

ANM, INC.

Condensed Interim Consolidated Financial Statements

For the three months ending June 30, 2018 and 2017

Unaudited

ANM, INC.

Condensed Interim Consolidated Financial Statements

For the three months ending June 30, 2018 and 2017

Expressed in US dollars

(Unaudited)

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|--|---|
| Condensed Interim Consolidated Statement of Financial Position | 1 |
| Condensed Interim Consolidated Statement of Operations and Comprehensive Loss | 2 |
| Condensed Interim Consolidated Statement of Changes in Shareholders' Equity | 3 |
| Condensed Interim Consolidated Statement of Cash Flow | 4 |
| Notes to the Condensed Interim Consolidated Financial Statements | 5 |

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

ANM, Inc.
Condensed Interim Consolidated Statements of Financial Position

Expressed in US dollars

Unaudited

June 30, 2018 December 31, 2017

| Assets | | | |
|--|-----------|---------------------|-------------|
| Current | | | |
| Cash | | 1,448,036 | 144,255 |
| Accounts receivable | Note 5 | 365,898 | 381,402 |
| Inventory | Note 6, 7 | 4,004,363 | 3,636,117 |
| Notes receivable | Note 8 | 431,000 | 510,837 |
| Pre-paid expenses and other | | 237,381 | 166,056 |
| Total current assets | | 6,486,678 | 4,838,667 |
| Long-term | | | |
| Property, plant and equipment | Note 9 | 2,532,840 | 2,444,692 |
| Intangibles | Note 10 | 1,208,602 | 2,130,444 |
| Total long-term assets | | 3,741,441 | 4,575,136 |
| Total assets | | 10,228,119 | 9,413,803 |
| Liabilities | | | |
| Current | | | |
| Accounts payable and accrued liabilities | | 2,193,994 | 2,393,283 |
| Convertible debentures | Note 12 | 4,588,756 | 3,504,048 |
| Other loans | Note 14 | 5,735,369 | 2,293,744 |
| Income tax payable | Note 17 | 452,329 | 322,328 |
| Deferred tax liability | | 140,000 | 140,000 |
| Embedded derivative liability | Note 12 | - | 134,463 |
| Total current liabilities | | 13,110,448 | 8,787,866 |
| Shareholders' equity (deficiency) | | | |
| Share capital | Note 13 | 5,462,169 | 5,443,337 |
| Warrant and option reserve | Note 13 | 3,849,019 | 3,724,835 |
| Convertible debenture conversion option | Note 14 | 199,028 | 150,193 |
| Deficit | | (12,392,545) | (8,692,428) |
| Total shareholders' equity (deficiency) | | (2,882,329) | 625,936 |
| Total shareholders' equity (deficiency) & liabilities | | 10,228,119 | 9,413,803 |

Going concern Note 2

Commitments and contingencies Note 12, 14, 18

Subsequent events Note 19

Approved on behalf of the Board of Directors:

Kiran Sidhu

CEO and Director

Philip van den Berg

Director

ANM, Inc.
Condensed Interim Consolidated Statements of Operations & Comprehensive Loss
Expressed in US dollars
Unaudited

| | <i>For the three months to:</i> | | <i>For the six months to:</i> | |
|--|---------------------------------|----------------------|-------------------------------|----------------------|
| | <i>June 30, 2018</i> | <i>June 30, 2017</i> | <i>June 30, 2018</i> | <i>June 30, 2017</i> |
| Sales | 2,093,468 | 2,195,835 | 4,262,444 | 4,720,993 |
| Total Cost of Goods Sold | 1,938,393 | 1,951,921 | 4,121,962 | 3,410,367 |
| Gross profit (loss) | 155,075 | 243,914 | 140,482 | 1,310,626 |
| Operating expenses | | | | |
| General and administration | 718,810 | 454,171 | 1,101,721 | 753,425 |
| Salaries | 224,898 | 337,100 | 385,770 | 457,352 |
| Professional fees | 604,808 | 594,400 | 918,818 | 872,005 |
| Sales and marketing | 288,247 | 540,081 | 548,713 | 911,496 |
| Investor relations | 50,000 | - | 118,235 | - |
| Share based compensation | 18,602 | - | 287,948 | - |
| Total operating expenses | 1,905,365 | 1,925,752 | 3,361,205 | 2,994,278 |
| Loss before undernoted items | (1,750,290) | (1,681,838) | (3,220,723) | (1,683,652) |
| | | | - | - |
| Accretion expense | 0 | 0 | 191,865 | 146,472 |
| Change in fair value of embedded derivative | - | - | (134,463) | (218,339) |
| Interest expense | 279,425 | (5) | 489,422 | 29,259 |
| Loss before income taxes | (2,029,715) | (1,681,833) | (3,767,547) | (1,641,044) |
| Income tax expense | 50,000 | - | 131,341 | 312,000 |
| Net loss and comprehensive loss | (2,079,715) | (1,681,833) | (3,898,888) | (1,953,044) |
| Net loss per share, basic and diluted: | \$(0.10) | \$(0.10) | \$(0.19) | \$(0.11) |
| Weighted average number of outstanding common shares, basic and diluted: | 20,288,507 | 17,348,438 | 20,317,833 | 17,522,682 |

ANM Inc.
Condensed Interim Statements of Change in Shareholders' Equity
Expressed in US Dollars
(Unaudited)

| | Common shares | Common shares \$ | Options \$ | Warrants \$ | Convertible debenture conversion option \$ | Deficit \$ | Total \$ |
|---|-------------------|------------------|-----------------|------------------|--|--------------------|--------------------|
| Shareholders equity (deficiency) December 31, 2016 | 15,385,625 | 131,047 | - | - | - | (300,312) | (169,265) |
| Convertible debt converted into shares | Note 13 | 1,527,611 | 1,176,260 | - | - | - | 1,176,260 |
| Shares issued in private placements | Note 13 | 5,334,248 | 4,268,877 | - | - | - | 4,268,877 |
| Share issue costs | | - | (157,179) | - | - | - | (157,179) |
| Common shares repurchased and cancelled | | (1,900,000) | (16,183) | - | - | 16,183 | - |
| Share-based compensation | Note 13 | - | - | (95,194) | 2,372,594 | - | 2,277,400 |
| Net income / (loss) | | - | - | - | - | (1,536,279) | (1,536,279) |
| Shareholders equity (deficiency) June 30, 2017 | 20,347,484 | 5,402,822 | (95,194) | 2,372,594 | - | (1,820,408) | 5,859,814 |

