LINEAGE GROW
COMPANY LTD.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JULY 31, 2018 AND 2017

(EXPRESSED IN CANADIAN DOLLARS)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited condensed interim consolidated financial statements of Lineage Grow Company Ltd. are the responsibility of the management and Board of Directors of the Company.

The unaudited condensed interim consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the date of the unaudited condensed interim consolidated statements of financial position. In the opinion of management, the unaudited condensed interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Peter Bilodeau"
Peter Bilodeau
Chief Executive Officer

"Keith Li"
Keith Li
Chief Financial Officer

LINEAGE GROW COMPANY LTD.

Unaudited Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at July 31, 2018	As at January 31, 2018
	$	$
Assets		
Current Assets		
Cash	**1,419,340**	4,347,368
HST receivables (Note 4)	**128,569**	63,152
Prepaid expenses and advances	**1,341,499**	118,281
Promissory notes receivable (Note 5)	**1,005,804**	-
Total Assets	**3,895,212**	4,528,801
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 6)	**280,032**	664,191
Convertible debentures (Note 7)	**1,091,698**	-
Total Current Liabilities	**1,371,730**	664,191
Non-Current Liabilities		
Convertible debentures (Note 7)	**-**	2,166,863
Derivative liabilities (Note 7)	**1,275,442**	1,510,831
Total Liabilities	**2,647,172**	4,341,885
Shareholders' Equity		
Share capital (Note 8)	**9,747,275**	5,692,180
Shares to be issued (Notes 8 and 14)	**-**	1,110,122
Conversion component of convertible debentures (Note 7)	**8,824**	8,824
Reserve for warrants (Note 9)	**1,870,141**	1,223,176
Reserve for share-based payments (Note 10)	**260,860**	72,638
Accumulated other comprehensive income	**3,559**	1,006
Accumulated deficit	**(10,642,619)**	(7,921,030)
Total Shareholders' Equity	**1,248,040**	186,916
Total Liabilities and Shareholders' Equity	**3,895,212**	4,528,801

Nature of operations (Note 1)
Commitments and contingencies (Note 14)
Subsequent events (Note 16)

Approved on behalf of the Board of Directors:

"Peter Bilodeau" (signed)
CEO and Director

"Aurelio Useche" (signed)
Director

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

LINEAGE GROW COMPANY LTD.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three and six months ended July 31, 2018 and 2017
(Expressed in Canadian Dollars)

	Three months ended July 31, 2018	Three months ended July 31, 2017	**Six months ended July 31, 2018**	Six months ended July 31, 2017
	$	$	**$**	$
Expenses				
Management and consulting fees (Note 11)	**292,009**	86,900	**585,089**	139,900
Professional fees (Note 11)	**187,976**	68,208	**260,805**	108,106
Stock-based compensation (Note 10)	**185,281**	12,275	**189,922**	12,275
Share-based payments (Note 8)	**-**	-	**80,000**	-
Office and general	**134,067**	27,303	**285,744**	26,008
Exploration and evaluation expenditures	**3,054**	2,295	**3,488**	16,299
Loss before the Undernoted	**(802,387)**	(196,981)	**(1,405,048)**	(302,588)
Interest and other income	**3,035**	-	**8,225**	-
Fair value changes in derivative liabilities (Note 7)	**47,460**	-	**(784,833)**	-
Gain on conversion of debentures (Notes 7 and 8)	**30,581**	-	**6,409**	-
Loss on settlement of shares (Note 8)	**-**	-	**(347,644)**	-
Income tax recovery	**-**	124,574	**-**	124,574
Finance cost (Notes 7 and 8)	**(45,634)**	(119,764)	**(198,698)**	(123,379)
Net Loss	**(766,945)**	(192,171)	**(2,721,589)**	(301,393)
Other Comprehensive Loss				
Exchange gain (loss) on translation of foreign operations	**2,592**	(1,547)	**2,553**	(1,547)
Total Comprehensive Loss	**(764,353)**	(193,718)	**(2,719,036)**	(302,940)
Weighted Average Number of Shares Outstanding				
Basic and Diluted	**55,073,329**	32,445,518	**52,427,052**	32,445,518
Net Loss per Share				
Basic and Diluted	**(0.013)**	(0.004)	**(0.052)**	(0.009)

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

LINEAGE GROW COMPANY LTD.
Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the three and six months ended July 31, 2018 and 2017
(Expressed in Canadian Dollars)

	Three months ended July 31, 2018	Three months ended July 31, 2017	**Six months ended July 31, 2018**	Six months ended July 31, 2017
	$	$	**$**	$
Operating Activities				
Net loss for the period	**(766,945)**	(192,171)	**(2,721,589)**	(302,940)
Adjustments for non-cash items:				
Finance cost (Notes 7 and 8)	**45,634**	119,764	**198,698**	123,379
Interest accrued on promissory notes (Note 5)	**(29,529)**	-	**(29,529)**	-
Fair value changes in derivative liabilities (Note 7)	**(47,460)**	-	**784,833**	-
Stock-based compensation (Note 10)	**185,281**	12,275	**189,922**	12,275
Share-based payments (Note 8)	**-**	-	**80,000**	-
Income tax recovery	**-**	(124,574)	**-**	(124,574)
Loss on conversion of debentures (Notes 7 and 8)	**(30,581)**	-	**(6,409)**	-
Loss on settlement of shares (Note 8 and 14)	**-**	-	**347,644**	-
	(643,600)	(184,706)	**(1,156,430)**	(291,860)
Changes in non-cash working capital:				
HST and other receivables (Note 4)	**(7,968)**	(8,669)	**(65,417)**	(9,555)
Promissory notes receivable (Note 5)	**(13,575)**	-	**(976,275)**	-
Prepaid expenses	**(144,149)**	1	**(452,923)**	834
Accounts payable and accrued liabilities (Note 6)	**(71,064)**	185,255	**(384,159)**	168,217
Cash Flows (Used in) by Operating Activities	**(880,356)**	(8,119)	**(3,035,204)**	(132,365)
Financing Activities				
Proceeds from private placements (Note 8)	**-**	-	**991,900**	-
Share issue costs (Note 8)	**-**	-	**(132,256)**	-
Proceeds from convertible debentures financing (Note 7)	**-**	1,567,816	**-**	2,219,185
Proceeds from exercise of warrants (Note 8)	**-**	3,121	**17,500**	3,121
Proceeds from exercise of options (Note 8)	**8,500**	-	**8,500**	-
Cash Flows Provided by Financing Activities	**8,500**	1,570,937	**885,644**	2,222,306
Investing Activities				
Advances made to Altai Partners, LLC (Note 14)	**(394,290)**	-	**(781,020)**	-
Cash Flows (Used in) Investing Activities	**(394,290)**	-	**(781,020)**	-
(Decrease) increase in cash	**(1,266,146)**	1,562,818	**(2,930,580)**	2,089,941
Effects of foreign exchange on cash	**2,591**	-	**2,552**	-
Cash, beginning of period	**2,682,895**	1,133,818	**4,347,368**	606,695
Cash, end of period	**1,419,340**	2,696,636	**1,419,340**	2,696,636

