# Management's Discussion and Analysis

For the Year Ended December 31, 2018

This Management's Discussion and Analysis ("MD&A") is prepared as at April 30, 2019 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018, and the period from incorporation on December 18, 2017 to December 31, 2017, and the related notes thereto (the "Financial Statements"), of Flower One Holdings Inc. (the "Company" or "Flower One"). Additional information regarding the Company, including its Annual Information Form for the year ended January 31, 2018, as well as other information filed with the Canadian securities regulatory authorities is available under the Company's profile on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. All dollar amounts included in the Financial Statements and in this MD&A are expressed in United States dollars ("$") or Canadian dollars ("CAD$").

This MD&A has been prepared in accordance with the MD&A disclosure requirements established under National Instrument 51-102 Continuous Disclosure Obligations ("NI 51-102") of the Canadian Securities Administrators. Management is responsible for the preparation and integrity of the Financial Statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible for ensuring that information disclosed externally, including the information within the Financial Statements and this MD&A, is complete and reliable. Additional information relating to the Company is available on the Company's website at www.flowerone.com or on SEDAR at www.sedar.com.

**FORWARD-LOOKING STATEMENTS**

This MD&A may contain "forward-looking statements" about the Company. In addition, the Company may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of the Company that are not statements of historical fact and may also constitute forward-looking statements. All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as "may", "will", "would", "could", "should", "believes", "estimates", "projects", "potential", "expects", "plans", "intends", "anticipates", "targeted", "continues", "forecasts", "designed", "goal", or the negative of those words or other similar or comparable words and includes, among others, information regarding expectations of the effect of the Offering; statements relating to the business and future activities of, and developments related to, the Company after the date of this MD&A; future business strategy, competitive strengths, goals, expansion and growth of the Company's business; operations and plans, including cultivation and licensing assets, and the grant of licenses or renewals; receipt of regulatory approvals in a timely manner or at all; the transfer and/or maintenance of licenses and third-party consents in a timely manner or at all; the expansion of existing cultivation and production facilities, including the timely and

successful completion of the conversion of the NLV Greenhouse (as defined below) to cannabis cultivation and production; the completion of cultivation and production facilities that are under construction; any potential future legalization of adult-use and/or medical cannabis under U.S. federal law; expectations of market size and growth in the United States and the State of Nevada; expectations for other economic, business, regulatory and/or competitive factors related to the Company or the cannabis industry generally; and other events or conditions that may occur in the future. These statements speak only as at the date they are made and are based on information currently available and on the then current expectations of the party making the statement and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to risks and uncertainties related to:

- marijuana is illegal under U.S. federal law;
- uncertainty surrounding the Trump Administration and the office of Attorney General and their influence and policies in opposition to the cannabis industry as a whole;
- marijuana is strictly regulated in those states which have legalized it for medical or recreational use;
- newly established legal regime;
- restricted access to banking;
- heightened scrutiny by Canadian and U.S. regulatory authorities;
- constraints on marketing products;
- unfavorable tax treatment of cannabis businesses;
- risk of civil asset forfeiture;
- proceeds of crime statutes;
- limited intellectual property protection;
- lack of access to U.S. bankruptcy protections;
- potential FDA regulation;
- legality of contracts;
- foreign investors in Flower One and its directors, officers, and employees may be subject to entry bans into the United States;
- limited operating history;
- uncertainty about the Company's ability to continue as a going concern;
- actual results of operations may differ materially from the expectations of the Company's management;
- significant ongoing costs and obligations related to its investment in infrastructure, growth, regulatory compliance and operations;
- voting control;
- Flower One being a holding company;
- Flower One's products;
- unfavourable publicity or consumer perception;
- risks inherent in an agricultural business;

- energy costs;
- reliance on key personnel;
- reliance on a single jurisdiction;
- unknown environmental risks;
- security risks;
- product recalls;
- results of future clinical research;
- competition;
- liquidity, financial resources and access to capital;
- licenses;
- future acquisitions or dispositions;
- insurance and uninsured risks;
- dependence on key inputs, suppliers and skilled labour;
- difficulty to forecast;
- management of growth;
- internal controls;
- litigation;
- product liability;
- general economic risks;
- completion of the Offering;
- inability to satisfy payments;
- market for warrants and convertible debentures;
- redeeming on a change of control;
- shareholder rights;
- investment eligibility;
- convertible debentures may be subject to withholding taxes and participating debt interest;
- change in withholding tax laws;
- trading market;
- sales of substantial amounts of common shares having an adverse effect on market price of the common shares;
- volatile market price for the common shares;
- currency fluctuations; and potential dilution; and
- other factors beyond the Company's control, as more particularly described under the heading "*Risk Factors*" in this MD&A.

Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which may have been used. Although the Company has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such forward-looking information and statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such information and statements. Accordingly, readers should not place undue reliance on forward-looking information and statements as statements containing forward-looking information involve significant risks and uncertainties and should not be read as guarantees of future results, performance, achievements, prospects and opportunities. The forward-looking information and statements contained herein are presented for the purposes of assisting readers in understanding the Company's expected financial and operating performance and the Company's plans and objectives and may not be appropriate for other purposes.

The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that the Company and/or persons acting on its behalf may issue. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required under securities legislation.

**EXECUTIVE SUMMARY AND KEY DEVELOPMENTS DURING THE YEAR**

The Company is a cannabis cultivation, production and wholesale company and through its subsidiaries, holds a variety of strategic cannabis investments in Nevada, including Nevada's largest commercial greenhouse; four Nevada state issued marijuana licenses; and certain real property. The Company will be the transferee of an additional four Nevada state marijuana licenses upon approval of the transfer by the Nevada Department of Taxation ("NDOT").

The Company is a Canadian company incorporated on January 9, 2007 under the *Business Corporations Act* (British Columbia). The Company is listed on the Canadian Securities Exchange ("CSE") under the symbol "FONE" and the OTCQB Venture Market in the United States under the symbol "FLOOF". The records and registered office of the Company is located at 2900 - 550 Burrard St., Vancouver, BC V6C 0A3.

During the year ended December 31, 2018, the Company entered a purchase agreement with a Nevada corporation (related to a significant shareholder) for the purchase of land and buildings (the "NLV Greenhouse") at a purchase price of $40,000,000 which was to be paid by $22,000,000 in cash and a note payable of $18,000,000 non-interest bearing, which is secured by the first charge of the property and due on March 31, 2019. The $22,000,000 cash payment included option payments for the exclusive right to purchase the property and rent for the use of the property for six months until the purchase closing date, the earlier of September 30, 2018 and the date on which the Company purchases the property. On August 30, 2018, the Company paid the final option payment and issued the $18,000,000 note payable to complete the purchase of the property. Subsequent to December 31, 2018, the $18,000,000 note was amended to extend the maturity date to March 31, 2020 with interest beginning April 1, 2019 at a rate of 9.5% per annum. As part of the acquisition, and included as part of the $40,000,000, the Company entered a consulting services and intellectual property agreement dated August 17, 2018 with a Delaware corporation that provides services to the Company for a period of one year. On August 17, 2018, the Company allocated $2,172,905 of the $40,000,000 as a prepaid amount for these consulting service. As of December 31, 2018, $1,678,599 remains as prepaid expenses.

In April 2018, the Company paid $2,000,000 for a provisional medical cultivation and medical production licenses in the state of Nevada. The Company received approval of the transfer of the provisional licenses from the state on April 24, 2018 to the Company's NLV Greenhouse. During the year ended December 31, 2018, these licenses were approved for operational medical and recreational cultivation and medical and recreational production by the state of Nevada.

The Company's wholly-owned NLV Greenhouse, located at 3950 N. Bruce Street, North Las Vegas, Nevada is Nevada's largest commercial greenhouse and is currently being converted for cannabis cultivation and production. The construction project will add an additional 25,000 square feet to the existing 430,000 square-foot facility, with approximately 400,000 square feet being converted for the cultivation of marijuana and 55,000 square feet dedicated to a production and packaging facility for the processing, production and high-volume packaging of dry flower, cannabis oils, concentrates and infused products. The NLV Greenhouse is strategically positioned and within close proximity to the lucrative, tourism-driven Las Vegas adult-use and medical cannabis market.

On November 9, 2018, the Company closed the previously announced agreements it had entered into with NLV Organics Inc. and related parties ("NLVO"), to purchase a 100% interest in a property in North Las Vegas, Nevada (the "Neeham Property"), and all of the business' tangible and intangible assets including the business name(s), product brands, inventory, biological assets, four Nevada cannabis licenses, intellectual property and assignable supply contracts associated with the current business of NLVO (the "NLVO Agreement"). As consideration for the purchase of the Neeham Property and related assets, the Company agreed to pay NLVO consideration consisting of cash of $4,635,650, assumption of a previous $600,000 note, $100,000 in working capital, a vendor note for $14,564,350 (the "NLVO Note") and 4,000,000 Common Shares. The vendor note was repaid in full on March 28, 2019, with accrued interest.

In addition to the NLV Greenhouse and the Neeham Property, the Company owns the land and building located at 4050 Losee Road, North Las Vegas, which building the Company proposes to renovate to allow for multiple uses. The Company has additionally acquired a 24,000 square foot property immediately adjacent to the Neeham Property.

**REVERSE TAKEOVER**

On September 21, 2018, Theia Resources Ltd. ("Theia"), CNX Holdings Inc. ("CNX") and Flower One Corp. (at the time, a wholly-owned subsidiary of Theia), completed a three-cornered amalgamation (the "RTO") pursuant to an amalgamation agreement entered into on June 29, 2018, whereby shareholders and option holders of CNX received corresponding securities of the Company on a 1:1 basis and CNX amalgamated with Theia's wholly-owned subsidiary to form Flower One Corp., a company existing under the laws of the Province of Ontario. Immediately preceding the RTO, Theia consolidated its share capital (the "Consolidation") on a ten for one basis with each ten pre-Consolidation common shares of Theia being exchanged for one post-Consolidation common share, and Theia changed its name to Flower One Holdings Inc. In accordance with IFRS 3 Business Combinations ("IFRS 3"), the transaction constituted a reverse takeover ("RTO") of the Company by a non-operating company. The transaction did not constitute, however, a business combination since Theia did not meet the definition of "business" under IFRS 3. As a result, the RTO has been accounted for as an asset acquisition with CNX being identified as the acquirer (legal subsidiary) and Theia being treated as the accounting subsidiary (legal parent), with the RTO being measured at the fair value of the equity consideration issued to Theia shareholders.