ANM Inc.
Condensed Interim Statements of Change in Shareholders' Equity
Expressed in US Dollars
(Unaudited)

| | Common shares | Common shares \$ | Options \$ | Warrants \$ | Convertible debenture conversion option \$ | Deficit \$ | Total \$ |
|---|-------------------|------------------|----------------|------------------|--|---------------------|--------------------|
| Shareholders equity (deficiency) December 31, 2017 | 20,347,484 | 5,443,337 | 806,926 | 2,917,909 | 150,193 | (8,692,428) | 625,936 |
| Shares issued in private placements | Note 13 | - | 42,499 | - | - | - | 42,499 |
| Common shares repurchased and cancelled | | (116,672) | (23,667) | - | - | - | (23,667) |
| Share-based compensation | Note 13 | - | - | 30,154 | 252,928 | - | 283,082 |
| Share-based payments issued for services | Note 13 | - | - | - | 28,445 | - | 28,445 |
| Forfeitures of options and warrants | Note 13 | - | - | (187,343) | - | 187,343 | - |
| Conversion options on convertible debt | Note 12 | - | - | - | - | 48,835 | 48,835 |
| Net income / (loss) | | - | - | - | - | (3,887,460) | (3,887,460) |
| Shareholders equity (deficiency) June 30, 2018 | 20,230,812 | 5,462,169 | 649,737 | 3,199,282 | 199,028 | (12,392,545) | (2,882,329) |

ANM, Inc.
Condensed Interim Consolidated Statements of Cash Flow
Expressed in US dollars
Unaudited

| | <i>For the three months to:</i> | | <i>For the six months to:</i> | |
|--|---------------------------------|----------------------|-------------------------------|----------------------|
| | <i>June 30, 2018</i> | <i>June 30, 2017</i> | <i>June 30, 2018</i> | <i>June 30, 2017</i> |
| Cash provided by (used in) | | | | |
| Operating activities: | | | | |
| Net comprehensive loss | (2,079,715) | (1,681,833) | (3,898,888) | (1,953,044) |
| Items not involving cash | | | | |
| Depreciation | 83,076 | 67,129 | 186,902 | 67,129 |
| Accrued interest | 279,425 | (5) | 489,422 | 29,259 |
| Accretion expense | 0 | 0 | 191,865 | 146,472 |
| Income Tax | 50,001 | | 130,000 | |
| Gain / (loss) in fair value of biological assets | 146,396 | - | 469,035 | - |
| Change in the fair value of embedded derivative | - | - | (134,463) | (218,339) |
| Share-based compensation | 18,602 | - | 287,948 | - |
| Changes in working capital items | | | | |
| Accounts receivable | (19,056) | 56,095 | 15,503 | 507,882 |
| Notes receivable | 79,837 | - | 79,837 | 77,781 |
| Accounts payable and accrued liabilities | (457,896) | 1,695,752 | (199,289) | 1,314,152 |
| Income tax payable | - | (287,433) | - | 24,567 |
| Inventory | (534,583) | (908,411) | (837,281) | (2,208,902) |
| Pre-paid expenses and other | 20,765 | 11,226 | (71,325) | (10,049) |
| Cash used in operating activities | (2,413,147) | (1,047,481) | (3,290,734) | (2,223,092) |
| Investing activities | | | | |
| Intangibles | 921,843 | (123,663) | 921,843 | (123,663) |
| Purchase of property, plant and equipment | (199,754) | (1,087,508) | (275,050) | (1,546,959) |
| Cash used in investing activities | 722,089 | (1,211,171) | 646,793 | (1,670,622) |
| Financing activities | | | | |
| Issuance of convertible debentures | 967,732 | - | 1,009,399 | - |
| Increase in loans | 1,935,360 | 85,049 | 2,938,323 | 150,045 |
| Issuance of common shares net of issuance costs | - | 1,831,467 | - | 4,073,515 |
| Cash raised in finance activities | 2,903,092 | 1,916,515 | 3,947,722 | 4,223,560 |
| Change in cash in during the period | 1,212,034 | (342,136) | 1,303,781 | 329,846 |
| Cash, beginning of the period | 236,002 | 971,435 | 144,255 | 299,453 |
| Cash end of the period | 1,448,036 | 629,299 | 1,448,036 | 629,299 |

1. Nature of operations and background information

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

These consolidated financial statements present the financial position of the Company at June 30, 2018 and December 31, 2017 and its financial performance and its cash flows for the periods ending June 30, 2018 and June 30, 2017. All amounts in these financial statements have been presented in US dollars and indicated as “\$”.

2. Going concern

These financial statements have been prepared using IFRS applicable to a going concern, which assume that the Company will be able to continue its operations and will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The ability of the Company to continue as a going concern is dependent on generating profitable operations, raising additional financing, and continuing to manufacture its products. Having been prepared giving effect to the going concern assumption, these financial statements do not reflect any adjustments to the carrying values of assets and liabilities and the reported amounts of expenses and balance sheet classifications that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

Historically, management has been successful in obtaining sufficient funding for operating and capital requirements. There is, however, no assurance that the Company will continue to generate profits from operation or that additional future funding will be available to the Company, or that such funding will be both adequate to cover its obligations and available on terms which are acceptable to the management of the Company.

As at June 30, 2018 the Company had continued losses, an accumulated deficit and a working capital deficiency. These items represent material uncertainties that cast significant doubt about the ability of the Company to continue as a going concern. See note 19 for subsequent events.

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. Alaska, California, Colorado, Maine, Massachusetts, Nevada, Oregon, and the District of Columbia legalized the sale and adult-use of recreational cannabis.

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

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

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

3. Basis of preparation

3.1 Basis of presentation and statement of compliance

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

The principal accounting policies adopted in the preparation of the consolidated financial statements are set forth below. The consolidated financial statements are presented in US dollars. Currently, US dollars serve as both the Company's functional and reporting currency.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been approved by the Company's Board of Directors on **September 18, 2018**. The financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies in Note 4.

Equity interests

| | <i>June 30, 2018</i> | <i>December 31, 2017</i> |
|-------------------------|----------------------|--------------------------|
| PSG Coastal Harvest LLC | 100% | 100% |
| Coastal Harvest LLC | 100% | 100% |
| East Evans Creek LLC | 100% | 100% |

These consolidated financial statements are comprised of the financial results of the Company and its

subsidiaries, which are the entities over which the Company has control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and can affect those returns through its power over the investee. Non-controlling interests in the equity of the Company's subsidiaries are shown separately in equity in the consolidated statements of financial position. The table below lists the Company's subsidiaries that are consolidated in these financial statements and the ownership interest held by non-controlling interests.

3.2 Critical judgements and estimations uncertainties

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

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

Assets carrying values and impairment charge

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

Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made. See note 17.

Allowance for doubtful accounts

The Company makes an assessment of whether accounts receivable are collectible from customers. Accordingly, an allowance is established for estimated losses arising from non-payment and other sales adjustments, taking into consideration customer credit-worthiness, current economic trends and past experiences. If future collections differ from estimates, future earnings would be affected.

Share-based payment transactions and warrants

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

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

Fair value of financial instruments

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

Information about the valuation techniques and inputs used in determining the fair value of biological assets is disclosed in Note 7.

Intangible assets

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

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Licenses and trade names have an indefinite useful life and are tested for impairment annually.

Impairment of non-financial assets

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

Inventory

In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and oil conversion factors. In calculating final inventory values, management compares the inventory costs to estimated realizable value. Further information on estimates used in determining the fair value of biological assets is contained in Note 4.4.

Useful lives of property, plant and equipment

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

Contingencies

Refer to Notes 2 and 18.

3.3 New standards and interpretations to be adopted in future periods

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

on the financial statements.