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

LINEAGE GROW COMPANY LTD.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the six months ended July 31, 2018 and 2017
(Expressed in Canadian Dollars)

	Share Capital		Reserves						
	Number of Shares	Amount	Shares to be Issued	Conversion Component of Convertible Debentures	Warrants	Share-Based Payments	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	#	$	$	$	$	$	$	$	$
Balance, January 31, 2017	**31,846,115**	**4,838,430**	**-**	**8,824**	**907,417**	**31,175**	**(5,329,018)**	**-**	**456,828**
Issued for non-cash consideration:									
Issued for debenture interest	600,000	150,000	-	-	-	-	-	-	150,000
Warrants issued on private placement	-	-	-	-	140,100	-	-	-	140,100
Warrant issuance costs	-	-	-	-	(15,387)	-	-	-	(15,387)
Equity component of convertible debentures	-	-	-	345,518	-	-	-	-	345,518
Warrants exercised	3,665	3,372	-	-	(73)	-	-	-	3,299
Vesting of Stock Options	-	-	-	-	-	12,275	-	-	12,275
Prior year adjustment	(600)	(179)	-	-	-	-	-	-	(179)
Exchange gain or loss on translating foreign operation	-	-	-	-	-	-	-	(1,547)	(1,547)
Net loss for the period	-	-	-	-	-	-	(301,393)	-	(301,393)
Balance, July 31, 2017	**32,449,180**	**4,991,623**	**-**	**354,342**	**1,032,057**	**43,450**	**(5,630,411)**	**(1,547)**	**789,515**
Balance, January 31, 2018	**38,397,110**	**5,692,180**	**1,110,122**	**8,824**	**1,223,176**	**72,638**	**(7,921,030)**	**1,006**	**186,916**
Issued for cash consideration:									
Private placement (Note 8)	7,389,665	1,847,416	(855,516)	-	-	-	-	-	991,900
Warrants issued on private placement (Note 9)	-	(683,287)	-	-	683,287	-	-	-	-
Finders' warrants issued on private placement (Note 9)	-	-	-	-	70,196	-	-	-	70,196
Share issuance costs (Notes 8 and 9)	-	(127,552)	-	-	(74,901)	-	-	-	(202,452)
Warrants exercised (Note 8)	175,000	20,825	-	-	(3,325)	-	-	-	17,500
Options exercised (Note 8)	85,000	10,200	-	-	-	(1,700)	-	-	8,500
Issued for non-cash consideration:									
Issued for put-option agreement (Note 8)	1,650,000	602,250	(254,606)	-	-	-	-	-	347,644
Issued for consulting fees (Note 8)	320,000	80,000	-	-	-	-	-	-	80,000
Issued on conversion of debentures (Notes 7 and 8)	6,900,000	2,209,750	-	-	-	-	-	-	2,209,750
Issued for debentures interest (Notes 7 and 8)	336,000	67,200	-	-	-	-	-	-	67,200
Warrants expired (Note 9)	-	28,292	-	-	(28,292)	-	-	-	-
Stock-based compensation (Note 10)	-	-	-	-	-	189,922	-	-	189,922
Exchange loss on translating foreign operation	-	-	-	-	-	-	-	2,553	2,553
Net loss for the period	-	-	-	-	-	-	(2,721,589)	-	(2,721,589)
Balance, July 31, 2018	**55,252,775**	**9,747,275**	**-**	**8,824**	**1,870,141**	**260,860**	**(10,642,619)**	**3,559**	**1,248,040**

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

1. NATURE OF OPERATIONS

Lineage Grow Company Ltd. ("Lineage" or the "Company") is focused on assembling licensed operators, either through direct acquisition or through joint ventures, with an aim towards a vertically-integrated cannabis business that leverages best-in-class cultivation, brands, distribution, and retail assets. Lineage is targeting legalized cannabis markets across multiple jurisdictions in the United States (the "US") and Canada, and is seeking to deploy best practices in cultivation, branding, distribution, and retail management to drive performance across the Company's asset base. The Company was previously engaged in the acquisition, exploration and development of mineral resource properties in Canada. On July 25, 2017, the Company through an Article of Amendment, changed its name to Lineage Grow Company Ltd. to reflect the change of business to focus in the cannabis industry in the US. The address of the Company's registered office is 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1, Canada. The Company's common shares are currently listed on the Canadian Securities Exchange (the "CSE") under the trading symbol "BUDD".

The business of cannabis operations involves a high degree of risk, and there is no assurance that any prospective project in the medical and/or adult-use cannabis industry will be successfully initiated or completed. Further, regulatory evolution and uncertainty may require the Company to alter its business plan and make further investments to react to regulatory changes.

The Company also continued to hold mining claims in Quebec and has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties. These procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and noncompliance with regulatory, social and environmental requirements.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") accounting principles applicable to a going concern. The application of the going concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

These unaudited condensed interim consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying unaudited condensed interim consolidated financial statements. Such adjustments could be material.

2. BASIS OF PRESENTATION

2.1 Statement of Compliance

The Company's unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 – Interim Financial Reporting. Accordingly, they do not include all of the information and disclosures required by IFRS for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these unaudited condensed interim consolidated financial statements. Operating results for the period ended July 31, 2018 are not necessarily indicative of the results that may be expected for the full year ended January 31, 2019. For further information, see the Company's audited consolidated financial statements including the notes thereto for the year ended January 31, 2018.

These unaudited condensed interim consolidated financial statements were reviewed, approved and authorized for issue by the Company's Board of Directors on October 1, 2018.

