Halo Labs, Inc.

(formerly Apogee Opportunities, Inc.)

Management Discussion and Analysis

Three and nine months ending September 30, 2018

This "Management's Discussion and Analysis" ("MD&A") has been prepared as at November 14, 2018, and should be read in conjunction with the audited consolidated financial statements of Halo Lab, Inc., an Ontario corporation ("Halo Labs") for the twelve months ended December 31, 2017 and the condensed interim consolidated financial statements for the three months ended September 30, 2018.

Management's responsibility for financial reporting

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

Forward looking statements

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

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

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

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

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

Basis of consolidation

The audited consolidated financial statements include the accounts of the Company and entities controlled by the Company and its subsidiaries.

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

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

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

Equity interests of Halo Labs, Inc.

	September 30, 2018	***December 31, 2017***
ANM, Inc.	**100%**	-
PSG Coastal Harvest LLC	**100%**	100%
Coastal Harvest LLC	**100%**	100%
East Evans Creek Farm LLC	**-**	100%

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

All amounts in these financial statements have been presented in US dollars and indicated as “$”.

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

Description of the business

ANM, Inc. (“ANM”) is a United States based manufacturer of cannabis oil and concentrates that cultivates cannabis plants and utilizes its proprietary technology to extract oils and manufacture concentrates. The Company sells to licensed retailers and wholesalers pursuant to recreational marijuana licenses issued to

ANM by the Oregon Liquor Control Commission (“OLCC”). Currently, substantially all of the Company’s revenue is derived from the sale of cannabis products in the State of Oregon under the State’s regulated Recreational Marijuana Program. The Company has subsidiaries for its planned cannabis operations in California and Nevada.

ANM was incorporated under the laws of the state of Oregon in the United States of America (“USA” or “US”) on March 18, 2016. ANM operates under the assumed business names “Hush Canna” and “Halo Labs”. The Company’s corporate office and its principal place of business is 130 West Clark Street, Medford, Oregon, USA 97501.

Apogee Opportunities Inc. (“Apogee”) was incorporated under the laws of the Province of British Columbia on May 25, 1987 to engage in mineral exploration and development. The Company was continued under the laws of the Province of Ontario on January 21, 2005. Apogee is listed on the NEO Exchange under the symbol “APE”. After the business combination became effective, the symbol was changed to “HALO”. The Company’s head office is located at 65 Queen Street West, Suite 805, Toronto, Ontario M5H 2M5.

On August 14, 2018, ANM and Apogee Opportunities, Inc. (“Apogee”) entered into a definite agreement to complete a business combination among Apogee Opportunities (USA), Inc. and ANM pursuant to which Apogee acquires all of 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.

The business combination 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 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 Opportunities (USA), Inc. 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 Opportunities (USA), Inc. are included from the transaction date, September 28, 2018. The comparative figures are those of ANM prior to the reverse acquisition, except for adjusting retroactively the capital of ANM to reflect the capital of the Company, being the issuance of 79,856,262 common shares of the Company to the shareholder of ANM on completion of the reverse acquisition. The Company has adopted the fiscal year end of ANM, which is December 31.

The principal steps of the business combination were as follows:

- Prior to the Business Combination, the Apogee and Apogee Opportunities (USA) Inc. completed a brokered offering and a non-brokered offering for gross proceeds of approximately CAD$14.4 million (the “Apogee Offerings”), and ANM completed a non-brokered offering for gross proceeds of approximately US$9.7 million (the “Oregon Offering”);

Expressed in US dollars

- Apogee Opportunities (USA), Inc. merged with and into ANM, with ANM remaining as the surviving entity of the merger; and,

- In connection with the consummation of the Business Combination, the special units and subscription receipts issued in the Apogee Offerings converted into units issued by the Company, comprised of common shares and common share purchase warrants; the convertible notes issued by ANM in the Oregon Offering were converted into units issued by the Company, comprised of common shares and common share purchase warrants, the outstanding convertible notes of the Company converted into common shares;

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

Expenses in relation to the business combination were $3,121,936 of which $955,022 were charged to the consolidated statement of loss and $2,166,914 went through the consolidated statement of change in equity. $1,094,760 were for legal expenses, $70,376 were in relation to the review by the auditors of the Company, and $1,956,799 were fees in relation to share issuance in conjunction with the business combination.

The fair value, and consideration in relation to the business combination of 8,975,607 shares of Apogee at $0.32 and 1,123,077 warrants with exercise price $0.05 was $2,239,944. The purchase price allocation of the reverse take-over includes net assets acquired of $(139,090) and transaction costs of $2,379,034.

Purchase price allocation		
Cash and marketable securities	$	75,090
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 $0.076 per share		2,235,397
Fair value of 1,123,077 warrants at $0.004 per share		4,547
Total consideration		2,239,944
Excess of purchase price paid over net assets acquired, allocated to transaction costs		2,379,034

The Company has 157,905,223 common shares that are issued and fully paid as at November 14, 2018. The Company also has 12,268,848 options and 135,348,437 warrants in issue.

Business strategy of the Company

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

The Company plans to leverage its core expertise in manufacturing cannabis oils and concentrates and cultivating low cost raw material for manufacturing. The founding shareholders have been investors, advisors, officers and directors of cannabis manufacturing businesses since 2013. The Company maintains proprietary trade secrets in its manufacturing processes developed by two of its founding shareholders; Dr. Parkash Gill M.D. and Dr. Valery Krasnoperov PhD. The Company is actively collaborating with third parties to develop and launch proprietary products to fill market voids and has formed a relationship with Iconic Ventures, LLC. The first of these products is the Dab Tab™, which expands the user base for dabbables. The Dab Tab™ transforms the dabble product category from primarily an at home use case to enable users to use the dabbables quickly on the go while making the entire dabbing process cleaner and more effective.

The Company also manages its own distribution in Oregon and plans to do the same in California and Nevada (when legally possible). The Company currently has its own direct sales force in Oregon that calls on dispensary and wholesale clients (primarily edibles manufacturers) and plans to do the same in California and Nevada.

Overall performance

- Revenues in the three months ending September 30, 2018 were $3,595,907 compared with $3,264,728 in 2017, a 10.1% increase. All revenues were generated in Oregon.

- Gross profits were $523,324 compared with $601,202 in the previous year. The gross margin was 14.6% in the three months ending September 30, 2018 compared with 18.4% in 2017. Included in COGS were a $153,471 trim provision and $115,035 failed product testing costs. Adjusted for these items, gross profits for the three months ending September 30, 2018 were $828,946 and the gross margin was 22.0%.

- At September 30, 2018, the Company had $12.2 million in cash. Cash used for operations declined from $3 million to $1.1 million.

- The Oregon facility produced 120,945 grams of oil for cartridges (Q3 2017: 22,702 grams) and 184,635 grams of shatter (Q3 2017: 234,277 grams).

- The yield to convert trim and flower into oil was 8.1%. This compares with 10.8% in the three months ending September 30, 2017 and 8.8% in the second quarter of 2017. The explanation for the decline in yield is frozen trim which contains water and a lower conversion yield.

- ANM completed the business combination with Apogee and Apogee Opportunities (USA), Inc. as described above.

- The Company raised $10 million from the issuance of Pre-RTO notes and C$14.4 million from proceeds of the Apogee offerings of special units and subscription receipts.

- At September 30, 2018, all convertible promissory notes previously issued and outstanding by ANM were converted and certain loans were repaid during October.

