CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

OF

EMBLEM CORP.

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018

NOTICE OF UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Emblem Corp. (the "Company") as at and for the three and six months ended June 30, 2018 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

In accordance with National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators, the Company herewith disclosed that the accompanying unaudited condensed interim consolidated financial statements have not been reviewed by an auditor.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)	Note		At June 30, 2018 (unaudited)		At December 31, 2017
ASSETS					
Current					
Cash and cash equivalents		**$**	**73,388**	$	37,746
Trade and other receivables	*4*		**2,123**		1,121
Marketable securities	*5*		**2,500**		-
Prepaid expenses and other			**772**		236
Inventories	*6*		**3,686**		2,897
Biological Assets	*7*		**451**		651
			82,920		42,651
Non-current					
Plant and equipment deposits			**295**		388
Property, plant and equipment	*8*		**34,709**		29,911
Intangible asset			**200**		200
Total Assets		**$**	**118,124**	$	73,150
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current					
Trade and other payables	*9*	**$**	**4,436**	$	4,160
Provision	*11*		**-**		700
			4,436		4,860
Non-current					
Long-term debt	*10*		**5,413**		5,386
Convertible debt	*10*		**18,644**		10,848
Total Liabilities			**28,493**		21,094
Shareholders' equity					
Share capital	*11*		**108,051**		70,428
Contributed surplus			**25,617**		17,033
Deficit			**(44,037)**		(35,405)
Total shareholders' equity			**89,631**		52,056
Total Liabilities and Shareholders' Equity		**$**	**118,124**	$	73,150
Subsequent events	*17*				

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

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

		Three Months Ended		Six Months Ended	
		June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
(Expressed in thousands of Canadian dollars, except per share amounts)	**Note**	(unaudited)	(unaudited)	(unaudited)	(unaudited)
REVENUES		**$ 1,508**	$ 538	**$ 2,785**	$ 1,442
Cost of sales	*6*	**(2,495)**	(1,111)	**(4,369)**	(2,494)
Unrealized gain on changes in fair value of biological assets	*7*	**828**	573	**1,607**	963
Gross (loss) profit		**(159)**	-	**23**	(89)
EXPENSES					
General and administrative		**2,083**	1,330	**3,721**	2,228
Research and development		**62**	101	**147**	198
Selling and marketing		**1,277**	641	**2,169**	1,473
Amortization of property, plant and equipment	*8*	**402**	261	**785**	493
Share-based payments	*13*	**24**	590	**424**	895
Operating loss		**(4,007)**	(2,923)	**(7,223)**	(5,376)
Net finance costs		**788**	52	**1,409**	116
Other income		**-**	(21)	**-**	(42)
Net loss and comprehensive loss		**$ (4,795)**	$ (2,954)	**$ (8,632)**	$ (5,450)
Weighted average basic and diluted loss per share	*14*	**$ (0.04)**	$ (0.03)	**$ (0.07)**	$ (0.07)

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

Condensed Interim Consolidated Statements of Changes in Equity

(Expressed in thousands of Canadian dollars)		Share Capital: Common Shares	Share Capital: Special Shares	Contributed Surplus	Deficit	Total Equity
Balances as at January 1, 2017		$ 47,149	$ 535	$ 5,227	$ (23,304)	$ 29,607
Common shares and warrants issued as transaction costs incurred on 2016 private placements		213	-	27	-	240
Issuance of common shares to settle obligations		102	-	-	-	102
Issue of common shares and warrants under private placements, net of issuance costs		11,974	-	2,466	-	14,440
Warrants and options exercised		654	-	(240)	-	414
Options, including synthetic options, granted and vesting, forfeited and unvested		-	-	894	-	894
Net loss and comprehensive loss		-	-	-	(5,450)	(5,450)
Balances as at June 30, 2017		**$ 60,092**	**$ 535**	**$ 8,374**	**$ (28,754)**	**$ 40,247**
Balances as at January 1, 2018		$ 69,893	$ 535	$ 17,033	$ (35,405)	$ 52,056
Issue of common shares and warrants under private placements, net of issuance costs	*11*	20,761	-	5,503	-	26,264
Compensation warrants and options issued as transaction costs incurred on private placements	*12/13*	-	-	765	-	765
Conversion option on convertible debt, net of issuance costs	*11*	-	-	4,977	-	4,977
Conversion of convertible debt into common shares	*11*	13,530	-	(2,630)	-	10,900
Conversion of special shares to common shares	*11*	535	(535)	-	-	-
Issue of common shares to settle obligation	*11*	700	-	-	-	700
Warrants exercised	*12*	1,807	-	(209)	-	1,598
Options exercised	*13*	825	-	(247)	-	578
Options, including synthetic options, granted and vesting, forfeited and unvested	*13*	-	-	425	-	425
Net loss and comprehensive loss		-	-	-	(8,632)	(8,632)
Balances as at June 30, 2018		**$ 108,051**	**$ -**	**$ 25,617**	**$ (44,037)**	**$ 89,631**

