Vibe Bioscience Ltd. (formerly Altitude Resources Inc.)

Interim Consolidated Financial Statements

(Unaudited)

As at and for the Three and Six Months Ended June 30, 2019

(In U.S. Dollars, Unless Otherwise Noted)

Vibe Bioscience Ltd. (formerly Altitude Resources Inc.)
Interim Consolidated Statement of Financial Position
(U.S. dollars) - Unaudited

As at June 30, 2019 and December 31, 2018

	notes	**June 30, 2019**	**December 31, 2018**
Assets			*(note 2)*
Current assets			
Cash and cash equivalents		$ 2,174,499	$ 2,328,893
Restricted cash	*4*	-	352,069
Accounts receivable		934,292	20,155
Inventory		224,081	-
Biological assets	*5*	99,204	-
Other current assets		472,040	148,786
Total current assets		**3,904,116**	**2,849,903**
Intangible assets and goodwill	*3, 6*	10,207,999	2,542,826
Property and equipment	*7*	2,733,496	2,134
Right-of-use assets	*8*	820,134	-
Deposits	*7*	-	800,000
Investments	*3*	-	550,000
Total assets		**$17,665,745**	**$ 6,744,863**
Liabilities			
Current liabilities			
Accounts payable	*9*	$ 2,403,698	$ 592,658
Current portion of lease obligations and notes payable	*10, 11*	252,973	-
Subscription received in advance	*4, 12*	-	352,069
Total current liabilities		**2,656,671**	**944,727**
Notes payable	*10*	1,156,753	-
Lease obligations	*11*	621,082	-
Deferred tax liability		808,000	-
Total liabilities		**$ 5,242,506**	**$ 944,727**
Shareholders' equity			
Share capital	*4, 12*	$ 17,595,330	$ 8,584,340
Warrants	*12*	25,227	25,227
Contributed surplus	*12*	1,323,633	752,332
Accumulated other comprehensive loss		(88,817)	(206,680)
Deficit		(6,432,134)	(3,355,083)
		12,423,239	5,800,136
Total liabilities and shareholders' equity		**$17,665,745**	**$ 6,744,863**

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

Vibe Bioscience Ltd. (formerly Altitude Resources Inc.)
Interim Consolidated Statement of Operations and Comprehensive Loss
(U.S. dollars) – Unaudited

For the three and six months ended June 30, 2019

	notes	Three months	Six months
Revenue		**$ 3,096,836**	**$ 4,410,562**
Cost of goods sold	*15*	1,795,511	2,540,852
Gross margin before biological asset adjustments		**1,301,325**	**1,869,710**
Net effect of adjustments for biological assets	*5*	5,212	(9,710)
Gross margin		**1,296,113**	**1,879,420**
Operating expenses			
General and administrative	*14, 15*	982,165	1,435,196
Sales and marketing	*15*	229,222	326,992
Stock-based compensation	*12, 14*	227,966	651,463
Depreciation and amortization	*6, 7, 8*	273,147	467,778
		1,712,500	2,881,429
Other expenses (income)			
Listing fee	*3*	-	564,704
Loss on investment	*3*	-	415,000
Transaction expenses	*3*	41,377	455,644
Interest expense	*16*	42,308	57,951
Unrealized gain on fair value of financial asset	*3*	(73,870)	(113,195)
Other	*3*	130,518	293,578
		140,333	**1,673,682**
Loss before income taxes		**(556,720)**	**(2,675,691)**
Income tax expense (recovery)			
Current		296,360	434,360
Deferred		2,000	(33,000)
Total income tax expense		**298,360**	**401,360**
Net loss		**$ (855,080)**	**$ (3,077,051)**
Other comprehensive income			
Foreign currency translation gain		88,677	117,863
Comprehensive loss		**$ (766,403)**	**$ (2,959,188)**
Earnings per share			
Basic and diluted	*12*	$ (0.01)	$ (0.04)

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

Vibe Bioscience Ltd. (formerly Altitude Resources Inc.)
Interim Consolidated Statement of Changes in Equity
(U.S. dollars) – Unaudited

For the six months ended June 30, 2019

	notes	Common share capital	Warrants	Contributed surplus	AOCI*	Deficit	Total shareholders' equity
Balance at December 31, 2018		**$ 8,584,340**	**$ 25,227**	**$ 752,332**	**$ (206,680)**	**$ (3,355,083)**	**$ 5,800,136**
Shares issued in private placement	*12*	3,845,288	-	-	-	-	3,845,288
Shares issued in business acquisitions	*3, 12*	4,234,037	-	-	-	-	4,234,037
Shares issued in reverse take-over	*3, 12*	850,620	-	-	-	-	850,620
Exercise of stock options	*12*	81,045	-	(80,162)			883
Stock-based compensation	*12*	-	-	651,463	-	-	651,463
Total net and comprehensive loss		-	-	-	117,863	(3,077,051)	(2,959,188)
Balance at June 30, 2019		**$ 17,595,330**	**$ 25,227**	**$ 1,323,633**	**$ (88,817)**	**$ (6,432,134)**	**$ 12,423,239**

* Accumulated other comprehensive income

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

Vibe Bioscience Ltd. (formerly Altitude Resources Inc.)
Interim Consolidated Statement of Cash Flows
(Expressed in U.S. dollars) – Unaudited