The net liabilities acquired was the fair value of the net liabilities of Theia, which on September 21, 2018 was $3,294. In connection with the RTO the year-end of the Company changed from January 31, to CNX's year-end of December 31.

| | | On September 21, 2018 |
|---|---|---|
| **Net liabilities acquired** | | |
| Cash | $ | 1,226 |
| Accounts payable and accrued liabilities | | (4,520) |
| **Net liabilities acquired** | | **(3,294)** |
| **Consideration** | | |
| Fair value of 2,404,775 shares issued by CNX at $1.50 per share | | 3,607,163 |
| Assumption of loan owed to the Company | | 193,125 |
| **Listing expense** | $ | 3,803,582 |

## SELECTED ANNUAL INFORMATION

The Company's first reporting period (after taking into account the RTO and the deemed change in year end to December 31) was for the period from incorporation on December 18, 2017 to December 31, 2017.

The following table provides a summary of the financial condition of the Company as at December 31, 2018 as compared to December 31, 2017 prepared in accordance with International Financial Reporting Standards ("IFRS"):

| | | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| Total assets | $ | 115,592,629 | – |
| Total liabilities | | 47,012,862 | 204,666 |
| Total equity | $ | 68,579,767 | 204,666 |

The following table provides a summary of selected financial data for the year ended December 31, 2018 and for the period of incorporation on December 18, 2017 to December 31, 2017. For more detailed information, refer to the Financial Statements prepared in accordance with IFRS.

| | | Year ended December 31, 2018 | Period from incorporation on December 18, 2017 to December 31, 2017 |
|---|---|---|---|
| Revenue | $ | 130,969 | – |
| Cost of goods sold | | 133,094 | – |
| Loss for the period | | 12,449,915 | 204,676 |
| Total assets | | 115,592,629 | – |
| Total non-current financial liabilities | | – | – |
| Distribution of cash dividends | | – | – |
| Basic and diluted EPS | $ | (0.09) | (2,046.76) |

***Revenue***

The Company earned revenue of $130,969 during the year ended December 31, 2018 as compared with $nil for the period from incorporation on December 18, 2017 to December 31, 2017. The Company began recording revenue on November 9, 2018 subsequent to the acquisition of the assets of NLVO.

***Cost of Goods Sold***

Cost of goods sold was $133,094 and includes production costs expensed and the cost of inventory sold. Direct and indirect production costs include direct labor, processing, testing, packaging, quality assurance, security, inventory, shipping, depreciation of production equipment, production management and other related expenses.

***Other expenses***

The Company recorded a loss of $12,449,915 for the year ended December 31, 2018 comprised of $3,239,257 in share-based compensation, $3,803,582 as a listing expense related to the RTO, $639,535 in foreign exchange loss related to the Company's cash balances held in CAD$ and $5,053,861 in general and administrative expenses. Of the $5,053,861 in general and administrative expenses:

- $887,450 in accounting and legal fees. As the Company was in its first full year of operations, increased accounting and legal costs were incurred.
- $793,127 in wages and salaries. These amounts are mainly a result of the salaries of the Company's President and CEO, CFO and the Nevada management team which includes senior management, growers, maintenance and finance individuals.
- $1,431,993 in consulting services. These amounts relate to consultants used throughout the year in the areas of finance, growing, production scheduling, crop maintenance, irrigation, lighting and others.
- $183,214 in advertising and promotion. These amounts relate to costs incurred to promote the Company including investor relations and public relations.

- $251,275 in insurance. These amounts relate to insurance on the NLV greenhouse and for directors and officers.

- $634,599 in rent. This amount is mainly related to the NLV Greenhouse up until the Company completed its acquisition on August 30, 2018.
- $347,840 in office, admin and utilities. These amounts relate to general office and admin expenses and utilities on the NLV Greenhouse as well as the Neeham property from acquisition on November 9, 2018 to December 31, 2018.
- $365,481 in travel. These amounts relate to the travel costs for management and staff to the NLV Greenhouse.
- $158,882 in other expenses. These amounts relate mainly to repairs and maintenance, website charges, bank charges, business fees and licenses and interest expense.

The amounts were consistent with management's expectation related to startup costs of the Company.

***Operations***

As of the date of this MD&A, more than 95% of construction and renovation work have been completed on the NLV Greenhouse. The Company has completed the 15,000 square foot propagation area, the 3 vegetative zones and zones 1 through 4 of the 8 flower zones. The remaining 4 flower zones will be completed as the cuttings are ready to be moved into the flower zones at which point the NLV Greenhouse will be fully canopied. The Company is currently completing the 40,000 square foot post-harvest and production facility and installation of equipment and first commercial cannabis harvest is expected to be completed by the end of Q2 2019.

The Company will have the ability to produce up to 140,000 pounds per year, based on a yield of 94 grams of dry flower per plant, a fully canopied greenhouse with 80,000 plants, and six harvest cycles. This will result in 100,000 pounds of triple-A flower. The Company expects that this dry flower output will yield 30% in dry trim, being 30,000 pounds of trim, and 10% of small popcorn bud, being 10,000 pounds. The 55,000 square-foot production facility at the NLV Greenhouse will provide for the development and production of a diverse range of product derivatives ranging from pre-rolls, oils, concentrates, distillates, edibles and topicals. The Company estimates that the annual processing capacity of the production facility, once at full capacity, will be up to 420,000 pounds of cannabis, with the ability to produce distillate, concentrates, wax, auto-fill packages, pre-rolls and other products. These products will be sold in both wholesale and packaged formats. The composition of finished products will evolve over time as the largely recreational market in Nevada grows and consumer knowledge of the health and benefits of these product derivatives increases.

### *Share Capital and Stock Options*

During the year ended December 31, 2018, CNX closed private placements of:

- 33,955,124 common shares at a price of $0.005 per share for gross proceeds of $131,669.
- 66,044,776 common shares at a price of $0.02 per share for gross proceeds of $1,024,418.
- 39,805,877 common shares at a price of $0.67 per share for gross proceeds of $26,669,938.
- 22,150,950 common shares at a price of $1.50 per share for gross proceeds of $33,226,425.
- 6,550,867 subscription receipts ("SR") at a price of $1.50 per SR for gross proceeds of $9,826,301 for which each SR was converted to common shares on a 1:1 basis upon closing of the RTO on September 21, 2018.

CNX paid cash of $1,957,591 and issued 998,323 common shares, with a deemed value of $0.67 per share, and 281,487 common shares, with a deemed value of $1.50 per share, as fees in relation to these private placements.

As part of the RTO (note 4), the Company issued 2,404,775 common shares to former shareholders of Theia Resources Ltd. at a deemed price of $1.50 per common share.

Throughout the period, 437,500 common shares were issued from the exercise of stock options with an exercise price $0.15 (CAD$0.20) for cash consideration of $66,768 (CAD$87,500).

As part of the acquisition of the assets of NLVO (Note 5), the Company issued 4,000,000 common shares to the former owners of the assets of NLVO at a price of $1.35 per common share being the fair value on the closing date. 500,000 of these shares were to be held in escrow for 90 days after acquisition date. Subsequent to December 31, 2018, these shares were released from escrow.

All such CNX securities were converted into one common share of the Company upon closing of the RTO.

On March 7, 2018, CNX granted a total of 6,575,000 stock options with fair value of $40,674 to certain persons. These stock options are exercisable at an exercise price of $0.15 (CAD$0.20) per share and may be exercised for five years. Among these options, 2,400,000 options were vested 100% upon the CNX's completion of the RTO, the other 4,175,000 were 50% vested upon the CNX's completion of the RTO, 25% vested on the date that was six months from the date of the options are granted, and 25% will vest on the date that is twelve months from the date the options were granted. During the year ended December 31, 2018, the Company expensed $39,507 related to these options.

On June 1, 2018, CNX granted a total of 1,340,000 stock options with fair value of $659,915 to shareholders. These stock options are exercisable at an exercise price of $0.67 (CAD$0.85) per share and may be exercised for five years. All options were 50% vested upon the Company's completion of the RTO, 25% will vest on the date that is six months from the date of the options are granted, and 25% will vest on the date that is twelve months from the date the options are granted. During the year ended December 31, 2018, the Company expensed $591,212 related to these options.

On October 9, 2018, the Company granted a total of 4,375,000 stock options with fair value of $4,842,364 to shareholders. These stock options are exercisable at an exercise price of $2.00 (CAD$2.60) per share and may be exercised for five years. All options were 25% vested on the grant date, 25% will vest on the date that is twelve months from the date of the options are granted, 25% will vest on the date that is twenty-four months from the date the options are granted and 25% will vest on the date that is thirty-six months from the date the options are granted. During the year ended December 31, 2018, the Company expensed $2,608,538 related to these options.

**SUMMARY OF QUARTERLY RESULTS**

The following table provides a summary of selected quarterly financial data prepared in accordance with IFRS.

| | **Q4 2018** | **Q3 2018** | **Q2 2018** | **Q1 2018** | **Period from incorporation on December 18, 2017 to December 31, 2017** |
|---|---|---|---|---|---|
| Revenue | 130,969 | – | – | – | – |
| Cost of goods sold | (133,094) | – | – | – | – |
| Loss for the period | (5,279,068) | (5,581,651) | (1,119,592) | (469,604) | (204,676) |
| Basic and diluted EPS | (0.03) | (0.04) | (0.01) | (0.01) | (2,046.76) |
| Weighted Avg. Shares O/S | 174,754,508 | 150,486,724 | 140,723,006 | 83,152,913 | 100 |

***Revenue***

The Company earned revenue of $130,969 during the quarter ended December 31, 2018 as compared with $nil for the period from incorporation on December 18, 2017 to December 31, 2017. The Company began recording revenue on November 9, 2018 subsequent to the acquisition of the assets of NLVO.

***Cost of Goods Sold***

Cost of goods sold was $133,094 during the quarter ended December 31, 2018 and includes production costs expensed and the cost of inventory sold. Direct and indirect production costs include direct labor, processing, testing, packaging, quality assurance, security, inventory, shipping, depreciation of production equipment, production management and other related expenses.