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

Condensed Interim Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)	Note	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Cash flows from operating activities			
Net loss and comprehensive loss		**$ (8,632)**	$ (5,450)
Adjustments for:			
Unrealized gain on changes in fair value of biological assets	*7*	**(1,607)**	(963)
Amortization of property, plant and equipment	*8*	**785**	493
Share-based payments	*13*	**424**	895
Net finance costs		**852**	25
Other income		**-**	(42)
Net changes in working capital:			
Trade and other receivables		**(1,002)**	(1,088)
Prepaid expenses and other		**(516)**	(341)
Inventories and biological assets		**1,018**	785
Trade and other payables		**185**	(648)
Net cash used by operating activities		**(8,493)**	(6,334)
Cash flows from investing activities			
Purchase of property, plant and equipment, including deposits	*8*	**(5,419)**	(11,058)
Purchase of marketable securities	*5*	**(2,500)**	-
Net cash used by investing activities		**(7,919)**	(11,058)
Cash flows from financing activities			
Proceeds from private placements and other financings, net of issuance costs	*11*	**26,673**	14,440
Proceeds from issuance of convertible debt, net of issuance costs	*10*	**23,205**	-
Proceeds on options and warrants exercised	*12/13*	**2,176**	413
Net cash generated from financing activities		**52,054**	14,853
Net increase (decrease) in cash and cash equivalents		**35,642**	(2,539)
Cash and cash equivalents, beginning of the period		**37,746**	26,203
Cash and cash equivalents, end of the period		**$ 73,388**	$ 23,664

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

Notes to the Condensed Interim Consolidated Financial Statements as at and for the Three and Six Months Ended June 30, 2018

(All tabular amounts expressed in thousands of Canadian dollars, except share or per share amounts)

1. NATURE OF OPERATIONS

Emblem Corp. and its subsidiary companies (collectively, "Emblem" or the "Company"), through its wholly-owned subsidiary Emblem Cannabis Corporation ("ECC"), are licensed to produce and sell cannabis as a Licensed Producer, as such term is defined under the *Access to Cannabis for Medical Purposes Regulations* ("ACMPR").

On August 26, 2015, ECC received its initial licence that permitted ECC to produce cannabis (the "Licence"). The Licence was amended on July 27, 2016 to allow for the sale of cannabis to the public and to permit increased production. The Licence was further amended on April 28, 2017 to authorize ECC to produce cannabis oils and was amended again on October 6, 2017 to remove restrictions on the amount of cannabis (in all forms) to be produced and sold by ECC. On November 3, 2017, ECC received a subsequent amendment to permit the Company to sell bottled cannabis oil. The Licence has a current term ending on July 26, 2019. Emblem's production operations are located in Paris, Ontario.

On January 1, 2018, the Company held a 50% interest in an entity, GrowWise Health Limited ("GrowWise"), a company incorporated under the *Business Corporations Act* (Ontario) and operating primarily in the Province of Ontario, Canada. The remaining 50% was held by White Cedar Pharmacy Corporation ("White Cedar"). The business of GrowWise is to offer education services and other related services to prospective medical patients in Canada. In March 2018, the Company exercised its option to purchase the remaining 50% of GrowWise that it did not already own for $1.

The Company commenced trading on the Toronto Venture Exchange ("TSXV") on December 12, 2016 under the symbol "EMC".

The address of the Company's registered head office is 36 York Mills Road, Suite 500, Toronto, Ontario, M2P 2E9.

2. BASIS OF PRESENTATION

These unaudited condensed interim consolidated financial statements as at and for the three and six months ended June 30, 2018 (the "Interim Consolidated Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"). The accounting policies, methods of computation and presentation applied in these Interim Consolidated Financial Statements are consistent with those of the previous fiscal year.

These Interim Consolidated Financial Statements reflect the accounting policies and disclosures described in Note 2, 3 and 4 to the Company's audited consolidated financial statements for the year ended December 31, 2017 (the "2017 Audited Consolidated Financial Statements"), with the exception of any change set out in Note 3 below and accordingly, should be read in conjunction with those financial statements and the notes thereto.

These Interim Consolidated Financial Statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

These Interim Consolidated Financial Statements were approved by the board of directors of the Company for issue on August 22, 2018.

3. ACCOUNTING POLICIES

The accounting policies of the Company are set out in detail in Note 3 to the 2017 Audited Consolidated Financial Statements. Such policies have been applied consistently by the Company and to all periods presented in the Interim Consolidated Financial Statements. There have been no new accounting policies adopted by the Company.

4. TRADE AND OTHER RECEIVABLES

	At June 30, 2018	At December 31, 2017
Trade receivables	**$ 477**	$ 218
Sales taxes receivable	**1,588**	847
Other receivables	**58**	56
	$ 2,123	$ 1,121

Sales tax returns for Emblem Corp. are due on an annual basis, resulting in an increase of accumulated net sales taxes receivable as at June 30, 2018.