2. BASIS OF PRESENTATION (continued)

2.2 Basis of Measurement

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS, on the historical cost basis except for certain financial instruments which are measured at fair value. In addition, these unaudited condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2.3 Basis of Consolidation

These unaudited condensed interim consolidated financial statements incorporate the accounts of Lineage and its wholly-owned subsidiaries: Lakeside Minerals Corp., 1183290 Alberta Inc., Unite Capital Corp., LGC Holdings USA Inc., LGC Real Estate Holdings LLC, LGC Real Estate (Colorado) LLC, LGC Agricultural Operations Inc., Lineage GCL Oregon Corporation, LGC LOR DIS 1 LLC and LGC LOR DIS 2 LLC (collectively the "Company").

The unaudited condensed interim consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

2.4 Significant Accounting Judgments and Estimates

The preparation of these unaudited condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the unaudited condensed interim consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual outcomes could differ from these estimates. The unaudited condensed interim consolidated financial statements include estimates, which, by their nature, are uncertain. The impact of such estimates is pervasive throughout the unaudited condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The areas involving a higher degree of judgment or complexity, or areas where the assumptions and estimates are significant to the financial statements were the same as those applied to the Company's audited consolidated financial statements for the year ended January 31, 2018.

3. NEW ACCOUNTING STANDARDS AND RECENT PRONOUNCEMENTS

3.1 Changes in Accounting Policies

The Company adopted the following standards, effective February 1, 2018. These changes were made in accordance with the applicable transitional provisions. There was no material impact on the Company's unaudited condensed interim consolidated financial statements:

IFRS 9 – Financial Instruments ("IFRS 9")

IFRS 9 replaces IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

3. NEW ACCOUNTING STANDARDS AND RECENT PRONOUNCEMENTS (continued)

3.1 Changes in Accounting Policies (continued)

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 replaces IAS 18 – Revenue, IAS 11 – Construction Contracts and some revenue-related interpretations. The new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration ("IFRIC 22")

IFRIC 22 was issued on December 8, 2016 and clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt, and is applicable for annual periods beginning on or after January 1, 2018.

3.2 Recent Accounting Pronouncements

The IASB and the IFRS Interpretations Committee have issued certain pronouncements that are mandatory for the Company's accounting periods commencing on or after February 1, 2018. Many are not applicable or do not have a significant impact to the Company and have been excluded. The Company is currently assessing the impact of adopting the new standards or amendments will have on the Company's unaudited condensed interim consolidated financial statements. No material impact is expected upon the adoption of the following new standards:

IFRS 16 – Leases ("IFRS 16")

IFRS 16 was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated amortization and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied.

IFRIC 23 – Uncertainty Over Income Tax Treatments ("IFRIC 23")

IFRIC 23 was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted.

4. HST RECEIVABLES

The Company's HST receivables arise from harmonized sales tax refunds and amounts due from government taxation authorities. The Company anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables, which are due in less than one year.

(Expressed in Canadian Dollars)

5. PROMISSORY NOTES RECEIVABLE

On March 4, 2018, the Company entered into a promissory note agreement with Altai Partners, LLC ("Altai") for $335,950 (USD $250,000). The promissory note bears interest at a rate of 12% per annum and is payable in full on May 31, 2018. Interest starts accruing on April 30, 2018.

On March 23, 2018, the Company entered into a second promissory note agreement with Altai for $645,100 (USD $500,000). The promissory note also bears interest at a rate of 12% per annum and is payable in full on May 31, 2018. Interest starts accruing on April 30, 2018.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payables and accrued liabilities of the Company are principally comprised of amounts outstanding incurred in the normal course of business.

The following is an aged analysis of the accounts payables and accrued liabilities:

	July 31, 2018	January 31, 2018
	$	$
Less than 90 days	**235,483**	388,938
Greater than 90 days	**44,549**	275,253
	280,032	664,191

7. CONVERTIBLE DEBENTURES

SIDEX Debentures

On September 16, 2014, the Company closed a non-brokered private placement of an unsecured convertible debenture under SIDEX's program "Field Action 2014" (the "SIDEX Debentures") for gross proceeds of $50,000. The SIDEX Debentures matured 2 years from the closing date. As an incentive for purchasing these debentures, the Company issued 333,333 warrants on closing. Each warrant was exercisable into common shares of the Company at a price of $0.15 per share for the first year and $0.30 per share in the second year from the closing date and had a value of $19,293. These warrants expired on September 16, 2016.

On September 16, 2016, the Company extended the maturity date of the SIDEX Debentures until September 17, 2017. These debentures were issued at face value and were convertible, at the option of the holder, at any time prior to the maturity date, into common shares of the Company at a conversion price equal to $0.30 per share from September 17, 2016 until September 16, 2017. The rate of interest on the SIDEX Debentures is 12% per annum, to be accrued until and payable on the maturity date.

On November 2, 2017, the Company further extended the maturity date of the SIDEX Debentures to March 16, 2019. The conversion price was also amended to equal to $0.20 per share.

The SIDEX Debentures are classified as a liability, with the exception of the portion relating to the conversion feature, resulting in the carrying value of the debentures being less than face value. The discount is being accreted over the term of the debentures utilizing the effective interest method at a 28.6% discount rate.

7. CONVERTIBLE DEBENTURES (continued)

Convertible Debentures

On May 12, 2017, the Company closed a brokered private placement offering of convertible debentures (the "Convertible Debentures") of 2,500 units for gross proceeds of $2,500,000. The offering is in accordance with the proposed transaction with Nutritional High International Inc. ("NHII") regarding the building of cannabis cultivation facilities in the states of Nevada and Colorado. The issue price of each unit was $1,000 and consisted of:

(i) $1,000 principal amount of 12.0% convertible secured redeemable debentures; and

(ii) 4,000 warrants exercisable into common shares in the capital of the Company at a price of $0.325 for a period of 24 months.

The Convertible Debentures rank pari passu and mature 24 months from the closing date and are convertible at the option of the debenture holders at any time prior to the maturity date into common shares of the Company at a conversion price of $0.25 per share. The Convertible Debentures bear interest at a rate of 12.0% per annum, payable semi-annually in advance. The Company may elect to satisfy its obligation to pay interest on the Convertible Debentures by issuing common shares to the debenture holders at a price of $0.25 per common share.