### *Other expenses*

The Company recorded a loss of $5,279,068 for the quarter ended December 31, 2018 comprised of $2,734,111 in share-based compensation, $52,600 in foreign exchange loss related to the Company's cash balances held in CAD$ and $2,778,677 in general and administrative expenses. Of the $2,778,677 in general and administrative expenses:

- $519,972 in accounting and legal fees. As the Company was in its first full year of operations, increased accounting and legal costs were incurred.
- $572,638 in wages and salaries. These amounts are mainly a result of the salaries of the Company's President and CEO, CFO and the Nevada management team which includes senior management, growers, maintenance and finance individuals.
- $1,112,476 in consulting services. These amounts relate to consultants used throughout the year in the areas of finance, growing, production scheduling, crop maintenance, irrigation, lighting and others.
- $30,357 in advertising and promotion. These amounts relate to costs incurred to promote the Company including investor relations and public relations.
- $194,628 in insurance. These amounts relate to insurance on the NLV greenhouse and for directors and officers.
- $69,948 in rent. This amount is mainly related to the NLV Greenhouse up until the Company completed its acquisition on August 30, 2018.
- $102,548 in office, admin and utilities. These amounts relate to general office and admin expenses and utilities on the NLV Greenhouse as well as the Neeham property from acquisition on November 9, 2018 to December 31, 2018.
- $91,588 in travel. These amounts relate to the travel costs for management and staff to the NLV Greenhouse.
- $91,562 in other expenses. These amounts relate mainly to repairs and maintenance, website charges, bank charges, business fees and licenses and interest expense.

The amounts were consistent with management's expectation related to startup costs of the Company. The increase in expenses quarter-over-quarter is a result of increased activity of the Company beginning in Q1 2018 with the first round of financings, then increasing in Q2 2018 with the commencement of construction on the NLV Greenhouse and in Q3 2018 with the RTO and through Q4 2018 once the Company became public.

For the March 7, 2018, June 1, 2018 and October 9, 2018 stock option grants, the Company expensed $2,907, $122,666 and $2,608,539, respectively, during the three-month period ended December 31, 2018.

## LIQUIDITY AND CAPITAL RESOURCES

Accounts payable and accrued liabilities are due within one year. The Company has a working capital deficit as at December 31, 2018 of $32,866,665 which mainly included $2,591,235 in cash and cash equivalents $4,897,647 in prepaid expenses, $5,362,234 in inventory, $391,456 in biological assets, $14,084,080 in accounts payable and accrued liabilities, NLVO Note of $14,080,167 and the $18,000,000 note owed for the NLV Greenhouse. The NLVO Note was repaid subsequent to December 31, 2018 and the maturity date on the $18,000,000 note was extended to March 31, 2020 with interest commencing April 1, 2019 at a rate of 9.5% per annum.

The Company is currently generating revenues out of the Neeham Property and anticipates revenues to begin at the NLV Greenhouse in Q3 2019. However, the Company is not currently generating significant revenues and continues its development activities on the NLV Greenhouse. These activities will need to be funded through additional equity financings. The Company, through its now subsidiary Flower One Corp. (formerly CNX), has been successful in the past in obtaining financing as $70,878,750 has been raised during the year ended December 31, 2018. Subsequent to December 31, 2018, the Company also obtained lease financing of up to $30,000,000, for which it has drawn $20,000,000, and $43,200,000 (CAD$57,500,000) in public financing. After paying the NLVO Note, the Company expects to use a significant portion of these funds to further advance the NLV Greenhouse. The Company will be required to raise additional funds to complete the production facility portion of the NLV Greenhouse and to repay the $18,000,000 note.

The Company's Financial Statements have been prepared on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has incurred losses from operations since inception and has only just begun generating revenue due to the acquisition of the assets of NLVO. Continued operations of the Company are dependent on the Company's ability to complete equity financings or generate profitable operations in the future. The Company's Financial Statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company have assets and be unable to continue in existence.

**RELATED PARTY TRANSACTIONS**

Key management personnel includes the Company's Directors, President & Chief Executive Officer, Chief Financial Officer and Corporate Secretary. The amounts owing to key management personnel of $197,139 (2017 - $nil) were included in accounts payable and accrued liabilities. During the year ended December 31, 2018, the Company incurred $377,969 (2017 - $nil) in wages and salaries and $784,328 (2017 - $nil) in share based compensation to key management personnel.

The $40,000,000 purchase of the NLV Greenhouse is considered a related party as the NLV Greenhouse was owned by a significant shareholder of the Company.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements as at the date of this report.

**COMMITMENTS**

As of December 31, 2018, the Company had spent $75,378,794 on the NLV Greenhouse, which includes the purchase price of $40,000,000. Additionally, included in prepaid expenses is $2,774,620 in funds advanced on the purchase of equipment for the NLV Greenhouse. Subsequent to the closing of the $43,200,000 public financing, and as of the date of this MD&A, the Company will require a further $28,000,000 in financing in order to complete the NLV Greenhouse and to repay the $18,000,000 note.

Subsequent to December 31, 2018, the Company entered into a five-year lease for a storage facility near the NLV Greenhouse for monthly lease amounts of $22,000.

## SUBSEQUENT EVENTS

### *Lease financing*

On February 1, 2019, the Company entered into a Master Lease Agreement (the "Agreement") with Reich Bros Commercial Finance, for up to $30,000,000 in lease financing for certain equipment at its 455,000 square-foot greenhouse and production facility in North Las Vegas, Nevada. The Agreement has a five-year term, with the first 12 monthly payments being the equivalent of interest only, followed by forty-eight equal payments, such that all amounts advanced under the lease facility are fully amortized by month 60. The Agreement includes a buyout right upon expiration of the term, and early buyout options at months 13, 25 and 37, at the Company's discretion. The Company has completed 2 draws for a total of $20 million.

### *Convertible debt financing*

On March 28, 2019, the Company closed a short-form prospectus financing for gross proceeds of $37,600,000 (CAD$50,000,000), consisting of 50,000 convertible debenture units at a price of CAD$1,000 per debenture unit. Each unit consisted of one 9.5% unsecured convertible debenture of the Company maturing three years from the date of issuance and 192 common share purchase warrants. Each warrant entitles the holder thereof to purchase one share at the exercise price of CAD$2.60 per share for a period of 36 months after the closing of the financing. The Company paid a cash commission to the agents equal to 6% of the gross proceeds of the financing and issued to the agents broker warrants equal to 3.5% of the number of common shares issuable upon the conversion of the convertible debentures and 3.5% of the number of common shares issuable upon exercise of the warrants sold as part of the convertible debenture unit. Additionally, on April 1, 2019, the Company announced the full exercise of the over-allotment option for additional gross proceeds of $5,600,000 (CAD$7,500,000) making the total gross proceeds from the offering $43,200,000 (CAD$57,500,000).

### *Stock Option Grant*

On March 28, 2019, the Company granted a total of 630,000 stock options which are exercisable at an exercise price of $2.00 (CAD$2.60) per share and may be exercised for five years.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments that affect the application of accounting policies regarding certain types of assets, liabilities, revenues and expenses and estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses recognized during the reporting period. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Critical accounting judgements are accounting policies that have been identified as being complex or involving subjective judgements or assessments.

***Going Concern***

The Company's assessment of its ability to continue as a going concern requires judgements about the Company's ability to execute its strategy by funding future working capital requirements (note 1). The Company's objectives are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

***Functional Currency***

The determination of an entity's functional currency is a matter of judgment based on an assessment of the specific facts and circumstances relevant to determining the primary economic environment of each individual entity within the group. The Company reconsiders the functional currencies used when there is a change in events or conditions considered in determining the primary economic environment of each entity.

***Biological Assets and Inventory***

Management is required to make a number of estimates in calculating the fair value less costs to sell of biological assets and harvested cannabis inventory. These estimates include a number of assumptions such as estimating the stage of growth of the cannabis, harvesting costs, sales price, and expected yields.

***Estimated Useful Lives and Depreciation of Capital Assets***

Depreciation of capital assets is dependent upon estimates of useful lives based on management's judgment.

***Impairment on Non-Financial Assets***

The assessment of any impairment of non-financial assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions, the useful lives of assets, definition of the cost generating unit and estimates used to measure impairment losses. The recoverable value of these assets is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

***Impairment of Goodwill and Indefinite Life Intangible Assets***

Indefinite life intangible asset impairment testing requires management to make estimates in the impairment testing model. On an annual basis, the Company tests whether indefinite life intangible assets are impaired. The recoverable value of indefinite intangible assets is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

***Share Based Compensation***

The fair value of share-based compensation expenses are estimated using the Black-Scholes option pricing model and rely on a number of estimates, such as the expected life of the option, the volatility of the underlying share price, the risk free rate of return, and the estimated rate of forfeiture of options granted.

***Business Combinations***

Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. In determining the allocation of the purchase price in a business combination, including any acquisition-related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

The Company measures all assets acquired and liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acquiree are measured on the basis of the non-controlling interests' proportionate share of this equity in the acquiree's identifiable net assets. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess of the aggregate of (a) the consideration transferred to obtain control, the amount of any noncontrolling interest in the acquire over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

***Income taxes***

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

## NEW ACCOUNTING STANDARDS ADOPTED BY THE COMPANY

*IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS ("IFRS 15")*

The company has adopted IFRS 15 on the required effective date of January 1, 2018. IFRS 15 was issued to replace IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. IFRS 15 introduces a single contract-based five-step model that applies to contracts with customers and two approaches for the recognition of revenue: at a point in time and over time. The Company had no contracts in place as at December 31, 2017, therefore no practical expedient to adoption is applied and no retrospective application is necessary.

## ACCOUNTING STANDARDS NOT YET EFFECTIVE

The following accounting standard has been issued, but not yet effective until the period beginning on or after January 1, 2019.

*IFRS 16, LEASES ("IFRS 16")*

In January 2017, the IASB issued IFRS 16 which is effective for periods beginning on or after January 1, 2019, which replaces the current guidance in IAS 17, Leases, and is to be applied either retrospectively or a modified retrospective approach. Early adoption is permitted, but only in conjunction with IFRS 15, Revenue from Contracts with Customers. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflective of future lease payments and a 'right-of-use asset' for virtually all lease contracts. The Company does not expect the adoption of IFRS 16 to have a material impact on its consolidated financial statements.

## FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

At December 31, 2018, there were no financial assets and liabilities measured and recognized at fair value on a recurring basis. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and notes payable are not materially different from their carrying value given the short terms to maturity.

## MARKET RISK

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

- Credit risk
  Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash and cash equivalents and accounts receivables. The risk exposure is limited to their carrying amounts at the statement of financial position date. The risk for cash and cash equivalents is mitigated by holding these instruments with highly rated Canadian financial institutions. Accounts receivables primarily consist of trade accounts receivable. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. As at December 31, 2018, the expected credit loss on all the Company's accounts receivable was $nil (2017 - $nil). All accounts receivables balances at December 31, 2018 are 30 days or less.

- Interest rate risk
  Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's only interest bearing financial instrument is the NLVO Note which bears interest at the current Applicable Federal Rate as prescribed by the IRS. Subsequent to December 31, 2018, this NLVO Note was repaid in full. As at December 31, 2018, it is management's opinion that the Company is not exposed to significant interest rate risk.

- Foreign currency risk
  Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. As at December 31, 2018, the Company had cash and accounts payable and accrued liabilities denominated in CAD as the Company incurs expenses in both United States and Canadian dollars. The Company has not hedged its exposure to currency fluctuations at this time. The impact on the Company's profit or loss resulting from a 10% fluctuation in foreign exchange rates would be approximately $70,459.

- Liquidity risk
  The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2018, the Company's financial liabilities consist of accounts payable and accrued liabilities and notes payable; all of which are due within 12 months. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis. Due to the Company's ability to raise funds ($63,200,000 raised subsequent to December 31, 2018), the Company regards liquidity risk to be low.

## CAPITAL MANAGEMENT

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

The capital structure of the Company consists of $68,579,767 in shareholders' equity. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. The Company plans to use existing funds, as well as funds from the future financings, to fund the completion of the NLV Greenhouse. Additionally, the Company plans to use funds from the future sale of products to fund operations and expansion activities.

**OUTSTANDING SHARE DATA**

As of the date of this MD&A, there were 177,711,029 common shares outstanding.

As of the date of this MD&A, there were 12,482,500 stock options outstanding, each exercisable into one common share of the Company.

As of the date of this MD&A, there were 12,191,036 warrants outstanding, each exercisable into one common share of the Company.

As of the date of this MD&A, there were 54,689 convertible debentures outstanding, each convertible into 384 common shares of the Company.

**RISK FACTORS**

The Company is pursuing a commercial hydroponic greenhouse for cannabis cultivation and production that encompasses leading technology for agricultural industries and as such is exposed to a number of risks and uncertainties that are not uncommon to other companies in the same business. The Company continues to have limited capital resources and relies upon the sale of its assets or sale of its common shares for cash required to make new investments and to fund the future operations of the Company.

An investment in the Company is speculative and involves a high degree of risk due to the nature of the Company's business. The following risk factors, as well as risks not currently known to the Company, could materially adversely affect the Company's future business, operations and financial condition and could cause them to differ materially from the estimates described in forward-looking statements contained herein. Readers should carefully consider the following risk factors along with the other matters set out herein:

**Risks Related to the United States Regulatory Regime**

***Marijuana is illegal under U.S. federal law***

The cultivation, manufacture, distribution, and possession of marijuana is illegal under U.S. federal law. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and, in case of conflict between federal and state law, the federal law must be applied. Accordingly, federal law applies even in those states in which the use of marijuana has been legalized. Enforcement of federal law regarding marijuana would harm Flower One's business, prospects, results of operation, and financial condition.

Under the Controlled Substances Act, 21 U.S.C. (the "CSA"), § 801 et seq., it is a felony to manufacture, distribute, dispense or possess with intent to manufacture, distribute or dispense a controlled substance, including marijuana (a Schedule I drug under the CSA); to use a communication facility, which includes the mail, telephone, wire, radio, and all other means of communication, to cause or facilitate a violation of the CSA; and to place an advertisement knowing that the advertisement is intended to offer to sell or buy marijuana, or to use the internet to advertise the sale of marijuana. It is also a federal misdemeanor to knowingly or intentionally possess marijuana and a felony to attempt or conspire to violate the CSA. The CSA does not apply to conduct that takes place entirely outside the United States if the conduct involves cannabis that never reaches, and is never intended to reach, the United States.

Since the possession and use of cannabis and any related drug paraphernalia is illegal under U.S. federal law, Flower One may be deemed to be aiding and abetting illegal activities. Its subsidiaries plan to manufacture and/or distribute medical and adult-use cannabis. As a result, U.S. law enforcement authorities, in their attempt to regulate the illegal use of cannabis and any related drug paraphernalia, may seek to bring an action or actions against Flower One or its subsidiaries, including, but not limited to, a claim regarding the possession, use and sale of cannabis, and/or aiding and abetting another's criminal activities. The U.S. federal aiding and abetting statute provides that anyone who "commits an offense or aids, abets, counsels, commands, induces or procures its commission, is punishable as a principal." As a result, the U.S. Department of Justice, under the current administration, could allege that Flower One has "aided and abetted" violations of federal law by providing financing and services to its subsidiaries. Under these circumstances, the federal prosecutor could seek to seize the assets of Flower One, and to recover the "illicit profits" previously distributed to shareholders resulting from any of the foregoing. In these circumstances, Flower One's operations would cease, shareholders may lose their entire investment and directors, officers and/or shareholders may be left to defend any criminal charges against them at their own expense and, if convicted, be sent to federal prison. Such an action would result in a material adverse effect on Flower One.

Because the manufacture, distribution, and dispensation of cannabis remains illegal under the CSA, banks and other financial institutions providing services to cannabis-related businesses risk violation of federal anti-money laundering statutes (18 U.S.C. §§ 1956 and 1957), the unlicensed money-remitter statute (18 U.S.C. § 1960) and the U.S. Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and other related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

Participating in transactions involving proceeds derived from cannabis may constitute criminal money laundering. It is a federal crime to engage in certain transactions involving the proceeds of "Specified Unlawful Activities" ("SUA") when those transactions are designed to promote an underlying SUA, or conceal the source of the funds. Violations of the CSA and violations of a foreign state's laws are both SUA. It is a federal crime in the United States to engage in an international transaction into or out of the United States if the transaction is intended to promote an SUA, irrespective of the source of the funds. It is a federal crime to engage in a transaction in property worth greater $10,000 knowing that the property is derived from a SUA. In the event that any of Flower One's investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes of the United States or any other applicable legislation. This could restrict or otherwise jeopardize the ability of Flower One to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada and other foreign jurisdictions from the United States.

Violations of federal law could result in significant fines, penalties, administrative sanctions, criminal prosecution, including arrest, pre-trial incarceration, and sentences including monetary fines or incarceration, disgorgement of profits, cessation of business activities or divestiture, and forfeiture of real and personal property. The federal government can seek, (i) civil forfeiture of property involved in or traceable to certain crimes, including money laundering and violations of the CSA; and (ii) prosecution of Flower One's employees, directors, officers, managers and investors for criminal violations of the CSA, federal money laundering laws, or the Travel Act. Even when the government does not bring criminal charges, it may use the threat of an investigation or charges to incentivize civil settlements. This could have a material adverse effect on Flower One, including its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded Common Shares. It is difficult to estimate the time or resources needed to respond to a government investigation or prosecution of such matters without knowing the nature and extent of any information requested by the applicable authorities involved. Such time or resources could be substantial.

One legislative safeguard for the medical marijuana industry remains in place: Congress has used a rider provision, the Rohrabacher-Leahy Amendment to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. Since October 1, 2017, the U.S. federal government has been temporarily appropriated under a series of continuing budget resolutions. In September 2018, Congress passed the Continuing Appropriations Act, 2019 which extends the deadline of the March 2018 omnibus spending bill until December 7, 2018. Following the expiration of the continuing resolution on December 7, 2018, Congress failed to agree upon an appropriations bill, and the United States government entered a partial shutdown. The Rohrabacher-Leahy Amendment was no longer in effect during the partial shutdown.

The partial shutdown ended on January 25, 2019 when Congress passed an appropriations bill funding the United States government through February 15, 2019, including language similar to the Rohrabacher Leahy Amendment, now referred to as the Joyce/Leahy Amendment. The Joyce/Leahy Amendment language was included in base appropriations bill for fiscal year 2019. On February 15, 2019, the U.S. Congress passed an omnibus spending bill (including the Joyce/Leahy Amendment) which will be in effect through September 30, 2019. Accordingly, the language is no longer an "amendment," and is now part of base appropriations.

Notably, the safeguard described above has always applied only to medical cannabis programs, and have no effect on pursuit of recreational cannabis activities. There can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis businesses that are otherwise compliant with State law. Such potential proceedings could involve significant restrictions being imposed upon Flower One or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on Flower One, even if such proceedings were concluded successfully in favour of Flower One.

U.S. Customs and Border Protection ("CBP") enforces the laws of the United States. Crossing the border while in violation of the CSA and other related federal laws may result in denied admission, seizures, fines and apprehension. CBP officers administer the Immigration and Nationality Act to determine the admissibility of travelers, who are non-U.S. citizens, into the United States. An investment in Flower One, if it became known to CBP, could have an impact on a shareholder's admissibility into the United States and could lead to a lifetime ban on admission. See "Risk Factors - Foreign investors in Flower One and its directors, officers, and employees may be subject to entry bans into the United States".

***There is uncertainty surrounding the Trump Administration and the office of Attorney General and their influence and policies in opposition to the cannabis industry as a whole.***

As a result of the conflict of laws that currently exists between U.S. federal law and the laws of a number of U.S. states regarding cannabis, investments in cannabis business in the United States are subject to inconsistent laws and regulation. A framework for managing the tension between federal and state cannabis laws was addressed in August 2013 when then Deputy Attorney General, James Cole, authored the Cole Memorandum (the "Cole Memo"). The Cole Memo was addressed to all US Attorneys acknowledging that, notwithstanding the designation of cannabis as a Schedule I controlled substance under the CSA, several U.S. states have enacted laws relating to cannabis for medical and adult-use purposes. The Cole Memo offered guidance to federal enforcement agencies as how to prioritize civil enforcement, criminal investigations, and prosecutions regarding cannabis in all states. In particular, the Cole Memo noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. In light of limited investigative and prosecutorial resources, the Cole Memo generally directed U.S. Attorneys not to enforce federal marijuana laws against actors who are compliant with state law, provided that certain enumerated enforcement priorities are not implicated.