	At June 30, 2018	At December 31, 2017
Trade receivables		
Current	**$ 144**	$ 130
Past due 1-30 days	**119**	11
Past due 31-60 days	**-**	77
Past due 61-90 days	**42**	-
Past due 90 days	**172**	-
	$ 477	$ 218

5. MARKETABLE SECURITIES

In April 2018, the Company purchased $2.5 million of units of Fire & Flower Inc. (“Fire & Flower”) at a price of $0.80 per unit. Each unit consists of one common share in the capital of Fire & Flower (each, a “Fire & Flower Share”) and one common share purchase warrant, entitling the Company to acquire one additional Fire & Flower Share at a price of $1.05 per share until April 18, 2020, subject to adjustments in certain events. The Company also announced that it will become a preferred cannabis supplier to Fire & Flower. Subject to certain approvals and required licensing, Emblem will supply Fire & Flower with Emblem branded cannabis products for an initial period of three consecutive years and the products will be sold in-store in all provinces in which Fire & Flower operates.

The Company classifies its investment in equity securities of Fire & Flower as financial assets at fair value through profit of loss. The fair value measurements for the marketable securities have been categorized as Level 3.

6. INVENTORIES

		At June 30, 2018		At December 31, 2017
Dry Cannabis				
Work-in-progress	**$**	**1,399**	$	2,222
Finished goods		**2,115**		536
		3,514		2,758
Seeds		**24**		26
Packaging and supplies		**148**		113
	$	**3,686**	$	2,897

Cost of sales for the periods ended are composed of:

	Three Months Ended				Six Months Ended			
		June 30, 2018		June 30, 2017		**June 30, 2018**		June 30, 2017
Payroll costs for personnel involved in production	**$**	**586**	$	360	**$**	**1,232**	$	727
Materials and utilities related to production		**333**		175		**663**		366
Other overhead, rent, facility & equipment maintenance, quality assurance and other costs		**362**		191		**530**		395
Total production costs		**1,281**		726		**2,425**		1,488
Cost of inventory sold during the period purchased from third parties		**25**		-		**223**		-
Patient education costs		**153**		83		**280**		151
Cost of inventory sold during the period related to fair value accounting for biological assets		**1,036**		302		**1,441**		855
	$	**2,495**	$	1,111	**$**	**4,369**	$	2,494

The Company does not capitalize any production costs including overheads to biological assets. All direct and indirect costs related to biological assets are expensed as incurred and are included in production costs in the table above.

The Company capitalizes cost incurred after harvest to bring the products to their present location and condition in accordance with IAS 2 Inventories. The cost of inventories includes the fair value less cost to sell of the cannabis at harvest and costs incurred after harvest (such as quality assurance costs, fulfillment costs and packaging costs) to bring the products to their present location and condition. Production costs and cost of inventories do not include amortization on production equipment which is disclosed on a separate line in the Condensed Interim Consolidated Statements of Operations and Comprehensive Loss and disclosed separately in Note 8.

7. BIOLOGICAL ASSETS

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

		At June 30, 2018		At December 31, 2017
Balance at beginning of the period	**$**	**651**	$	124
Net increase in fair value less cost to sell due to biological transformation		**1,607**		2,969
Transferred to inventory upon harvest		**(1,807)**		(2,442)
Balance at end of the period	**$**	**451**	$	651

Biological assets are measured at fair value less cost to sell until harvest. All production costs related to biological assets are expensed as incurred. The fair value measurements for biological assets have been categorized as

Level 3 fair values based on the inputs to the valuation technique used. The fair value was determined using an expected cash flow model, which assumes the biological assets at the period end date will grow to maturity, be harvested and converted into finished goods inventory and sold in the retail medical cannabis market. This model utilizes the following significant assumptions:

Assumptions	At June 30, 2018	At December 31, 2017
Expected yields for cannabis plants (average grams per harvest)	**51,400 grams**	54,100 grams
Weighted average expected yield per cannabis plant in grams	**68**	167
Weighted average of expected loss of plants until harvest	**6%**	0%
Expected number of growing weeks	**14 to 26 weeks**	23 to 26 weeks
Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	**48%**	84%
Estimated selling price (per gram)	**$3.12 - $9.97 (average $6.19)**	$3.12 - $8.89 (average $6.32)
Estimated post-harvest costs to complete and sell (per gram), including reasonable margin	**$0.26 - $4.23 (average $2.34)**	$0.30 - $4.02 (average $2.46)
Reasonable margin on estimated post-harvest costs to complete and sell (per gram)	**$0.02 - $0.38 (average $0.21)**	$0.03 - $0.37 (average $0.22)

The accretion of fair value for biological assets, between initial cloning and point of harvest, is recorded on a straight-line basis according to the passage of time over the growing cycle. As at June 30, 2018, the Company's biological assets were 48% completed (December 31, 2017 – 84%). The weighted average of expected loss of plants until harvest is related to the weighted average number of growing weeks completed as a percentage of total growing weeks as at the balance sheet date.