IFRS 9 “Financial Instruments” was issued in final form in July 2014 by the IASB and will replace IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of interest to non-financial institutions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 Revenue from Contracts with Customers. In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and several revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity’s first annual IFRS financial statements for periods beginning on or after January 1, 2018.

IFRS 16 - Leases replaces IAS 17, Leases. The new model requires the recognition of almost all lease contracts on a lessee’s statement of financial position as a lease liability reflecting future lease payments and a “right-of-use asset” with exception for certain short-term leases and leases of low-value assets. In addition, the lease payments are required to be presented on the statement of cash flow within the operating and financing activities for the interest and principal portions, respectively. IFRS 16 is effective for annual period beginning on or after January 1, 2019, with early adoption permitted if IFRS 15, Revenue of Contracts with Customers, is also applied. The Company has yet to evaluate the impact of this new standard.

IFRS 23 – Uncertainty over income tax treatments. In June 2017 the IASB issued IFRIC 23, “Uncertainty over income tax treatments (‘IFRIC 23’), to clarify the accounting of uncertainties in income taxes. The interpretation provides guidance and clarifies the application of recognition and measurement criteria in IAS 12 “Income Taxes” when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning January 1, 2019. The Company is currently assessing the impact of IFRIC 23 on its consolidated financial statements.

4. Summary of significant accounting policies

For a summary of significant accounting policies, we refer to the annual consolidated financial statements for the year ending December 31, 2017.

5. Accounts receivable

Accounts receivable - Expressed in US dollars

| As at: | <i>June 30, 2018</i> | <i>December 31, 2017</i> |
|--------------|----------------------|--------------------------|
| 1 - 30 days | 215,091 | 335,535 |
| 30 - 60 days | 16,144 | 28,387 |
| 60 - 90 days | 35,944 | - |
| > 90 days | 107,373 | 17,480 |
| Total | 374,552 | 381,402 |

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

Accounts receivable - Expressed in US dollars

| As at: | <i>June 30, 2018</i> | <i>December 31, 2017</i> |
|--|----------------------|--------------------------|
| Accounts receivable | | |
| Accounts receivable - trade | 383,206 | 389,955 |
| Allowance for doubtful accounts | (8,654) | (8,554) |
| Accounts receivable - other | - | - |
| Total accounts receivable | 374,552 | 381,402 |
| Continuity of allowance for doubtful accounts | | |
| Beginning balance | (8,654) | (5,241) |
| Increase in provision for doubtful accounts | - | (14,115) |
| Provision used to write-off receivables | - | 10,702 |
| Ending balance | (8,654) | (8,654) |

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

6. Inventory

The Company maintains three classes of inventory: raw materials, work in process ("WIP") and finished goods.

Raw materials consist of cannabis “trim” and various packaging and incidental items. WIP consists primarily of inventory in the process of being converted from trim to oil. Finished goods inventory includes cannabis oil in cartridges, batteries for vaporizer pen cartridges, and packages of solidified cannabis oil (“shatter”).

Inventory by class - Expressed in US dollars

| As at: | <i>June 30, 2018</i> | <i>December 31, 2017</i> |
|------------------|----------------------|--------------------------|
| Raw materials | 863,710 | 981,945 |
| Work in progress | 1,692,640 | 895,165 |
| Finished goods | 1,448,013 | 1,759,007 |
| Total | 4,004,363 | 3,636,117 |

The Company allocates various production and overhead costs and expenses to inventory items. As such, the cost of inventory is recognized as an expense, and included in cost of goods sold for the period ended June 30, 2018, in the amount of \$1,659,575 (June 30, 2017: \$1,514,518). Direct product cost are valued on a FIFO basis (First in first out) and the major production cost such as labor and testing are on a proportional basis, allocating the costs relating to goods sold to cost of goods sold and the share of costs of unsold inventory is added to inventory.

7. Biological assets

The Company’s biological assets consist of cannabis plants. The Company leases four acres for its cultivation. The grow cycle is twelve weeks and the plants are harvested in the final quarter of the year. There was no crop in the three months ended June 30, 2018 as the first clones were planted in the first week of July 2018. As at June 30, 2018 the carrying value of the biological assets was \$0.

Biological assets - Expressed in US dollars

| As at: | <i>June 30, 2018</i> | <i>December 31, 2017</i> |
|---|----------------------|--------------------------|
| Balance December 31, 2017 | - | - |
| Acquisition of biological assets | - | 1,016,172 |
| Gain / (loss) on fair value biological assets | - | 742,630 |
| Transferred to inventory upon harvest | - | (1,758,802) |
| Ending balance | - | - |

8. Notes receivable

Notes receivable are due from a founding shareholder of the Company in the amount of \$17,632 (December 31, 2017: \$17,632 respectively). In addition is the note receivable from Emerald Green Gardens Inc., a supplier to the Company in the amount of \$413,368 (December 31, 2017: \$493,204). The notes are non-interest bearing,

unsecured and have no fixed terms for repayment, but they are of short-term nature.

9. Property, plant and equipment

Property, plant and equipment

| | Production equipment US\$ | Leasehold improvements US\$ | Office equipment US\$ | Total US\$ |
|----------------------------------|---------------------------------|-----------------------------------|-----------------------------|---------------|
| Cost: | | | | |
| Balance as at December 31, 2017 | 1,369,349 | 1,542,365 | 36,352 | 2,948,066 |
| Additions | 12,989 | 56,808 | 5,500 | 75,297 |
| Balance as at March 31, 2018 | 1,382,338 | 1,599,173 | 41,852 | 3,023,363 |
| Additions | 1,323 | 223,871 | 5,207 | 230,401 |
| Dispositions | (64,655) | - | - | (64,655) |
| Balance as at June 30, 2018 | 1,319,006 | 1,823,044 | 47,059 | 3,189,109 |
| Accumulated depreciation: | | | | |
| Balance as at December 31, 2017 | (443,034) | (53,975) | (6,364) | (503,373) |
| Depreciation | (76,570) | (25,867) | (1,390) | (103,827) |
| Balance as at March 31, 2018 | (519,604) | (79,842) | (7,754) | (607,201) |
| Depreciation | (55,510) | (26,160) | (1,405) | (83,075) |
| Dispositions | 34,007 | - | - | 34,007 |
| Balance as at June 30, 2018 | (541,107) | (106,002) | (9,159) | (656,269) |
| Net book value: | | | | |
| Net book value December 31, 2017 | 926,315 | 1,488,390 | 29,988 | 2,444,692 |
| Net book value March 31, 2018 | 862,734 | 1,519,331 | 34,097 | 2,416,162 |
| Net book value June 30, 2018 | 777,899 | 1,717,042 | 37,899 | 2,532,840 |

Total depreciation expense for the period ended June 30, 2018, included in COGS was \$83,075 (June 30, 2017: \$118,344).

10. Intangible assets

The Company has four producer licenses for its wholly owned farm East Evans Creek Farm LLC. The Company also has a wholesale distribution license and a producer license for its production facility in Medford. The licenses are renewed each year. They are valued at their cost of \$23,663 and expensed.