The Convertible Debentures, and the portions related to the conversion feature and the warrants component are classified as liabilities. The conversion feature and the warrants component do not meet equity classification, as they contain contractual terms that result in the potential adjustment in the conversion or exercise price. In failing the equity classification, the conversion feature and the warrants component are accounted for as embedded derivative liabilities as their fair value is affected by changes in the fair value of the Company's shares. The effect is that the Convertible Debentures are accounted for at amortized cost, with the embedded derivative liabilities being measured at fair value with changes in value being recorded in profit or loss. The discount is being accreted over the term of the Convertible Debentures utilizing the effective interest method at a 28.6% discount rate.

Amendments to Convertible Debentures

Restated Escrow Agreement

On February 1, 2018, with the consent of the debenture holders, the Company entered into an amended and restated escrow agreement (the "Amended and Restated Escrow Agreement") to change the conditions for the release of escrow. Pursuant to the Amended and Restated Escrow Agreement, the revised conditions to release escrowed funds are as follows:

(i) Closing of the Mt. Baker Strategic Partnership;

(ii) Regulatory approval over the Mt. Baker Definitive Agreements;

(iii) Closing of the Company's proposed Terpene Acquisition or such other acquisition by the Company with similar or better financial metrics, approved by Foundation Markets Inc. ("FMI");

(iv) Registration of a UCC general security agreement over the assets of the Company in the State of Washington, including all equipment leased by the Company to Mt. Baker Greeneries, LLC ("Mt. Baker"), and registration of a second secured position over assets acquired in the Terpene Acquisition; and

(v) The Company has completed an equity financing.

Repricing of the Convertible Debentures

On February 1, 2018, pursuant to the amended terms of the Convertible Debentures, the Company repriced the Convertible Debentures. As the Company closed the first tranche of a concurrent financing within nine months of issuance of the Convertible Debentures at a price of $0.25, the conversion price of the Convertible Debentures was reduced from $0.25 to $0.20 by operation of the adjustment terms of the debentures.

(Expressed in Canadian Dollars)

7. CONVERTIBLE DEBENTURES (continued)

Amendments to Convertible Debentures (continued)

Repricing of the Convertible Debentures (continued)

The adjustment to the conversion price was retroactive upon closing of the first tranche of a brokered private placement financing on January 24, 2018. Effective February 26, 2018, the exercise price of the common share purchase warrants issued was also amended from $0.325 to $0.25.

During the six months ended July 31, 2018, 1,380 units of the Convertible Debentures were converted into 6,900,000 common shares of the Company, at the adjusted conversion price of $0.20 (see Note 8 for details).

The following table reflects the changes to the Convertible Debentures for the six months ended July 31, 2018:

	$
Balance, January 31, 2017	**52,316**
Issuance of Convertible Debentures	2,500,000
Transaction costs relating to convertible debentures – cash	(254,287)
Estimated fair value of derivative liability on date of issuance	(149,079)
Estimated valuation of warrant liability on date of issuance	(134,140)
Interest and accretion expense	152,053
Balance, January 31, 2018	**2,166,863**
Interest and accretion expense	120,773
Conversion of debentures	(1,195,938)
Balance, July 31, 2018	**1,091,698**

The changes to the embedded derivative liabilities are as follows:

	$
Balance, January 31, 2018	**1,510,831**
Derecognition of derivative liabilities on conversion	(1,020,222)
Estimated fair value changes of derivative liabilities during the period	784,833
Balance, July 31, 2018	**1,275,442**

The Company used the Black-Scholes valuation model to estimate the fair value of the embedded derivative liabilities upon the initial measurement and as at July 31, 2018 using the following assumptions:

	July 31, 2018	**May 12, 2017**
Valuation date share price	$0.205	$0.035
Conversion price	$0.20	$0.25
Exercise price	$0.25	$0.325
Expected remaining life	0.78 years	2 years
Volatility [(1)]	128%	157%
Risk-free interest rate	1.73%	0.68%

(1) Expected volatility is based on historical volatility of comparable companies.

(Expressed in Canadian Dollars)

8. SHARE CAPITAL

Authorized share capital

The Company is authorized to issue an unlimited number of common shares and preferred shares.

	July 31, 2018	January 31, 2018
	$	$
Issued: 55,252,775 common shares (January 31, 2018 – 38,397,110)	**9,747,275**	5,692,180

Share capital transactions for the six months ended July 31, 2018

On February 8, 2018, the Company closed the second tranche ("Tranche 2") of a brokered private placement financing, consisting of 3,442,065 units at a price of $0.25 per unit, for gross proceeds of $860,516. Each unit consists of one (1) common share and one (1) common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of $0.325 per common share for a period of 24 months after the closing date, as disclosed in Note 9. In conjunction with the brokered private placement, the Company paid finders' fee of $62,900 and issued 251,600 finders' warrants (see Note 9).

On February 14, 2018, the Company closed the third tranche ("Tranche 3") of a brokered private placement financing, consisting of 3,047,600 units at a price of $0.25 per unit, for gross proceeds of $761,900. Each unit consists of one (1) common share and one (1) common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of $0.325 per common share for a period of 24 months after the closing date, as disclosed in Note 9. In conjunction with the brokered private placement, the Company also paid finders' fee of $18,800 and issued 75,200 finders' warrants (see Note 9).

On February 16, 2018, the Company closed the fourth and last tranche ("Tranche 4") of a brokered private placement financing, consisting of 900,000 units at a price of $0.25 per unit, for gross proceeds of $225,000. Each unit consists of one (1) common share and one (1) common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of $0.325 per common share for a period of 24 months after the closing date, as disclosed in Note 9. In conjunction with the brokered private placement, the Company also paid finders' fee of $18,000 and issued 72,000 finders' warrants (see Note 9).

On closing of Tranches 2 to 4 of the brokered private placement financing, proceeds of $855,516 previously received by the Company in relation to subscription funds, were reallocated to share capital.

On March 7, 2018, the Company issued 1,650,000 common shares to NHII as partial consideration for its introduction of Mt. Baker, and for entering into the Put Option Agreement (see Note 14). The fair value of the common shares was estimated at $602,250 based on the Company's closing share price on the date of issuance. A loss of $347,644 on settlement of shares was recorded incurred as part of the transaction.

On March 7, 2018, the Company issued 320,000 common shares to FMI Capital Advisory Inc. ("FMICA") as compensation for consulting services in relation to the closing of the private placement financing. The common shares were valued at $80,000, based on the fair value of the services received. The fair value of these common shares has been expensed as share-based payments in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

On March 7, 2018, 175,000 common shares were issued as a result of the exercise of 175,000 warrants for total cash proceeds of $17,500. All issued shares are fully paid.

