

Halo Labs Inc.
(formerly Apogee Opportunities, Inc.)
Management Discussion and Analysis
Three and nine months ended September 30, 2019

This “Management’s Discussion and Analysis” (“MD&A”) for Halo Labs Inc., an Ontario Corporation (“Halo Labs” or the “Company”) has been prepared as at November 14, 2019 and should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements for the three and nine months ended September 30, 2019 which were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

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.

Overview of Halo Labs Inc.

Halo Labs Inc. is an Ontario corporation and a reporting issuer in Alberta and Ontario, listed on the Neo Exchange Inc. (the “NEO”) under the symbol “HALO”, and on the OTCQB Venture Market under the symbol “AGEEF”. The Company's registered office is located at 65 Queen Street West, Suite 805, Toronto, Ontario, M5H 2M5.

Halo is a cannabis extraction company that develops and manufactures quality cannabis oils and concentrates, which are the fastest growing segments in the cannabis industry. Halo is a global leader in cannabis oil and concentrates, having produced over 4.5 million grams of oils and concentrates since inception. The Company has expertise across all major cannabis manufacturing processes, leveraging a variety of proprietary processes and products. The forward-thinking company is led by a strong management team with deep industry knowledge and blue-chip experience. The Company is currently operating in California and Oregon, as well as in Nevada with our partner Just Quality, LLC, and in Lesotho with the Bophelo strategic partnership. With a consumer-centric focus, Halo will continue to market innovative, branded, and private label products across multiple product categories. Halo recently acquired Dispensary Track platform which will alleviate customer flow constraints experienced by dispensaries and enable direct consumer interaction.

Business Strategy

The regulated cannabis market is maturing at an increasingly fast pace. While this has led to testing trading conditions in the short-term, Halo Labs welcomes the positive transformation that is occurring in the cannabis sector. The Company has positioned itself to thrive in the new environment.

While many competitors are struggling to adapt their models to meet these challenges, Halo Labs recognized early the likely permanent nature of the structural changes facing the industry. As such, the Company has taken a number of strategic steps over the quarter to reposition itself successfully.

Above all, Halo Labs now finds itself in a strong financial position compared to most of its peers. At the end of the quarter, the Company had working capital of \$18.8 million and intends to deploy these funds, taking full advantage of the opportunities that current conditions have created.

Specifically, Halo Labs has identified a pipeline of turnkey takeover targets, which have the potential to contribute immediately to the Company's bottom line and are available for sale at distressed prices. Where many companies in the cannabis sector have found that capital markets have dried up for them over the course of 2019, Halo Labs is now able to leverage its robust balance sheet to embark on an ambitious expansion plan.

The Company believes California is a ripe target for this approach, where there are numerous distressed assets. The Company will consider acquisitions which may help it become more vertically integrated, in turn securing its supply chain and improving gross margin, as well as acquisitions that diversify revenue streams, create additional distribution channels, and become value-add propositions. In keeping with market conditions, the Company intends to build up its cash position and focus on efficiency as it prepares for future consolidation within the domestic market.

Internationally, Halo Labs' primary focus is on completing the acquisition & development of Bophello Biosciences in Lesotho, Africa. This transaction has the potential to unlock a 200+ hectare cultivation operation, which would make Halo Labs one of the world's largest growers and suppliers of medicinal-grade cannabis.

Currently, the Company is focused on closing the transaction. With the export of Good Agricultural and Collection Practice ("GACP") approved cannabis to the EU, Israel, and potentially Australia, this deal is expected to drive revenue and profitability substantially higher in 2020.

In anticipation of completing the Bophelo acquisition imminently, the Company has already initiated the first stage of development here. This includes the build out of the initial 11 acres of greenhouses. Plants and genetic stock are already in place and the first harvest is expected in Q2 2020. Halo Labs expects to finance development of Bophelo through traditional bank financing and securing commercial offtake agreements.

Moving attention back to the US domestic market and in response to market conditions, Halo Labs remains highly focused on delivering operational efficiencies and further cost savings in the business. The

Company is open to opportunities to sell off non-core assets or take on additional financing, should the right terms be offered. As the market for distillate has diminished, the Company has reduced its bulk sales business in California and reorganized its product lines to reflect widespread changes in demand.

With this new direction, the Company has decided to postpone any capital-intensive build outs and instead focus on low-risk, cash flow generating propositions, such as licensing or white-labeling opportunities. A market-by-market strategic approach is listed below.