For the six months ended June 30, 2019

	notes	Three months	Six months
Operating activities			
Net loss		$ (855,080)	$ (3,077,051)
Non-cash items			
Listing fee	*3*	-	564,704
Stock-based compensation	*12, 14*	227,966	651,463
Loss on investment	*3*	-	415,000
Depreciation and amortization	*6, 7, 8*	273,147	467,778
Unrealized foreign exchange loss		1,122	4,858
Unrealized gain on fair value of financial asset	*3*	(73,870)	(113,195)
Deferred income tax recovery		2,000	(33,000)
		(424,715)	(1,119,443)
Change in operating working capital	*16*	(161,220)	(138,582)
Cash used in operating activities		**(585,935)**	**(1,258,025)**
Investing activities			
Cash paid on business acquisitions, net of cash acquired	*3*	-	(2,336,355)
Purchases of property and equipment	*7*	(296,919)	(340,273)
Cash used in investing activities		**(296,919)**	**(2,676,628)**
Financing activities			
Issuance of common shares	*12*	883	3,494,102
Settlement of subscriptions received in advance	*4, 12*	-	352,069
Repayment of lease obligation	*11*	(40,711)	(69,405)
Repayment of notes payable	*10*	(10,525)	(17,637)
Cash (used in) provided from financing activities		**(50,353)**	**3,759,129**
Effect of translation of cash held in foreign currencies		23,817	21,130
Total cash flow		**(909,390)**	**(154,394)**
Beginning cash and cash equivalents		3,083,889	2,328,893
Ending cash and cash equivalents		**$ 2,174,499**	**$ 2,174,499**

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

1. NATURE OF OPERATIONS

On March 25, 2019, Altitude Resources Inc. ("Altitude"), 2657152 Ontario Inc. ("Newco"), a wholly-owned subsidiary of Altitude and Vibe Bioscience Corporation ("Vibe") completed a three-cornered amalgamation whereby Vibe amalgamated with Newco and completed a reverse take-over of Altitude (the "Altitude Reverse Take-over"). The Altitude Reverse Take-over was completed by issuing 6.883 common shares of Altitude in exchange for each Class A common share of Vibe, resulting in Vibe becoming a wholly-owned subsidiary of Altitude with the former shareholders of Vibe acquiring a controlling interest in Altitude. In connection with the Altitude Reverse Take-over, Altitude delisted its shares on the TSX Venture Exchange, changed its name to Vibe Bioscience Ltd. (the "Company"), completed a listing on the Canadian Securities Exchange under the ticker symbol "VIBE" and consolidated its issued and outstanding common shares on a basis of 12 to 1. The Company's Canadian head office is located at #214, 2505 - 17 Ave SW Calgary, Alberta T3E 7V3 and its U.S. head office is located at 8112 Alpine Ave Sacramento, California 95826.

Prior to the Altitude Reverse Take-over, Altitude did not operate an active business. The current operations of the Company are conducted through Vibe which was incorporated under the laws of the Province of Ontario on June 11, 2018; the date on which the Company's current operations began. However, the Company's only transaction in the three and six months ended June 30, 2018 was the issuance of 390 common shares for nominal consideration. The Company's business is to evaluate, acquire and develop cannabis cultivation and manufacturing assets and retail cannabis dispensaries, predominantly in the U.S., in order to become a vertically integrated cannabis operator.

In addition to the 6.883 to 1 share exchange and 12 to 1 share consolidation related to the Altitude Reverse Take-over noted above, the Company completed a share split on a 1 to 1.511 basis in connection with a private placement of the Company's common shares completed in March 2019 (see note 12). All results presented as at and for the three and six months ended June 30, 2019, including comparative results, related to common share, per common share amounts and stock options and related exercise prices reflect the share exchange, consolidation and split.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") based on International Accounting Standard ("IAS") 34 - *Interim Financial Reporting*.

These unaudited interim consolidated financial statements were prepared by management and follow the same accounting policies and methods as the audited consolidated financial statements as at and for the period from June 11 to December 31, 2018, except for the adoption of new standards effective January 1, 2019 and the change in reporting currency, both described below. However, these unaudited interim consolidated financial statements do not contain all the disclosures required for the annual consolidated financial statements. Therefore, these unaudited interim consolidated financial statements should be read in conjunction with (i) the Company's audited consolidated financial statements and related note disclosures as at and for the period from June 11 to December 31, 2018 which are included in the Company's Listing Statement dated March 25, 2019 filed in connection with the Altitude Reverse Take-over, and (ii) the Company's unaudited interim consolidated financial statements and related note disclosures as at and for the three months ended March 31, 2019, both of which are available on the Company's SEDAR profile at www.sedar.com.

These unaudited interim consolidated financial statements were approved by the Company's Board of Directors on August 27, 2019.

(b) Measurement basis

These unaudited interim consolidated financial statements are presented in U.S. dollars ("USD"), assuming the Company will continue as a going concern for the foreseeable future and are prepared on a historical cost basis unless specifically described within these notes.

The audited consolidated financial statements for the period from June 11 to December 31, 2018 were presented in Canadian dollars ("CAD"). However, the comparative results presented in these unaudited interim consolidated financial statements are presented in USD. Assets and liabilities at December 31, 2018 that are denominated in CAD are translated into USD at $0.7330 which is the exchange rate in effect at December 31, 2018. Items of income and expense for the period from June 11 to December 31, 2018 that are denominated in CAD are translated into USD at $0.7609 which is the average exchange rate for the period. The resulting loss from translating CAD denominated balances into USD totals $206,680 and is included in accumulated other comprehensive loss in the consolidated statement of financial position at December 31, 2018.

The following table presents the impact of the change in reporting currency on the Company's assets and liabilities at December 31, 2018:

	Previously reported (CAD)	Reported in USD
Total assets - CAD denominated	$ 7,221,648	$ 5,294,288
Total assets - USD denominated	1,968,961	1,450,575
Total assets	**$ 9,190,609**	**$ 6,744,863**
Total liabilities - CAD denominated	$ 1,011,721	$ 741,568
Total liabilities - USD denominated	268,264	203,159
Total liabilities	**$ 1,279,985**	**$ 944,727**
Deficit	**$ (4,409,586)**	**$ (3,355,083)**

(c) Basis of consolidation

These unaudited interim consolidated financial statements include the accounts of the Company and the following subsidiaries:

Subsidiary	Jurisdiction of incorporation
Vibe Bioscience Corporation	Ontario, Canada
Vibe Investments, LLC (formerly Hype Bioscience Inc.) ("Hype U.S.")	Nevada, U.S.A
Vibe by California Inc. (formerly Vibe Bioscience Inc.) ("Vibe U.S.")	Nevada, U.S.A
Hype Bioscience Corporation ("Hype Canada")	Alberta, Canada
Port City Alternative of Stockton Inc. ("Port City")	California, U.S.A
Vibe Cultivation LLC (formerly Alpine CNAA LLC) ("Alpine Cultivation")	California, U.S.A
Alpine Alternative Naturopathic Inc. ("Alpine Alternative")	California, U.S.A

All subsidiaries are wholly-owned by the Company. Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and is exposed to the variable returns from its activities. All material intercompany accounts and transactions have been eliminated.