On May 17, 2018, 85,000 common shares were issued as a result of the exercise of 85,000 options for total cash proceeds of $8,500. All issued shares are fully paid.

On May 24, 2018, the Company issued 336,000 common shares at a price of $0.20 per common share, to satisfy the third semi-annual interest payment for the Convertible Debentures. These common shares were valued at $67,500 based on the Company's most recently completed financing at the time.

(Expressed in Canadian Dollars)

8. SHARE CAPITAL (continued)

Share capital transactions for the six months ended July 31, 2018 (continued)

During the six months ended July 31, 2018, the Company issued 6,900,000 common shares were issued as a result of the conversion of 1,380 units of Convertible Debentures at the adjusted conversion price of $0.20.

Share capital transactions for the six months ended July 31, 2017

On May 12, 2017, the Company issued 600,000 common shares at a price of $0.25 per common share, to satisfy the first semi-annual interest payment for the Convertible Debentures. These common shares were valued at $21,000 based on the Company's most recently completed financing at the time.

On June 26, 2017, the Company issued 10,995 common shares as a result of the exercise of the Company's Initial Public Offering warrants, for cash proceeds of $3,299. The warrants were exercised at a weighted-average exercise price of $0.30 per warrant.

9. RESERVE FOR WARRANTS

The following table summarizes the warrant activities for the six months ended July 31, 2018 and 2017:

	July 31, 2018		July 31, 2017	
	Number of warrants outstanding	**Weighted average exercise price**	Number of warrants outstanding	Weighted average exercise price
	#	**$**	#	$
Balance, beginning of year	**27,539,753**	**0.25**	14,643,514	0.17
Issued	**7,389,665**	**0.325**	10,000,000	0.325
Issued	**398,800**	**0.25**	400,000	0.25
Exercised	**(175,000)**	**0.10**	(10,995)	0.30
Expired	**(488,811)**	**1.20**	(2,019,296)	0.30
Balance, end of period	**34,664,407**	**0.23**	23,013,223	0.23

Warrants issuance for the six months ended July 31, 2018

In conjunction with Tranche 2 of the brokered private placement financing which closed on February 8, 2018, the Company issued 3,442,065 warrants at an exercise price of $0.325 per share for a period of 24 months after the closing date. In addition, the Company also issued 251,600 finders' warrants which entitle holder to purchase one unit at a price of $0.25 per unit, exercisable until February 8, 2020.

In conjunction with Tranche 3 which closed on February 14, 2018, the Company issued 3,047,600 warrants at an exercise price of $0.325 per share for a period of 24 months after the closing date. The Company also issued 75,200 finders' warrants which entitle holder to purchase one unit at a price of $0.25 per unit, exercisable until February 14, 2020.

In conjunction with Tranche 4 which closed on February 16, 2018, the Company issued 900,000 warrants at an exercise price of $0.325 per share for a period of 24 months after the closing date. The Company also issued 72,000 finders' warrants which entitle holder to purchase one unit at a price of $0.25 per unit, exercisable until February 16, 2020.

Warrants issuance for the six months ended July 31, 2017

On May 12, 2017, in conjunction with the Convertible Debentures offering, the Company issued 10,000,000 warrants at an exercise price of $0.325 per share and 400,000 broker warrants at an exercise price of $0.25 per share.

(Expressed in Canadian Dollars)

9. RESERVE FOR WARRANTS (continued)

The Company used the Black-Scholes valuation model to estimate the fair value of the warrants issued during the six months ended July 31, 2018, based on the following assumptions:

Issuance date	February 8, 2018	February 14, 2018	February 16, 2018
Number of warrants	3,442,065	3,047,600	900,000
Exercise price	$0.325	$0.325	$0.325
Expected life of warrants	2 years	2 years	2 years
Expected volatility (1)	146%	145%	146%
Risk-free interest rate	1.83%	1.82%	1.82%
Fair value	$318,656	$281,522	$83,109

Issuance date	February 8, 2018	February 14, 2018	February 16, 2018
Number of finders' warrants	251,000	75,200	72,000
Exercise price	$0.25	$0.25	$0.25
Expected life of warrants	2 years	2 years	2 years
Expected volatility (1)	146%	146%	146%
Risk-free interest rate	1.83%	1.82%	1.82%
Fair value	$44,328	$13,218	$12,651

(1) Expected volatility is based on historical volatility of comparable companies.

The following table summarizes information of warrants outstanding as at July 31, 2018:

Date of expiry	Number of warrants outstanding	Exercise price	Weighted average remaining life
	#	$	Years
November 16, 2018 (2)	3,500,000	0.10	0.30
December 9, 2018 (2)	6,725,000	0.10	0.36
December 12, 2018 (2)	798,409	0.10	0.37
March 16, 2019	333,333	0.20	0.63
May 12, 2019	10,000,000	0.25	0.78
May 12, 2019	400,000	0.25	0.78
January 24, 2020	4,740,000	0.325	1.48
January 24, 2020	379,200	0.25	1.48
February 8, 2020	3,442,065	0.325	1.53
February 8, 2020	251,600	0.25	1.53
February 14, 2020	3,047,600	0.325	1.54
February 14, 2020	75,200	0.25	1.54
February 16, 2020	900,000	0.325	1.55
February 16, 2020	72,000	0.25	1.55
	34,664,407	**0.23**	**0.91**

(2) On November 10, 2017, the Company announced a term extension of the share purchase warrants previously issued pursuant to private placements on November 16, 2016 and December 9, 2016, as well as a debt settlement on December 12, 2016. For all unexercised warrants by their original expiry date, the expiry was extended for a further 12-month period, to November 16, 2018, December 9, 2018 and December 12, 2018, respectively. This extension is subject to an 8-month legend for resale of the shares beginning on the original expiry date.

(Expressed in Canadian Dollars)

10. RESERVE FOR SHARE-BASED PAYMENTS

The Company maintains a stock option plan (the "Plan") whereby certain key employees, officers, directors and consultants may be granted stock options for common shares of the Company. The maximum number of common shares that are issuable under the Plan is limited to 10% of the aggregate number of shares outstanding. As at July 31, 2018, the Company has 20,278 common shares that are issuable under the Plan. The exercise price and vesting terms are determined by the Board of Directors.