On January 4, 2018, the then U.S. Attorney General Jeff Sessions issued a memorandum to U.S. Attorneys which rescinded the Cole Memo and the 2014 Cole Memo. With the Cole Memo and the 2014 Cole Memo rescinded, U.S. federal prosecutors have full authority exercise their discretion in determining whether to prosecute compliant state law cannabis-related operations as violations of U.S. federal law throughout the United States. The potential impact of the decision to rescind the Cole Memo is unknown and may have a material adverse effect on the Flower One's business and results of operations.

In February 2017, the Task Force on Crime Reduction and Public Safety was established through an executive order by the President of the United States. Names of those serving on the task force have not been published, and the group was supposed to deliver its recommendations by July 27, 2017. The recommendations of the group were not made public on that date, but the then Attorney General issued a public statement which said he had received recommendations "on a rolling basis" and he had already "been acting on the task force's recommendations to set the policy of the department." Based on previous public statements made by the then Attorney General, there had been some expectation that the task force may make some recommendations with respect to laws relating to cannabis. However, to date there has been no public announcement in this regard from the previous or current Attorney General.
Former U.S. Attorney General Jeff Sessions resigned on November 7, 2018 and was replaced by Matthew Whitaker as interim Attorney General. On February 14, 2019, William Barr was sworn in as Attorney General. It is unclear what position the new Attorney General will take on the enforcement of federal laws with regard to the U.S. cannabis industry.

***Marijuana is strictly regulated in those states which have legalized it for medical or recreational use***

Currently, there are 33 U.S. states plus the District of Columbia, and the territories of Guam, Puerto Rico, the Northern Mariana Islands, and the U.S. Virgin Islands that have laws and/or regulations that recognize, in one form or another, legitimate medical uses for marijuana and consumer use of marijuana in connection with medical treatment. Further, 10 U.S. states plus the Northern Mariana Islands have legalized recreational use of marijuana. Such U.S. states and territories impose substantial regulatory and licensing burdens on marijuana businesses. The legal and regulatory framework applicable to cannabis businesses is different in every state and territory. Obtaining a license or permit to grow, distribute, or dispense marijuana can be a difficult, costly, and lengthy process. Violations of a state's legal and regulatory framework can result in revocation of licenses, civil penalties, and other punishments. No assurance can be given that Flower One will receive the requisite licenses, permits, or cards to operate its businesses.

Local laws and ordinances could restrict Flower One's business activity. Local governments may have the ability to limit or ban cannabis businesses from operating within their jurisdiction, or impose requirements in addition to those imposed by state law. Land use, zoning, local ordinances, and similar laws could be adopted or changed, which may have a material adverse effect on Flower One's business.

Flower One currently operates only in the State of Nevada, but may consider opportunities in other jurisdictions as deemed appropriate by management. Flower One is aware that multiple states are considering special taxes or fees on businesses in the marijuana industry. Other states may be in the process of reviewing such additional fees and taxation, or may impose them in the future. This could have a material adverse effect upon the Flower One's business, results of operations, financial condition, or prospects.

***Newly established legal regime***

Flower One business activities will rely on newly established and/or developing laws and regulations in the state in which it operates. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect Flower One's profitability or cause it to cease operations entirely. The cannabis industry may come under the scrutiny or further scrutiny by the FDA, Securities and Exchange Commission, the Department of Justice, the Financial Industry Regulatory Advisory or other federal or applicable state or nongovernmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical or nonmedical purposes in the United States. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding the industry may adversely affect the business and operations of Flower One, including without limitation, the costs to remain compliant with applicable laws and the impairment of its business or the ability to raise additional capital.

***Restricted access to banking***

Flower One may have limited or no access to banking or other financial services in the United States. Federal money laundering statutes and regulations discourage financial institutions from working with marijuana businesses, regardless of whether marijuana is legal in the state in which the financial institution or its customers are located. The inability or limitation in the Company's ability to open or maintain bank accounts, obtain other banking services, or accept credit card and debit card payments may make it difficult for the Company to operate and conduct its business as planned or to operate efficiently. Federally chartered financial institutions are subject to federal regulation, including oversight by the Financial Crimes Enforcement Network ("FinCEN") bureau of the U.S. Treasury Department. Because marijuana is illegal under federal law, financial institutions may subject themselves to federal civil or criminal liability for banking the proceeds of marijuana businesses, and there are relatively few financial institutions who provide banking services to marijuana businesses.

In February 2014, FinCEN issued guidance (the "FinCEN Guidance") to financial institutions providing banking services to cannabis businesses. The FinCEN Guidance was intended to "clarify Bank Secrecy Act ("BSA") expectations for financial institutions seeking to provide services to marijuana-related businesses", and "enhance the availability of financial services for, and the financial transparency of, marijuana-related businesses."[1] However, the guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the U.S. Department of Justice, FinCen or other federal regulators. Thus, most banks and other financial institutions in the United States do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance, which can be amended or revoked at any time by the Trump Administration.

---

[1] Department of the Treasury Financial Crimes Enforcement Network. (2014). Guidance re: BSA Expectations Regarding Marijuana-Related Businesses (FIN-2014-G001). Retrieved from https://www.fincen.gov/resources/statutes-regulations/guidance/bsa-expectations-regarding-marijuana-relatedbusinesses.

The current Secretary of the Treasury, Steven Mnuchin, has stated that the FinCEN Guidance is currently under review.

Financial institutions which do provide financial services to marijuana businesses may charge increased fees to or impose additional requirements on marijuana businesses. Some financial institutions refuse to process debit or credit card payments to marijuana businesses. Financial institutions which do process such transactions may also charge fees higher than those imposed on other businesses. The Company may experience increased costs, or decreased profits, as a result of its inability to accept debit or credit card payments, or as a result of increased fees it pays to the financial institutions processing such transactions.

Further, banks and other financial institutions providing services to cannabis-related businesses risk violation of federal anti-money laundering statutes (18 U.S.C. §§ 1956 and 1957), the unlicensed money-remitter statute (18 U.S.C. § 1960) and the BSA. These statutes can impose criminal liability for engaging in certain financial and monetary transactions with the proceeds of a SUA, such as distributing controlled substances which are illegal under federal law, including cannabis, and for failing to identify or report financial transactions that involve the proceeds of cannabis-related violations of the CSA.

***Heightened scrutiny by Canadian and U.S. regulatory authorities***

For the reasons set forth above, Flower One's existing operations in the United States, and any future operations or investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada and the United Stated. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate or invest in the United States or any other jurisdiction, in addition to those described herein.

On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding (the "MOU") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSXV.[2] The MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS Clearing and Depository Services Inc. ("CDS") as it relates to issuers with cannabis-related activities in the United States. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, Common Shares would become highly illiquid until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares through the facilities of the applicable stock exchange.

***Foreign investors in Flower One and its directors, officers, and employees may be subject to entry bans into the United States***

It is a federal crime to engage in interstate or foreign travel or commerce with the intent to distribute the

---

[2] Memorandum from The Canadian Depository for Securities, Aequitas NEO Exchange Inc., CNSX Markets Inc., TSX Inc., and TSX Venture Exchange Inc. (8 February 2018). Retrieved from https://www.cds.ca/resource/en/249/.

proceeds of or promote a SUA. News media have reported that United States immigration authorities have increased scrutiny of people who are crossing the United States-Canada border with respect to persons involved in cannabis businesses in the United States.

Those employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry or lifetime bans from the United States for their business associations with U.S. cannabis businesses. Entry happens at the sole discretion of CBP officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a non-US citizen or foreign national. The government of Canada has started warning travelers on its website that previous use of cannabis, or any substance prohibited by U.S. federal laws, could mean denial of entry to the United States. Business or financial involvement in the legal cannabis industry in Canada or in the United States could also be reason enough for U.S. border guards to deny entry. On September 21, 2018, CBP released a statement outlining its current position with respect to enforcement of the laws of the United States. It stated that Canada's legalization of cannabis will not change CBP enforcement of United States laws regarding controlled substances and because cannabis continues to be a controlled substance under United States law, working in or facilitating the proliferation of the legal marijuana industry in the United States.

States where it is deemed legal or Canada may affect admissibility to the United States. As a result, CBP has affirmed that, employees, directors, officers, managers and investors of companies involved in business activities related to cannabis in the United States or Canada (such as Flower One), who are not U.S. citizens face the risk of being barred from entry into the United States for life. On October 9, 2018, CBP released an additional statement regarding the admissibility of Canadian citizens working in the legal cannabis industry. CBP stated that a Canadian citizen working in or facilitating the proliferation of the legal cannabis industry in Canada coming into the United States for reasons unrelated to the cannabis industry will generally be admissible to the United States; however, if such person is found to be coming into the United States for reasons related to the cannabis industry, such person may be deemed inadmissible. Accordingly, the Flower One's directors, officers or employees traveling to the United States for the benefit of the Company may encounter enhanced scrutiny by United States immigration authorities that may result in the employee not being permitted to enter the United States for a specified period of time. If this happens to the Company's directors, officers or employees, then this may reduce our ability to manage our business effectively in the United States.

***Constraints on marketing products***

The development of Flower One's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by government regulatory bodies. The legal and regulatory environment in the United States limits the Company's ability to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and operating results could be adversely affected.

***Unfavorable tax treatment of cannabis businesses***

Under Section 280E ("Section 280E") of the United States Internal Revenue Code of 1986 as amended, "no deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled

Substances Act) which is prohibited by Federal law or the law of any state in which such trade or business is conducted.”. This provision has been applied by the U.S. Internal Revenue Service to cannabis operations, prohibiting them from deducting expenses directly associated with the sale of cannabis. Although the U.S. Internal Revenue Service issued a clarification allowing the deduction of certain expenses that can be categorized as cost of goods sold, the scope of such items is interpreted very narrowly and include the cost of seeds, plants, and labor related to cultivation, while the bulk of operating costs and general administrative costs are not permitted to be deducted. Section 280E therefore has a significant impact on the retail side of cannabis, but a lesser impact on cultivation, processing, production and packaging operations. A result of Section 280E is that an otherwise profitable business may, in fact, operate at a loss, after taking into account its U.S. income tax expenses.

