactions are both expected to be recorded as asset acquisitions. The agreement with LKJ11 represents \$10 million of the total estimated \$11.5 million acquisition price while C&B represents the remaining \$1.5 million. Upon closing, the Company will issue \$2 million in Halo common shares directly, subject to certain trading restrictions. The Company will issue a further \$9.5 million in common shares to be held in escrow and issued to the sellers based on completion of the following milestones achieved:

- \$4.75 million in Halo common shares when LKJ11 is licensed by all applicable state and local regulatory agencies and the first legal sale of cannabis is made; and
- \$4.75 million in Halo common shares when LKJ11 is granted a lease extension for an aggregate of 5 years or a new lease agreement is completed for a term of at least 5 years from the closing date.

Cannalift Delivery Inc

On March 10, 2020, the Company completed an acquisition of Cannalift Delivery Inc. ("Cannalift") through

its wholly owned subsidiary 1242899 B.C. Ltd. for 31,000,000 common shares of Halo Labs Inc.. Cannalift is a software company that is developing an application to introduce a new and convenient method for obtaining cannabis products. Once functional, the application will deliver any products from local dispensaries to consumers through an application and website, subject to regulatory approvals. Concurrent to the closing of this transaction, Halo closed a non-brokered private placement of Halo common shares at a price of C\$0.11 per share for aggregate gross proceeds of C\$636,363. In connection with the acquisition, Halo also issued an aggregate of 2,480,000 common shares of the Company as a finder's fee to an arm's-length consultant.

Halo Labs Completes Issuance of Shares to Certain Directors, Employees, and Independent Consultants

On March 26, 2020 the Company issued 19,493,468 Compensation Shares in satisfaction of approximately C\$2,826,554 in salary, fees, and other compensation accrued between December 2019 and March 2020 and payable to certain directors, employees, and independent consultants of the Company. All of the Compensation Shares were issued pursuant to an exemption from the prospectus requirement of applicable securities laws. None of the Compensation Shares are subject to any hold period. An aggregate of 1,728,057 Compensation Shares were issued to related parties (within the meaning of Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions (“MI 61-101”)) of the Company at a price of C\$0.145 per Compensation Share and in satisfaction of approximately C\$250,569 payables of the Company.

Nasalbinoid Natural Devices Corp.

On April 6, 2020, the Company entered into a definitive agreement to acquire all of the common shares of Nasalbinoid Natural Devices Corp. (“Nasalbinoid” or “NND”) for a total of 34,000,000 common shares (the “Acquisition”). The common shares issued by Halo in conjunction with the planned acquisition will be subject to certain sale restrictions. The Acquisition is subject to the satisfaction or waiver of customary conditions, including the receipt of all applicable regulatory and stock exchange approvals.