Oregon. Oregon has been growing and the harvest from East Evans Creek is the largest in the Company's history. While the OLCC has restricted terpenes not derived from cannabis, the Company pivoted to backfill sales with flower and pre-roll joints. The concentrate business remains strong and new lines have been added including a suite of live resin SKUs and clear shatter. The vape cartridge business is being rebuilt due primarily to declining category sales in dispensaries. The Company has now added both live resin cartridges and distillate / cannabis derived terpene cartridges to its menu. With the glut in the hemp market and prices declining the hemp extraction facility has been placed on hold.

California. In addition to its plans for acquisition, the Company continues to make strides in California with its efforts focused on building its distribution channels and overall direct, commission-based sales force. To support this, the Company has updated its menu, reduced its overall pricing while focusing on targeted margins, as well as having partnered with a trusted, statewide fulfillment firm. The Company is scaling both through vertical integration and direct to dispensary sales. To drive higher margins the emphasis is less on bulk and more on finished goods. In addition to finished goods, the Company is evaluating opportunities in cultivation and retail to add more value.

Nevada. Operations here have been scaled down and current inventory is being sold, while the lawsuits against the Nevada Department of Taxation are settled. The licenses Halo invested retain significant value and the Company intends to wait see how the situation develops in this state.

Product. The Company continues to diversify its product selection, holding strong to its mission of delivering safe, quality product at a low value price point. This is even more important as consumers are shifting away from traditional vaping. With a larger focus on DabTabs, concentrates and products outside of the vaporizer line, the Company expects growing sales in these verticals will help to meet consumer demand and offset sales losses in the traditional distillate vaporization category. The majority of new product development is being done in the Company's founding state of Oregon where it holds a significant market share, allowing the Company to test these products in a seasoned market before rolling out into California. Some of these new products include flower, pre-rolls, diamonds, sauce, live resin cartridges, and clear shatter. Furthermore, the Company looks to expand into CBD lines opportunistically with a focus on the categories that are less saturated and require proprietary formulations.

In summary, 2019 will be a year that many in the cannabis sector hope to put behind them, but for Halo Labs this has been a period of laying firm foundations for accelerated future growth. The Company's ambitious leadership has positioned the business to benefit greatly from the structural changes the global cannabis market is contending with.

In the United States Halo Labs will continue to build on its prevailing position as one of the country's leading cultivators, producers and manufacturers of high-quality cannabis and cannabis related products. Meanwhile, the Bophelo acquisition holds a huge amount of promise to propel the Company forward.

Overall Performance

The following table summarizes the Company's results of operation for the period indicated (in USD except otherwise noted):

	<i>For the 3 months ending:</i>		<i>For the 9 months ending:</i>	
	<i>September 30, 2019</i>	<i>September 30, 2018</i>	<i>September 30, 2019</i>	<i>September 30, 2018</i>
Revenue	7,150,557	3,595,906	25,421,072	7,858,350
Gross profit	2,903,770	523,322	6,601,800	663,804
Gross margin	41%	15%	26%	8%
Total operating expenses	7,924,134	3,269,358	16,686,798	6,630,562
Net loss	(5,887,772)	(5,375,040)	(12,983,442)	(9,273,928)
Net loss per share (basic and diluted)	\$ (0.03)	\$ (0.19)	\$ (0.08)	\$ (0.34)

- Revenue in the three months ended September 30, 2019 was \$7.2 million, a 99% increase compared to \$3.6 million in the same quarter last year due to an increase in revenues from Halo's Oregon operations, **ANM Inc ("ANM")** and the new operations of **HLO Ventures, LLC in Nevada ("HLO")** and **Coastal Harvest, LLC in California ("Coastal Harvest")**. For the nine months ended September 30, 2019, revenue was \$25.4 million, a 223% increase compared to \$7.9 million in the same period last year due primarily to the revenues from **Coastal Harvest**.
- Total revenues of \$7.2 million in the three months ended September 30, 2019 were comprised of \$3.4 million from **ANM**, \$0.4 million from **HLO**, and \$3.4 million from **Coastal Harvest**. For the nine months ended September 30, 2019, total revenues of \$25.4 million was comprised of \$9.0 million from **ANM**, \$1.8 million from **HLO** and \$14.6 million from **Coastal Harvest**.
- The increase in revenues for the three months ended September 30, 2019 in comparison to the same period in 2018 was due primarily to an increase of 532,838 grams of distillate sold and an increase of 23,250 grams of shatter sold. The average price increase of shatter also contributed to the increase in revenue for the three months ended September 30, 2019. Excluding the contributions of the new operations, **HLO** and **Coastal Harvest**, the increase in grams of distillate and shatter sold in those periods in Oregon were 19% and a 13% respectively
- Overall gross margin in the three and nine months ended September 30, 2019 was 41% and 26% respectively. Excluding the fair value gain on biological assets, the gross margin was 14% and 20% respectively for the three and nine months ended September 30, 2019.
 - **ANM** achieved a gross margin of 40% for the nine months ended September 30, 2019. Gross margin excluding fair value gain on biological assets was 22%.
 - **Coastal Harvest** achieved a gross margin of 26% for the nine months ended September 30, 2019.