The estimated selling price per gram represents (a) current selling prices for the Company's dried flower, less historical discounts or (b) expected wholesale pricing for extraction grade material, depending on the expected quality attributes of the harvested flower.

Estimated post-harvest costs to complete and sell includes the cost of quality assurance, packaging, fulfillment, selling and customer service. Reasonable margin on estimated post-harvest costs to complete and sell represents the margin that a market participant would expect to earn if purchasing the biological asset from the Company in an arms-length transaction for re-sale purposes. The Company estimates the required margin to be 10%.

These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future periods. A 10% positive or negative change in each of the following significant assumptions would result in the following increases (decreases) in the value of biological assets as at the balance sheet date:

Assumptions	**As at June 30, 2017**		As at December 31, 2017	
	+ 10%	**- 10%**	+ 10%	- 10%
Weighted average of expected loss of plants until harvest	**Not applicable**	**$ (45,000)**	Not applicable	$ (65,000)
Weighted average of expected yield per cannabis plant	**$ 45,000**	**$ (45,000)**	$ 65,000	$ (65,000)
Estimated selling price	**$ 76,000**	**$ (76,000)**	$ 114,000	$ (114,000)
Estimated post-harvest costs to complete and sell, incorporating a reasonable margin	**$ (31,000)**	**$ 31,000**	$ (49,000)	$ 49,000

The Company estimates the harvest yields for medical cannabis at various stages of growth. As at June 30, 2018, it is expected that the Company's biological assets will yield approximately 257,000 grams (December 31, 2017 – 216,000 grams) of cannabis when harvested.

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the unrealized gain or loss on changes in the fair value of biological assets in future periods.

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Production Equipment	Security Equipment	Computer Equipment	Furniture and Fixtures	Total
Balances as at January 1, 2018							
Cost	8,550	19,714	2,005	882	534	304	31,989
Accumulated Amortization	-	(737)	(514)	(417)	(316)	(94)	(2,078)
Carrying Amount	**$ 8,550**	**$ 18,977**	**$ 1,491**	**$ 465**	**$ 218**	**$ 210**	**$ 29,911**
Additions	-	5,064	431	34	51	3	5,583
Amortization	-	(306)	(216)	(89)	(143)	(31)	(785)
Balances as at June 30, 2018							
Cost	8,550	24,778	2,436	916	585	307	37,572
Accumulated Amortization	-	(1,043)	(730)	(506)	(459)	(125)	(2,863)
Carrying Amount	**$ 8,550**	**$ 23,735**	**$ 1,706**	**$ 410**	**$ 126**	**$ 182**	**$ 34,709**

Assets under construction (included in building) amounted to $8,186,000 as at June 30, 2018 (December 31, 2017 - $5,119,000). Assets under construction are not ready for use and are not depreciated.

Additions made to property, plant and equipment during the three and six months ended June 30, 2018 relate mainly to construction costs associated with the expansion of the Company's current facility.

The Company has entered into commitments for the purchase of property, plant and equipment related to the expansion of its existing production facility in Paris, Ontario. As at June 30, 2018, total future purchase obligations related to this project were $5,203,000.

ECC owns 100% of Emblem Realty Ltd., which has ownership title of the land at 557 Paris Road in Paris, Ontario.

9. TRADE AND OTHER PAYABLES

	At June 30, 2018	At December 31, 2017
Trade payables	**$ 3,186**	$ 3,059
Other payables	**21**	129
Accrued liabilities	**1,229**	972
	$ 4,436	$ 4,160

10. LONG-TERM DEBTS

Secured Promissory Note

During 2016, the Company entered into a promissory note in the amount of $5,500,000. The note is secured by first charge on the property and a general security agreement with a fixed charge over all assets of the Company and a share pledge of all ECC and GrowWise shares. Interest-only payments at a rate of 8% per annum are due monthly. The promissory note is repayable in full on December 12, 2019. The Company has an option to repay in full on December 12, 2018. Interest in the amount of $110,000 and $220,000 was paid during the three and six months ended June 30, 2018 (June 30, 2017 – $110,000 and $220,000) and included under *Net Finance Costs* in the condensed interim consolidated statement of operations and comprehensive loss.

Long-term debt is presented net of transaction costs. Transaction costs are recognized in *Net Finance Costs* in the condensed interim consolidated statements of operations and comprehensive loss over the term of the long-term debt using the effective interest rate method.

A continuity of the promissory note is presented below:

	At June 30, 2018	At December 31, 2017
Balance at beginning of the period	**$ 5,386**	$ 5,335
Amortization of transaction costs	**27**	51
Balance at end of the period	**$ 5,413**	$ 5,386

Convertible Unsecured Debentures

In November 2017, the Company announced that it issued convertible debentures ("Nov 2017 Convertible Debt"). The Nov 2017 Convertible Debt was sold at a price of $1,000 for gross proceeds of $15,000,000, under the following terms:

- A maturity date of November 16, 2020;
- An interest rate of 8% per annum, payable semi-annually;
- Convertible at $1.95 per share, subject to adjustment in certain events, at the option of the holder; and
- The Company had the option to require the conversion of the full principal amount of the then outstanding Nov 2017 Convertible Debt at the conversion price on not less than 30 days' notice, should the daily volume weighted average trading price of the outstanding common shares of the Company on the TSXV be greater than $2.93 for any 10 consecutive days.