Options grants for the six months ended July 31, 2018

On May 24, 2018, the Company granted 1,875,000 stock options to various officers and directors of the Company. The options are exercisable for $0.25 per share and will expire on May 24, 2023. 1/6 of the options vested immediately on grant, with an additional 1/6 vesting every 6 months until fully vested. The Company also granted 800,000 stock options to various consultants. These options are exercisable for $0.25 per share and will expire on May 24, 2023. 1/4 of the options vested immediately on grant, with an additional 1/4 vesting every subsequent quarter until fully vested.

Options grants for the six months ended July 31, 2017

During the six months ended July 31, 2017, there were no options transactions.

The Company used the Black-Scholes valuation model to estimate the fair value of the options granted during the six months ended July 31, 2018, based on the following assumptions:

Grant date	**May 24, 2018**
Number of options	2,675,000
Exercise price	$0.25
Expected life of options	5 years
Expected volatility (1)	146%
Risk-free interest rate	2.23%
Fair value	$463,721

(1) Expected volatility is based on historical volatility of comparable companies.

The following table summarizes information of options outstanding and exercisable as at July 31, 2018:

Date of expiry	**Number of options outstanding**	**Number of options exercisable**	**Exercise price**	**Weighted average remaining life**
	#	**#**	**$**	**Years**
December 12, 2021	2,370,000	1,580,000	0.10	3.37
December 12, 2021	460,000	460,000	0.10	3.37
May 24, 2023	2,675,000	512,500	0.25	4.82
	5,505,000	**2,552,500**	**0.17**	**4.07**

11. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

Key management personnel compensation

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

On October 15, 2010, the Company and FMICA entered into a financial advisory and consulting agreement, subsequently amended on June 5, 2017. Peter Bilodeau, the Chief Executive Officer ("CEO") and Director of the Company, is also the President of FMICA. FMICA is a subsidiary of Foundation Financial Holdings Corp., an entity in which Adam Szweras, the Corporate Secretary of the Company, is a director and whereas his minor children hold an indirect interest. For the six months ended July 31, 2018, the Company was charged $100,333 (2017 – $72,000) for consulting services provided by FMICA. As at July 31, 2018, no balance was owed to FMICA (January 31, 2018 – 87,033; included in accounts payable and accrued liabilities).

During the six months ended July 31, 2018, the Company recorded fees of $217,125 (2017 – $nil), including a bonus of $150,000 paid upon the Company securing its listing on the CSE, included in management and consulting fees, for services rendered by the former CEO to the Company. As at July 31, 2018, no balance was owed to the former CEO (January 31, 2018 – $80,825; included in accounts payable and accrued liabilities).

Upon closing of the private placement financing in February 2018, the Company and Branson Corporate Services Inc. ("Branson"), where Keith Li, the Chief Financial Officer ("CFO") of the Company is employed, amended the management services agreement, providing for CFO services to the Company, as well as other accounting and administrative services, which are included in professional fees. In consideration for the services provided, the Company agreed to pay a monthly fee of $8,000. During the six months ended July 31, 2018, the Company was charged $56,300 (2017 – $30,000) for services provided by Branson. As at July 31, 2018, no balance was owed to Branson (January 31, 2018 – $15,000; included in accounts payable and accrued liabilities).

During the six months ended July 31, 2018, Fogler, Rubinoff LLP ("Fogler"), a law firm in which Adam Szweras is also a partner, provided $106,725 (2017 – $59,427) of legal services to the Company, which are included in professional fees. As at July 31, 2018, an amount of $50,220 (January 31, 2018 – $124,954) owing to Fogler was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

During the six months ended July 31, 2018, officers and directors of the Company received stock-based compensation of $108,270 (2017 – $nil).

Agreements with related parties

On January 24, 2018, the Company and FMI entered into a private placement finder's fee agreement in relation to the January 2018 Offering, and the ensuing Tranches of the brokered private placements which closed in February 2018, as disclosed in Note 8. Peter Bilodeau and Adam Szweras are the President and the Chairman of FMI, respectively. Of the Tranches which closed in February 2018, FMI was paid the following compensation:

- Tranche 2: Finder's fee of $28,925 and 80,200 finders' warrants exercisable at $0.25 for 2 years;
- Tranche 3: Finder's fee of $12,800 and 51,200 finders' warrants exercisable at $0.25 for 2 years; and
- Tranche 4: Finder's fee of $4,500 and 18,000 finders' warrants exercisable at $0.25 for 2 years.

Effective April 17, 2018, the Company and Peter Bilodeau entered into a consulting agreement, providing for CEO and consulting services to the Company. Fees of $10,000 are payable on a monthly basis from the effective date. During the six months ended July 31, 2018, the CEO was paid $34,720 (2017 – $nil) for consulting services provided to the Company, which are included in management and consulting fees.

Subscriptions by related parties

During the six months ended July 31, 2018, directors and officers of the Company had subscribed a total of 920,000 units, for proceeds of $230,000, from Tranche 3 of the private placement which closed on February 14, 2018.

12. CAPITAL RISK MANAGEMENT

The Company's objective in managing its capital structure is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Company monitors its capital structure and makes adjustments according to market conditions to meet its objectives given the current outlook of the business and industry in general. To maintain or adjust the capital structure, the Company may issue new shares or acquire or dispose of assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the management team to sustain the future development of the business.

Management has chosen to mitigate the risk and uncertainty associated with raising additional capital within current economic conditions by:

(i) minimizing discretionary disbursements;
(ii) reducing or eliminating exploration expenditures which are of limited strategic value; and
(iii) exploring alternate sources of liquidity.

In light of the above, the Company will continue to assess and acquire an interest in new business opportunities if it feels there is sufficient potential and if it has adequate financial resources to do so.

As at July 31, 2018, the Company's capital consists of share capital, conversion component of convertible debentures, reserve in warrants, reserve in share-based payments, accumulated other comprehensive income and accumulated deficit in the amount of $1,248,040 (January 31, 2018 – $186,916).

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company's capital management objectives, policies and processes have remained unchanged during the six months ended July 31, 2018 and the year ended January 31, 2018.

The Company is not subject to externally imposed capital requirements.

13. FINANCIAL RISK MANAGEMENT

Fair value

The carrying amount of cash, trade receivables, and accounts payable and accrued liabilities on the unaudited condensed interim consolidated statements of financial position approximate their fair value due to the relatively short-term maturity of these financial instruments.