- **HLO** achieved a gross margin of -7% for the nine months ended September 30, 2019.
- **ANM** - In the three months ended September 30, 2019, the facility in **Oregon** sold 143,822 grams of distillate (in cartridges) and 209,035 grams of shatter, an increase of 19% and 13% respectively in comparison with the three months ended September 30, 2018. Distillate products sold at an average price of \$13.49 per gram, a 14% decline. Shatter sold at an average price of \$4.84 per gram, an increase of 11%. For the three months ended September 30, 2019, a total of 301,617 grams of oil was produced at a conversion yield of 6.1% compared to a total of 301,939 grams of oil produced at a conversion yield of 8.1%. The decrease in yield in the third quarter of 2019 was due to an increase usage of fresh frozen for production in comparison to the same period in 2018.
- **Coastal Harvest** - In the three months ended September 30, 2019, the facility in **California** sold 491,746 grams of bulk distillate and 41,366 grams of bulk live resin. Distillate sold at an average price of \$6.24 per gram, and live resin sold at an average price of \$10.44 per gram. It should be noted that **Coastal Harvest** has not commence operations during the third quarter of 2018.
- **HLO** - In the three months ended September 30, 2019, the facility in **Nevada** sold 17,698 grams of distillate products at an average price of \$26.16 per gram. It should be noted that **HLO** has not commence operations during the third quarter of 2018.

Corporate Highlights

- (a) On July 16, 2019, the Company entered into an agreement with Falcon International to buy out the entire rental premium of its California locations. Halo issued an aggregate of approximately 2.7 million common shares for the buyout of portion of rent at these two sites, providing the Company an expected total savings of CAD \$1.2 million and overall reduced rent expenditure of 26%.
- (b) On July 18, 2019, the Company announced its inclusion in the OTC Markets Cannabis Index which trades on the OTCQX Market under the ticker symbol .OTCQXMJ. The Index's goal is to highlight for investors the diversity of Cannabis companies that meet the financial, disclosure and corporate governance standards required to trade on the OTCQX Market. Companies eligible to be included on the OTCQX Cannabis Index must be traded on OTCQX, be identified as having operations in the Cannabis space, and meet a minimum liquidity screen. The Index is rebalanced on a quarterly basis.
- (c) On August 8, 2019, the Company announced that it has entered into a distribution agreement with one of California's largest full service distributors, Nabis, to supply California dispensaries with Halo's full assortment of branded products. This agreement provides Halo with distribution coverage across the entire state of California.
- (d) On August 19, 2019, the Company announced a collaboration with ilo Vapor™ ("ilo") to launch Levätä, an alternative wellness brand focused on utilizing DabTabs™ technology to create a unique measured dose cannabinoid ("CBD") consumption solution. Halo expects to begin sales of the Levätä™ collection to retailers in the fourth quarter of 2019, leveraging its direct sales force in California, Oregon, and Nevada. Halo also intends to generate sales of Levätä through online retail marketplaces and by partnering large distributors of cannabis peripherals in the United States and Europe.
- (e) On August 26, 2019, the Company announced that the Company has been awarded two permanent California state licenses: a Type 11 Distribution and a Type 7 Volatile Manufacturing, for the company's second facility in Cathedral City ("ICL 9"). As previously disclosed, ICL 9 also has Cathedral City local cannabis business licenses for both manufacturing and distribution.
- (f) On August 28, 2019, the Company announced a proposed purchase of 17.5% of Ukiah Ventures Inc ("UVI"). UVI is a cannabis distribution, processing and manufacturing company providing biomass procurement and value added services such as drying, trimming, packaging, freezing and storing cannabis. As part of the transaction, UVI will assist Halo in securing a steady supply of biomass by issuing a right of first refusal to Halo for three years, up to a monthly quota of 15,000 pounds, on all biomass procured for the purpose of processing and manufacturing only. UVI will also provide Halo with rent-free access to its Ukiah facility for the first year of the strategic relationship, allowing Halo the opportunity to manufacture closer to the source of its biomass.
- (g) On September 4, 2019, the Company provided an update on the previous announced Bophelo transaction. Halo and Bophelo are in the process of negotiating mutually agreeable definitive agreements. Completion of the transaction will be subject to the satisfaction of certain conditions

including the receipt of any requisite regulatory, governmental and stock exchange approvals. Bophelo has secured third party funding of over \$1.0 million being used in part to erect and plant an initial hectare that is projected to be fully implemented in the fourth quarter of 2019. Additionally, Bophelo is in discussion with local South African banks to secure a term loan to fund all grow operations as well as an extraction facility build out. This extraction facility is planned to be established in a warehouse in close proximity to the cultivation site and is expected to be built out and operational in 2020.