On June 20, 2017, the Company signed a Membership Interest Purchase Agreement for the purchase by the Company (through a holding company) of a volatile extraction license for Cathedral City, California. The transaction has been recorded as an asset acquisition. The purchase price of the license is \$2.0 million. The license is renewed each year. The payment was effected by a \$100,000 cash down payment and the issuance of convertible promissory notes for the balance of \$1.9 million (Note 12). The value of the consideration paid in addition to transaction costs of \$163,069 were attributed to the intangibles in the amount of \$2,129,219 and to prepaid expenses in the amount of \$33,850 for certain lease deposits acquired in the same transaction. On June 30, 2018, the purchase agreement was modified and the sub-lease for Suite E and the license were terminated with a corresponding reduction in intangible assets by \$921,842.

Intangibles in C\$

| | License US\$ | Brand names US\$ | Total US\$ |
|--------------------------------------|-----------------|---------------------|---------------|
| Cost: | | | |
| Balance as at December 31, 2017 | 2,129,219 | 1,225 | 2,130,444 |
| Additions from business acquisitions | - | - | - |
| Impairment | - | - | - |
| Balance as at March 31, 2018 | 2,129,219 | 1,225 | 2,130,444 |
| Additions from business acquisitions | - | - | - |
| Purchase agreement modification | (921,842) | - | (921,842) |
| Balance as at June 30, 2018 | 1,207,377 | 1,225 | 1,208,602 |
| Accumulated amortization: | | | |
| Balance as at December 31, 2017 | - | - | - |
| Amortisation | - | - | - |
| Balance March 31, 2018 | - | - | - |
| Amortisation | - | - | - |
| Balance June 30, 2018 | - | - | - |
| Net book value: | | | |
| Net book value December 31, 2017 | 2,129,219 | 1,225 | 2,130,444 |
| Net book value March 31, 2018 | 2,129,219 | 1,225 | 2,130,444 |
| Net book value June 30, 2018 | 1,207,377 | 1,225 | 1,208,602 |

11. Related party relationships, transactions and balances

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

In the three months ending June 30, 2018 remuneration to executives was \$69,250 (2017: \$48,000).

Compensation key executives - Expressed in US dollars

| | <i>June 30, 2018</i> | <i>June 30, 2017</i> |
|---|----------------------|----------------------|
| Salaries, commissions, bonuses, consulting fees | 69,250 | 48,000 |
| Share-based compensation | 130,653 | - |
| Total | 199,903 | 48,000 |

At the end of June 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. The advances are in relation to loans made by officers and directors to the Company. At the end of June 30, 2018, due to shareholders and related parties was \$2,403,056 (December 31, 2017: \$1,337,065), primarily related to advances to the Company by shareholders, executives and directors (See Note 14 for terms shareholder loans).

Related parties - Expressed in US dollars

| As at: | <i>June 30, 2018</i> | <i>December 31, 2017</i> |
|---|----------------------|--------------------------|
| Due from shareholders and other related parties | 17,632 | 80,278 |
| Shareholder loans due to directors, officers and their close family | 2,403,056 | 1,337,065 |

Options and warrants were granted on May 12, 2017 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.

12. Convertible debentures

Convertible debentures - Expressed in US dollars

| As at: | <i>June 30, 2018</i> | <i>December 31, 2017</i> |
|---|----------------------|--------------------------|
| Convertible loan 2017 | 1,806,852 | 1,681,810 |
| Convertible promissory note Coastal Harvest | 961,732 | 1,822,238 |
| Convertible loan 2018 | 1,820,172 | - |
| Total | 4,588,756 | 3,504,048 |

12.1 Convertible loan 2016

In 2016 the Company issued convertible promissory notes with a face value of \$1,115,008. The interest

rate was 12% and the notes were convertible at 90% of the price paid by a cash investor in the next equity raise. On March 22, 2017 the convertible debentures issued in 2016 were converted into 1,527,611 common shares. Accrued interest in 2017 until conversion in March 2017, was \$29,809. Accrued interest was paid in shares.

12.2 Convertible loan 2017

Continuity 2017 convertible debentures

| | | |
|----------------------------|----|-----------|
| Balance December 31, 2017 | \$ | 1,681,810 |
| Accretion of loan discount | | 30,248 |
| Accrued interest | | 6,734 |
| Balance March 31, 2018 | \$ | 1,718,792 |
| Accretion of loan discount | | 24,295 |
| Accrued interest | | 63,764 |
| Balance June 30, 2018 | \$ | 1,806,851 |

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

As at June 30, 2018, the embedded derivative liability is classified as a current liability on the statement of financial position and is carried at a fair value of \$0 (December 31, 2017: \$134,463).

The Black-Scholes option pricing model was used in the period under review with the following assumptions:

- Expected life of the four tranches is 0.03 year;
- Risk-free interest rate 1.66%;
- Expected dividend yield 0%;
- Expected volatility 70%;

- Share price \$0.86

Volatility was estimated by using the historical volatility of publicly traded companies that the Company considers comparable that have trading and volatility history. The expected life in years represents the contractual period of time that the embedded derivatives were expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the embedded derivatives.

12.3 Convertible promissory note

Continuity Coastal Harvest promissory notes

| | |
|--|--------------|
| Promissory notes issued - June 20,2017 | \$ 1,900,000 |
| Value of the equity component net of transaction costs | (219,565) |
| Accretion of loan discount | 131,705 |
| Accrued interest | 10,099 |
| Balance December 31, 2017 | \$ 1,822,238 |
| | |
| Accretion of loan discount | 75,309 |
| Accrued interest | 4,685 |
| Balance March 31, 2018 | \$ 1,902,232 |
| | |
| Reduction in promissory note | (942,732) |
| Accretion of loan discount | 2,232 |
| Accrued interest | - |
| Balance June 30, 2018 | \$ 961,732 |

On June 20, 2017, the Company signed a membership interest purchase agreement among multiple parties. In connection with the agreement the Company issued convertible promissory notes with a face value of \$1.9 million.

The convertible promissory notes have been treated as compound financial instruments, as the notes could be settled through the issuance of common shares. The conversion feature has been recognized in equity as it meets the definition of an equity instrument. The liability component was recognized at its fair value, calculated as the present value of its contractually determined future cash flows discounted at a rate of 20%, which is deemed to be a reasonable approximation of the rate applied to instruments having similar terms, credit status and cash flows that do not have a conversion feature. In accordance with IAS 32, the residual amount after deducting the fair value of the liability component from the fair value of the instrument as a whole was assigned to the equity component.

The convertible promissory notes matured on April 15, 2018, but they were extended (See Note 19). The notes are secured against the Company's interest in Coastal Harvest LLC and bear interest of 1% per annum. The notes are convertible at any time after December 2, 2017 and up until fifteen days prior to the

maturity date at a conversion price of \$0.86 per note.

At March 31, 2018 the carrying value of the promissory note was \$1,902,232 (December 31, 2017: \$1,822,238).

On June 30, 2018 the promissory notes were reduced to a non-interest bearing amount of \$959,500. The value of the license to operate Suite E was revoked and the intangibles assets were amended. This followed from the termination of the sub-lease agreement of Suite E in Cathedral City, California. The promissory note is repaid at the earlier date of the business combination of Apogee and ANM becoming effective or December 31, 2018 (see note 19).