Discussion of operations

All revenues were generated in the state of Oregon in the three months ending September 30, 2018. The Company's flagship manufacturing facility is in Medford. The Medford facility has approximately 12,000 square feet of indoor manufacturing space, as well as an enclosed courtyard of approximately 7,200 square feet. Within the 12,000 square foot indoor facility, approximately 1,400 square feet is a segregated explosive-proof room for volatile extraction. ANM utilizes all the extraction methods noted above in its Medford facility other than ethanol extraction. The Medford facility also houses the Company's wholesale-licensed business, which occupies approximately 800 square feet and is one of the largest in the state.

In July the Company purchased one MEP extractor and one CO2 extractor. They replaced the PXP and PX1 extractors. The MEP extractor has capacity to convert 170 lb of raw material per day during two eight hours shifts. At a 10% yield, this is equivalent to production capacity of 7,718 grams of oil per day. The MEP extractor will be used for shatter production. The CO2 extractor has the capacity to process 100 lb per day and is used for oil that is packaged in cartridges.

Production of shatter, oil for cartridges and raw oil was 546,274 grams in the three months ending September 30, 2018. Own production was equivalent to 4,074 grams per day. This compares with 247,176 grams in the second quarter of 2018 and 3,800 per day. The available capacity allows the Company to increase production with no addition capital expenditure.

During the three months ending September 30, 2018 the Company also focused on its expansion outside of Oregon. The Company is in the process of building out a cannabis manufacturing facility in Cathedral City, California and has applied for an annual type 7 manufacturing license for adult-use cannabis products to the California department of public health. The Company anticipates that it will begin manufacturing and selling cannabis products from this facility in California in November 2018.

On September 26, 2018, the Company purchase all of the issued and outstanding membership interests of Industrial Court L9, LLC ("L9") pursuant to a membership interest contribution agreement among ANM, PSG Coastal Holdings LLC, Elemental Concepts, LLC, Compass Point, LLC, Jim Kunevicius and Edlin Kim dated July 9, 2017 dated. L9 holds a marijuana manufacturing license and a marijuana distribution license issued by the city of Cathedral City, California, and subleases a 7,800 square-foot manufacturing facility in Cathedral City, California. In exchange for the membership interests, ANM issued 10% coupon convertible promissory notes in the aggregate principle amount of $2 million as well as common share purchase warrants, which were converted into 3,262,143 common shares and 6,499,143 common share purchase warrants of the Company in connection with the closing of the business combination. Interest in the amount of $7,945 was paid. The Company intends to apply for marijuana manufacturing and distribution licenses from the State of California.

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

On September 27, 2018, ANM entered into an asset purchase and sale agreement and joint escrow instructions with Just Quality, LLC, to acquire certain assets of Just Quality, LLC, including a Nevada marijuana product manufacturing license, a medical marijuana cultivation establishment certificate, a Nevada marijuana cultivation facility license and a Nevada marijuana distribution license, together with all the assets used in the operation of the businesses operating under or in connection with the licenses. The purchase price of $4.9 million is allocated as follows:

- $1,900,000: production facility license and related assets
- $2,000,000: Cultivation facility licenses and related assets
- $1,000,000: Distribution license and related assets

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

In connection with the entry into the asset purchase and sale agreement and joint escrow instructions described above, the Company also entered into a temporary cultivation management agreement

Biological assets

Biological assets	***September 30, 2018***	***December 31, 2017***
Cannabis plants	**$ 928,491**	$ -

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. Indirect labor for individuals involved in the growing and quality control process is also included, as well as depreciation on production equipment and overhead costs such as rent to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred and they are all subsequently recorded within the line item 'cost of goods sold' on the consolidated statement of loss and comprehensive loss in the period that the related product is sold. Unrealized fair value gains/losses on growth of biological assets are recorded in a separate line on the face of the consolidated statement of loss and comprehensive loss. Biological assets are measured at their fair value less costs to sell on the balance sheet.

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 15 week growing cycle that biological assets have reached as of the measurement date.

- Yield by plant: represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant.

- Wastage: represents the weighted average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested.

- Post-harvest costs: calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants. Post-harvest, consisting of the cost of direct and indirect materials and labor related to labelling and packaging.

Expressed in US dollars

Significant assumptions utilized in cannabis plant model

Assumption:		***September 30, 2018***	***December 31, 2017***
Expected yields for cannabis plants (average pounds per plant)			
Dry flower		0.48 Lb per plant	-
Trim		2.05 Lb per plant	-
Expected number of growing weeks		14 weeks	-
Weighted average number of growing weeks completed as a percentage		87%	-
Estimated selling price (per pound)			
Dry flower (a)	$	300.00	-
Trim (b)	$	115.00	-
After harvest cost to complete and sell (per gram)			
Dry flower	$	131.22	-
Trim	$	2.88	-
Distribution margin on after harvest costs to complete and sell (per gram)			
Dry flower	$	13.12	-
Trim	$	0.29	-

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 goods sold' on the consolidated statement of loss and comprehensive loss. at the time cannabis is sold, except for realized fair value amounts included in inventory sold which are recorded as a separate line on the face of the consolidated statement of loss and comprehensive loss. Inventory is measured at lower of cost or net realizable value on the balance sheet.

The fair value was determined using an expected cash flow model which assumes the biological assets at the balance sheet date will grow to maturity, be harvested and converted into finished goods inventory and sold in the medical and recreational market. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest. These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The Company estimates the harvest yields for cannabis at various stages of growth. As of September 30, 2018, it is expected that the Company's cannabis plants biological assets will yield approximately 1,679 pounds of dry flower and 7,169 pounds of trim when harvested (December 31, 2017: nil).

Expressed in US dollars

Cost of producing and selling flower and trim ($/pound)

	Flower	Trim
Expected selling price per pound	$ 300	$ 115
Costs to sell:		
Testing (per pound)	42.67	-
Shipping from farm to facility	-	-
Packaging material	-	-
Sales commission	7.50	2.88
Shipping costs to customer		-
Distribution costs	26.05	-
Labour for trimming	55.00	-
Total costs	$ 131.22	$ 2.88
Distribution margin	13.12	0.29
Total costs to sell	$ 144.34	$ 3.17

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

Change in carrying value of biological assets

Balance at December 31, 2016	
Biological assets	$ 1,016,172
Net increase in fair value less costs to sell due to biological transformation	742,630
Transferred to inventory upon harvest	(1,758,802)
Balance at December 31, 2017	-
Cost of biological assets:	
Net increase in the fair value to sell due to biological assets transformation	1,160,672
Costs to sell due to biological transformation	(232,181)
Net increase in the fair value minus costs to sell due to biological assets transformation	928,491
Transferred to inventory upon harvest	-
Balance at September 30, 2018	928,491

The following table presents the effect of a 10% positive change and 10% negative change on the fair valuation of cannabis plants biological assets as at September 30, 2018.