***Risk of civil asset forfeiture***

United States federal law enforcement officials are empowered to seize property they allege has been involved in certain criminal activity. Because marijuana remains illegal under U.S. federal law, property owned by marijuana businesses could be subject to seizure and subsequent civil asset forfeiture by law enforcement, whether or not the owner is charged with a crime. Property can be seized and forfeited through criminal, civil, and administrative proceedings. Property owners seeking the return of their property must establish that the property was not involved in criminal activity, which can be a substantial burden.

***Proceeds of crime statutes***

Flower One is subject to a variety of laws and regulations domestically and in the United States relating to money laundering, financial recordkeeping, and proceeds of crime, including the BSA, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

In the event that any of Flower One’s license agreements in the United States are found to be illegal, proceeds of those licensing transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could be materially adverse to the Company and, among other things, could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada.

***Limited intellectual property protection***

The Company’s ability to compete may depend on the superiority, uniqueness and value of any intellectual property and technology that it may develop. To the extent the Company is able to do so, to protect any proprietary rights of the Company, the Company intends to rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with its employees and third parties, and protective contractual provisions. Despite these efforts, there may be occurrences or impediments that may reduce the value of any of the Company’s intellectual property, including the following:

1. Flower One will not be able to register any United States federal trademarks for its cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a crime under the CSA, the United States Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, the Company likely will be unable to protect its cannabis product trademarks beyond the geographic areas in which it conducts business. The use of its trademarks outside the states in which it operates by one or more other persons could have a material adverse effect on the value of such trademarks.

2. Patents in the cannabis industry involve complex legal and scientific questions and patent protection may not be available for some or any products and as a result the Company may have to rely on goodwill associated with its trademarks, trade names and proprietary cannabis strains.

3. Flower One may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to Flower One, could subject Flower One to significant liabilities and other costs.

Flower One's success may likely depend on its ability to use and develop new extraction technologies, recipes, know-how and new strains of cannabis without infringing the intellectual property rights of third parties. The Company cannot assure that third parties will not assert intellectual property claims against it. The Company is subject to additional risks if entities licensing to it intellectual property do not have adequate rights in any such licensed materials. If third parties assert copyright or patent infringement or violation of other intellectual property rights against the Company, it will be required to defend itself in litigation or administrative proceedings, which can be both costly and time consuming and may significantly divert the efforts and resources of management personnel. An adverse determination in any such litigation or proceedings to which the Company may become a party could subject it to significant liability to third parties, require it to seek licenses from third parties, to pay ongoing royalties or subject the Company to injunctions prohibiting the development and operation of its applications.

***Lack of access to U.S. bankruptcy protections***

Because the use of cannabis is illegal under federal law, many courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If Flower One were to experience a bankruptcy, there is no guarantee that U.S. federal bankruptcy protections would be available to the Company, which would have a material adverse effect.

***Potential FDA regulation***

Should the federal government legalize cannabis, it is possible that the FDA, would seek to regulate it under the Food, Drug and Cosmetics Act of 1938. Additionally, the FDA may issue rules and regulations including good manufacturing practices, related to the growth, cultivation, harvesting and processing of medical cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where medical-use cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, the impact they would have on the cannabis industry is unknown, including what costs, requirements and possible prohibitions may be enforced. If Flower One is unable to comply with the regulations or registration as prescribed by the FDA it may have an adverse effect on Flower One's business, operating results and financial condition.

***Legality of contracts***

Flower One's contracts involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, Flower One may face difficulties in enforcing its contracts in U.S. federal and certain state courts. The inability to enforce any of Flower One's contracts could have a material adverse effect on its business, operating results, financial condition, or prospects.

**Risks Related to the Company**

***Limited operating history***

As the Company has not yet begun to generate revenue and is in the process of completing the conversion of the NLV Greenhouse prior to planting its first commercial cannabis crop, it is extremely difficult to make accurate predictions and forecasts of its finances. This is compounded by the fact that the Company intends to operate in the cannabis industry, which is rapidly transforming. There is no guarantee that the Company's products will be attractive to potential consumers or that the revenues generated from such products will meet the Company's projections.

***Uncertainty about the Company's ability to continue as a going concern***

The Company's ability to continue as a going concern will be dependent upon its ability to complete the NLV Greenhouse conversion and to generate revenue and achieve profitable operations. The Company's ability to do so will depend upon the completion of the NLV Greenhouse conversion on schedule and on budget, and, in the meantime, to obtain the necessary financing to meet its obligations and repay its liabilities when they become due. External financing, predominantly by the issuance of equity and debt, may be sought to finance the operations of the Company; however, there can be no certainty that such funds will be available at terms acceptable to the Company. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

***Actual results of operations may differ materially from the expectations of the Company's management***

The Company's actual financial position and results of operations may differ materially from management's expectations. As a result, the Company's revenue, net income and cash flow may differ materially from the Company's projected revenue, net income and cash flow. The process for estimating the Company's revenue, net income and cash flow requires the use of judgment in determining the appropriate assumptions and estimates. These estimates and assumptions may be revised as additional information becomes available and as additional analyses are performed. In addition, the assumptions used in planning may not prove to be accurate, and other factors may affect the Company's financial condition or results of operations.

***Significant ongoing costs and obligations related to its investment in infrastructure, growth, regulatory compliance and operations***

The Company expects to incur significant ongoing costs and obligations related to its investment in the conversion of the NLV Greenhouse, and other infrastructure, as well as for growth and for regulatory compliance. These costs, particularly if they exceed budget amounts or if the Company cannot raise additional funds in a timely manner to bring the NLV Greenhouse into operation as it currently plans, could have a material adverse impact on the Company's results of operations, financial condition and cash flows. In addition, future changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. The Company's efforts to grow its business may be costlier than the Company expects, and the Company may not be able to increase its revenue enough to offset its higher operating expenses. The Company may incur significant losses in the future for a number of reasons, including unforeseen expenses, the delay of the NLV Greenhouse conversion, the delay or reduction in commercial cannabis crops, unforeseen reductions in the price of the Company's products due to changes in supply and demand, and other unknown events. If the Company is unable to achieve and sustain profitability, the market price of the Common Shares may significantly decrease.

***Voting control***

The Southlands Family Trust and the Yaletown Family Trust, each own approximately 20% of the Common Shares, and therefore exercise a significant portion of the voting power in respect of the outstanding Common Shares. As a result, they are expected to have the ability to influence the outcome of all matters submitted to Flower One's shareholders for approval, including the election and removal of directors and any arrangement or sale of all or substantially all of the assets of Flower One.

This concentrated control could delay, defer, or prevent a change of control of Flower One, arrangement or amalgamation involving Flower One or sale of all or substantially all of the assets of Flower One that its other shareholders support. Conversely, this concentrated control could allow the holders of Common Shares to consummate such a transaction that Flower One's other shareholders do not support.

***Flower One is a holding company***

Flower One is a holding company and essentially all of its assets are the capital stock of its subsidiaries. As a result, investors in Flower One are subject to the risks attributable to its subsidiaries. As a holding company, Flower One conducts substantially all of its business through its subsidiaries, which generate or are expected to generate substantially all of its revenues. Consequently, Flower One's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to Flower One. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of Flower One's material subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before Flower One.

***Flower One's products***

As a relatively new industry, there are not many established players in the recreational cannabis industry whose business model Flower One can follow or build on the success of. Similarly, there is no information about comparable companies available for potential investors to review in making a decision about whether to invest in Flower One.

Shareholders and investors should further consider, among other factors, Flower One's prospects for success in light of the risks and uncertainties encountered by companies that, like Flower One, are in their early stages. For example, unanticipated expenses and problems or technical difficulties may occur and they may result in material delays in the operation of Flower One's business. Flower One may not successfully address these risks and uncertainties or successfully implement its operating strategies. If Flower One fails to do so, it could materially harm Flower One's business to the point of having to cease operations and could impair the value of the Common Shares to the point investors may lose their entire investment.

Flower One expects to commit significant resources and capital to develop and market existing products and new products and services. These products are relatively untested, and Flower One cannot assure shareholders and investors that it will achieve market acceptance for these products, or other new products and services that Flower One may offer in the future. Moreover, these and other new products and services may be subject to significant competition with offerings by new and existing competitors in the business. In addition, new products and services may pose a variety of challenges and require Flower One to attract additional qualified employees. The failure to successfully develop and market these new products and services could seriously harm Flower One's business, financial condition and results of operations.

***Unfavourable publicity or consumer perception***

Management of Flower One believes the recreational cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the recreational cannabis produced. Consumer perception of Flower One's proposed products may be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of recreational cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the recreational cannabis market or any particular product, or consistent with earlier publicity.

Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for Flower One's proposed products and the business, results of operations, financial condition and cash flows of Flower One. Flower One's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on Flower One, the demand for Flower One's proposed products, and the business, results of operations, financial condition and cash flows of Flower One. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of recreational cannabis in general, or Flower One's proposed products specifically, or associating the consumption of recreational cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

***Risks inherent in an agricultural business***

Flower One's business involves the growing of recreational cannabis, an agricultural product. Such business will be subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although all such growing is expected to be completed indoors under climate controlled conditions, there can be no assurance that natural elements will not have a material adverse effect on any such future production.

***Energy costs***

Flower One's cannabis cultivation and production operations will consume considerable energy, which will make it vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may, in the future, adversely impact the business of Flower One and its ability to operate profitably.

***Reliance on key personnel***

The Company's success has depended and continues to depend upon its ability to attract and retain key management and consultants. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company currently receives the benefit of consultants who provide services to the Company under the Consulting Agreement. The termination of this agreement or the inability to access key personnel could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition. The loss of any of the Company's senior management or key consultants and employees could materially adversely affect the Company's ability to execute the Company's business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all. The Company does not maintain key person life insurance policies on any of the Company's employees.