12.4 Convertible loan 2018

Continuity 2018 convertible debenture

| | |
|---|------------------|
| 2018 Convertible debenture - January 26, 2018 | \$ 1,679,900 |
| Value of the equity component at issue | (78,045) |
| Accretion of loan discount | 79,490 |
| Accrued interest | 138,827 |
| Balance June 30, 2018 | 1,820,172 |

On January 26, 2018, the Company issued new convertible debentures in four tranches. Unless and until converted, these instruments bear interest at the rate of 28% per annum. Interest on these debentures is computed monthly and, at the Company's discretion, may be accrued or paid monthly. In the event the Company consummates a qualifying equity financing, the outstanding principal and any accrued and unpaid interest under this issuance automatically converts into common shares at a price per share equal to \$0.10 (C\$0.13).

The convertible promissory notes have been treated as compound financial instruments, as the notes could be settled through the issuance of common shares. The conversion feature has been recognized in equity as it meets the definition of an equity instrument. The liability component was recognized at its fair value, calculated as the present value of its contractually determined future cash flows discounted at a rate of 35%, which is deemed to be a reasonable approximation of the rate applied to instruments having similar terms, credit status and cash flows that do not have a conversion feature. In accordance with IAS 32, the residual amount after deducting the fair value of the liability component from the fair value of the instrument as a whole was assigned to the equity component.

13. Share capital

13.1 Share capital

Share capital consists of two classes of shares. On June 30, 2017, the shareholders of the Company approved an increase in the number of authorized common shares to 80,000,000 common shares from 20,000,000 common shares. The Company is authorized to issue the following shares:

| Authorized shares | | |
|-----------------------------|----------------------|----------------------|
| Class | June 30, 2018 | June 30, 2017 |
| Common shares, no par value | 80,000,000 | 20,000,000 |
| Preferred, no par value | 5,000,000 | 5,000,000 |

At June 30, 2018 the Company had 20,230,812 (December 31, 2017: 20,347,484) shares of common stock outstanding and no outstanding shares of preferred stock. The following table reflects the continuity of common shares from March 18, 2016 to June 30, 2018. Common shares were issued for cash through private placements, settlement of debts and conversion of convertible debt. Common shares were also redeemed and cancelled.

| Continuity of common shares as at June 30, 2018 | | |
|--|---------------|-------------------------|
| | Shares | Amount US \$ |
| Balance December 31, 2017 | 20,347,484 | 5,443,337 |
| Common shares issued | - | 42,499 |
| Balance March 31, 2018 | 20,347,484 | 5,485,836 |
| Common shares cancelled | (116,672) | (23,668) |
| Balance June 30, 2018 | 20,230,812 | 5,462,169 |

In the three months ended June 30, 2018 there were no common shares issued. The decline in the number of shares follows from the cancellation of 116,672 shares in the three months ending June 30, 2018.

Share purchase warrants

Warrants outstanding at June 30, 2018

| Grant date | Expiry date | Number of warrants outstanding | Number of warrants exercisable | Exercise price |
|------------|-------------|--------------------------------|--------------------------------|----------------|
| 12-May-17 | 11-May-27 | 4,935,000 | 4,078,125 | \$ 0.90 |
| 12-Jul-17 | 11-Jul-19 | 350,000 | 350,000 | \$ 0.90 |
| 10-Oct-17 | 09-Oct-19 | 750,000 | 750,000 | \$ 0.90 |
| | | 6,035,000 | 5,178,125 | \$ 0.90 |

During 2017, 6,685,000 warrants were granted. 5,585,000 warrants having a life of 10 years were granted to employees and directors on May 12, 2017. Of these, 2,650,000 vested immediately and the remainder vest on a quarterly basis over a period of two years with the first tranche vesting on grant. In the year ended December 31, 2017, 650,000 of these warrants were forfeited.

On July 12, 2017, 350,000 warrants exercisable until the date that is two year from the date of issuance were granted to a service provider. These vest quarterly over a period of one year beginning from the date that is three months after issuance.

On October 10, 2017, 750,000 warrants were granted to a lender to the Company. These warrants vest immediately and may be exercised up until the date that is two years from the grant date.

The exercise price of all warrants granted in the year ended December 31, 2017 is \$0.90 (C\$1.17).

As at June 30, 2018, the weighted average fair value of each warrant granted is C\$0.54 (C\$0.69) using the Black-Scholes Option Pricing Model. The fair market value of warrants granted to staff is \$0.64 (C\$0.84) and the fair market value of warrants granted to the service provider is \$0.33 (C\$0.42), the fair market value of warrants granted to the lender is \$0.00 (C\$0.00).

The Company recognized \$101,380 in share-based compensation and \$10,220 in investor relations expenses during the three months ending June 30, 2018 (June 30, 2017: \$0) at the value of the warrants earned as at June 30, 2018.

As at June 30, 2018, the weighted average remaining contractual life of the warrants is 6.88 years (June 30, 2017: 9.87 years). As at June 30, 2018, 5,178,125 (June 30, 2017: 3,016,875) of the issued and outstanding warrants were exercisable.

No warrants were granted during the three months ended June 30, 2018. The following is a summary of

the changes in the Company's share purchase warrants for the three months ending June 30, 2018.

| | 3m to June 30, 2018 | | 3m to June 30, 2017 | |
|----------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|
| | Number of options | average exercise price | Number of warrants | average exercise price |
| Outstanding, beginning of period | 6,035,000 | \$ 0.90 | - | \$ - |
| Granted | - | \$ - | 5,585,000 | \$ 0.90 |
| Exercised | - | \$ - | - | \$ - |
| Forfeited | - | \$ - | - | \$ 0.90 |
| Outstanding, end of period | 6,035,000 | \$ 0.90 | 5,585,000 | \$ 0.90 |

The assumptions used for the calculation of the fair value at grant date during the three months ended June 30, 2018 are:

| Black-Scholes assumptions for warrants | | |
|---|----------------------|----------------------|
| Granted during the three months ended: | June 30, 2018 | June 30, 2017 |
| Risk free rate | 1.55% - 1.93% | 1.55% - 1.93% |
| Expected life | 2 - 10 years | 2 - 10 years |
| Expected volatility | 70% | 70% |
| Expected dividend per share | Nil | Nil |
| Share price | \$0.86 | \$0.86 |

Volatility is calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history. The expected life in years represents the time that the options granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options

13.2 Options

The Company has established a stock option plan for directors, employees, and consultants. Under the Company's stock option plan, the exercise price of each option is determined by the Board. The aggregate number of common shares issuable pursuant to options granted under the plan is 10,000,000 common shares. The board of directors has the exclusive power over the granting of options and their vesting and cancellation provisions.

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

On May 12, 2017, 2,725,000 options with an exercise price of \$0.90 (C\$1.17) and expiring on the date that is ten years from the date of issuance were granted to employees and consultants with a weighted average fair value of options granted of \$0.65 (C\$0.85) using the Black-Scholes Option Pricing Model. Options granted vest over a period of two years on a quarterly basis.