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

Assumption:	**10% pos change US$**	**10% neg change US$**
Expected yields for cannabis plants	92,849	(92,849)
Weighted average number of growing weeks completed as a percentage	92,849	(92,849)
Estimated selling price	112,875	(112,875)
After harvest cost to complete and sell	23,218	(23,218)
Reasonable margin on after harvest costs to complete and sell	2,111	(2,111)

Selected quarterly information

Selected Financial Information - Expressed in US dollars

	For the three months ending:		***For the nine months ending:***	
	September 30, 2018	***September 30, 2017***	***September 30, 2018***	***September 30, 2017***
Revenue	**3,595,907**	3,264,728	**7,858,350**	7,985,721
COGS	**4,001,075**	2,663,526	**7,654,002**	6,073,894
Change in value of biological assets	**(928,491)**	-	**(459,456)**	-
Gross profit	**523,323**	601,202	**663,805**	1,911,828
Net income / (loss)	**(5,375,040)**	(1,173,106)	**(9,273,929)**	(3,126,150)
Net income / (loss) per share, basic & diluted:	**$ (0.19)**	$ (0.07)	**$ (0.34)**	$ (0.18)
Weighted average number of outstanding common shares, basic and diluted	**28,163,984**	17,348,438	**27,661,412**	17,522,682
Total assets	**27,739,861**	7,197,635	**27,739,861**	7,197,635

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as are issued by the International Accounting Standards Board (IASB) and are reported in Canadian dollars.

The selected consolidated financial information for the period under review is compared to the comparative period in the previous fiscal year. The information is presented on the same basis as the audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements and the accompanying notes.

Revenue

Revenues in the three months ending September 30, 2018 were $3,595,907 compared with $3,264,728 in 2017, a 10.1% increase. The increase in revenues is explained by a 18.9% increase in grams of oil and shatter sold, a decline in the yield from 10.8% to 8.1% to convert trim into oil and a 22.9% decline in average achieved price in comparison with the three months ending September 30, 2017. Returns and discounts were 2.7% of revenues (three months ending September 30, 2017: 4.5%).

The Medford facility produced 184,635 grams of shatter, a decline of 21.2% in comparison with the three months ending September 30, 2017. Shatter sold for an average price of $4.35, a 59.1% decline in comparison with an average price of $10.62 in the three months ending September 30, 2017. The Medford facility in Oregon sold 120,945 grams of oil for cartridges, a 432.8% increase in comparison with the three months ending September 30, 2017. The average price achieved for oil for cartridges was $15.68, a 21.9% decline over the previous year. Nevada started to contribute with sales of approximately 1,000 grams of cartridge oil at a price of $35 per gram. The Company purchased and sold 240,061 grams of raw oil. Management has increased its focus on shifting output away from low margin shatter to higher margin cartridge oil, to increase the overall gross margin mix for the Company.

Revenues were pre-dominantly generated in the state of Oregon. In July the Company purchased one MEP extractor and one CO2 extractor. They replaced the PXP and PX1 extractors. The MEP extractor has capacity to convert 170 lb of raw material per day during two eight hours shifts. At a 10% yield, this is equivalent to production capacity of 7,718 grams of oil per day. The MEP extractor will be used for shatter production. The CO2 extractor has the capacity to convert 100 lb per day and is used for cartridge oil.

Distribution

The Company currently operates a licensed distribution (wholesale) business in Oregon and has entered into a binding term sheet with Just Quality to acquire a distribution license in Nevada, and a Membership Interest Contribution Agreement to acquire a distribution license in Southern California.

The Company's' distribution (wholesale) business in Oregon is focused exclusively on the wholesale of The Company' products. The Company currently employs eight sales people that call on approximately 300 cannabis retailers in the state, and six dedicated drivers to deliver products to retailers. The Company intends to hire two or three additional salespeople to focus primarily on wholesale to edible manufacturing companies. The Company is seeking an additional wholesale license in the Portland area so that its product can be stored in Portland. The greater Portland area represents approximately 70% of the Oregon cannabis market.

The Company intends to distribute its own products in Nevada as soon as it is legally able to do so. Under a Nevada Supreme Court order, the Nevada department of taxation (the cannabis licensing body in Nevada) is currently prohibited from issuing cannabis distribution licenses to applicants other than those currently licensed to distribute alcohol. This moratorium is expected to end in approximately six months, following the conclusion of an 18-month exclusivity period for alcohol distributors.

In California, the Company is working to build its distribution framework in Southern California. Recently, a VP of Sales from the liquor and beverage industry was hired, and the Company is working with established cultivators and product manufacturers to establish distribution channels for its own products. In Northern California, The Company is in discussions with landlords and license holders in the Bay area and Sacramento region to establish a distribution hub.

During the quarter a senior officer from the food and beverage industry joined the executive board as chief revenue officer with responsibility for marketing and sales for the group operating companies.

Gross profit and cost of sales

Cost of goods sold were $4,001,075. This compares with $2,663,526 in the three months to September 30, in 2017. The reported gross margin was 14.6% in the three months ending September 30, 2018 compared with 18.4% in 2017. Adjusted for a $153,741 trim provision and $115,035 for failed product testing, gross profits were $828,946 and the gross margin was 22.0%.

The average achieved selling price declined with 22.9%. The decline in selling price was more than offset by the 54.9% decline in the price of trim during the quarter. The cost of trim per gram of oil output declined with 39.9%.

Labor included in the cost of goods sold represented 32.7% (three months ending September 30, 2017: 18.7%) of revenues and 37.3% (three months ending September 30, 2017: 22.9%) of cost of goods sold. In particular extraction, production and packaging are labor intensive. Improving labor efficiency is a continuous focus of management. Testing represented 8.1% of revenues (three months ending September 30, 2017: 9.0%) and 9.3% (three months ending September 30, 2017: 11.6%) of cost of goods sold. The Company has re-negotiated testing costs for 2018.

Operating expenses

Operating expenses - Expressed in US dollars

	For the three months ending:		*For the nine months ending:*	
	September 30, 2018	***September 30, 2017***	***September 30, 2018***	***September 30, 2017***
General and administration	**711,812**	516,042	**1,813,533**	1,269,466
Salaries	**752,515**	209,633	**1,138,285**	666,984
Professional fees	**1,062,016**	308,882	**1,980,834**	1,180,887
Sales and marketing	**486,949**	393,015	**1,035,662**	1,304,511
Investor relations	**56,157**	-	**174,392**	-
Share-based compensation	**199,908**	-	**487,856**	-
Total operating expenses	**3,269,358**	1,427,572	**6,630,562**	4,421,849

The table above sets forth operating expenses for the three months ending September 30, 2018.

Operating costs were $3,274,860 (three months ending September 30, 2017: $1,427,572). Operating expenses in the three months ending September 30, 2018 included $199,908 of non-cash share-based compensation and $317,017 in shares issued for services, which is included in professional fees.

General and administration costs for the three months ending September 30, 2018 were $711,812 (three months ending September 30, 2017: $516,042). They include IT, rent, utilities, office, security, insurance, travel and maintenance. In particular travel expenses and IT expenses declined and offset an increase in tax.

Salaries were $752,515 (three months ending September 30, 2017: $209,633) following an increase in professional office staff in September of 2018.

Professional fees were $1,062,016 (three months ending September 30, 2017: $308,882). They include legal, audit and consulting fees. The increase in professional fees is explained by an increase in legal fees and consulting fees as the Company prepared to go public.

Sales and marketing expenses were $486,949 (three months ending September 30, 2017: $393,015). They include distribution, commissions, salaries of sales people, advertising and salaries of marketing staff. The increase follows from an increase in sales commissions, distribution expenses and higher salaries.