***Reliance on a single jurisdiction***

To date, the Company's activities and resources have been primarily focused within the State of Nevada. The Company expects to continue the focus on this state as it continues to review further expansion opportunities into other jurisdictions in the United States. Adverse changes or developments within Nevada could have a material and adverse effect on the Company's ability to continue producing cannabis, its business, financial condition and prospects.

***Unknown environmental risks***

There can be no assurance that Flower One will not encounter hazardous conditions at the site of the real estate used to operate its businesses, such as asbestos or lead, in excess of expectations that may delay the development of its businesses. Upon encountering a hazardous condition, work at the facilities of Flower One may be suspended. If Flower One receives notice of a hazardous condition, it may be required to correct the condition prior to continuing construction. The presence of other hazardous conditions will likely delay construction and may require significant expenditure of Flower One's resources to correct the condition. Such conditions could have a material impact on the investment returns of Flower One.

***Security Risks***

The business premises of Flower One's operating locations are targets for theft. While the Company has implemented security measures at its operating locations and continues to monitor and improve its security measures, its cultivation and processing facilities could be subject to break-ins, robberies and other breaches in security. If there is a breach in security and the Company falls victim to a robbery or theft, the loss of cannabis plants, cannabis oils, cannabis flowers and cultivation and processing equipment could have a material adverse impact on the business, financial condition and results of operation of the Company.

As Flower One's business may involve the movement and transfer of cash which is collected from its locations and deposited into financial institutions, there is a risk of theft or robbery during the transport of cash. The Company may engage a security firm to provide security in the transport and movement of large amounts of cash. While the Company has taken steps to prevent theft or robbery of cash during transport, there can be no assurance that there will not be a security breach during the transport and the movement of cash involving the theft of product or cash.

***Product recalls***

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of Flower One's products are recalled due to an alleged product defect or for any other reason, Flower One could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. Flower One may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although Flower One has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of Flower One's significant brands were subject to recall, the image of that brand and Flower One could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for Flower One's products and could have a material adverse effect on the results of operations and financial condition of Flower One. Additionally, product recalls may lead to increased scrutiny of Flower One's operations by the U.S. Food and Drug Administration, or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

***Results of future clinical research***

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as cannabidiol ("CBD") and tetrahydrocannabinol ("THC") remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC). Although Flower One believes that the articles, reports and studies support its beliefs regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, prospective purchasers of Common Shares should not place undue reliance on such articles and reports.

Future research studies and clinical trials may draw opposing conclusions to those stated in this MD&A or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis, which could have a material adverse effect on the demand for Flower One's products with the potential to lead to a material adverse effect on Flower One's business, financial condition, results of operations or prospects.

***Competition***

Flower One will face intense competition from other companies, some of which have longer operating histories and more financial resources and manufacturing and marketing experience than Flower One. Increased competition by larger and better financed competitors could materially and adversely affect the proposed business, financial condition and results of operations of Flower One.

Because of the early stage of the industry in which Flower One operates, Flower One expects to face additional competition from new entrants. If the number of users of recreational cannabis in the states in which Flower One will operate its business increases, the demand for products will increase and Flower One expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products.

To remain competitive, Flower One will require a continued high level of investment in research and development, marketing, sales and client support. Flower One may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of its operations.

***Liquidity, financial resources and access to capital***

A decline in the price of Common Shares could affect its ability to raise further working capital and adversely impact its ability to continue operations.

A prolonged decline in the price of Common Shares could result in a reduction in the liquidity of Common Shares and a reduction in Flower One's ability to raise capital. Because a significant portion of Flower One's operations have been and are expected in future to be financed through the sale of equity securities, a decline in the price of Common Shares could be especially detrimental to Flower One's liquidity and its operations. Such reductions may force Flower One to reallocate funds from other planned uses and may have a significant negative effect on Flower One's business plan and operations, including its ability to repay outstanding obligations, to develop new products and continue its current operations.

If Flower One's stock price declines, it can offer no assurance that Flower One will be able to raise additional capital or generate funds from operations sufficient to meet its obligations. If Flower One is unable to raise sufficient capital in the future, Flower One may not be able to have the resources to continue its normal operations.

***Licenses***

The Company's cannabis licenses are subject to ongoing compliance and reporting requirements. Failure by the Company to comply with the requirements of licenses or any failure to maintain licenses would have a material adverse impact on the business, financial condition and operating results of the Company.

Should the NDOT or any other licensing authority not grant, extend or renew any license or should it renew such license on different terms, or should it decide to grant more than the anticipated number of licenses, the business, financial condition and results of the operation of the Company could be materially adversely affected.

***Future acquisitions or dispositions***

The Company's business strategy contemplates future acquisitions and expansion of the Company's business activities. Material acquisitions, dispositions and other strategic transactions involve a number of risks, including: (i) potential disruption of Flower One's ongoing business; (ii) distraction of management; (iii) Flower One may become more financially leveraged; (iv) the anticipated benefits and cost savings of those transactions may not be realized fully or at all or may take longer to realize than expected; (v) increasing the scope and complexity of Flower One's operations; and (vi) loss or reduction of control over certain of Flower One's assets. Additionally, Flower One may issue additional Common Shares in connection with such transactions, which would dilute a shareholder's holdings in Flower One.

The presence of one or more material liabilities of an acquired company that are unknown to Flower One at the time of acquisition could have a material adverse effect on the business, results of operations, prospects and financial condition of Flower One. A strategic transaction may result in a significant change in the nature of Flower One's business, operations and strategy. In addition, Flower One may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into Flower One's operations.

***Insurance and uninsured risks***

Flower One's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labour disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although Flower One intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. Flower One may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of Flower One is not generally available on acceptable terms. Flower One might also become subject to liability for pollution or other hazards which may not be insured against or which Flower One may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Flower One to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

***Dependence on key inputs, suppliers and skilled labour***

The cannabis business is dependent on a number of key inputs and their related costs including raw materials and supplies related to growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition, results of operations or prospects of Flower One. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, Flower One might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to Flower One in the future. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition, results of operations or prospects of Flower One.

The ability of Flower One to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that Flower One will be successful in maintaining its required supply of skilled labour, equipment, parts and components. This could have an adverse effect on the financial results of Flower One.

Flower One is reliant on third-party suppliers to develop and manufacture its products. Due to the uncertain regulatory landscape for regulating cannabis in the United States, the Flower One's third party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the operations of Flower One. Loss of these suppliers, manufacturers and contractors may have a material adverse effect on the business and operational results of Flower One.

***Difficulty to forecast***

Flower One must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the recreational cannabis industry in the states in which Flower One's business will operate. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of Flower One.

***Management of growth***

Flower One may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Flower One to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Flower One to deal with this growth may have a material adverse effect on Flower One's business, financial condition, results of operations and prospects.

***Internal controls***

Effective internal controls are necessary for Flower One to provide reliable financial reports and to help prevent fraud. Although Flower One has undertaken a number of procedures and implemented a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on Flower One under Canadian securities law, Flower One cannot be certain that such measures will ensure that Flower One will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm Flower One's results of operations or cause it to fail to meet its reporting obligations. If Flower One or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in Flower One's consolidated financial statements and materially adversely affect the trading price of Common Shares.

***Litigation***

Flower One may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which Flower One becomes involved be determined against Flower One such a decision could adversely affect Flower One's ability to continue operating and the market price for Common Shares and could use significant resources. Even if Flower One is involved in litigation and wins, litigation can redirect significant resources of Flower One.

***Product liability***

Flower One faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the sale of Flower One's products would involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of Flower One's products alone or in combination with other medications or substances could occur. Flower One may be subject to various product liability claims, including, among others, that Flower One's products caused injury or illness or death, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against Flower One could result in increased costs, could adversely affect Flower One's reputation with its clients and consumers generally, and could have a material adverse effect on the business, results of operations and financial condition of Flower One. There can be no assurances that Flower One will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of Flower One's potential products.

***General economic risks***

Flower One's operations could be affected by the economic context should unemployment, interest rates or inflation reach levels that influence consumer trends and spending and, consequently, impact Flower One's sales and profitability.

# FLOWER ONE HOLDINGS INC.

# Consolidated Financial Statements

**EXPRESSED IN UNITED STATES DOLLARS**

**FOR THE YEAR ENDED DECEMBER 31, 2018 AND THE PERIOD FROM INCORPORATION ON DECEMBER 18, 2017 TO DECEMBER 31, 2017**

**Independent Auditor's Report**

To the Shareholders of Flower One Holdings Inc.:

**Opinion**

We have audited the consolidated financial statements of Flower One Holdings Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year ended December 31, 2018 and for the period from December 18, 2017 (date of incorporation) to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2018 and for the period from December 18, 2017 to December 31, 2017 in accordance with International Financial Reporting Standards.

**Basis for Opinion**

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jian-Kun Xu.

Vancouver, British Columbia

MNP LLP

April 30, 2019

Chartered Professional Accountants

MNP LLP

**FLOWER ONE HOLDINGS INC.**

Consolidated Statements of Financial Position (Expressed in United States Dollars).

| | | December 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ | 2,591,235 | $ | – |
| Accounts receivable | | 55,010 | | – |
| Prepaids | | 4,897,647 | | |
| Inventory (note 6) | | 5,362,234 | | |
| Biological assets (note 7) | | 391,456 | | – |
| | | 13,297,582 | | – |
| Property, plant and equipment (note 8) | | 90,166,322 | | – |
| Intangible assets (notes 5 and 9) | | 11,333,500 | | – |
| Goodwill (note 5) | | 795,225 | | – |
| **Total assets** | **$** | **115,592,629** | **$** | **–** |
| **Liabilities** | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities (notes 13 and 17) | $ | 14,084,080 | $ | 204,666 |
| Notes payable (note 10) | | 32,080,167 | | |
| | | 46,164,247 | | 204,666 |
| Deferred tax liability (note 15) | | 848,615 | | – |
| **Total liabilities** | | **47,012,862** | | 204,666 |
| **Shareholders' equity** | | | | |
| Share capital (note 11) | | 77,997,726 | | 10 |
| Contributed surplus (note 12) | | 3,236,632 | | – |
| Deficit | | (12,654,591) | | (204,676) |
| | | 68,579,767 | | (204,666) |
| **Total liabilities and shareholders' equity** | **$** | **115,592,629** | **$** | – |

Nature of operations and going concern (note 1)
Subsequent events (notes 8, 11, 17 and 20)