- (h) On September 9, 2019, the Company announced that the warrants issued in connection with Halo's private placement which closed on June 29, 2018 and business combination which closed on October 2, 2018 were approved for listing on the NEO Exchange. The Warrants commenced trading on September 11, 2019 under the symbol HLO.WT.A.
- (i) On September 13, 2019, the Company announce that it has entered into a bulk supply agreement (the "Agreement") with NC3 Systems ("Caliva") to provide bulk distillate, bulk live resin and live resin packaged as finished products. The Agreement specifies pricing and minimum quantities per order by product category of 5 kilograms or more. Timing and frequency of orders is at the discretion of Caliva.
- (j) On September 18, 2019, the Company announced that it has entered into an unsecured debt financing agreement with a private arm's length lender for a principal amount of up to CAD \$10 million. The agreement is for an initial twelve month term with interest accruing at a rate of 9%. The Company has an ability to extend the initial term by an additional 12 months at an interest rate of 13% following the initial term. Pursuant to the terms of the agreement, the lender has been issued 5,000,000 common share purchase warrants of Halo. One Warrant will vest and be exercisable by the lender for each CAD \$1.00 of principal amount drawn under the agreement. Each warrant is exercisable at a price of CAD \$0.295 per share and expires on the date that is 9 months from the date of issue.
- (k) On October 11, 2019, the Company announced the closing of an acquisition of all the common shares of Cannpos Services Corp. ("Cannpos") for (i) CAD \$4.88 million in Halo common shares at a deemed price of CAD \$0.26 per share; and (ii) 1,250,000 performance warrants, subject to vesting and exercise restrictions to purchase 1,250,000 Halo common shares. Cannpos is a software company that is developing an application to alleviate customer flow constraints currently experienced by dispensaries.
- (l) On October 11, 2019, the Company announced that it had closed a non-brokered private placement of Halo common shares at a price of CAD \$0.31 per share for aggregate gross proceeds of CAD \$3.0 million.
- (m) On October 15, 2019, the Company announced a partnership agreement between Halo DispensaryTrack Software Inc, a Halo Canadian subsidiary, and Greeny.com, a one-stop online marketplace for CBD-based products. The planned integration of Greeny.com with the Company's recently acquired Dispensary Track will virtually bolster dispensary inventory with complementary

CBD products that may not be traditionally available in the dispensary supply chain, offering consumers an even wider selection.

- (n) On October 16, 2019, the Company announced that it had closed a second tranche of the previously announced non-brokered private placement of Halo common shares at a price of CAD \$0.31 per share for additional gross proceeds of CAD \$965,843. A total of 3,115,622 common shares were issued in connection with the second tranche. The Halo common shares issued in connection with the second tranche are subject to a four month and one day statutory hold period pursuant to applicable securities laws.

Results of Operations

The following section provides details of the Company's financial performance for the quarter ended September 30, 2019 compared to the quarter ended September 30, 2018, and for nine months ended September 30, 2019 compared to the nine months period ended September 30, 2018.

Quarter ended September 30, 2019 compared to the quarter ended September 30, 2018

Selected Financial Information - Expressed in US dollars

	<i>For the 3 months ending:</i>	
	<i>September 30, 2019</i>	<i>September 30, 2018</i>
Revenue	7,150,557	3,595,906
Cost of finished cannabis inventory sold	6,148,873	4,001,075
Gross profit ex change in FV biological assets	1,001,685	(405,169)
Change in value of biological assets	1,902,086	928,491
Gross profit	2,903,771	523,322
Net income / (loss)	(5,887,772)	(5,375,040)
Net income / (loss) per share, basic & diluted:	\$ (0.03)	\$ (0.19)
Weighted average number of outstanding common shares, basic and diluted	191,194,200	28,163,984
Total assets	40,881,703	27,739,861
Long-term financial liabilities	8,528,019	-

Revenue

Revenue in the third quarter of 2019 was \$7.2 million compared to \$3.6 million in the same period in 2018, a 99% increase.