Summary of quarterly results

Summary of quarterly results - Expressed in US dollars

For three months to:	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Revenue	2,515,281	2,525,158	2,195,835	3,264,728	2,027,959	2,168,976	2,093,468	3,595,907
Cost of goods sold	1,257,254	1,458,446	1,951,921	2,647,281	1,803,413	2,183,569	1,938,393	3,072,584
Gross profit	1,002,407	1,066,712	243,914	601,202	224,546	(14,593)	155,075	523,323
Gross margin	*39.9%*	*42.2%*	*11.1%*	*18.4%*	*11.1%*	*-0.7%*	*7.4%*	*14.6%*
Net income / (loss)	(22,034)	(271,212)	(1,558,048)	(1,315,604)	(5,522,294)	(1,818,993)	(2,079,715)	(5,375,040)
Net income / (loss) per share	$(0.00)	$(0.02)	$(0.09)	$(0.08)	$(0.32)	$(0.09)	$(0.10)	$(0.19)
Weighted average number of outstanding common shares, basic and diluted	9,468,077	15,824,946	17,348,438	17,348,438	17,348,438	20,347,484	20,288,507	28,163,984
Total assets	2,127,387	9,413,803	6,116,017	7,197,635	9,413,803	9,514,611	10,228,119	27,739,861

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

Non-IFRS measures

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

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

Adjusted EBITDA is provided to assist management and investors in determining the Company's operating performance before income taxes, depreciation and amortization, and certain other income and expenses. Income taxes, depreciation and amortization are excluded from the EBITDA calculation, as they do not represent cash expenditures that are directly affected by operations. Management believes that presentation of this non-IFRS measure provides useful information to investors and shareholders as it provides predictive value and assists in the evaluation of performance trends. Management uses adjusted EBITDA to compare financial results among reporting periods and to evaluate the Company's operating performance and ability to generate funds from operating activities.

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

Adjusted EBITDA - Expressed in US dollars

	For the three months ending:		*For the nine months ending:*	
	September 30, 2018	***September 30, 2017***	***September 30, 2018***	***September 30, 2017***
IFRS measures from consolidated financial statements				
Statement of loss:				
Net loss	**(5,375,040)**	(1,173,106)	**(9,273,929)**	(3,126,150)
Income tax	**(100,000)**	-	**31,341**	312,000
Interest income / (expense)	**398,807**	48,028	**888,229**	77,287
Depreciation and amortization	**84,551**	98,560	**271,453**	349,366
EBITDA	**(4,991,682)**	(1,026,518)	**(8,082,906)**	(2,387,497)
Adjustments:				
Share-based compensation for staff	**199,908**	-	**487,856**	3,365,538
Share-based compensation for services	**317,017**	632,886	**345,461**	51,707
Accretion expense	**(48,836)**	-	**143,029**	146,472
Transaction expense in relation to RTO	**2,379,034**	**-**	**2,379,034**	**-**
Change in fair value of embedded derivative	**-**	-	**(134,463)**	(218,339)
Adjusted EBITDA	**(2,144,558)**	(393,632)	**(4,861,988)**	957,882

Liquidity

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

As at September 30, 2018, the Company had cash of $12,157,470. As at September 30, 2018 the Company had continued losses, an accumulated deficit and a working capital surplus.

The Company's working capital consists of current assets including cash minus current liabilities including short term loans and the current portion of long-term debt. The table below sets forth the cash and working capital position of the Company as at September 30, 2018.

Cash and working capital position - Expressed in US dollars

As at:	*September 30, 2018*	*December 31, 2017*
Cash	**12,157,470**	144,255
Working capital	**10,141,083**	(3,809,200)

The table below sets forth the Company's cash flows for the nine months ended September 30, 2018.

Cash flow - Expressed in US dollars

	For the three months ending:		*For the nine months ending:*	
Cash provided by (used in):	*September 30, 2018*	*September 30, 2017*	*September 30, 2018*	*September 30, 2017*
Operating activities	**(1,093,566)**	(2,993,064)	**(4,380,749)**	(5,032,480)
Finance activities	**12,836,538**	2,685,935	**17,702,552**	6,909,495
Investing activities	**(1,033,538)**	127,463	**(1,308,588)**	(1,726,836)

- Cash used in operating activities

  The cash used in operating activities was $1,093,566 (three months to September 30, 2017: $2,993,064). An efficiency drive in the facility in Medford was the main reason for the decrease in funds needed for operations.

- Cash provided by financing activities

  The Company's cash provided by financing activities was $12.8 million (three months to September 30, 2017: $2.7 million). The cash from financing activities was due to proceeds from the proceeds form the Pre-RTO regulated offering and the Apogee offerings.

- Cash used in investing activities

  The Company's cash used in investing activities was a $1,033,538 (three months to September 30, 2017: -$127,463) for expansion in Nevada and California.

Capital resources

On August 6, 2016, ANM issued 7,308,125 shares from a non-brokered placement at a price of $0.01 (C$0.01) for aggregate proceeds of $73,081. ANM also issued 8,077,500 shares in exchange for assets contributed to ANM at a price of $0.01 (C$0.01) valued at $61,775 and recorded share issue costs of $3,810.

On March 1, 2017, ANM redeemed 1.9 million shares of a former director for $100 and cancelled these shares. Their pro-rata value totaling $16,183 was accordingly transferred to the deficit.

Expressed in US dollars

Continuity of common shares as at September 30, 2018

	Shares	Amount
Balance December 31, 2017	20,347,484	$ 5,443,337
ANM shares repurchased and cancelled	(266,672)	(54,094)
ANM shares cancelled and repurchased for the RTO	(20,080,812)	(5,389,242)
Shares issued to ANM shareholders	27,108,948	4,037,033
Restricted shares issued to ANM shareholders	8,969,258	1,352,209
Shares issued on conversion of 2017 convertible	9,771,981	1,797,835
Shares issued on conversion of 2018 convertible	26,120,191	1,934,829
Shares issued on conversion of loans by related parties	7,885,884	1,455,856
Shares issued to Apogee shareholders	8,975,607	2,235,397
Shares issued in Apogee offerings	36,414,620	9,041,831
Shares issued in Pre-RTO regulated offering	32,658,734	3,517,322
Share issue costs	-	(2,341,223)
Conversion options on convertible debt	-	150,192
Balance September 30, 2018	157,905,223	23,181,281

On March 22, 2017, in conjunction with ANM consummating a qualifying financing event, ANM converted all its outstanding convertible debentures to common shares. Total principal and accrued but unpaid interest converted at $0.77 (C$1.03) per share and resulted in the issuance of 1,527,611 common shares with a value of $1,176,260.

On March 22, 2017, ANM initiated a new round of equity financing that was considered a qualifying financing event and triggered the automatic conversion of the convertible debentures. From April 21, 2017 through May 16, 2017, ANM closed four rounds of equity financing. All tranches were part of the same offering at approximately $0.86 (C$1.12) per share.

- On March 22, 2017, ANM issued 2,660,207 shares and raised $2,283,313 from a non-brokered placement at a price of $0.86 (C$1.12) per share

- On April 21, 2017, ANM issued 256,008 shares and raised $219,737 from a non-brokered placement at a price of $0.86 (C$1.12) per share.

- On May 15, 2017, ANM issued 1,703,412 shares and raised $1,462,075 from a non-brokered placement at a price of $0.86 (C$1.12) per share.

- On May 15, 2017, ANM issued 256,678 shares and raised $220,312 from a non-brokered placement at a price of $0.86 (C$1.12) per share.

On September 1, 2017, ANM issued 400,000 shares for a cash contribution of $40,000.

On September 8, 2017, ANM issued 116,279 shares in settlement of accounts payable of $100,000.

On October 27, 2017, ANM redeemed and cancelled 58,336 shares by agreement with a former employee of ANM. The pro-rata value of $16,049 was transferred to the deficit.

On May 16, 2018 ANM cancelled 116,672 common shares. Share capital was reduced with $23,668.