(d) Use of judgements, estimates and assumptions

The preparation of these unaudited interim consolidated financial statements requires management to make judgements and estimates that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The judgements and estimates applied are based on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances. However, actual experience may differ from the results achieved by applying significant judgements and estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised and applied on a prospective basis.

Significant judgements, estimates and assumptions within these unaudited interim consolidated financial statements remain the same as those applied to the consolidated financial statements for the period from June 11, 2018 to December 31, 2018 and the unaudited interim consolidated financial statements for the three months ended March 31, 2019.

(e) Seasonality of operations

The Company's operations are seasonal in nature as they are generally impacted by weather conditions. Specifically, the Company realizes higher revenue in the summer months of April through September as a result of warmer weather and the associated increase in outdoor activity by recreational adult-use cannabis customers. Conversely, the winter months of October to December can see a decrease in revenue arising from the harvest of cannabis plants by individual cannabis users pursuant to California state law which allows the harvest of a certain number of cannabis plants for personal use.

(f) New standards adopted

Effective January 1, 2019, the Company adopted *IFRS 16 – Leases* ("IFRS 16") which replaces IAS 17 – *Leases* ("IAS 17*)* and related interpretations. The Company adopted IFRS 16 using the modified retrospective approach whereby comparative results for the period ended December 31, 2018 are not restated. Comparative results for the period from June 11 to December 31, 2018 remain as previously reported under IAS 17 and related interpretations.

On initial application of IFRS 16, the Company elected to record a right-of-use asset based on the corresponding lease liability. A right-of-use asset and related lease obligation of $133,304 were recorded as of January 1, 2019, with no net impact on retained earnings. When measuring the obligation, the Company discounted lease payments at 6% which is the Company's incremental borrowing rate specifically related to the asset under lease at January 1, 2019. The Company is depreciating the associated right-of-use asset over 80 months which the remaining term of the underlying lease at January 1, 2019. The Company elected to apply the practical expedient for leases with terms ending within 12 months of the date of initial application as short-term leases, whereby the associated lease payments continue to be expensed on a straight-line basis.

3. REVERSE TAKE-OVER AND BUSINESS COMBINATIONS

(a) Altitude Reverse Take-over

On March 25, 2019, Altitude, Newco and Vibe completed a three-cornered amalgamation whereby Vibe amalgamated with Newco and together completed the Altitude Reverse Take-over. The Altitude Reverse Take-over was completed by issuing 6.883 common shares of Altitude in exchange for each Class A common share of Vibe resulting in Vibe becoming a wholly-owned subsidiary of Altitude with the former shareholders of Vibe acquiring a controlling interest in the amalgamated company. The Company issued 2,197,992 common shares at a fair value of $850,620 ($0.39 per share) to complete the Altitude Reverse Take-over. In addition, certain former shareholders of Altitude are to receive $34,625 (CAD $46,467) of cash to complete the Altitude Reverse Take-over. The total consideration paid in connection with the Altitude Reverse Take-over is applied to the fair value of net assets remaining of Altitude as follows:

	March 25, 2019
Net assets	
Accounts receivable - Proceeds from Atrum Shares	$ 482,815
Accounts receivable - Proceeds from Palisades Assets	-
Accounts receivable - additional cash proceeds due	105,440
Accounts payable and accrued liabilities	(185,747)
Notes payable	(81,967)
Total net assets acquired	**320,541**
Listing fee	564,704
Total acquisition	**$ 885,245**
Consideration	
Fair value of common shares (2,197,992 shares)	**$ 850,620**
Cash	34,625
Total consideration	**$ 885,245**

Prior to completion of the Altitude Reverse Take-over, Altitude did not operate an active business. Accordingly, the transaction does not constitute a business combination and is accounted for as a capital transaction in substance.

Certain mining and other assets included in Altitude immediately prior to the Altitude Reverse Take-over were sold to an entity owned by certain former shareholders of Altitude including the following:

(i) *Common shares of Atrum Coal Limited ("Atrum Shares").* Altitude owned 2,953,674 common shares of Atrum Coal Limited which is a publicly traded entity on the Australian Stock Exchange. The proceeds of the sale of the Atrum Shares are due to the Company. The Atrum Shares were sold on May 6, 2019 for net proceeds totaling CAD $799,115. However, the cash proceeds were remitted to the Company in August 2019, and therefore, the proceeds due on the sale of the Atrum Shares remains in accounts receivable in the consolidated interim statement of financial position at June 30, 2019 (see note 18). The proceeds due on the sale of the Atrum Shares are recognized as a financial asset measured at fair value through profit and loss ("FVTPL"). Accordingly, the Company recorded a gain on the fair value measurement of the Atrum Share proceeds totaling $73,870 and $113,195 for the three and six months ended June 30, 2019, respectively. The calculation of the gain on the Atrum Share proceeds due is based on Level 1 Inputs in the fair value hierarchy.

(ii) *Palisades mining assets.* Altitude owned certain partially developed mining assets in Alberta, Canada ("Palisades Assets"). The proceeds from the sale of the Palisades Assets are due to the Company; however, the Palisades Assets remain unsold at June 30, 2019. The fair value of the accounts receivable related to the sale of the Palisades Assets is determined to be $nil as there has not been any specific buyer identified to date, and it is unclear if a buyer will be found for the Palisades Assets in the near term.