Fair value hierarchy

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at July 31, 2018, the Company does not have any financial instruments measured at fair value after initial recognition, except for derivative liabilities which were calculated using Level 2 inputs.

13. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Cash is held with reputable Canadian chartered banks and in trust with the Company's legal counsel. Management believes that the credit risk concentration with respect to financial instruments is minimal. The maximum exposure to credit risk at period-end is limited to the accounts receivable balance.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at July 31, 2018, the Company had a cash balance of $1,419,340 (January 31, 2018 – $4,347,368) to settle current liabilities of $1,371,730 (January 31, 2018 – $664,191).

All of the Company's financial liabilities have contractual maturities of less than 365 days and are subject to normal trade terms. Management believes there is sufficient capital in order to meet short-term business obligations, after taking into account cash flows requirements from operations and the Company's cash position as at period-end.

14. COMMITMENTS AND CONTINGENCIES

Environmental contingencies

The Company's exploration and evaluation activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

Nutritional High International Inc.

On January 22, 2018, the Company and NHII entered into an amended and restated letter of intent ("LOI"), restating the LOI entered on February 22, 2017 as amended on June 29, 2017, which revised the Proposed Transaction as follows:

(i) All sections of the Proposed Transaction relating to the acquisition of a Provisional Marijuana Cultivation License issued by the Nevada Division of Public and Behavioral Health and the acquisition of real property in Henderson, Nevada have been removed.

(ii) The Proposed Transaction will be structured such that NHII will assist the Company to enter into the Washington Agreement with Mt. Baker. Upon the completion of the Pueblo Joint Venture (as defined below), the Company will issue to NHII, 400,000 common shares, as partial consideration for NHII's introduction of Mt. Baker to the Company.

(iii) The Proposed Transaction will also include the Company entering into a joint venture (the "Pueblo JV") with NHII and Palo Verde by entering into a series of agreements with NHII and Palo Verde in connection with the expansion of a marijuana facility located in Pueblo. Upon completion of the Pueblo JV, the Company will issue to NHII, 100,000 common share, as partial consideration for providing consulting services in preparation for entering into the Pueblo JV. The completion date for the proposed Pueblo JV has been scheduled for December 31, 2018.

(iv) NHII will enter into a put option agreement (the "Put Option Agreement") pursuant to which, in the event of default by the Company under the Convertible Debentures, NHII would be obligated, at the election of the agent for the holders, to purchase the Convertible Debentures at a price equal to the amount of all principal and accrued interest outstanding thereon.

14. COMMITMENTS AND CONTINGENCIES (continued)

Nutritional High International Inc. (continued)

(iv) NHII has agreed to enter into the Put Option Agreement in exchange for:

1. Issuance of 1,250,000 common shares of the Company;
2. $75,000 cash paid in the form of 5% royalty on all revenue of the Company paid on an installment basis with any balance outstanding by October 16, 2019, to be paid in a lump sum; and
3. Should the Company acquire any dispensary in a state in which NHII's products are sold, the Company shall purchase NHII's products to stock at least 20% of the dispensary's shelf space per product category at a price equal to NHII's best regular whole sale price to NHII's customers in the state, subject to availability of supply.

As at January 31, 2018, the Company had recognized a share liability amount of $254,606 for the common shares to be issued to NHII as partial consideration for NHII's introduction of Mt. Baker, and for entering into the Put Option Agreement.

On March 7, 2018, 1,650,000 common shares were issued to NHII (see Note 8).

<u>Put Option Agreement</u>

Pursuant to the Put Option Agreement, the following triggering events would constitute default by the Company under the Convertible Debentures:

(i) Failure of the Company to list its common shares on the CSE by February 28, 2018;

(ii) The Company's common shares trading at a price per share equal to less than 50% of the conversion price of the Convertible Debentures for 60 consecutive trading days after being listed on a stock exchange; or

(iii) Failure by the Company to either acquire an operating marijuana business or assisting Mt. Baker in commencing marijuana cultivation operations by June 30, 2018.

On June 25, 2018, with the consent of the debenture holders, the Company entered into an amended Put Option Agreement to amend the definition of the triggering event, related to the timeline the Company has to either acquire an operating marijuana business or assisting Mt. Baker in commencing marijuana cultivation operations, from June 30, 2018 to August 31, 2018.

Terpene Station

On December 13, 2017, the Company signed a LOI to acquire the assets of Rosebuds Bakery, LLC d/b/a Terpene Station and Brooklyn Holding Co d/b/a Terpene Station Portland which operate under the "Terpene Station" brand name (the "Terpene Acquisition"). Terpene Station is an Oregon-based cannabis retailer involved with the marketing and sale of cannabis flower, edibles and oils. The purchase price of the Terpene Acquisition is in the amount of USD $1,200,000, of which USD $800,000 will be payable in cash upon closing, and USD $400,000 payable in secured promissory note, payable 24 months after closing, at 10% simple interest per annum.

On June 6, 2018, the Company announced that it had submitted applications to the Oregon Liquor and Cannabis Commission (the "OLCC") to secure Marijuana Retailer Licenses (the "Licenses") in connection with the Terpene Acquisition.

On September 14, 2018, the Company announced the signing of definitive agreements to acquire the assets of Terpene Station, and on September 26, 2018, it closed the Terpene Acquisition (see Note 16 for details).

14. COMMITMENTS AND CONTINGENCIES (continued)

Mt. Baker

On December 21, 2017, the Company entered into a LOI to form a strategic partnership (the "Washington Agreement") with Mt. Baker, a Tier 2 licensed cannabis producer processor in the State of Washington.

On January 31, 2018, the Company entered into definitive agreements to implement the Washington Agreement with Mt. Baker. An Equipment Lease Agreement was entered into, whereby the Company agrees to lease cultivation equipment to Mt. Baker. A Licensing and Services Agreement was also entered, whereby Mt. Baker will purchase cultivation supplies, license certain trademarks to place on Mt. Baker's packaged products, and license certain technology from the Company, to cultivate the marijuana crops grown at the Mt. Baker Facility. The Company will also provide services to assist in redesigning Mt. Baker's grow facility, implementing growing methodologies, training of personnel and other advice as requested.

Altai Partners

On March 6, 2018, the Company entered into a binding LOI to acquire a 100% interest in Altai, a limited liability company operating out of California (the "Altai Acquisition"). Altai is to acquire a minimum of 45% ownership interest in Lucrum Enterprises Inc., d/b/a LUX Cannabis Dispensary ("LUX"), a licensed dispensary operating in San Jose, California. Altai currently has an agreement in place for a 45% interest in LUX.