Upon completion of the business combination, the 2017 convertible, the 2018 convertible and the related party loans automatically converted in shares in Halo Labs There were also the conversions of the Pre-RTO offer in Halo Labs shares and the issuance and conversion of special units and subscription receipts in the Apogee offerings in shares in Halo Labs. The pre-RTO offering of 32,658,734 units post exchange ratio, consisted of 32,658,734 shares at $0.31 (C$0.40) and 32,658,734 warrants with exercise price $0.62 (C$0.80). The Apogee offering post exchange ratio of 9,908,250 special units consisted of 9,908,250 shares at $0.32 (C$0.40) and 9,908,250 warrants with exercise price $062 (C$0.80). The Apogee offering post exchange ratio of 25,558,790 subscription receipts consisted of 25,558,790 shares at $0.31 (C$0.40) and 25,558,790 warrants with exercise price $0.62 (C$0.80).

At September 28, 2018, immediately prior to the closing of the business combination, ANM had 83,494,553 (December 31, 2017: 20,347,484) shares of common stock outstanding and no outstanding shares of preferred stock. Shares held by ANM's shareholders before the closing of the business combination, were cancelled and replaced with the Company's shares, applying the exchange ratio of 1.35.

The Company's capital is primarily composed of shareholders' equity. The Company utilizes cash flow from operations and equity investment to support development and continued operations and to meet liabilities and commitments as they come due. The Company has working capital surplus of $10,141,083 million as at September 30, 2018.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is appropriate. As at September 30, 2018, the Company is not subject to any externally imposed capital requirements.

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

Off-balance sheet arrangements

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

Related party transactions

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

Expressed in US dollars

In the three months ending September 30, 2018, remuneration to executives was $397,500 (three months ending September 30, 2017: $101,132). For the nine months ending September 30, 2018, renumeration was $906,966 (nine months ending September 30, 2017: $334,440).

Compensation key executives

Three months ending:		***September 30, 2018***		***September 30, 2017***
Salaries, commissions, bonuses, consulting fees	**$**	**397,500**	$	101,132
Share-based compensation		**137,308**		137,308
Total		**534,808**		238,440

Options and warrants were granted by ANM on May 12, 2017 and September 28, 2018 to staff, directors and consultants. Options and warrants granted to employees and directors vest over a period of two years every three months in equal amounts. Share-based compensation is recognized on a graded vesting basis and is expensed and included in operations. On September 28, 2018, the business combination became effective and all outstanding options and warrants of ANM were converted into options and warrants of the Company. This includes the options and warrants granted in September 2018. The table above includes share-based compensation to executives of the Company. The first vesting period of the recent option grant is December 30, 2018.

Related parties

As at:		***September 30, 2018***		***December 31, 2017***
Due from shareholders and other related parties	**$**	**17,632**	$	80,278
Shareholder loans due to directors, officers and their close family		**1,057,654**		1,337,065

At the end of September 30, 2018, due from shareholders and related parties is $17,632 (December 31, 2017: $80,278) in relation to a note receivable from a founding shareholder. At the end of September 30, 2018, due to shareholders and related parties was $1,057,654 (December 31, 2017: $1,337,065), primarily related to advances to the Company by shareholders, executives and directors (See Note 15 for terms shareholder loans). Aspen Communications Ltd is a service provider to the Company and a related party.

Subsequent events

On October 2, 2018, the loan from AV Oregon LLC to ANM was repaid. The total amount including accrued interest was $806,250.

As at September 28, 2018, the Company owed $1,057,654 including accrued interest, to executives, directors and close family. Upon the completion of the business combination, $1,344,916 was converted into 7,310,177 common shares of the Company at a price of $0.18 (C$.24), a 40% discount to the price of the pre-RTO offering. For those related parties who did not want to convert their loans into shares, their related party loans including accrued interest in total of $507,654 were paid on October 10, 2018 and $209,949 was transferred to account payable and paid on October 12, 2018. On October 2, 2018 a shareholder loan of $275,000 was repaid and on October 11, 2018 another shareholder loan of $275,000 was repaid. There are currently no shareholder loans outstanding.

On October 11, 2018, the outstanding convertible promissory notes to Elemental Concepts, LLC and Compass Point, LLC originally issued in connection with the acquisition of Coastal Harvest LLC were repaid. The total amount including accrued interest was $961,945.

Commitments

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

On July 12, 2017 the Company entered into an agreement with a service provider. for ongoing financial advisory services. If during the term of the engagement or within 12 months following termination of the agreement, a transaction is completed, or the Company announces, or enters into an agreement in respect of, a Transaction that is subsequently completed, the Company will pay a transaction fee of 2% - 4% of the value of the transaction. Any contingency payment has not been included in these financial statements as a triggering event has not taken place. See Note 19, regarding the proposed transaction with Apogee Opportunities Inc.

The Company has commitments under operating leases for its facilities.

Committed lease obligations - Expressed in US dollars

	Amount due
2018 - three months	$ 151,346
2019	610,066
2020	614,839
2021	380,102
2022	253,289
2023	150,707

ANM holds processing, cultivation and wholesaling licenses issued by the Oregon Liquor Control Commission ("OLCC"). While ANM has implemented a system of policies and procedures to help ensure compliance with the laws and regulations that govern the Recreational Marijuana Program, ANM was recently sanctioned and fined by the OLCC for regulatory violations. The OLCC imposed a fine of US$6,930 because of such violations. On March 20, 2018, ANM accepted responsibility to pay the fine and reiterated to the OLCC ANM's commitment to ongoing regulatory compliance. While the investigation is now concluded, and ANM has remedied the violations identified by the OLCC, ANM may be subject to additional regulatory investigations in the future. Any future instances or allegations of regulatory non-compliance could lead to more significant fines or sanctions, including potential loss of licenses, particularly considering the previous findings of non-compliance by the OLCC. Management believes ANM it is currently in compliance with Oregon state law and OLCC licensing requirements.

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

Financial instruments

All financial assets and financial liabilities are initially recognized at fair value. The fair value of financial instruments is measured using inputs which are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

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

The Company has designated the following classifications:

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

All are recognized as Level One measurements.

As at the end of September 30, 2018, both the carrying and fair value amounts of all the Company's financial instruments are approximately equivalent due to their short-term nature.

Risk exposures as it relates to financial instruments

- Credit risk

  Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable, accounts receivable and due from related parties. The Company has no significant concentration of credit risk arising from operations. Cash consists of cash on hand deposited with reputable financial institutions which is closely monitored by management. Management believes credit risk with respect to accounts receivable and due from related parties is minimal. The Company's maximum exposure to credit risk is the carrying value of cash held in merchant accounts and accounts receivable.

  Liquidity risk

  Liquidity risk is the risk that the Company will encounter difficulty in satisfying its financial obligations. The Company manages its liquidity risk by forecasting its operations and anticipating its operating and investing activities.

- Market risk

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

- Interest rate risk

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

- Foreign currency risk

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

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

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

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

- Other price risk

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

- Seasonality

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

- Inflation and changing prices

Neither inflation nor changing prices for the three months ended December 31, 2107 had a material impact on operations of the Company.

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

- United States federal overview

In the United States, 30 states, the District of Columbia and the U.S. territories of Guam and Puerto Rico, allow the use of medical cannabis. In the states of Alaska, California, Colorado, Maine, Massachusetts, Nevada, Oregon, and Washington the sale and adult-use of recreational cannabis is legal.