During January 2018, the holders of the Nov 2017 Convertible Debt exercised their option to convert their debentures into common shares of the Company, at a price of $1.95 per common share. In connection with the conversion, the Company issued 7,692,307 common shares to the holders of the Nov 2017 Convertible Debt and interest was paid up to the dates of conversion.

In February 2018, the Company issued additional convertible debentures (the "Feb 2018 Convertible Debt"). The Feb 2018 Convertible Debt was sold at a price of $1,000 for gross proceeds of $25,000,000, under the following terms:

- A maturity date of February 2, 2021;
- An interest rate of 8% per annum, payable semi-annually;
- Convertible at $2.30 per share, subject to adjustment in certain events, at the option of the holder; and
- The Company may require the conversion of the full principal amount of the outstanding convertible debentures at the conversion price on not less than 30 days' notice, should the daily volume weighted average trading price of the outstanding common shares of the Company on the TSXV be greater than $3.45 for any 10 consecutive days.

A continuity of the convertible debentures is presented below:

	At June 30, 2018	At December 31, 2017
Balance at beginning of the period	**$ 10,848**	$ -
Issuance of convertible debentures	**25,000**	15,000
Transaction costs deferred	**(1,683)**	(1,333)
Initial present value discounts	**(5,446)**	(2,956)
Amortization of transaction costs	**238**	69
Amortization of present value discounts	**587**	68
Debentures converted into common shares	**(10,900)**	-
Balance at end of the period	**$ 18,644**	$ 10,848

During the three and six months ended June 30, 2018, amortization of transaction costs and present value discounts, as well as interest paid in the amount of $811,000 and $852,000 (June 30, 2017 - $nil and $nil), respectively, were included under *Net Finance Costs* in the condensed interim consolidated statement of operations and comprehensive loss.

The option to convert the Feb 2018 Convertible Debt to common shares of the Company was based on the residual amount remaining after discounting the Feb 2018 Convertible Debt to present value, at an effective interest rate of 18.5%.

11. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares with no par value, preferred shares and special shares. The issued and outstanding shares for the following periods are as follows:

	Number of Shares	Gross Proceeds	Non-Cash Items	Share Issue Cash Costs	Allocated to Warrants	Share Capital
Balances as at January 1, 2018	81,277,214					$ 69,893
Special Shares	14,065,285	-	535	-	-	$ 535
	95,342,499					**$ 70,428**
Common Shares						
Issue of shares under private placements in Feb 2018	14,024,391	$ 28,750	$ -	$ (2,077)	$ (5,912)	$ 20,761
Conversion of Nov 2017 Convertible Debt into common shares	7,692,307	-	13,530	-	-	13,530
Conversion of special shares to common shares	14,065,285	-	535	-	-	535
Issue of common shares to settle obligation	482,758	-	700	-	-	700
Warrants exercised	1,518,815	1,598	209	-	-	1,807
Options exercised	1,156,666	578	247	-	-	825
Balances as at June 30, 2018	**120,217,436**	$ 30,926	$ 15,221	$ (2,077)	$ (5,912)	**$ 108,051**
Special Shares balance	-	$ -	$ -	$ -	$ -	$ -
Balances as at June 30, 2018	**120,217,436**					**$ 108,051**

On February 2, 2018, the Company completed a private placement for the issuance of 14,024,391 units at $2.05 per unit for gross proceeds of $28,750,000. Each unit includes one common share and one common share purchase warrant. Each whole warrant is exercisable to acquire one common share at an exercise price of $2.70 per common share for a period of two years from issuance. Share issuance costs comprise a cash fee of 6% on brokered gross proceeds and 3% on non-brokered gross proceeds, and issuance of compensation warrants of 3% of total gross proceeds ("Feb 2018 Compensation Warrants"). Each Feb 2018 Compensation Warrant is exercisable to acquire one common share and one secondary compensation warrant ("Feb 2018 Secondary Compensation Warrants") at an exercise price of $2.05 per common share for a period of two years from issuance. Each Feb 2018 Secondary Compensation Warrant is exercisable to acquire one common share at an exercise price of $2.70 per common share for a period of three years from issuance.

Concurrent with the brokered private placement in February 2018, the Company issued the Feb 2018 Convertible Debt (as discussed in Note 10) that incurred costs of issuing 392,561 Feb 2018 Compensation Warrants with the same terms as described above.