Oregon. Distillate (in cartridges) and shatter sales in the facility increased by 15% to 352,857 grams. **ANM** achieved an increase of 11% in the average price of shatter sold but had a 14% decrease in the average price of distillate sold in the third quarter of 2019 in comparison to the third quarter of 2018. Trim converted increased by 33% to 4,938,862 grams with a conversion yield of 6.1%. The average trim price, the Company's most important raw material, declined by 32% to \$55.14 per pound. Total grams of distillate for cartridges sold increased by 19% to 143,822 grams and shatter sales increased by 15% to 352,827 grams for the quarter. Distillate sold for an average price of \$13.49 per gram in the third quarter, a 14% decline compared to the same period last year; shatter sold for average price of \$4.84 per gram, a 11% increase compared to the same period last year.

California. For the three months ended September 30, 2019, 491,746 grams of bulk distillate were sold at an average price of \$6.24 per gram and 41,366 grams of bulk live resin were sold at an average price of \$10.44 per gram.

Nevada. Sales of distillate (in cartridges) were 17,698 grams at an average achieved price of \$26.16 per gram.

Gross Profit and Cost of Goods Sold

Cost of goods sold was \$4.2 million (which included a gain in the value of biological assets of \$1.9 million) in the third quarter of 2019 compared to \$3.1 million (which included a gain in the value of biological assets of \$0.9 million) for the same period in 2018. Including the fair value gain on biological assets, gross profit for the three months ended September 30, 2019 was \$2.9 million compared to \$0.5 million in the same period in 2018. The gross margin for the third quarter of 2019 was 41% compared to 15% in the same period in 2018. Excluding the fair value gain on biological assets, the gross margin for the third quarter of 2019 was 14% compared to -11% for the third quarter of 2018.

Operating Expenses

The table below sets forth operating expenses for the three months ended September 30, 2019.

Operating expenses - Expressed in US dollars

	<i>For the 3 months ending:</i>	
	<i>September 30, 2019</i>	<i>September 30, 2018</i>
General and administration	1,642,480	711,812
Salaries	1,227,678	752,515
Professional fees	2,901,064	1,062,016
Sales and marketing	774,647	486,949
Investor relations	59,094	56,157
Share issuance costs	1,220,709	-
Share-based compensation	98,462	199,908
Total operating expenses	\$ 7,924,134	\$ 3,269,358

Fair Value Gain on Biological Assets

The fair value gain on biological assets was \$1.9 million in the third quarter of 2019 compared to \$0.9 million in the same quarter last year.

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

- **Selling Price:** calculated as the weighted average historical selling price for all strains of cannabis sold by the Company, which is expected to approximate future selling prices;
- **Stage of Growth;** represents the weighted average number of weeks out of the 14 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; and,
- **Post-Harvest Costs:** calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants. Post-harvest, consisting of the cost of direct and indirect materials and labor related to labelling and packaging.

The table below shows the significant assumptions used in the biological assets model:

Significant assumptions utilized in cannabis plant model

	Bud		Trim	
Bud vs. trim ratio of harvest output (dried)		78%		22%
Expected selling price per pound	\$	450	\$	90
Total costs to complete and sell per pound	\$	84.92	\$	28.62
Reasonable margin		45.00		9.00
Total Costs to sell		129.92		37.62
Total fair value less costs to sell	\$	320.08	\$	52.38
Production costs				
Harvest and pre-harvest costs	\$	78.76	\$	59.76
Post-harvest costs	\$	28.65	\$	20.76

For detail information on biological asset, refer to note 8 of the condensed interim financial statements.

Nine months ended September 30, 2019 compared to nine months ended September 30, 2018

Selected Financial Information - Expressed in US dollars

	<i>For the 9 months ending:</i>	
	<i>September 30, 2019</i>	<i>September 30, 2018</i>
Revenue	25,421,072	7,858,350
Cost of finished cannabis inventory sold	20,428,716	7,654,002
Gross profit ex change in FV biological assets	4,992,356	204,348
Change in value of biological assets	1,609,444	459,456
Gross profit	6,601,800	663,804
Net income / (loss)	(12,983,442)	(9,273,928)
Net income / (loss) per share, basic & diluted:	\$ (0.08)	\$ (0.34)
Weighted average number of outstanding common shares, basic and diluted	155,030,836	27,661,412
Total assets	40,881,703	27,739,861
Long-term financial liabilities	8,528,019	-

Revenue

Revenue in the nine months ended September 30, 2019 was \$25.4 million compared to \$7.9 million in the same period in 2018, a 223% increase.