(iii) *Additional cash proceeds due.* Altitude owned other mining assets in Alberta, Canada at various stages of development. The proceeds from the sale of the other mining assets total $105,440 and are due to be paid to the Company. The additional cash proceeds were not paid at June 30, 2019, but the amount is expected to be collected in full.

The Reverse Take-over was completed to provide the Company with a public listing on the Canadian Securities Exchange. Accordingly, the excess of the consideration paid over the acquired net assets, totaling $564,704, is expensed as listing costs in the unaudited interim consolidated statement of operations and comprehensive loss for the six months ended June 30, 2019.

(b) Acquisition of U.S. Targets (the "U.S. Acquisition")

On February 18, 2019, the Company simultaneously acquired the issued and outstanding securities of (i) Port City, (ii) 8130 Alpine LLC ("8130 Alpine"), (iii) Alpine Cultivation, and (iv) Alpine Alternative (collectively, the "U.S. Targets") and began operating its cannabis business on a combined basis. Prior to the U.S. Acquisition, the U.S. Targets were under common control but had separate operating structures and business models that required separate acquisition structures and purchase and sale agreements for each of the U.S. Targets (except as described below). Accordingly, for financial statement purposes, the acquisition of each of the U.S. Targets is accounted for as a separate business combination requiring a separate allocation of purchase price over each set of net assets acquired in accordance with the terms and conditions of each purchase and sale agreement (except as noted below).

Each of the business combinations are described in detail below and reflect the share exchange, consolidation and split referenced in note 1.

The U.S. Targets acquired are as follows:

(i) *Port City.* The Company acquired all the issued and outstanding securities of Port City for total consideration of $1,931,838 consisting of $984,321 in cash and the issuance of 2,420,300 common shares of the Company with a calculated value of $947,517. The total purchase price is allocated to the fair value of the net assets acquired as follows:

	February 18, 2019
Net assets acquired	
Cash	$ 124,987
Working capital deficit, excluding cash	(178,285)
Due from other U.S. Targets	173,839
Right-of-use asset	769,397
Property and equipment	70,991
Intangible assets	
License	960,000
Lease liability	(760,500)
Deferred income tax liability	(271,000)
Goodwill	1,042,409
	$ 1,931,838
Consideration	
Cash at closing	$ 1,046,000
Estimated cash to be paid for working capital adjustment	(61,679)
Total cash consideration	984,321
Common shares of the Company	947,517
	$ 1,931,838

The total consideration due in the Port City acquisition was subject to final working capital adjustment that resulted in a $61,679 favorable adjustment to the total purchase price paid by the Company at closing. The final working capital adjustment was settled subsequent to June 30, 2019 and all amounts previously held in escrow were distributed.

The Company previously acquired a 20% non-controlling interest in Port City for cash proceeds totaling $800,000 of which $250,000 and $550,000 was paid in December 2018 and January 2019, respectively. The fair value of the Company's 20% interest immediately prior to the Port City acquisition was $385,000 resulting in a loss on the original investment in Port City of $415,000. The loss on investment is recorded in the unaudited interim consolidated statement of operations and comprehensive loss in the six months ended June 30, 2019.

The Port City acquisition provides the Company with established, cash flow positive medicinal and adult recreational use dispensary operations in Stockton, California. Goodwill realized in the Port City acquisition is largely a result of the assembled work force, customer networks and loyalty and synergies expected from fully combining and integrating the Port City operations with the operations of the other acquired U.S. Targets. None of the goodwill recognized is expected to be deductible for tax purposes.

(ii) Alpine CNAA LLC (now Vibe Cultivation LLC) and 8130 Alpine LLC (collectively "Alpine Cultivation"). The Company entered into separate acquisition agreements with Alpine CNAA LLC and 8130 Alpine LLC. However, the entities operated in conjunction with each other prior to the acquisition and completed a merger immediately following the closing the acquisition. Accordingly, the acquisition of each of Alpine CNAA LLC and 8130 Alpine LLC are considered one acquisition (i.e. Alpine Cultivation) for financial statement purposes.

The Company acquired all the issued and outstanding securities of Alpine Cultivation for total consideration of $2,644,878 consisting of $1,042,374 in cash and the issuance of 4,093,373 common shares of the Company with a calculated value of $1,602,504. The total purchase price is allocated to the fair value of the net assets acquired as follows:

	February 18, 2019
Net assets acquired	
Cash	$ -
Working capital, excluding cash and biological assets	68,119
Biological assets	89,494
Due to other U.S. Targets	(291,674)
Property and equipment	309,442
Intangible assets	
License	200,000
Trademark	78,500
Note payable	(18,963)
Deferred income tax liability	(105,000)
Goodwill	2,314,960
	$ 2,644,878
Consideration	
Cash at closing	$ 1,004,000
Estimated cash to be paid for working capital adjustment	38,374
Total cash consideration	1,042,374
Common shares of the Company	1,602,504
	$ 2,644,878

The total consideration due in the Alpine Cultivation acquisition was subject to final working capital adjustment that resulted in additional consideration paid by the Company totaling $38,374. The final working capital adjustment was settled subsequent to June 30, 2019 and all amounts previously held in escrow were distributed.

The Alpine Cultivation acquisition provides the Company with cannabis cultivation and manufacturing facilities in Sacramento, California that supports the Company's vertical integration strategy. Goodwill realized in the Alpine acquisition is largely a result of the assembled work force and synergies expected from fully combining and integrating the Alpine operations with the operations of the other acquired U.S. Targets. None of the goodwill recognized is expected to be deductible for tax purposes.