At the federal level, however, cannabis currently remains a Schedule I controlled substance under the Federal Controlled Substances Act of 1970 ("Federal CSA"). Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, even in those states in which cannabis is legalized under state law, the manufacture, importation, possession, use or distribution of cannabis remains illegal under U.S. federal law. This has created a dichotomy between state and federal law, whereby many states have elected to regulate and remove state-level penalties regarding a substance which is still illegal at the federal level.

Although federally illegal, the U.S. federal government's approach to enforcement of such laws has, at least until recently, trended toward non-enforcement. On August 29, 2013, the U.S. Department of

Justice ("U.S. DOJ") issued a memorandum known as the "Cole Memorandum" to all U.S. attorneys' offices ("U.S. Attorneys"). The 2013 Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal cannabis laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly-regulated medical or adult-use cannabis programs. The 2013 Cole Memorandum, while not legally binding, assisted in managing the tension between state and federal laws concerning state-regulated cannabis businesses.

Rescission of the 2013 Cole Memorandum

a) On January 4, 2018, U.S. Attorney General Jeff Sessions rescinded the 2013 Cole Memorandum, replacing it with the "Sessions Memorandum". The stated rationale of the U.S. DOJ in doing so was that the 2013 Cole Memorandum was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorneys' Manual (the "USAM"). The USAM enforcement priorities, like those of the 2013 Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General", the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution" and "the cumulative impact of particular crimes on the community".

b) While the Sessions Memorandum is not law itself and therefore does not change U.S. federal law, it does add to the uncertainty of U.S. federal enforcement of the Federal CSA in states where cannabis is legal under state law. The Sessions Memorandum gives U.S. Attorneys discretion in deciding whether to prosecute cannabis-related activities, including in such states that have legalized cannabis. While the Sessions Memorandum emphasized that cannabis is a Schedule I controlled substance and reiterated the statutory view that cannabis is a "dangerous drug and marijuana activity is a serious crime", it does not otherwise confirm for U.S. Attorneys that prosecution of cannabis-related offenses is now a U.S. DOJ priority.

Anti-Money laundering laws, banking regulations and bankruptcy protection

a) Under U.S. federal law, it may be a violation of federal money laundering statutes for financial institutions to take any proceeds from the sale of cannabis or any other Schedule I controlled substance under the Federal CSA. Canadian banks are likewise hesitant to deal with cannabis companies due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions, particularly those that are federally chartered in the U.S., could be prosecuted and possibly convicted of money laundering for providing services to businesses with operations or a connection to cannabis. Despite these laws, the

b) U.S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN") issued a memorandum on February 14, 2014 (the "FinCEN Memorandum") outlining the pathways for financial institutions to bank state-sanctioned cannabis businesses in compliance with federal enforcement priorities. The FinCEN Memorandum echoed the enforcement priorities of the 2013 Cole Memorandum. Under these guidelines, financial institutions must submit a Suspicious Activity Report ("SAR") in connection with all cannabis-related banking activities by any client of such financial institution, in accordance with federal money laundering laws. These cannabis-related SARs are divided into three categories, being marijuana limited, marijuana priority and marijuana terminated, which are based on the financial institution's belief that the business in question follows state law, is operating outside of compliance with state law or where the banking relationship has been terminated, respectively.

c) On the same day the FinCEN Memorandum was published, the U.S. DOJ issued a memorandum (the "2014 Cole Memorandum") directing prosecutors to apply the enforcement priorities of the 2013 Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of cannabis-related conduct. The 2014 Cole Memorandum was also rescinded as of January 4, 2018, along with the 2013 Cole Memorandum, removing guidance that enforcement of applicable financial crimes against state-compliant actors was not a U.S. DOJ priority.

d) However, U.S. Attorney General Jeff Sessions' rescission of the 2013 Cole Memorandum and the 2014 Cole Memorandum has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memorandum and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to be a standalone document which explicitly lists the eight enforcement priorities originally cited in the 2013 Cole Memorandum. As such, the FinCEN Memorandum remains intact.

e) While the FinCEN Memorandum has not been rescinded by the U.S. DOJ at this time, it remains unclear whether the current administration will follow its guidelines. Overall, the U.S. DOJ continues to have the right and power to prosecute crimes committed by banks and financial institutions, such as money laundering and violations of the Bank Secrecy Act, that occur in any state, including in states that have legalized the applicable conduct, and the U.S. DOJ's current enforcement priorities could change for any number of reasons, including a change in the opinions of the President of the United States or the U.S. Attorney General. A change in the U.S. DOJ's enforcement priorities could result in the U.S. DOJ prosecuting banks and financial institutions for crimes that previously were not prosecuted.

f) Banks often refuse to provide banking services to businesses involved in the cannabis industry due to the present state of the laws and regulations governing financial institutions in the United States. The lack of banking and financial services presents unique and significant challenges to businesses operating in and ancillary to the cannabis industry. The potential lack of a secure place in which to deposit and store cash, the inability to pay creditors through the issuance of checks and the inability to secure traditional forms of operational financing, such as lines of credit, are some of the many challenges presented by the lack of traditional banking and financial services available to businesses operating in or ancillary to the cannabis industry.

g) Additionally, the Company does not have protection under U.S. bankruptcy laws. U.S. bankruptcy laws were adopted to protect financially troubled businesses and to provide for orderly distributions to business creditors. All bankruptcy cases are handled in U.S. federal courts, and the U.S. DOJ has stated that it is the U.S. Trustee Program's ("USTP") position that no assets associated with the cannabis industry can be liquidated or restricted following bankruptcy without violating the Federal CSA. In addition, the Director of the USTP recently issued a letter to 1,100 trustees who administer bankruptcy cases urging the trustees to monitor and report to the U.S. DOJ cannabis companies looking to declare bankruptcy.

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

Enforcement of U.S. Federal Laws

a) Enforcement of U.S. federal law is a significant risk to cannabis businesses operating in the United States, including the Company. The rescission of the 2013 Cole Memorandum increased the uncertainty and risk associated with the enforcement of U.S. federal laws regarding the production, manufacture, processing, possession, distribution, sale and use of cannabis. There is no certainty as to how the U.S. DOJ, the U.S. Federal Bureau of Investigation and other government agencies will handle cannabis matters now that the 2013Cole Memorandum is no longer in effect.

b) There can be no assurance that the U.S. federal government will not seek to prosecute cases involving cannabis businesses, including those of the Company, notwithstanding compliance with state law. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition, as well as the Company's reputation and ability to raise capital.

c) Further, violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the

d) U.S. federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its ability to list its securities on stock exchanges, its financial position, its operating results, its profitability or liquidity or the value of its securities. In addition, the time of management and advisors of the Company and resources that would be needed for the investigation of any such matters or their final resolution could be substantial.

e) Enforcement proceedings and the Joyce amendment. Although the 2013 Cole Memorandum and 2014 Cole Memorandum have been rescinded, one legislative safeguard for the medical cannabis industry remains in place. U.S. Congress has used a rider provision in the fiscal year 2015, 2016, 2017, 2018 and 2019 Consolidated Appropriations Acts and/or Continuing Appropriations Acts (currently, the “Joyce Amendment”) to prevent the U.S. federal government from using congressionally appropriated funds to enforce federal cannabis laws against regulated cannabis actors operating in compliance with state and local law. The Joyce Amendment was preserved in the fiscal year 2019 short-term budget passed on September 28, 2018, meaning that, the Joyce Amendment is in effect until December 7, 2018 when the fiscal year ends. It is uncertain whether the U.S. Congress will extend this prohibition beyond such expiration date. As the Joyce Amendment protects only state medical cannabis, there can be no assurance that U.S. federal prosecutors will not use U.S. DOJ funds to interfere with state adult-use cannabis

Ability to access public and private capital

a) While the Company is not able to obtain bank financing in the United States or financing from other federally regulated entities, the Company’s executive team and board of directors have relationships with potential sources of private capital (such as funds and high net worth individuals).

b) Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. While there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to participants in the United States cannabis industry. There can be no assurance that additional financing will be available to the Company when needed or on acceptable terms. The Company’s inability to raise financing to fund its ongoing operations, capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability and operations.