Oregon. Distillate (in cartridges) and shatter sales in the facility increased by 24% to 975,421 grams. Even though average price of shatter and distillate sold in the nine months ended September 30, 2019 was on a decline, the production cost decline was more significant resulting in a higher margin for the operation. Average price of shatter and distillate sold declined by 16% and 4% respectively for the nine months ended September 30, 2019 in comparison to the same period in 2018. Trim converted increased by 27% to 13,745,408 grams with a conversion yield of 7.0%. The average trim price, the Company's most important raw material, declined by 32% to \$61.79 per pound. Total grams of distillate for cartridges sold increased by 45% to 356,664 grams and shatter sales increased by 15% to 618,757 grams for the quarter. Distillate sold for an average price of \$14.40 per gram in the nine months ended September 30, 2019, a 4% decline compared to the same period last year; shatter sold for average price of \$4.78 per gram, a 16% increase compared to the same period last year.

California. For the nine months ended September 30, 2019, 1,234,653 grams of bulk distillate were sold at an average price of \$6.74 per gram and 361,680 grams of bulk live resin were sold at an average price of \$11.20 per gram.

Nevada. Sales of distillate (in cartridges) were 65,173 grams at an average achieved price of \$27.88 per gram.

Gross Profit and Cost of Goods Sold

Cost of goods sold was \$18.8 million (which included a gain in the value of biological assets of \$1.6 million) in the nine months ended September 30, 2019 compared to \$7.2 million (which included a gain in the value of biological assets of \$0.5 million) for the same period in 2018. Including the fair value gain on biological assets, gross profit was \$6.6 million for the nine months ended September 30, 2019 compared to \$0.7 million in the same period in 2018. The gross margin for the nine months ended September 30, 2019 was 26% compared to 8% in the same period in 2018. Excluding the fair value gain on biological assets, the gross margin for the nine months ended September 30, 2019 was 20% compared to 3% for the nine months ended September 30, 2018.

ANM achieved a gross margin of 40%, Coastal achieved a gross margin of 26%, and **HLO** achieved a gross margin of -7% in the nine months ended September 30, 2019.

Operating Expenses

The table below sets forth operating expenses for the nine months ended September 30, 2019.

Operating expenses - Expressed in US dollars

	<i>For the 9 months ending:</i>	
	<i>September 30, 2019</i>	<i>September 30, 2018</i>
General and administration	3,438,445	1,813,533
Salaries	3,408,663	1,138,285
Professional fees	3,955,472	1,980,834
Sales and marketing	1,961,570	1,035,662
Investor relations	1,284,805	174,392
Share issuance costs	1,220,709	-
Share-based compensation	1,417,134	487,856
Total operating expenses	\$ 16,686,798	\$ 6,630,562

Total operating expenses was \$16.7 million in the nine months ended September 30, 2019 compared to \$6.6 million in the same period in 2018 due mainly to an increase in general and administration costs, professional fees, and salaries as a result of expansion into California and Nevada. Non-cash share-based compensation expense increased compared to the same period last year due to an increase in options granted during the year.

General and administration costs included IT, rent, utilities, office, security, insurance and travel expenses. Professional fees included legal, audit and consulting fees. Sales and marketing expenses included advertising, distribution, salaries and commissions to sales representatives and marketing staff.

Fair Value Gain on Biological Assets

The fair value gain on biological assets was \$1.6 million in the nine months ended September 30, 2019 compared to \$0.5 million in the same period last year. The fair value gain is comprised mostly of the \$1.9 million gain in the value of biological assets during the third quarter of 2019, offset slightly by the \$0.3 million loss from the first half of 2019. Refer to earlier section of this MD&A for information on assumptions used for the calculation of the fair value gain on biological assets.

Summary of Quarterly Results

Summary of quarterly results - Expressed in US dollars

For three months to:	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Revenue	2,027,959	2,168,976	2,093,468	3,595,907	3,039,926	8,718,503	9,552,012	7,150,557
Cost of Cannabis inventory sold	2,529,798	1,860,930	1,792,003	4,001,075	3,336,070	6,273,930	8,005,913	6,148,873
Gross profit excluding FV changes	(501,839)	308,046	301,465	(405,168)	(296,143)	2,444,573	1,546,099	1,001,685
Unrealized fair value gain on growth of biological assets	742,630	(322,639)	(146,396)	928,491	(635,849)	(267,758)	(24,884)	1,902,086
Gross profit	240,791	(14,593)	155,069	523,323	(931,992)	2,176,815	1,521,215	2,903,771
Gross margin	11.9%	nm	7.4%	14.6%	nm	25.0%	15.9%	40.6%
Net income / (loss)	(5,541,008)	(1,818,993)	(2,079,715)	(5,383,724)	(4,435,364)	(3,037,601)	(3,912,201)	(6,309,689)
Net income / (loss) per share	\$ (0.24)	\$ (0.07)	\$ (0.08)	\$ (0.19)	\$ (0.03)	\$ (0.02)	\$ (0.02)	\$ (0.03)
Weighted average number of outstanding common shares, basic and diluted	22,733,406	27,469,103	27,410,126	28,923,032	157,905,223	160,386,434	182,418,186	191,194,200
Total assets	9,413,803	9,514,611	10,228,119	27,739,861	19,391,988	25,691,649	38,338,127	40,881,703