(iii) Alpine Alternative. The Company acquired all the issued and outstanding securities of Alpine Alternative for total consideration of $2,842,825 consisting of $1,158,809 in cash and the issuance of 4,301,483 common shares of the Company with a value of $1,684,016. The total purchase price is allocated to the fair value of the net assets acquired as follows:

	February 18, 2019
Net assets acquired	
Cash	$ 174,162
Working capital deficit, excluding cash	(755,537)
Due from other U.S. Targets	117,835
Property and equipment	51,261
Intangible assets	
Licenses	1,660,000
Deferred income liability	(465,000)
Goodwill	2,060,104
	$ 2,842,825
Consideration	
Cash at closing	$ 1,750,000
Estimated cash to be paid for working capital adjustment	(591,191)
Total cash consideration	1,158,809
Common shares of the Company	1,684,016
	$ 2,842,825

The total consideration due in the Alpine Alternative acquisition was subject to final working capital adjustment that resulted in a $591,191 favorable adjustment to the total purchase price paid by the Company at closing. The final working capital adjustment was settled subsequent to June 30, 2019 and all amounts previously held in escrow were distributed.

The Alpine Alternative acquisition provides the Company with established, cash flow positive medicinal and adult recreational use dispensary operations in Sacramento, California. Goodwill realized in the Alpine Alternative acquisition is largely a result of the assembled work force, customer networks and loyalty and synergies expected from fully combining and integrating the Alpine Alternative operations with the operations of the other acquired U.S. Targets. None of the goodwill recognized is expected to be deductible for tax purposes.

(c) Purchase price allocations subject to change

The purchase price allocation for the acquisition of each of the U.S. Targets as outlined above reflect various fair value estimates and analyses which are subject to change within the measurement period. The primary areas of the purchase price allocation that are subject to change relate to the fair values of certain tangible assets, the valuation of intangible assets acquired and residual goodwill. The Company expects to continue to obtain information to assist in determining the fair value of net assets acquired at the acquisition date during the measurement period. Material measurement period adjustments will be applied retrospectively to the period of acquisition in the Company's consolidated financial statements and, depending on the nature of adjustments, other periods subsequent to the period of acquisition could also be affected. The Company expects to finalize the accounting for the acquisition of each of the U.S. Targets by December 31, 2019.

(d) NGEV, Inc. acquisition

In connection with the acquisition of the U.S. Targets, the Company also entered into a purchase and sale agreement to acquire all of the issued and outstanding securities of NGEV, Inc. ("NGEV"). However, the acquisition of NGEV was conditional upon NGEV obtaining a license from the State of California to operate as a cannabis cultivation facility (the "NGEV License"). The NGEV License was not obtained and the NGEV purchase and sale agreement was terminated by the Company in May 2019.

Although the acquisition of NGEV was never completed, the Company funded the operations of NGEV through May, 2019. Approximately $167,000 and $320,000 of expenses of NGEV were funded by the Company in the three and six months ended June 30, 2019, respectively, which are included as other expenses in the unaudited interim consolidated statement of operations and comprehensive loss.

(e) Cash deposit

In addition to the $250,000 paid in connection with acquiring a non-controlling interest in Port City described above, the Company also advanced $300,000 to the vendors of the U.S. Targets as a deposit on the final proceeds to be paid on closing the U.S. Acquisition. The total $550,000 cash paid was recorded as an investment at December 31, 2018 and became part of the total purchase price paid in the U.S. Acquisition on February 18, 2019.

(f) Transaction expenses

The Company incurred total transaction expenses in connection with the Altitude Reverse Take-over and the acquisition of the U.S. Targets totaling $41,377 and $455,644 in the three and six months ended June 30, 2019, respectively. Transaction expenses are disclosed separately in the unaudited interim consolidated statement of operations and comprehensive loss.

4. RESTRICTED CASH

The restricted cash balance at December 31, 2018 consists of subscriptions received for the purchase of the Company's common shares. The shares were issued in the six months ended June 30, 2019 (see note 12).

5. BIOLOGICAL ASSETS

Biological assets consist of cannabis plants which were acquired in connection with the Alpine Cultivation acquisition. The changes in the carrying value of the biological assets for the six months ended June 30, 2019 are as follows (note the Company did not have biological assets prior to the acquisition of the U.S. Targets on February 18, 2019):

	June 30, 2019
Beginning balance	**$ -**
Biological assets acquired from U.S. Targets	89,494
Changes in fair value less cost to sell due to biological transformation	(5,212)
Transferred to inventory upon harvest	14,922
Ending balance	**$ 99,204**

The Company values biological assets at the end of each reporting period at fair value less costs to sell ("FVLCS"). The determination of fair value less costs to sell is based a valuation model that estimates the expected harvest yield per plant applied to the estimated wholesale price per gram, less estimated selling costs. The model also considers the stage of the biological asset in the aggregate plant life cycle.

The valuation model includes the following estimates, all of which are Level 3 inputs in the fair value hierarchy:

(i) Average number of weeks in the growing cycle (from propagation to harvest) = 17 weeks based on historical results.

(ii) Average wholesale selling price of whole flower = $3.50 per gram based on historical and expected future sales.

(iii) Average harvest yield of whole flower = 59 grams per plant, net of expected wastage, based on historical results.

(iv) Selling costs (shipping, order fulfillment, and labelling) = $0.50 per gram based on historical results.

The above inputs are subject to volatility and uncontrollable factors which could significantly affect the fair value of biological assets in future periods. Management has quantified the sensitivity of the inputs on the calculation of the fair value of the biological assets as follows:

	Change in FVLCS at	
	June 30, 2019	**December 31, 2018**
Input		
Selling price per gram - 10% change	$ 11,500	$ -
Harvest yield per plant - 10% change	$ 9,900	$ -

At June 30, 2019 the average stage of completion of the biological assets is 65.6% based on the number of days remaining to harvest. The estimated FVLCS of dry cannabis at June 30, 2019 is $114.82 per plant and the expected total yield is approximately 50,933 grams of cannabis.

6. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill at consist of the following:

	Intangible assets				
	Licenses	**Software**	**Trademark**	**Goodwill**	**Total**
Cost					
Balance at December 31, 2018	**$2,565,500**	**$183,250**	**$ -**	**$ -**	**$ 2,748,750**
Acquired in business acquisitions	2,820,000	-	78,500	5,417,473	8,315,973
Impact of foreign exchange	108,910	7,779	-	-	116,689
Balance at June 30, 2019	**$5,494,410**	**$191,029**	**$ 78,500**	**$5,417,473**	**$11,181,412**
Accumulated amortization					
Balance at December 31, 2018	**$ 164,756**	**$ 41,168**	**$ -**	**$ -**	**$ 205,924**
Amortization expense	289,637	46,865	2,869	-	339,371
Loss on investment	-	-	-	415,000	415,000
Impact of foreign exchange	10,478	2,640	-	-	13,118
Balance at June 30, 2019	**$ 464,871**	**$ 90,673**	**$ 2,869**	**$ 415,000**	**$ 973,413**
Net book value at December 31, 2018	**$2,400,744**	**$142,082**	**$ -**	**$ -**	**$ 2,542,826**
Net book value at June 30, 2019	**$5,029,539**	**$100,356**	**$ 75,631**	**$5,002,473**	**$10,207,999**

Licenses consist of (i) a Health Canada cultivation license application acquired from certain shareholders of the Company in July 2018, and (ii) retail and cultivation licenses acquired in connection with the acquisition of the U.S. Targets in February 2019. The Health Canada cultivation license application is being amortized on a straight-line basis over seven years. The retail and cultivation licenses acquired in connection with the acquisition of the U.S. Targets are being amortized on a straight-line basis over 10 years.

The software intangible consists of eCommerce software acquired from certain shareholders of the Company in July 2018. The software intangible asset is being amortized on a straight-line basis over two years.

The trademark intangible asset consists of the Hype Cannabis Co. ("Hype") which is a registered California trademark owned by Alpine CNAA LLC (now Vibe Cultivation LLC) which was acquired in the Alpine Cultivation acquisition. The Hype product is sold in both the Port City and Alpine Alternative dispensaries in addition to being distributed to other third-party dispensaries through the Company's distributor. The trademark intangible asset is being amortized on a straight-line basis over 10 years.

There are no indicators that the carrying values of any of the Company's intangible assets may be impaired at June 30, 2019 or December 31, 2018.

Goodwill results from the acquisition of the U.S. Targets in February 2019 and is initially measured at the excess of the consideration paid over the fair value of the identifiable net assets acquired. Goodwill is not amortized but is subject to impairment tests at least annually. Prior to completing the acquisition of the U.S. Targets, the Company purchased a 20% non-controlling interest in Port City for $800,000. At the time of the U.S. Target acquisition, it was determined that the $800,000 carrying value of the initial Port City investment was impaired and a loss on investment of $415,000 was recognized in the unaudited interim consolidated statement of operations and comprehensive loss in the six months ended June 30, 2019.

7. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Buildings	Land	Equipment and other	Construction in process	Total
Cost					
Balance at December 31, 2018	**$ -**	**$ -**	**$ 2,420**	**$ -**	**$ 2,420**
Acquired in business acquisitions	140,237	-	143,329	148,128	431,694
Purchases	1,208,881	800,000	5,340	325,734	2,339,955
Transfers from construction in process	242,871	-	-	(242,871)	-
Impact of foreign exchange	-	-	104	-	104
Balance at June 30, 2019	**$1,591,989**	**$ 800,000**	**$ 151,193**	**$ 230,991**	**$2,774,173**
Accumulated amortization					
Balance at December 31, 2018	**$ -**	**$ -**	**$ 286**	**$ -**	**$ 286**
Depreciation expense	22,352	-	18,023	-	40,375
Impact of foreign exchange	-	-	16	-	16
Balance at June 30, 2019	**$ 22,352**	**$ -**	**$ 18,325**	**$ -**	**$ 40,677**
Net book value at December 31, 2018	**$ -**	**$ -**	**$ 2,134**	**$ -**	**$ 2,134**
Net book value at June 30, 2019	**$1,569,637**	**$ 800,000**	**$ 132,868**	**$ 230,991**	**$2,733,496**

The Company purchased land and buildings totaling $2,008,881 in the six months ended June 30, 2019, of which $1,999,682 relates to the acquisition of land and buildings which currently hold the cultivation and dispensary locations acquired in the Alpine Cultivation and Alpine Alternative acquisitions. The consideration paid for the land and buildings consisted of $800,000 cash and the assumption of a note payable totaling $1,199,682. The $800,000 of cash was paid as a deposit in December 2018.

Buildings and equipment and other assets are depreciated on a straight-line basis over their estimated useful lives. Land is not depreciated but is subject impairment testing at least annually. There are no indicators that the carrying value of the land may impaired at June 30, 2019.

Construction in process consists of improvements and renovations being completed on the Company's buildings. In the six months ended June 30, 2019, the Company completed an electrical system upgrade at Alpine Cultivation and Alpine Alternative and transferred $242,871 from construction in process to buildings. Depreciation on the assets associated with the electrical system upgrade commenced when the asset was transferred from construction in process which was the date the asset became available for use. The remaining balance in construction in process is not subject to depreciation until the underlying asset is available for use.

The Company did not dispose of any property and equipment in the six months ended June 30, 2019 and there were no impairments of property and equipment at June 30, 2019 or December 31, 2018.

8. RIGHT-OF-USE ASSETS

Right-of-use assets consist of the following:

	Leases		
	Dispensary	**Warehouse**	**Total**
Cost			
Balance at December 31, 2018	$ -	$ -	$ -
Initial adoption of new lease standard	-	133,304	133,304
Acquired in business acquisitions	769,397	-	769,397
Impact of foreign exchange	-	5,659	5,659
Balance at June 30, 2019	**$ 769,397**	**$ 138,963**	**$ 908,360**
Accumulated depreciation			
Balance at December 31, 2018	$ -	$ -	$ -
Depreciation expense	77,804	10,228	88,032
Impact of foreign exchange	-	194	194
Balance at June 30, 2019	**$ 77,804**	**$ 10,422**	**$ 88,226**
Net book value at June 30, 2019	**$ 691,593**	**$ 128,541**	**$ 820,134**

The Company initially adopted IFRS 16 effective January 1, 2019, whereby the amount recognized as a right-of-use asset was equal to the present value of the future lease payments due under outstanding leases at January 1, 2019. The right-of-use assets are being depreciated on a straight-line basis over the remaining term of the underlying lease as there are no options to acquire or otherwise transfer ownership of the underlying asset to the Company at the end of the lease term.