State-Level regulatory overview

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

Summary of Oregon regulatory framework

a) In 1998, Oregon voters passed a limited non-commercial patient/caregiver medical cannabis law allowing physicians to recommend cannabis for certain qualifying conditions such as chronic pain. In 2013, the Oregon legislature passed, and the governor signed, House Bill 3460 to create a regulatory structure for the existing unlicensed medical cannabis program. This program is known as the Oregon Medical Marijuana Program (“OMMP”). However, the regulations created by the Oregon Health Authority (“OHA”) under House Bill 3460 were minimal and only regulated dispensaries, leaving cultivators and processors within the unregulated patient/caregiver system. In November 2014, Oregon voters passed Measure 91, creating the Recreational Marijuana Program for individuals 21 years of age or older.

b) Oregon Governor Brown signed House Bill 3400 into law, which improved on the existing OMMP and created a licensing process for businesses hoping to enter the Recreational Marijuana Program.

c) The OHA regulates OMMP participants while the OLCC regulates the Recreational Marijuana Program, which includes producers, processors, wholesalers, laboratories, and retailers who sell recreational cannabis to consumers as well as medical grade cannabis to OMMP patients tax-free.

d) The laws and rules that govern the Recreational Marijuana Program do not impose a limit on the number of licenses an entity can hold. However, the OLCC is no longer processing applications for licenses filed on or after June 15, 2018; in addition, on August 30, 2018, the OLCC's Executive Director, Steve Marks, publicly announced that when processing pending license applications, the OLCC is prioritizing applications for all other license types ahead of producer licenses. Local governments have the authority to prohibit or restrict the number of medical or recreational cannabis businesses within their jurisdictions. There are no residency requirements for medical or recreational licenses in Oregon.

e) ANM holds processing, cultivation and wholesaling licenses issued by the OLCC. While ANM has implemented a system of policies and procedures to help ensure compliance with the laws and regulations that govern the Recreational Marijuana Program, as described below, ANM was recently sanctioned and fined by the OLCC for regulatory violations. ANM received written notice from the OLCC on November 28, 2017 regarding alleged regulatory violations that carry significant penalties, including the potential loss of ANM's OLCC licenses. As part of the OLCC's investigation into potential non-compliance by ANM, OLCC representatives inspected ANM's extraction facility in Medford, Oregon on a number of occasions. As a result of its investigation, on March 13, 2018, the OLCC issued to ANM a Notice of Proposed Civil Liability detailing four instances of regulatory violations, including (i) improper placement of security cameras, (ii) inadequate camera coverage, (iii) failure to obtain required pre-approval prior to making changes to its licensed premises, and (iv) failure to properly report a transaction in METRC. The OLCC imposed a fine of US$ 6,930 as a consequence of such violations. On March 20, 2018, ANM accepted responsibility to pay the fine and reiterated to the OLCC ANM's commitment to ongoing regulatory compliance. While the investigation is now concluded, and ANM has remedied the violations identified by the OLCC, ANM may be subject to additional regulatory investigations in the future. Any future instances or allegations of regulatory non-compliance could lead to more significant fines or sanctions, including potential loss of licenses, particularly considering the previous findings of non-compliance by the OLCC.

f) ANM has implemented a system of policies and procedures that it uses to ensure compliance with the laws and regulations that govern the Recreational Marijuana Program, which includes the following measures: (i) a daily meeting of the Medford facility's senior leadership regarding compliance matters; (ii) daily comparison of ANM's physical inventory to ANM's inventory in the OLCC's seed-to-sale tracking system ("METRC"), and the resolution of any discrepancies between these numbers; (iii) review of every incoming and outgoing manifest to ensure accuracy, and the report to the OLCC of manifests that have not been closed; (iv) daily review of other production tracking documents (e.g., pesticide tracking log, delivery schedule) for discrepancies and anomalies; (v) ensuring that a mandatory hold is placed on every outgoing product for 24 hours, and such product is placed under camera surveillance during this time, until after it is counted and properly recorded in METRC; (vi) ensuring that only authorized personnel remove cannabis from the licensed facility under the same security cameras, and at the same time every day; (vii) daily random check of inventory conducted by the Medford facility's senior leadership; (viii) monitoring of security cameras for suspicious activity by security staff; and, (ix) a once-weekly review of all METRC entries by the Medford facility's senior leadership.

g) ANM believes it is currently in full compliance with Oregon state law and OLCC licensing requirements.

Summary of Nevada regulatory framework

a) In 2000, Nevada voters passed a medical cannabis initiative allowing physicians to recommend cannabis for certain qualifying conditions such as chronic pain. The initiative created a limited, non-commercial medical cannabis patient/caregiver system. In 2013, Senate Bill 374 was passed by Nevada's legislature and signed by the Governor, which expanded the medical cannabis program and established a for-profit regulated medical cannabis industry. In November 2016, Nevada voters passed an adult-use cannabis ballot measure, pursuant to which up to 132 adult-use cannabis dispensary licenses will be issued in jurisdictions throughout Nevada, depending upon the population of those jurisdictions.

b) The application process for a Nevada medical cannabis license is merit-based, competitive and is currently closed. Nevada residency is not required to own or invest in a Nevada medical cannabis business. Nevada's medical cannabis law includes patient reciprocity, which permits medical patients from other jurisdictions to purchase cannabis from Nevada dispensaries. Nevada also allows medical dispensaries to deliver medical cannabis to patients in Nevada. The Nevada Division of Public and Behavioral Health was responsible for licensing medical cannabis establishments until July 1, 2017, when the medical cannabis program merged with the adult-use cannabis program. The single regulatory agency is now known as The Marijuana Enforcement Division of the Department of Taxation (the "Department of Taxation").

c) Under Nevada's adult-use cannabis program, the Department of Taxation licenses cannabis cultivation facilities, manufacturing facilities, distributors, retail stores and testing facilities. For the first 18 months, applications for adult-use cannabis licenses can be accepted from only existing medical cannabis establishments or existing liquor distributors licensed in Nevada. Additionally, under a Nevada Supreme Court order, the Department of Taxation is currently enjoined from issuing any further cannabis distribution licenses to applicants other than existing liquor distributors licensed in Nevada.

d) On January 16, 2018, the Department of Taxation issued final regulations governing its adult-use cannabis program, which were approved for adoption and became effective on February 27, 2018.

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

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

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

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

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

Summary of California regulatory framework

a) In 1996, California voters passed a medical cannabis law allowing physicians to recommend cannabis for qualifying conditions such as chronic pain. In 2016, California voters passed the

Control, Regulate and Tax Adult Use of Marijuana Act, which legalized adult-use cannabis for adults over 21 years of age and created a licensing system for commercial cannabis businesses. In June 2017, California Governor Brown signed Senate Bill 94 into law, which combined California's medical and adult-use framework into one licensing scheme under the Medicinal and Adult-Use Cannabis Regulation and Safety Act ("MAUCRSA").

b) Pursuant to MAUCRSA, (i) the California Department of Food and Agriculture, via CalCannabis, issues licenses to cannabis cultivators, (ii) the California Department of Public Health, via the Manufactured Cannabis Safety Branch, issues licenses to cannabis manufacturers, and (iii) the California Department of Consumer Affairs, via the Bureau of Cannabis Control, issues licenses to cannabis distributors, testing laboratories, retailers and microbusinesses. MAUCRSA provides 20 different types of cannabis licenses across six different categories:

I. Cultivation: license to cultivate, process and package cannabis; and to sell cannabis to cannabis distributors, but not to consumers.