In 2017, 715,000 options forfeited and \$106,130 was transferred to the deficit.

During the three months ended March 31, 2018, 390,000 options were forfeited as employees left the Company and \$112,932 was transferred to the deficit.

During the three months ended June 30, 2018, 150,000 options were forfeited as employees left the Company and \$101,551 was transferred to the deficit.

The Company recognized share-based compensation expense of \$65,452 during the period for the value of stock options earned (June 30, 2017: nil). The weighted average fair value of each option that vested is \$0.65 (C\$0.85).

As at June 30, 2018, the weighted average remaining contractual life of the options is 8.87 years (June 30, 2017: 9.87 years). As at June 30, 2018, 1,089,375 (June 30, 2017: 340,625) of the issued and outstanding options were exercisable.

The following is a summary of the changes in the Company's stock option plan for the three months ending June 30, 2018.

Options outstanding

| | <i>3m to June 30, 2018</i> | | <i>3m to June 30, 2017</i> | |
|----------------------------------|----------------------------|--|----------------------------|--|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding, beginning of period | 1,600,000 | \$ 0.90 | - | \$ - |
| Granted | - | \$ - | 2,725,000 | \$ 0.90 |
| Exercised | - | \$ - | - | \$ - |
| Forfeited | (150,000) | \$ - | - | \$ - |
| Outstanding, end of period | 1,450,000 | \$ 0.90 | 2,725,000 | \$ 0.90 |

The following table summarizes information regarding stock options outstanding by exercise price and number of options exercisable as at June 30, 2018:

Options outstanding by exercise price - June 30, 2018

| Number of options outstanding | Number of options exercisable | Weighted average life (years) | Weighted average exercise price |
|-------------------------------|-------------------------------|-------------------------------|---------------------------------|
| 1,450,000 | 1,089,375 | 8.9 | \$ 0.90 |
| 1,450,000 | 1,089,375 | 8.9 | \$ 0.90 |

The assumptions used for the calculation of the fair value of options at grant date during the three months ended June 30, 2018, are:

Black-Scholes assumptions for options

| Granted during the three months ended: | June 30, 2018 | June 30, 2017 |
|--|---------------|---------------|
| Risk free rate | 1.57% | 1.57% |
| Expected life | 10 years | 10 years |
| Expected volatility | 70% | 70% |
| Expected dividend per share | Nil | NA |
| Share price | \$0.86 | \$0.86 |

Volatility is calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history. The expected life in years represents the time that the options granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options.

14. Other loans

Other loans - Expressed in US dollars

| As at: | June 30, 2018 | December 31, 2017 |
|-------------------------|------------------|-------------------|
| AV Oregon LLC | 813,280 | 750,000 |
| Shareholder loans | 1,847,011 | 1,543,744 |
| Pre-RTO promissory note | 3,075,077 | - |
| Total | 5,735,369 | 2,293,744 |

The Company has a senior secured promissory note outstanding issued to AV Oregon, LLC dated October 10, 2017 in the original principal amount of \$750,000 (the "AV note"), which it issued pursuant to a loan agreement dated October 10, 2017 between the Company and AV Oregon, LLC, as successor to Archytas Ventures, LLC (the "AV loan agreement"). The loan was extended on January 18, 2018 with no change of the terms under the amendment. The loan bears interest at 15% per annum, is secured against the assets of the Company, is payable on January 11, 2018 and has 100% warrant coverage with \$750,000 of warrants issued, exercisable at \$0.90 for a period of two years. Including unpaid amounts for consulting and interest the loan was \$813,280 at June 30, 2018. In the event of default, the interest payable on the outstanding balance would increase to 40% per annum.

On January 18, 2018, the loan agreement dated October 10, 2017 between AV Oregon LLC and the Company and the related promissory note, issued by the Company to AV Oregon, were amended to waive the interest accrued at the default rate as a result of the Company's non-payment at the maturity of the loan and to extend the maturity date to December 28, 2018, under the condition that the Company make payments equal to \$35,156 by June 1, 2018. The amendment also introduced a new event of default, being the termination of the May 8, 2018 binding letter of intent with Apogee Opportunities, Inc. or the listing transaction described therein (Note 19).

On May 14, 2018, the Company announced the issuance of approximately \$10 million of Notes, the Pre-RTO notes, in one or more closings, which occurred upon approval of the applicable note purchasers as "financial interest" holders of the Company by the Oregon Liquor Control Commission (the "OLCC"). The closings have been approved and the Company is currently waiting for final inspection by the OLCC as one of the conditions for the closing of the RTO. Principal, plus accrued and unpaid interest, under the Notes will automatically convert upon satisfaction of the RTO closing conditions into units consisting of 0.7407 shares of common stock of the Company and warrants to purchase 0.7407 shares of common stock of the Company at a conversion price equal to the price per unit paid by the subscribers in the Apogee private placement. Upon closing of the Listing Transaction, the shares and warrants included in each pre-listing Unit will be exchanged into one Resulting Issuer Share and one Resulting Issuer Warrant. As of August 8, 2018, a total of \$9.6 million was raised in escrow of which 3,075,078 was released from escrow during the three months ending June 30, 2018. If the Pre-RTO notes have not yet converted as described above, the principal and accrued interest on the notes will be due and payable on the earlier of (a) December 28, 2018, or (b) a change of control of the Company.

As at June 30, 2018, the Company owed \$1,847,011 to executives, directors and close family. The outstanding amounts bear interest of 12% - 24% per annum. Interest is computed monthly and, at the Company's discretion, may be accrued or paid monthly.

15. Capital management

Capital structure - Expressed in US dollars

| As at: | June 30, 2018 | December 31, 2017 |
|--|--------------------|-------------------|
| Shareholders' equity (deficiency) | (2,882,329) | 625,936 |
| Convertible debentures and other loans | 10,324,125 | 5,797,792 |

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

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

Management does not establish quantitative return on capital criteria. However, management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is appropriate. At June 30, 2018, the Company is not subject to any externally imposed capital requirements.

16. Financial instruments

16.1 Fair value of financial instruments

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

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

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

At June 30, 2018, both the carrying and fair value amounts of all the Company's financial instruments are approximately equivalent. They are all of a short -term nature.

16.2 Financial instrument risk exposures

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, accounts receivable and notes receivable. The Company's credit risk is primarily attributable to its accounts receivables. The amounts disclosed in the statement of financial position are net of allowance for doubtful accounts, estimated by the management of the Company based on its assessment of the current economic environment. The Company does not have significant exposure to any individual customer and has estimated an allowance for doubtful accounts of \$8,654 (June 30, 2017 \$5,241). The Company's maximum exposure to credit risk as at June 30, 2018 is the carrying value of cash, accounts receivable, and notes receivable. The Company believes that there is limited risk that notes receivables (See Note 11) are not settled. The Company takes a provision to allow for accounts receivable not being settled, which it believes is sufficient.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying its financial obligations. The Company manages its liquidity risk by forecasting its operations and anticipating its operating and investing activities. As at June 30, 2018, the Company had current assets of \$6,486,678 compared to current liabilities of \$13,110,448. All amounts in current liabilities are due within one year.