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 above quarterly information is presented on the same basis as the audited consolidated financial statements and should be read in conjunction with the statements and the accompanying notes. The fluctuation in the gross margin is explained by the timing of inventory movements, a change in the value of biological assets, and value adjustments of inventory.

Non-IFRS measures

Adjusted EBITDA - Expressed in US dollars

	<i>For the 9 months ending:</i>	
	<i>September 30, 2019</i>	<i>September 30, 2018</i>
IFRS measures from consolidated financial statements:		
Statement of loss:		
Net loss	(12,983,442)	(9,273,928)
Income tax	1,166,100	31,341
Interest income / (expense)	808,116	888,229
Depreciation and amortization	995,387	271,453
EBITDA	(10,013,839)	(8,082,905)
Adjustments:		
Share-based compensation for staff	1,417,134	487,856
Foreign exchange loss (gain)	(160,568)	-
Share-based payments for goods and services	5,552,667	-
Accretion expense	551,130	143,029
Transaction expense in relation to RTO	-	2,379,034
Change in the FV of embedded derivative	-	(134,463)
Change in the FV of biological assets	(1,609,444)	(459,456)
Loss on the sale of property	(67,467)	-
Adjusted EBITDA	\$ (4,330,386)	\$ (5,666,905)

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

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

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

Adjusted EBITDA to compare financial results among reporting periods and to evaluate the Company's operating performance and ability to generate funds from operating activities. In calculating Adjusted EBITDA, certain non-cash and nonrecurring transactions are excluded. Adjusted EBITDA excludes non-cash expenses related to share-based compensation and foreign exchange gains and losses.

Liquidity

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

The Condensed Interim Consolidated Financial Statements have been prepared on a going concern basis, 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 enough funding for operating and capital requirements. In April 2019, the Company closed a financing through convertible debentures with gross proceeds of \$15.8 million (or CAD \$21.2 million). The Company also entered an unsecured CAD \$10.0 million debt financing agreement in September 2019 as well as a private placement of approximately \$4.0 million in October 2019. There is, however, no assurance that the Company will generate profits from operations or that additional future funding will be available to the Company, or that such funding will be both adequate to cover its obligations and available on terms which are acceptable to the management of the Company.

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

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

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

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

As at September 30, 2019, the Company had cash of \$5.8 million, of which \$2.0 million is restricted. As at September 30, 2019, 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, 2019.

Cash and working capital position - Expressed in US dollars

As at:	September 30, 2019	December 31, 2018
Cash (including restricted cash)	\$ 5,795,166	\$ 722,649
Working capital	18,763,643	6,215,389

The table below sets forth the Company's cash flows for the nine months ended September 30, 2019.

Cash flow - Expressed in US dollars

Cash provided by (used in):	For the 9 months ending:	
	September 30, 2019	September 30, 2018
Operating activities	(12,270,943)	(4,380,749)
Finance activities	18,446,165	17,702,552
Investing activities	(1,102,705)	(1,308,588)

- **Cash used in operating activities**

For the nine months ended September 30, 2019, cash used in operating activities was \$12.3 million, compared to \$4.4 million in the nine months ended September 30, 2018. The increase in cash used in operating activities was due primarily to an increase of \$2.3 million in salaries, an increase of \$2.0 million in professional fees, and an increase of \$1.6 million in G&A expenses.

- **Cash provided by financing activities**

For the nine months ended September 30, 2019, cash generated from financing activities was \$18.4 million compared to \$17.7 million in the nine months ended September 30, 2018. The cash flow from financing activities in 2019 was comprised of net proceeds from issuance of convertible debentures and common shares.

- **Cash used in investing activities**

For the nine months ended September 30, 2019, cash used in investing activities was \$1.1 million, compared to \$1.3 million used in the nine months ended September 30, 2018. The increase in cash used in investing activities was due to an increase in spending on equipment.

Capital Resources

The authorized number of common shares is unlimited without par value. During the year ended December 31, 2018, as part of a merger and plan of reorganization, the Company's capital was affected by an exchange ratio which resulted in an increase in the number of securities at a rate of 1.35 to 1.00.