II. Distributor: license to purchase cannabis from cultivators, manufacturers and other distributors; to store cannabis; to have cannabis tested by a testing facility; to sell cannabis to other distributors and to retailers; and to transport cannabis from a cannabis licensee's premises to another cannabis licensee's premises.

III. Manufacturing: license to purchase cannabis from distributors; to manufacture, process, and package cannabis and cannabis products; and to sell cannabis products to distributors but not to consumers. Pursuant to this category, cannabis products include edibles, topicals, tinctures, oils and other concentrates.

IV. Testing laboratory: license to test cannabis and cannabis products for potency and contaminants.

V. Retailer: license to purchase cannabis and cannabis products from distributors, as well as to sell cannabis and cannabis products directly to consumers.

VI. Microbusiness: license to cultivate cannabis on an area less than 10,000 square feet; to purchase cannabis from cultivators, manufacturers and distributors; to store cannabis; to have cannabis tested by a testing facility; to sell cannabis to retailers and distributors; to transport cannabis from one cannabis licensee's premises to another; to manufacture, process and package cannabis and cannabis products; and to sell cannabis and cannabis products directly to consumers.

There is no limit on the number of state licenses an entity may hold; however, testing laboratory licensees may not have any other type of license. To operate a cannabis business legally under California state law, cannabis businesses must also obtain local approval. Local governments are permitted to prohibit or otherwise regulate the types and numbers of cannabis businesses allowed in their locality. All three state regulatory agencies require confirmation from the locality that the business is operating in compliance with local requirements and was granted authorization to commence or continue operations within the locality's jurisdiction. There are no residency requirements for medical or adult-use licenses under MAUCRSA.

- Compliance with applicable state Law in the United States

  The Company works closely with its legal counsel, operating partners and regulatory officials to maintain compliance with applicable state and local regulatory requirements. The Company will continue to do so to develop and improve its internal compliance programs to help ensure ongoing regulatory compliance.

  Please see the discussion above regarding an investigation concluded by the OLCC, in early 2018, which resulted in findings of regulatory non-compliance by the Company in Oregon, and the imposition of a fine of US$ 6,930 as a consequence of such violations.

Additional risk factors

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

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

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

- Risks related to the United States statutory and regulatory framework

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

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

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

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

The Company operates in a new industry that is highly regulated and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

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

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

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

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

- The Company was under investigation by the OLCC in early 2018 for alleged regulatory violations.

  The Company received written notice from the OLCC on November 28, 2017 regarding alleged regulatory violations that carry significant penalties, including the potential loss of the Company's OLCC licenses. As part of the OLCC's investigation into potential non-compliance by the Company, OLCC representatives inspected the Company's extraction facility in Medford, Oregon on a number of occasions. As a result of its investigation, on March 13, 2018, the OLCC issued to the Company a Notice of Proposed Civil Liability detailing four instances of regulatory violations, including (i) improper placement of security cameras, (ii) inadequate camera coverage, (iii) failure to obtain required pre-approval prior to making changes to its licensed premises, and (iv) failure to properly report a transaction in METRC. The OLCC imposed a fine of US$ 6,930 as a consequence of such violations. On March 20, 2018, the Company accepted responsibility to pay the fine and reiterated to the OLCC the Company's commitment to ongoing regulatory compliance. While the investigation is now concluded, and the Company has remedied the violations identified by the OLCC, the Company may be subject to additional regulatory investigations in the future. Any future instances or allegations of regulatory non-compliance could lead to more significant fines or sanctions, including potential loss of licenses, particularly considering the previous findings of non-compliance by the OLCC.

- Laws will continue to change rapidly for the foreseeable future and local laws and ordinances could restrict the Company's business operations.

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

- The Company may be subject to heightened scrutiny by Canadian regulatory authorities.

  For the reasons set forth herein, the Company's existing investments and operations in the United States, and any future investments and operations, may become the subject of heightened scrutiny by regulators, stock exchanges, third party service providers, financial institutions, depositories and other authorities in Canada and the United States. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate in the United States, Canada and other jurisdictions.

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

- Banking regulations in the cannabis industry may create significant challenges to the Company's operations.

  a) Because banks in the U.S. often refuse to provide banking services to businesses involved in the cannabis industry due to the present state of the laws and regulations governing financial institutions, the Company faces unique and significant challenges in operating its business. Canadian banks are likewise hesitant to deal with cannabis companies due to the uncertain legal and regulatory framework of the industry. Therefore, the Company may face a potential lack of a secure place in which to deposit and store cash, the inability to pay creditors through the issuance of checks and the inability to secure traditional forms of operational financing, such as lines of credit.

  b) The Company's investments in the United States may be subject to applicable U.S. anti-money laundering laws and regulations.

  c) Under U.S. federal law, it may be a violation of money laundering statutes for financial institutions to take any proceeds from the sale of cannabis or any other Schedule I controlled substance under the Federal CSA. Banks and other financial institutions, particularly those that are federally chartered in the United States, could be prosecuted and possibly convicted of money laundering for providing services to businesses with operations or a connection to cannabis. Therefore, investments held in U.S. banks are subject to seizure by the U.S. federal government.

  d) If any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime. This could restrict or otherwise jeopardize the ability of the

Company to declare or pay dividends and could affect other distributions, including the Company’s ability to transfer such funds into Canada.

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

Risks related to the business of the Company

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

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

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

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

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

  The continued development of the Company will require additional financing. The Company intends to fund its future business activities by way of additional offerings of equity and/or debt financing, as well as through anticipated positive cash flow from operations in the future. The failure to raise or procure such additional funds or the failure to achieve positive cash flow could result in delays or failure to obtain our current business objectives. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, will be on terms acceptable to the Company. If additional funds are raised by offering equity securities, existing shareholders could suffer significant dilution. Any debt financing secured in the future could involve the granting of security against assets of the Company and could also contain restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

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

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

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

The Company's business is highly competitive.

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

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

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

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

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

Courts may not enforce the Company's contracts.

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

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

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

- There are risks inherent in an agricultural business.

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

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

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

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

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

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

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

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

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

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

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

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

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

- The Company could face product liability claims.

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

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

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

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

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

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

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

  The Company has certain proprietary intellectual property, including, but not limited to, brands, trademarks, trade names, trade secrets and proprietary processes. The Company relies on this intellectual property, know-how and other proprietary information, and requires employees, consultants and suppliers to sign confidentiality agreements. However, these confidentiality agreements may be breached, and the Company may not have adequate remedies for such breaches. Third parties may independently develop substantially equivalent proprietary information without infringing upon any proprietary intellectual property or may otherwise gain access to the Company's proprietary information and adopt it in a competitive manner. Any loss of intellectual property protection may have a material adverse effect on the Company's business, results of operations or prospects.

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

whether on a federal or state level. While many states do offer trademark protection independent of the federal government, patent protection is wholly unavailable on the state level, and state-registered trademarks provide a lower degree of protection than federally-registered marks.

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

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

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

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

- The Company faces risks associated with potential acquisitions.

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

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

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