On December 6, 2016, the Company, Saber Acquisition Co. (a wholly owned subsidiary of the Company) and 9045538 Canada Inc. ("KindCann") completed a plan of arrangement (the "Plan of Arrangement") under the *Canada Business Corporations Act,* pursuant to which KindCann completed a reverse take-over transaction of the Company (the "RTO"). Prior to the RTO, on May 27, 2015, a preferred shareholder (the "Dissenting Shareholder") filed a dissent action after the board of directors of KindCann (the "KindCann Board") resolved to amend the share conditions of Kindcann's Class A preferred shares to provide the KindCann Board with the discretion to pay the annual dividend by the issuance of common shares in the capital of KindCann. At December 31, 2017, a $700,000 provision was recorded on the Company's condensed interim consolidated statement of financial position. During May 2018, the Company issued an aggregate of 482,758 common shares in the capital of Emblem to the Dissenting Shareholder of KindCann. The common shares were issued in settlement of statutory rights of dissent exercised by the Dissenting Shareholder in 2015. The Dissenting Shareholder has provided a full and final release in favour of Emblem.

During the three months ended June 30, 2018, 107,500 share purchase warrants and 816,666 stock options were exercised for gross proceeds of $82,000 and $408,000, respectively.

During the six months ended June 30, 2018, 1,518,815 share purchase warrants and 1,156,666 stock options were exercised for gross proceeds of $1,598,000 and $578,000, respectively.

The values of the Feb 2018 Compensation Warrants and Feb 2018 Secondary Compensation Warrants issued were calculated using the Black-Scholes option-pricing model using the following parameters:

Period ended June 30, 2018	
Fair values at grant date	$0.43 and $0.55
Share price at grant date	$1.56
Assumptions	
Exercise prices	$2.05 and $2.70
Expected volatility	77.8%
Life (years)	2
Expected dividend	-
Risk-free interest rate	1.81%

Special Non-Voting Shares

Pursuant to the Plan of Arrangement, the shareholders of KindCann received one post-consolidated common share for each common share of KindCann registered in the names of such shareholders. Holders of KindCann's special non-voting shares also received one special non-voting share of the Company (each a "Special Share") for each special non-voting share of KindCann registered in the names of such shareholders at the time of the RTO.

Upon completion of the RTO, 14,065,285 KindCann special non-voting shares held by the three founding shareholders were exchanged for 14,065,285 Special Shares of the Company. The Special Shares were not entitled to receive dividends. The holders of the Special Shares were able to require Emblem to exchange (the "Exchange Right") each Special Share held by such holder into one common share of the Company upon the occurrence of certain events. Irrespective of the events occurring, the Exchange Right were exercisable on June 6, 2018.

In May and June 2018, the holders of the Special Shares exchanged all Special Shares of the Company for common shares of the Company. Of these common shares of the Company issued in connection with the exchange of the Special Shares, 45% of these common shares remain subject to a TSXV imposed escrow, with 15% of the common shares being released from escrow on each of December 9, 2018, June 9, 2019 and December 9, 2019.

12. WARRANTS

The number and weighted average exercise prices of warrants are as follows:

	Date Issued	Expiry Date	Number of warrants		Weighted average exercise price
Warrants issued in connection with preferred share units					
Warrants	Dec 2014 / Jan 2015	Dec 6, 2021	10,116,240	$	0.75
Exercised			(429,736)		
Issuance of Broker Warrants with Class A Preferred Shares					
Broker Warrants	Aug 18, 2016	Dec 6, 2018	27,200	$	0.50
Exercised					
Broker Warrants	Aug 18, 2016	Dec 6, 2021	393,650	$	0.75
Issued pursuant to private placements					
Warrants	Jun 23, 2016	Jun 23, 2021	2,339,800	$	0.75
Exercised			(316,200)		
Warrants	Sep 9 to 19, 2016	Sep 9 to 19, 2018	2,825,901	$	1.20
Exercised			(630,540)		
Warrants	Dec 6, 2016	Dec 6, 2019	10,855,521	$	1.75
Exercised			(42,339)		
Warrants	Jan 2017	Dec 6, 2019	104,518	$	1.75
Warrants	Dec 12/13, 2016	Dec 12/13, 2019	342,394	$	1.75
Warrants	Jan 31, 2017	Jan 31, 2020	2,192,834	$	4.75
Warrants	Nov 16, 2017	Nov 16, 2020	7,885,734	$	2.15
Exercised			(100,000)		
Compensation Warrants	Nov 16, 2017	Nov 16, 2020	493,715	$	1.75
Secondary Compensation Warrants	Nov 16, 2017	Nov 16, 2020	493,715	$	2.15
Warrants	Feb 2, 2018	Feb 2, 2020	14,024,391	$	2.70
Compensation Warrants	Feb 2, 2018	Feb 2, 2020	785,122	$	2.05
Secondary Compensation Warrants	Feb 2, 2018	Feb 2, 2020	785,122	$	2.70
Outstanding at end of the period			**52,147,042**	**$**	**1.99**

13. STOCK OPTIONS

As at June 30, 2018, the Company had 6,261,746 common shares available for the granting of future options (December 31, 2017 – 1,611,283 common shares). The Company does not have any cash-settled transactions.