9. ACCOUNTS PAYABLE

Accounts payable at June 30, 2019 include amounts due on the Altitude Reverse Take-over consisting of (i) CAD $110,000 in notes payable assumed in the Altitude Reverse Take-over and (ii) CAD $46,467 related to the additional cash proceeds due on the Altitude Reverse Take-over (see note 3). The amounts due are non-interest bearing and are translated into USD at each reporting period date. The notes payable and the cash proceeds due were settled subsequent to June 30, 2019 (see note 18).

10. NOTES PAYABLE

The Company's notes payable consists of the following:

	June 30, 2019	December 31, 2018
Note payable:		
Land and buildings	$ 1,182,843	$ -
Vehicle	18,078	-
Total notes payable	1,200,921	-
Less current portion	(44,168)	-
Notes payable, long term	**$ 1,156,753**	**$ -**

The Company has a note payable outstanding related to the acquisition of land and buildings in Sacramento, California totaling $1,182,843 at June 30, 2019 (see note 7). The note bears interest at 6% per year, requires monthly payments of principal and interest totaling $9,314 and matures in April 2036.

The Company also has a note payable related to the acquisition of vehicle totaling $18,078 which was assumed on the Alpine Cultivation acquisition. The note payable bears interest at 4.99% per year, requires monthly payments of principal and interest totaling $395 and matures in March 2023.

11. LEASE OBLIGATIONS

As described in note 8, the Company has two office leases for which a right-of-use asset and related lease obligation is recognized. The balance in lease obligation is as follows:

	Leases		
	Dispensary	**Warehouse**	**Total**
Balance at December 31, 2018	**$ -**	**$ -**	**$ -**
Initial adoption of new lease standard	-	133,304	133,304
Acquired in business acquisitions	760,500	-	760,500
Principal paid	(60,319)	(9,086)	(69,405)
Impact of foreign exchange	-	5,488	5,488
Total balance at June 30, 2019	700,181	129,706	829,887
Less current portion of lease obligation	(190,884)	(17,921)	(208,805)
Lease obligations at June 30, 2019	**$ 509,297**	**$ 111,785**	**$ 621,082**

The dispensary lease terminates on October 31, 2022 with monthly rent payments totaling $20,000 through the term of the lease. The lease contains no extension options. The Company's warehouse lease has an initial term ending August 31, 2020 with monthly rent payments totaling CAD $2,750 through the term of the lease. The lease has two options to extend for five years each. The measurement of the lease obligation assumes only the first extension option will be exercised. Neither the dispensary or warehouse leases contain purchase or early termination options and there are no requirements to purchase the underlying assets or any residual value guarantees at the end of the leases. The Company also has a lease for its head office which is not recognized as a lease obligation as the lease term is less than 12 months. Monthly rent for the lease totals CAD $3,000 and the lease expires in September 2019.

12. SHAREHOLDERS' EQUITY

(a) Share capital

The Company is authorized to issue an unlimited number of Class A voting common shares. Holders of common shares are entitled to participate in dividends when declared by the Company.

The Company has the following issued and outstanding common shares:

	Number of shares
Balance at December 31, 2018	**53,535,586**
Issued in private placement	9,856,242
Issued in acquisition of U.S. Targets (note 3)	10,815,157
Issued in Altitude Reverse Take-over (note 3)	2,197,992
Exercise of stock options	207,952
Balance at June 30, 2019	**76,612,929**
Weighted average shares outstanding	
Three months ended June 30, 2019	76,588,727
Six months ended June 30, 2019	69,322,042

In the six months ended June 30, 2018, the Company issued 390 common shares for nominal consideration.

The Company completed a private placement of common shares in February and March 2019 whereby 9,856,242 shares were issued at $0.39 per share. In December 2018, the Company received advances of $352,069 related to subscriptions to purchase the Company's common shares. The common shares were issued to the subscribers in February 2019 as part of the private placement and are included in outstanding share capital at June 30, 2019.

The common shares issued in connection with the acquisition of the U.S. Targets and the Altitude Reverse Take-over are recorded at a calculated price of $0.39 per share, consistent with the private placement per share proceeds noted above.

The Company issued 186,290 and 21,662 common shares on April 4, 2019 and May 1, 2019, respectively, through the exercise of stock options with an exercise price of $0.004, resulting in gross proceeds totaling $883. Stock-based compensation expense recognized prior to the exercise of the options totaling $80,162 was transferred from contributed surplus to common share capital at June 30, 2019.

There have been no dividends declared in the six months ended June 30, 2019.

(b) Stock Options

The Company has an option plan that grants stock options to officers, employees, directors and certain consultants of the Company (the "Option Plan"). Under the Option Plan a maximum of 10% of the outstanding common shares of the Company are available for issue as stock options. The Company had the following changes in outstanding stock options for the six months ended June 30, 2019 (the Company did not issue any stock options in the six months ended June 30, 2018):

	Number of options	Weighted average exercise price
Balance at December 31, 2018	**3,626,154**	**$ 0.09**
Granted	5,313,999	0.67
Exchanged in Altitude Reverse Take-over	156,662	0.90
Exercised	(207,952)	0.004
Cancelled	(3,560,843)	0.27
Balance at June 30, 2019	**5,328,020**	**0.57**
Exercisable		
December 31, 2018	**998,600**	**$ 0.22**
June 30, 2019	**2,994,333**	**$ 0.66**

In connection with the Altitude Reverse Take-over described in note 3, the Company exchanged 156,662 fully vested stock options outstanding in Altitude for fully vested stock options of the Company.