On April 3, 2018, concurrent to its agreement acquiring a 45% ownership interest in LUX, Altai entered into an additional agreement to acquire the remaining 55% ownership interest in LUX. Upon completion of the Altai Acquisition, Lineage will hold a 100% ownership interest in LUX. Under the terms of the Altai Acquisition, the Company will purchase a 100% interest in Altai in exchange for the following consideration:

(i) $3,450,000 in common shares in the capital of Lineage priced at USD $0.20 per common share, to be issued to the seller upon closing;

(ii) USD $750,000 to be lent to Altai under a Promissory Note at 12% annual interest, maturing May 31, 2018 (see Note 5). This note will become a loan to subsidiary after completion of the Altai Acquisition; and

(iii) Lineage, under its ownership of Altai, will assume USD $1,200,000 in payment obligations towards Altai's purchase of LUX. This obligation includes four cash payments to LUX shareholders of USD $300,000 each, beginning April 28, 2018 and ending December 30, 2018.

Completion of the Altai Acquisition is subject to satisfactory completion of due diligence, execution of a definitive agreement, required approvals and consents, as well as the completion of Altai's acquisition of 100% ownership interest in LUX.

Walnut Oaks

On June 12, 2018, the Company entered into an agreement under agreed term sheet (the "Agreement") to acquire California-based Walnut Oaks, LLC ("Walnut Oaks") d/b/a Agris Farms (the "Walnut Oaks Transaction"). Walnut Oaks operates a premium quality craft cannabis cultivation facility in Northern California. Pursuant to the Agreement, Lineage will acquire a 51% interest in Walnut Oaks based on an implied enterprise value of USD $6,600,000. Consideration will be in the form of stock and the assumption of liabilities. Lineage will have an option to acquire the remaining 49% of Walnut Oaks within 6-months from closing for stock consideration. The Walnut Oaks Transaction is subject to final due diligence by the respective parties, execution of a definitive acquisition agreement which shall supersede the Agreement, receipt of applicable corporate approvals, and other regulatory and/or governmental approval.

FMICA is acting as exclusive financial advisor to Lineage in connection with the Walnut Oaks Transaction.

(Expressed in Canadian Dollars)

15. SEGMENTED INFORMATION

As at July 31, 2018, the Company's operations comprise of a single reporting operating segment engaged in the cultivation, branding, distribution and retail management of cannabis in states throughout the US. As at and for the six months ended July 31, 2018, the breakdown between operations in Canada and the US are as follows:

Statement of financial position	Canada	US	Total
	$	$	$
Current assets	3,598,424	296,788	3,895,212
Non-current assets	-	-	-
Total assets	**3,598,424**	**296,788**	**3,895,212**
Current liabilities	1,362,411	9,319	1,371,730
Long-term liabilities	1,275,442	-	1,275,442
Total liabilities	**2,637,853**	**9,319**	**2,647,172**

Statement of loss and comprehensive loss	Canada	US	Total
	$	$	$
Operating expenses	1,197,873	207,175	1,405,048
Other expenses (income)	1,316,541	(2,553)	1,313,988
Net loss and comprehensive loss	**2,514,414**	**204,622**	**2,719,036**

16. SUBSEQUENT EVENTS

Shares, warrants and options transactions

Subsequent to July 31, 2018, 1,150,000 common shares were issued as a result of the exercise of 1,150,000 warrants for total cash proceeds of $115,000. All issued shares are fully paid.

Subsequent to July 31, 2018, 250,000 common shares were issued as a result of the exercise of 250,000 options for total cash proceeds of $25,000. All issued shares are fully paid.

Subsequent to July 31, 2018, 5,100,000 common shares were issued as a result of the conversion of 1,020 units of Convertible Debentures at the adjusted conversion price of $0.20.

On August 3, 2018, the Company granted 20,000 stock options to a consultant. The options are exercisable for $0.25 per share and will expire on August 3, 2023. 1/3 of the options vest every 6 months until fully vested.

Harborside

On August 13, 2018, the Company and FLRish Inc., a California corporation d/b/a Harborside ("Harborside"), announced they have entered into a binding letter agreement pursuant to which Harborside will effect a reverse takeover transaction that will result in Lineage acquiring all of the issued and outstanding securities of Harborside on a debt-free basis in exchange for newly issued common shares of Lineage valued at approximately $200 million (the "Harborside Transaction"). Under the terms of the Harborside Transaction, 100% of the outstanding securities of Harborside shall be exchanged for Lineage securities at a deemed price of $0.165, and the final number of Lineage shares issued in exchange for the outstanding Harborside securities shall be determined at the time the Harborside Transaction closes and will be subject to adjustments based on the anticipated Harborside securities offering and additional near-term acquisitions.

The Harborside Transaction is subject to satisfaction or waiver of terms and conditions, customary or otherwise, including completion of due diligence, execution of a definitive agreement and all required approvals and consents, including the approval of the CSE and shareholders of Lineage.

16. SUBSEQUENT EVENTS (continued)

Herbiculture

On August 22, 2018, the Company and Quinsam Capital Corporation ("Quinsam") agreed to terminate their previously announced agreement whereby Lineage would acquire Quinsam's right to a 35% equity stake in Herbiculture. Quinsam expects to receive 200,000 Lineage shares as a result of the termination agreement.

Terpene Station

On September 14, 2018, the Company announced the signing of definitive agreements (the "Asset Purchase Agreements") to acquire the assets of Terpene Station. Lineage has received approval from the OLCC to transfer the Licenses associated with the Terpene Station Eugene and Portland locations.

On September 26, 2018, the Company closed the Terpene Acquisition, and acquired the assets of Rosebuds Bakery, LLC d/b/a Terpene Station and Brooklyn Holding Co. d/b/a Terpene Station Portland. Pursuant to the terms of the Asset Purchase Agreements between the Company and Rosebuds Bakery, LLC and Brooklyn Holding Co., the purchase price payable by the Company consisted of:

(i) A cash payment of USD $400,000; and

(ii) The issuance of a secured convertible note in the principal amount of USD $800,000 convertible into common shares in the capital of Lineage at a price of CAD $0.35 per share.

In connection with the closing of the APAs, the Company also issued a stock finder's fee of 386,909 Lineage shares to FMICA.