The following is a summary of outstanding and exercisable options at period end:

Issued to Employees	Number of options		Weighted average exercise price
Outstanding at beginning of the period	**5,735,000**	**$**	**1.03**
Granted	1,135,000	$	1.51
Forfeit	(750,003)	$	1.44
Exercised	(956,665)	$	0.50
Outstanding at end of the period	**5,163,332**	**$**	**1.18**
Exercisable at end of the period	**1,869,999**	**$**	**0.88**

Issued to Non-Employees	Number of options		Weighted average exercise price
Outstanding at beginning of the period	**780,000**	**$**	**1.52**
Granted	150,000	$	1.52
Forfeit	(133,334)	$	2.60
Exercised	(200,000)	$	0.50
Outstanding at end of the period	**596,666**	**$**	**1.62**
Exercisable at end of the period	**293,333**	**$**	**1.40**

During the three and six months ended June 30, 2018, the Company recorded an expense of $50,000 and $390,000 (June 30, 2017 - $496,000 and $786,000) and a reduction of $26,000 and expense of $34,000 (June 30, 2017 - $94,000 and $109,000) in share-based payments upon the vesting of employee and non-employee stock options, respectively.

Issued to Employees and Non-Employees	Number of options		Weighted average exercise price
Total outstanding at end of the period	**5,759,998**	**$**	**1.22**
Total exercisable at end of the period	**2,163,332**	**$**	**0.95**

As at June 30, 2018, an additional $2,101,000 (June 30, 2017 - $2,315,000) in share-based payments remains to be recognized up until June 2021. Options outstanding as at June 30, 2018 expire between September 2020 and June 2023.

Issued to Employees and Non-Employees	Number of options outstanding	Weighted average remaining life (years)
Range of exercise prices		
$0.50	2,796,666	2.63
$1.50 to $1.69	1,983,333	4.67
$2.58 to $2.60	979,999	3.71
	5,759,998	**3.52**

14. EARNINGS (LOSS) PER SHARE

The weighted average number of shares includes common shares. The effect of adjustments to the weighted average number of common shares would be anti-dilutive when the Company incurs losses. The outstanding number and type of securities that could potentially dilute basic earnings per share in the future, but were not included in the computation of diluted net loss per share, are shown below.

	Three months ended June 30, 2018	Six months ended June 30, 2018
Weighted average number of shares - Basic and Diluted	**119,878,971**	**115,837,848**
Number of options excluded	5,759,998	5,759,998
Number of synthetic options excluded	200,000	200,000
Number of warrants excluded	52,147,042	52,147,042
Debentures convertible into number of common shares	10,869,565	10,869,565
Net loss and comprehensive loss	**$ (4,795)**	**$ (8,632)**
Weighted Average Basic and Diluted Loss Per Share	**$ (0.04)**	**$ (0.07)**

15. SEGMENTED INFORMATION

The Company operates in one segment, the production and sale of medical cannabis. All of the Company's assets are located in Canada.

16. RELATED PARTY TRANSACTIONS

Related Party Balances and Transactions

Short-term employee benefits provided by the Company to key management personnel include salaries, directors' fees, statutory benefit contributions, paid annual vacation and paid sick leave as well as non-monetary benefits such as medical care. In addition to short-term employee benefits, the Company may also issue options as part of the stock option plan. Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the Company, directly or indirectly.

Certain officers and directors of the Company hold an equity position in Fire & Flower and one officer and director of the Company serves as an officer and director of Fire & Flower.

Balances and transactions with related parties are shown in the following tables for the periods ended:

	At June 30, 2018	At December 31, 2017
Balances Outstanding		
Net amounts due to key management personnel	**$ (61)**	$ (77)
Net amounts due from other related parties	**18**	14
	$ (43)	$ (63)

Key management personnel compensation comprises:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Salaries and short-term employee benefits	**$ 465**	$ 317	**$ 884**	$ 643
Share-based payments	**231**	282	**478**	564
	$ 696	$ 599	**$ 1,362**	$ 1,207

17. SUBSEQUENT EVENTS

Supply agreement with Alberta Gaming Cannabis Commission (“AGLC”)

In July 2018, the Company announced that ECC completed an agreement with the AGLC to supply the province of Alberta with high quality cannabis products upon legalization on October 17, 2018.

Natura Naturals Inc. (“Natura”)

In July 2018, Emblem announced its strategic equity investment in Natura, a 662,000 square foot licensed greenhouse cultivator of medical cannabis under the ACMPR. The companies signed a three-year cannabis supply agreement (the “Natura Agreement”) to provide Emblem up to 3,000 kilograms of high-quality cannabis flower per year at preferred wholesale pricing, from Natura’s Phase 1 cultivation facility, based in Leamington, Ontario. Initial product deliveries to Emblem are expected to commence in October 2018, with a total of 750 kilograms deliverable for the balance of 2018. The Natura Agreement increases Emblem’s total available cannabis by approximately 37.5% in 2018 and significantly accelerates Emblem’s product availability to coincide with the legalization of recreational cannabis in October 2018.