The range of exercise prices for the options outstanding and exercisable at June 30, 2019 are as follows:

	Total options outstanding		Total exercisable options	
	Number of options	Weighted average remaining life	Number of options	Weighted average remaining life
Exercises prices ($)		(yrs)		(yrs)
0.004	385,576	4.09	249,109	4.09
0.39	2,379,560	2.50	855,633	1.62
0.64 to 0.72	719,125	1.83	45,832	1.92
0.87 to 1.07	1,843,759	1.65	1,843,759	1.65
	5,328,020	**2.19**	**2,994,333**	**1.84**

The Company uses the Black-Scholes option pricing model to determine the estimated fair value of options at the grant date. The grant date fair value is recognized as stock-based compensation expense in the unaudited interim consolidated statement of operations and comprehensive loss on a straight-line basis over the vesting dates of the options. The Company recognized stock-based compensation of $227,966 and $651,463 in the three and six months ended June 30, 2019, respectively. No stock-based compensation expense was recorded for the stock options exchanged in the Altitude Reverse Take-over as the options were fully vested prior to the exchange.

13. FINANCIAL INSTRUMENTS – FAIR VALUE MEASUREMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, loan receivable (included in other assets), accounts payable, subscriptions received in advance, lease obligations and notes payable.

All financial instruments are initially recognized at fair value and subsequently measured at amortized costs except for the proceeds due on the sale of Atrum Shares included in accounts receivable which was measured at FVTPL with fair value calculated using Level 1 Inputs in the fair value measurement hierarchy (see note 3). The Atrum Shares were sold in May 2019; however, the proceeds from the sale were not received until subsequent to June 30, 2019 (see note 18).

The carrying value of cash and cash equivalents, accounts receivable, loan receivable (included in other assets), accounts payable and subscriptions received in advance approximately their value due to the short period to maturity of these instruments.

The fair value of lease obligations and notes payable is based on amounts owed to third parties and estimated internal borrowing rates (in the case of lease obligations) using current market price indicators which are considered Level 2 Inputs in the fair value measurement hierarchy.

14. RELATED PARTY TRANSACTIONS

The Company’s only related party transactions for the three and six months ended June 30, 2019, not discussed elsewhere in these notes, relates to compensation paid and expenses reimbursed to key management personnel. Key management personnel are persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company has identified key management personnel as executive officers and members of the Board of Directors. The Company incurred salaries, wages, fees and short-term benefits for these identified key management personnel in the three and six months ended June 30, 2019 totaling $157,394 and $278,049, respectively, which are included as general and administrative expenses in the unaudited interim consolidated statement of operations and comprehensive loss. In addition, the Company recognized stock-based compensation expense for these individuals totaling $175,826 and $565,676 in the three months and six months ended June 30, 2019, respectively. Fees due to the Company’s Board of Directors totaling $42,500 are included in accounts payable in the unaudited interim consolidated statement of financial position at June 30, 2019. The fees were paid in July 2019.

The Company also paid certain legal fees on behalf of its Chief Executive Officer (“CEO”) totaling $11,462 in the three months ended June 30, 2019 and included the related amount due from the CEO in other current assets in the unaudited interim consolidated statement of financial position at June 30, 2019.

15. EXPENSES BY NATURE

The Company presents certain expenses in the unaudited interim consolidated statement of operations and comprehensive loss by function. The following table presents these expenses by nature for the three and six months ended June 30, 2019:

	Three months	Six months
Cost of goods sold		
Materials and product supplies	$ 1,504,530	$ 2,139,969
Salaries, benefits and other employee costs	130,020	191,032
Store supplies	66,775	91,153
Distribution and delivery fees	36,672	54,238
Other	57,514	64,460
	$ 1,795,511	**$ 2,540,852**
General and administrative		
Salaries, benefits and other employee costs	$ 351,579	$ 614,287
Professional fees	369,386	472,735
Security services	109,899	148,086
Rent and utilities	38,048	59,276
Other	113,253	140,812
	$ 982,165	**$ 1,435,196**
Selling and marketing		
Salaries, benefits and other employee costs	$ 184,245	$ 257,161
Advertising and promotion	44,898	68,402
Other	79	1,429
	$ 229,222	**$ 326,992**

16. SUPPLEMENTAL CASH FLOW INFORMATION

The following table details interest and income taxes paid, and interest income received during the three and six months ended June 30, 2019:

	Three months	Six months
Interest paid	$ 15,643	$ 46,786
Income taxes paid	-	142,815
Interest income received	$ -	$ 4,897

The following table details the changes in operating working capital for the three and six months ended June 30, 2019:

	Three months	Six months
Accounts receivable	$ (42,114)	$ (123,904)
Inventory	74,119	34,614
Biological assets	5,212	(9,710)
Other current assets	(96,820)	(284,391)
Accounts payable	(101,617)	244,809
Net change in operating working capital	**$ (161,220)**	**$ (138,582)**

17. CONTINGENCIES

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines or restrictions on its operations and losses of permits that could cause the Company to cease operations. While management believes that the Company is compliant with applicable local and state regulations at June 30, 2019, medical and adult use cannabis regulations continue to evolve and are subject to differing interpretations. Accordingly, the Company may be subject to regulatory fines, penalties or operating restrictions in the future.

18. SUBSEQUENT EVENTS

In August 2019, the Company received the proceeds due on the sale of the Atrum Shares totaling CAD $799,115. In connection with receipt of the proceeds, the Company immediately settled the notes payable assumed and the additional cash proceeds due on the Altitude Reverse Take-over totaling CAD $110,000 and CAD $46,467, respectively (see notes 3 and 9). The remaining proceeds received on the sale of the Atrum Shares will be used to settle certain accounts payable assumed on the Altitude Reverse Take-over.

In addition, two of the Company's outside members of the Board of Directors resigned in August 2019 as a result of certain regulatory limitations imposed and required by the State of California. The Company subsequently appointed a new outside member of the Board of Directors who is a resident of the State of California.