Financial liabilities - June 30, 2018

| | Carrying value US\$ | 1 - 30 days US\$ | 30 - 60 days US\$ | 60 - 90 days US\$ | > 90 days US\$ |
|--|------------------------|---------------------|----------------------|----------------------|-------------------|
| Accounts payable and accrued liabilities | 2,193,994 | 427,153 | 319,535 | 212,460 | 1,234,846 |
| Convertible debentures and other loans | 10,324,125 | 3,329,192 | 666,250 | 193,126 | 6,135,558 |
| Carrying value | 12,518,118 | 3,756,345 | 985,785 | 405,586 | 7,370,404 |

Market risk

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

Interest rate risk

Interest rate risk consists of a) the extent that payments made or received on the Company's monetary

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

Foreign currency risk

Foreign currency risk derives from fluctuations in exchange rates between currencies when transacting business in multiple currencies. The Company's business is substantially all conducted in US dollars and so it is not subject to any significant foreign currency risk.

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.

17. Taxation

The Company reconciles the expected income tax expense at the average US statutory income tax rate of 34% to the amount recognized in the statement of operations.

The income tax provision in the three months ending June 30, 2018 was \$50,000 (June 30, 2017: nil). The provision is calculated, based on gross profits not including 280E deductions.

The Company's US income is apportioned exclusively to the State of Oregon. The production and sale of marijuana and related products for medical purposes is legal in the State of Oregon and therefore normal business expenses are deductible at the state level. The tax rate in the State of Oregon is the greater of 6.6% or the corporate gross receipts minimum tax. In the three months ended June 30, 2018 the Oregon state tax liability was computed as the minimum tax.

Internal Revenue Code ("IRC") Section 280E denies, at the US federal level, deductions and credits attributable to a trade or business trafficking in controlled substances. Case law shows that "cost of goods sold" has been permitted as a deduction in determining taxable income. Because the Company is subject to IRC Section 280E, the Company has computed its US tax on the basis of gross receipts less cost of goods sold. The tax provision for the three months ended June 30, 2018, has been prepared based on the assumption "cost of goods sold" is a valid expense for income tax purposes.

18. Commitments and contingencies

The Company has commitments under a certain operating lease for its facilities. The amounts are as follows:

Committed lease obligations - Expressed in US dollars

| | Amount due |
|-------------------|-------------------|
| 2018 - Six months | \$ 207,562 |
| 2019 | 415,123 |
| 2020 | 415,123 |
| 2021 | 175,517 |
| 2022 | 18,224 |

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 holds processing, cultivation and wholesaling licenses issued by the Oregon Liquor Control Commission ("OLCC"). While the Company has implemented a system of policies and procedures to help ensure compliance with the laws and regulations that govern the Recreational Marijuana Program, the Company 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, 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. Management believes the Company 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.

19. Subsequent events

On May 9, 2018, Apogee announced entering into a binding letter of intent ("LOI") to complete a business combination transaction (the "Transaction" or "Business Combination") with ANM, Inc. (doing business as Halo Labs) ("Halo"). The closing of the Transaction is subject to the receipt of all necessary regulatory and third-party consents and approvals and is expected to close on or before September 30, 2018.

On the date of the announcement, the following Halo securities were issued and outstanding:

- (i) 20,347,484 common shares;
- (ii) 1,805,000 stock options; and
- (iii) 6,435,000 warrants; for a total of 28,587,484 Halo shares on a fully diluted basis,

not including:

- (iv) 32,684,314 shares and 13,625,136 warrants, anticipated to be issued upon conversion of certain outstanding convertible debt obligations;
- (v) 6,643,895 restricted shares and 775,000 warrants, which have been committed but not yet issued; and
- (vi) 22,701,626 shares and 22,701,626 warrants, planned to be issued in connection with the Pre-RTO Oregon Regulated Offering (assuming completion of the Transaction and excluding broker units or finder units).

It is anticipated that the Transaction will be completed by way of a merger between Halo and a wholly-owned subsidiary of Apogee incorporated under the laws of Delaware, Apogee Opportunities (USA) Inc. ("Apogee Subsidiary"), pursuant to which security holders of Halo and Apogee Subsidiary (other than the Company) will receive common shares of the Company on the basis of 1.35 Resulting Issuer shares for each existing common share and the merged entity shall be renamed "Halo Labs Inc." and will become a wholly-owned subsidiary of the Company (the "Resulting Issuer"). The terms of the Transaction will also provide that each issued and outstanding Halo warrant, option and restricted share will be exchanged for a warrant, option or restricted share, as applicable, of the Resulting Issuer on equivalent terms after having given effect to the Transaction.

Apogee will seek approval for a minimum of six board members, who will replace the existing board members (other than Mr. G. Scott Paterson, who will remain on the board) and be the directors of the Resulting Issuer upon the closing of the Transaction. The proposed directors are expected to be: G. Scott Paterson, Chairman, Kiran Sidhu, Chief Executive Officer and Director, Fred Leigh, Andreas Met, Peter McRae and Philip van den Berg.

Listing on the Aequitas NEO Exchange Inc.

Apogee received final approval on June 15, 2018 to list its common shares on the Aequitas NEO Exchange Inc. (the "NEO Exchange"), in a halted state, in connection with the proposed business combination transaction between Apogee and Halo. The Apogee common shares were voluntarily delisted from the TSX Venture Exchange on June 20, 2018 and listed, in a halted state, on the NEO Exchange on June 21, 2018. The trading of the Apogee common shares will remain in a halted state until such time as the proposed Transaction has been completed and is subject to approval by and satisfaction of any conditions imposed by the NEO Exchange in connection with the proposed listing of the Resulting Issuer.

Offering of securities

On June 29, 2018, Apogee closed an offering (the "Offering") of subscription receipts of Apogee Subsidiary (each, a "Subscription Receipt") and special units of the Company (each, a "Special Unit" and together with the Subscription Receipts, the "Offered Securities"). In aggregate, 32,212,735 Offered Securities were sold under the Offering at a subscription price of C\$0.40 per Offered Security for gross proceeds of C\$12,885,094, as follows:

- i. Apogee Subsidiary issued 18,164,000 Subscription Receipts (the "Brokered Subscription Receipts"), pursuant to a subscription receipt agreement among the Company, Apogee Subsidiary, Halo, and Cannacord Genuity Corp., Gravitas Securities Inc. and Clarus Securities Inc. (collectively, the "Agents"), and Odyssey Trust Corporation ("Odyssey");
- ii. Apogee issued 9,848,250 Special Units (the "Brokered Special Units" and, together with the Brokered Subscription Receipts, the "Brokered Offered Securities") pursuant to a special unit agreement among the Company, Halo, the Agents and Odyssey;
- iii. Apogee Subsidiary issued 4,140,485 non-brokered Subscription Receipts (the "Non-Brokered Subscription Receipts"), pursuant to a subscription receipt agreement among the Company, Apogee Subsidiary, Halo and Odyssey; and
- iv. Apogee issued 60,000 non-brokered Special Units (the "Non-Brokered Special Units" and, together with the Non-Brokered Subscription Receipts, the "Non-Brokered Offered Securities" and, together with the Brokered Offered Securities, the Offered Securities), pursuant to special unit agreement among the Company, Halo and Odyssey.