Natura’s first 155,000 square feet of its state-of-the-art greenhouse facility is currently being converted as part of its Phase 1 retrofit and is expected to be completed in the third quarter of 2018 and capable of producing 15,000 kilograms of cannabis per year. The Phase 2 conversion will retrofit the remaining 507,000 square feet for cannabis cultivation and is expected to bring total production capacity to approximately to 70,000 kilograms per by the end of 2019.

Emblem invested $3 million in cash, in exchange for 3,750,000 shares of Natura and 3,750,000 common share purchase warrants of Natura, exercisable at $1.05 for 24 months (subject to acceleration provisions). Upon completion of the investment, Emblem owned approximately 5% of Natura’s outstanding shares on a non-diluted basis, and 7% on a fully diluted basis.

Shortly after the Company’s strategic equity investment in Natura, the Company signed a non-binding Letter of Intent (“LOI”) to acquire all of the issued and outstanding securities in Natura that it did not already own for $25 million in cash, $12.5 million in mortgage financing and 26,102,941 common shares of Emblem (the “Transaction”). Based on Emblem’s 45-day volume weighted average price (“VWAP”) of $1.36, the implied transaction value is $76 million (inclusive of Natura shares already owned by Emblem from the Natura Agreement).

On completion of the Transaction, Emblem will further its aggressive approach to sales growth both domestically and internationally, backed by the robust supply from the Natura greenhouse. With more than 40 years of greenhouse production, Natura will bring a wealth of expertise and talent, with the capacity to produce high-quality, greenhouse-grown cannabis at a lower cost than an indoor facility. In addition, Natura holds a genetic library of 32 proprietary cannabis strains, significantly increasing Emblem’s intellectual property.

The final terms and closing of the Transaction are subject to the negotiation and execution of a definitive agreement and certain other customary conditions including the receipt of all necessary regulatory approvals. The Transaction is expected to close in the third quarter of 2018.

In light of the Transaction, the Company has made the decision to suspend greenhouse construction plans at their Paris Road location. The construction of Emblem's Good Manufacturing Practice certified facility located at their Woodslee location will continue with an anticipated completion date of December 2018.

Launch of new health and beauty line with GreenSpace Brands Inc. ("GreenSpace")

In August 2018, Emblem entered into a strategic partnership with GreenSpace, a highly-regarded consumer packaged goods ("CPG") company, to develop and commercialize cannabidiol ("CBD") infused health and beauty products for the expected adult-use cannabis market. The partnership will leverage GreenSpace's expertise in consumer brand development and distribution to launch products infused with Emblem's CBD extracts across a number of verticals including beauty, health and wellness, supplements, food and beverage. Each approved product will indicate it is "Powered by Emblem" to signify Emblem's involvement. Expansion into edibles and consumables using cannabis CBD extracts will move forward when these additional products are permitted under applicable regulations, expected in 2019. Any CBD products will be produced and marketed in accordance with applicable Canadian laws and regulations.

Under the terms of the partnership, GreenSpace commits to a five-year exclusive CBD supply agreement with Emblem. In addition, Emblem made a $2 million investment in GreenSpace comprised of $1 million in common shares of Emblem at a 20-day VWAP of $0.976 per share and $1 million in unsecured convertible debentures to fund the start-up of GreenSpace's CBD business. The debentures will mature on August 9, 2023 and will automatically convert into common shares upon the satisfaction of certain conditions (each, a milestone) at a conversion price equal to the lesser of: (i) $1.0492; and (ii) the 20-day VWAP of the common shares of Emblem on the date the applicable milestone is achieved, provided that the conversion price shall not be less than $0.94 and that the automatic conversion will be deferred if the market price of Emblem is less than $0.752 at the time the milestone is met. Emblem will earn a 4% royalty on all hemp-based product sales and a 7% royalty on all cannabis-based CBD product sales. The transaction is subject to a number of customary closing conditions and approval from the TSXV.

Trading on OTC Markets Group Inc. ("OTCQX")

On August 8, 2018, the Company began trading on OTCQX Best Market under the symbol "EMMBF". Graduating to the top tier OTCQX provides easier and wider trading access for the Company's investors in the United States.

Emblem enters into supply agreement with operator of the Ontario Cannabis Store ("OCS")

On August 21, 2018, Emblem announced that ECC was selected as one of 26 licensed producers to supply Ontario for the adult-use recreational market, through an agreement with the operator of the OCS, to supply the province with locally-grown, premium cannabis products under Emblem's adult-use brand, Symbl. Upon legalization on October 17, 2018, Symbl will offer a range of select strains in dried flower and cater to the full spectrum of Canadians who plan to explore cannabis with products that address individual needs and support a positive healthy cannabis experience.