During the nine months ended September 30, 2019, the Company issued 53.2 million common shares. The details of these transactions are disclosed in Note 14 of the Condensed Interim Consolidated Financial Statements for the three and nine months ended September 30, 2019.

Outstanding Share Data

As at November 14, 2019, the Company has 252,540,054 common shares issued and outstanding, 7,444,610 stock options outstanding, 154,341,382 warrants outstanding and 12,704 convertible debentures which are convertible into an aggregate of 19,544,615 common shares.

Related Party Transactions

Related party transactions are disclosed in Note 12 of the Condensed Interim Consolidated Financial Statements for the three and nine months ended September 30, 2019.

Off-Balance Sheet Arrangements

On January 1, 2019, the Company adopted IFRS 16 Leases and now records a right-of-use asset for each lease commitment that meet the requirements of the policy. For details on leases, refer to note 5 of the condensed interim financial statements.

The undiscounted cash payments required for those right-to-use assets as well as other commitments that do not meet the definition of a lease are disclosed in Note 19 of the Condensed Interim Consolidated Financial Statements for details.

Financial Instruments

The following is a summary of the carrying values of the financial instruments as at September 30, 2019:

Financial Instruments - Expressed in US dollars

	Amortized cost	FVPTL	FVOCI	Total
Financial assets:				
Cash	3,757,306	-	-	3,757,306
Restricted cash	2,037,860	-	-	2,037,860
Accounts receivable	6,562,765	-	-	6,562,765
Notes receivable	535,625	-	-	535,625
Marketable securities	-	-	-	-
Financial liabilities:				
Accounts payable and accrued liabilities	5,502,691	-	-	5,502,691
Other loans	612,133	-	-	612,133
Debenture liability	6,708,072	-	-	6,708,072

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.

All are recognized as Level One measurements except for debenture liability which is classified as Level Two. There have been no transfers between fair value levels during the period.

For a detailed discussion of the Company's financial instruments, refer to Note 17 of the Condensed Interim Consolidated Financial Statements.

Subsequent Events

Subsequent events are disclosed in Note 20 of the Condensed Interim Consolidated Financial Statements.

Controls and Procedures

Disclosure controls and procedures (“DC&P”)

To provide reasonable assurance that all material information related to the Company is identified and communicated on a timely basis, Management of the Company, under the supervision of the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), is responsible for the design and operation of DC&P. The CEO and the CFO have limited the scope of the design of DC&P to exclude controls, policies and procedures of (a) a business that the issuer acquired not more than 365 days before the last day of the period covered by the interim filings; and (b) summary financial information about the proportionately consolidated entity, special purpose entity, or business that the issuer acquired that has been proportionately consolidated or consolidated in the issuer’s financial statements.

Internal control over financial reporting (“ICFR”)

The Company’s ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with IFRS. However, due to inherent limitations, ICFR may not prevent or detect all misstatements and fraud. Management will continue to monitor the effectiveness of its ICFR and may make modifications from time to time as considered necessary. The CEO and the CFO have limited the scope of the design of ICFR to exclude controls, policies and procedures of (a) a business that the issuer acquired not more than 365 days before the last day of the period covered by the interim filings; and (b) summary financial information about the proportionately consolidated entity, special purpose entity, or business that the issuer acquired that has been proportionately consolidated or consolidated in the issuer’s financial statements.

Control Framework

Management assesses the effectiveness of the Company’s ICFR using the Internal Control – Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (‘COSO’).

Changes in ICFR

Other than the limitation on the scope of design on DC&P and ICFR as noted above, there has been no change in the Company’s design of internal controls and procedures over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting during the period covered by this MD&A.

Critical Accounting Estimates and Judgements

The critical accounting estimates and judgements are disclosed in Note 3.2 of the Audited Consolidated Financial Statements for the year ended December 31, 2018 and in the Condensed Interim Consolidated Financial Statements for the period ended September 30, 2019. There have been no significant changes in the critical accounting estimates and judgments applied during the three and nine months ended September 30, 2019 relative to those described in the last annual financial statements.

Changes in Accounting Policies

The changes in accounting policies and standards, interpretations and amendments not yet effective are disclosed in Note 3.3 of the Condensed Interim Consolidated Financial Statements for the period ended September 30, 2019.

Disclosures about Risks

The Company's exposure to significant risks include, but are not limited to currency risk, interest rate risk, credit risk, price risk, market risk and liquidity risk. For a complete discussion of the risks, refer to the Company's Annual Information Form for the year ended December 31, 2018 available on the SEDAR website at www.sedar.com.