Upon satisfaction of the Escrow Release Conditions and immediately prior to closing of the Transaction, each Offered Security issued will be automatically exchanged for a unit (an "Apogee Unit") comprised of one common share of Apogee (or Apogee Subsidiary, as applicable) ("Apogee Underlying Share") and one common share purchase warrant of Apogee (or Apogee Subsidiary, as applicable) ("Apogee Underlying Warrant") for no additional consideration. Each Apogee Underlying Warrant will be exercisable into one Apogee Underlying

Share until December 31, 2020 and will have an exercise price of C\$0.80, subject to adjustment as provided in the warrant indenture (the "Warrant Indenture") dated June 29, 2018 entered into among the Company, Apogee Subsidiary, Halo and Odyssey Trust Company, as warrant agent. In connection with the Transaction, the Apogee Units will be exchanged for units of the Resulting Issuer, having the same terms as the Apogee Units.

In consideration of the services provided by the Agents in connection with the Offering, the Company agreed to pay the Agents a cash commission equal to 7.5% of the aggregate gross proceeds of the Offering (excluding the Non-Brokered Offering) and issue the Agents compensation options (the "Agents' Options") equal to 7.5% of the Offered Securities sold under the Offering (excluding the non-brokered offerings). The Agents were also paid a corporate finance fee of C\$50,000 as well as 1.5% in cash and 1.5% in Agent's Options for Offered Securities sold in the non-brokered offerings. In addition, under the non-brokered offerings, certain finders (the "Finders") were paid 6% in cash and 6% in finder options (the "Finders' Options"), having the same terms as the Agents' Options.

Provided the Escrow Release Conditions are satisfied, each Agents' and Finders' Option will be exercisable to purchase one Apogee Unit at the price of C\$0.40 per Apogee Unit and, following completion of the Transaction, assuming such Agents' or Finders' Option was not previously exercised, each one Agents' or Finders' Option will automatically be exchanged for one agents' or finders' option of the Resulting Issuer, which shall be exercisable to purchase one unit of the Resulting Issuer on the same terms as the Apogee Units at a price of C\$0.40 per unit until December 31, 2020.

The gross proceeds of the Offering, less 50% of the cash commissions and corporate finance fees of the Agents and certain expenses of the Agents that were paid to the Agents on closing of the Offering (the "Escrowed Proceeds"), were deposited in escrow with Odyssey in an interest-bearing account. The Escrowed Proceeds and any interest or other income earned thereon (the "Escrowed Funds") will be released from escrow upon the satisfaction of the "Escrow Release Conditions", which are:

- i. completion of the transaction;
- ii. the Resulting Issuer shares and the common shares underlying the Resulting Issuer warrants being approved for listing on a "designated stock exchange" within the meaning of the Income Tax Act (Canada);
- iii. the receipt of all regulatory, shareholder and third-party approvals, if any, required in connection with the Transaction;
- iv. the Company, Apogee Subsidiary, Halo and the Resulting Issuer shall not be in breach or default of any of their respective covenants or obligations under the security agreements or the agency agreement, as applicable, except (in the case of the Agency Agreement only) for those breaches or defaults that have been waived by the Agents, and all conditions set out in the agency agreement shall have been fulfilled; and
- v. the Company, Apogee Subsidiary and the Agents having delivered a joint notice to Odyssey confirming

that all Escrow Release Conditions have been met or waived.

In the event that the Escrow Release Conditions are not satisfied by September 30, 2018, each Offered Security will be exchangeable, upon satisfaction of the Escrow Release Conditions, for 1.1 Apogee units (equal to an additional 10% of the Offering); and in the event that the Escrow Release Conditions are not satisfied by October 31, 2018, each Offered Security will be exchangeable, upon satisfaction of the Escrow Release Conditions, for 1.2 Apogee units (cumulatively equal to an additional 20% of the Offering).

In the event that the Escrow Release Conditions are not satisfied at or before the 5:00 p.m. (Toronto time) on December 20, 2018 (the "Escrow Release Deadline") or, if prior to the Escrow Release Deadline one of the following occurs: (A) the termination of the definitive agreements in respect of the Transaction, (B) the Company advising Odyssey and the Agents that the Transaction will not be completed, or (C) the Company making an announcement to the public that the Transaction will not be completed (any such event being a "Termination Event"), then Odyssey will return to each holder of Offered Securities an amount equal to the aggregate offering price of the Offered Securities held by such holder plus an amount equal to the holder's pro rata portion of any interest or other income earned on the Escrowed Proceeds (less applicable withholding tax, if any).

In the event that a Termination Event occurs, (i) the 50% of the Agents' commissions and corporate finance fees and the Finders' Fees that have been included in the Escrowed Funds shall not become payable; (ii) Apogee will be required to refund C\$566,220, plus interest, to Odyssey; and (iii) the 2,163,925 Agents' Options and 252,029 Finders' Options shall automatically terminate.

Upon completion of the Transaction, the net proceeds from the Offering will be used: (a) to fund expansion of the resulting issuer's business operations in California and Nevada; (b) to purchase capital equipment; (c) for leasehold improvements; (d) for the payment of certain liabilities; and (e) for general working capital.

All securities of the Company issued pursuant to the Offering are subject to a hold period ending on October 30, 2018. All securities of Apogee Subsidiary issued pursuant to the Offering are subject to a hold period ending on the later of: (a) October 30, 2018; or (b) the date that Apogee Subsidiary becomes a reporting issuer pursuant to applicable securities laws.

The Company is currently working on the documentation to implement the Transaction, which is expected to close prior to September 30, 2018.

On June 30, 2018, the Company, entered an agreement to a termination of certain of the intangibles acquired in 2017 (Note 12) and the termination of the Suite E sublease. Pursuant to a letter agreement dated effective June 30, 2018, the Company, Elemental Concepts, LLC and Compass Point, LLC agreed to amend the promissory notes to each, to a restated principal amount of US\$479,500, a reduction of \$950,000 to each before. The maturity date is the earlier of (a) the consummation of the proposed business combination transaction between or involving Apogee and the Company or (b) December 28, 2018. This aggregate amount was subsequently reduced from \$1.9 million to \$959,500 effective June 30, 2018.

On June 30, 2018, the Company announced the issuance of convertible promissory notes to certain related parties in exchange for prior cash advances and deferred compensation (See Note 13, shareholder loans). The notes will convert into Pre-RTO units, which were issued at a conversion price of \$0.18 (C\$0.24) per unit.

On July 9, 2018 the Company signed a membership interest contribution agreement with Elemental Concepts, LLC and Compass Point, LLC, the members of Industrial Court L9, LLC ("L9"). The Company will issue convertible promissory notes in the aggregate principle amount of \$2 million as well as common share purchase warrants of ANM for the purchase of the L9 interests, which includes two pending licenses for manufacturing and distribution in Cathedral City, California.

On July 19, 2018 the Company signed a binding term sheet with Just Quality, LLC for the purchase of 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 is \$4.9 million.