Approved and authorized on behalf of the Board:

*"Ken Villazor"*
Ken Villazor, Director

*"Warner Fong"*
Warner Fong, Director

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

**FLOWER ONE HOLDINGS INC.**

Consolidated Statements of Operations and Comprehensive Loss (Expressed in United States Dollars).

| | | Year ended December 31, 2018 | | Period from Incorporation on December 18, 2017 to December 31, 2017 |
|---|---|---|---|---|
| **Revenue** | **$** | **130,969** | **$** | **–** |
| **Cost of sales** | | **(133,094)** | | – |
| **Gross profit before fair value adjustments** | | **(2,125)** | | **–** |
| Realized fair value adjustment on sale of inventory (note 6) | | (25,196) | | – |
| Unrealized fair value adjustment on growth of biological assets (note 7) | | 464,941 | | – |
| **Gross profit** | | 437,620 | | – |
| **Expenses** | | | | |
| General and administrative (note 14) | | 5,053,861 | | 198,065 |
| Share-based compensation (note 12) | | 3,239,257 | | – |
| Depreciation (note 8) | | 75,190 | | – |
| Loss from operations | | 7,930,688 | | 198,065 |
| **Other expenses** | | | | |
| Listing expense (note 4) | | 3,803,582 | | – |
| Foreign exchange loss | | 639,535 | | 6,611 |
| Net loss before income taxes | | 12,373,805 | | 204,676 |
| Income tax expense (note 15) | | 76,110 | | – |
| **Net loss and comprehensive loss for the period** | **$** | **(12,449,915)** | **$** | **(204,676)** |
| Basic and diluted loss per share | $ | (0.09) | $ | (2,046.76) |
| Weighted average number of common shares outstanding | | **138,190,541** | | 100 |

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

## FLOWER ONE HOLDINGS INC.

Consolidated Statements of Cash Flows (Expressed in United States Dollars).

| | Year ended December 31, 2018 | Period from Incorporation on December 18, 2017 to December 31, 2017 |
|---|---|---|
| **Operating activities:** | | |
| Loss for the period | $ (12,449,915) | $ (204,676) |
| Items not affecting cash | | |
| Unrealized foreign exchange loss | – | 6,611 |
| Unrealized gain on fair value adjustment on growth of biological asset | (464,941) | – |
| Realized fair value adjustment on sale of inventory | 25,196 | – |
| Interest expense | 56,765 | – |
| Share-based compensation | 3,239,257 | – |
| Depreciation | 75,190 | – |
| Listing expense | 3,607,163 | – |
| Income tax expense | 76,110 | – |
| Changes in non-cash operating working capital | | |
| Accounts receivable | 72,830 | – |
| Prepaid expenses | (2,123,027) | – |
| Inventory | (833,589) | – |
| Biological assets | 654,151 | – |
| Accounts payable and accrued liabilities | 2,594,039 | 198,055 |
| | (5,470,771) | (10) |
| **Financing activities:** | | |
| Proceeds of issuance of common shares, net of share issuance costs | 68,987,928 | 10 |
| | 68,987,928 | 10 |
| **Investing activities:** | | |
| Purchase of property, plant and equipment | (50,856,137) | – |
| Prepayment of property, plant and equipment | (2,774,620) | |
| Net cash paid on acquisition of NLVO | (5,167,665) | – |
| Purchase of intangible assets | (2,127,500) | – |
| | (60,925,922) | – |
| Increase in cash | 2,591,235 | – |
| Cash and cash equivalents, beginning of period | – | – |
| **Cash and cash equivalents, end of period** | $ 2,591,235 | $ – |

Non-cash additions to property, plant and equipment consists of $11,185,375 which is included in accounts payable and accrued liabilities at December 31, 2018.

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

# FLOWER ONE HOLDINGS INC.

Consolidated Statements of Shareholders' Equity (Expressed in United States Dollars).

| | SHARES | AMOUNT | CONTRIBUTED SURPLUS | DEFICIT | TOTAL |
|---|---|---|---|---|---|
| Issued on incorporation on December 18, 2017 | 100 | $ 10 | $ – | $ – | $ 10 |
| Net loss | – | – | – | (204,676) | (204,676) |
| **At December 31, 2017** | **100** | **10** | **–** | **(204,676)** | **(204,666)** |
| Issued on private placement, net of share issuance costs | 168,507,594 | 67,830,053 | – | – | 67,830,053 |
| Shares issued as fees for private placement | 1,279,810 | 1,091,107 | – | – | 1,091,107 |
| Shares issued to former Theia shareholders on RTO closing (note 4) | 2,404,775 | 3,607,163 | – | – | 3,607,163 |
| Shares issued on exercise of options | 437,500 | 69,393 | (2,625) | – | 66,768 |
| Shares issued on the acquisition of NLV Organics (note 5) | 4,000,000 | 5,400,000 | – | – | 5,400,000 |
| Share-based compensation (note 12) | – | – | 3,239,257 | – | 3,239,257 |
| Net loss | – | – | – | (12,449,915) | (12,449,915) |
| **At December 31, 2018** | **176,629,779** | **$77,997,726** | **$ 3,236,632** | **$(12,654,591)** | **$68,579,767** |

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

## 1) NATURE OF OPERATIONS

Flower One Holdings Inc. (formerly Theia Resources Ltd.) ("Flower One" or the "Company") is a Canadian company incorporated on January 9, 2007 under the Business Corporations Act (British Columbia). The Company is listed on the Canadian Securities Exchange ("CSE") under the symbol "FONE" and the OTCQB Venture Market in the United States under the symbol "FLOOF". The registered office of the Company is located at 20 Richmond Street, Toronto Ontario, M5C 2R9.

The Company, through its wholly owned subsidiaries, is a cannabis cultivator and producer and is licensed for medical and recreational marijuana cultivation and production in the State of Nevada. The Company's facilities will be used for cannabis cultivation as well as the processing, production and packaging of dry flower, cannabis oils, concentrates and infused products.

On September 21, 2018, the Company completed a reverse takeover transaction ("RTO") whereby CNX Holdings Inc. ("CNX"), a privately held corporation, amalgamated with a wholly-owned subsidiary of the Company and the shareholders and option holders of CNX received corresponding securities of the Company on a 1:1 basis. Upon completion of the RTO, the shareholders of CNX obtained control of the consolidated entity. In applying acquisition accounting to a reverse acquisition, CNX was identified as the accounting acquirer, and, accordingly, Flower One is considered to be a continuation of CNX, with the net assets of the Company at the date of the RTO deemed to have been acquired by CNX. The RTO is further described in Note 4.

These consolidated financial statements have been prepared on a going concern basis that presumes the realization of assets and discharge of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that could result should the Company be unable to continue as a going concern. The Company has historically incurred losses and as at December 31, 2018, had working capital deficiency of $32,866,665 which consisted of cash, accounts receivable, prepaids, inventory, biological assets, accounts payable, accrued liabilities and notes payable as well as negative $5,470,771 in cash flows from operating activities. The Company expects to require further funding in the longer term to fund future development, acquisitions and operations. Subsequent to December 31, 2018, the Company obtained $20,000,000 in lease financing (note 20) and closed on a short-form prospectus financing for gross proceeds of $43,200,000 (CAD$57,500,000), including the over-allotment of $5,640,000 (CAD$7,500,000) (note 20).

## 2) BASIS OF PRESENTATION

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

On April 30, 2019, the Company's Board of Directors approved these consolidated financial statements for issuance.

**Basis of Measurement**
These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

**Functional and Presentation Currency**
These consolidated financial statements have been prepared in United States dollars, which is the Company's functional and presentation currency as well as the functional currency of all subsidiaries.

**Critical Accounting Estimates and Use of Judgments**
The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments that affect the application of accounting policies regarding certain types of assets, liabilities, revenues and expenses and estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses recognized during the reporting period. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Critical accounting judgements are accounting policies that have been identified as being complex or involving subjective judgements or assessments.

*Going Concern*
The Company's assessment of its ability to continue as a going concern requires judgements about the Company's ability to execute its strategy by funding future working capital requirements (note 1). The Company's objectives are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

## 2) BASIS OF PRESENTATION (CONT'D)

**Critical Accounting Estimates and Use of Judgments (cont'd)**

*Functional Currency*

The determination of an entity's functional currency is a matter of judgment based on an assessment of the specific facts and circumstances relevant to determining the primary economic environment of each individual entity within the group. The Company reconsiders the functional currencies used when there is a change in events or conditions considered in determining the primary economic environment of each entity.

*Biological Assets and Inventory*

Management is required to make a number of estimates in calculating the fair value less costs to sell of biological assets and harvested cannabis inventory. These estimates include a number of assumptions such as estimating the stage of growth of the cannabis, harvesting costs, sales price, and expected yields (notes 6 and 7).

*Estimated Useful Lives and Depreciation of Property, Plant and Equipment*

Depreciation of property, plant and equipment is dependent upon estimates of useful lives based on management's judgment.

*Impairment on Non-Financial Assets*

The assessment of any impairment of non-financial assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions, the useful lives of assets, definition of the cost generating unit and estimates used to measure impairment losses. The recoverable value of these assets is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

*Impairment of Goodwill and Indefinite Life Intangible Assets*

Indefinite life intangible asset impairment testing requires management to make estimates in the impairment testing model. On an annual basis, the Company tests whether indefinite life intangible assets are impaired. The recoverable value of indefinite intangible assets is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

*Share Based Compensation*

The fair value of share-based compensation expenses are estimated using the Black-Scholes option pricing model and rely on a number of estimates, such as the expected life of the option, the volatility of the underlying share price, the risk free rate of return, and the estimated rate of forfeiture of options granted.

## 2) BASIS OF PRESENTATION (CONT'D)

**Critical Accounting Estimates and Use of Judgments (cont'd)**

*Business Combinations*

Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. In determining the allocation of the purchase price in a business combination, including any acquisition-related contingent consideration, estimates including market based and appraisal values are used. The contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IFRS 9, *Financial instruments*, or International Accounting Standard ("IAS") 37, *Provisions, contingent liabilities and contingent assets*, as appropriate, with the corresponding gain or loss being recognized in the consolidated statement of operations and comprehensive loss.

The Company measures all assets acquired and liabilities assumed at their acquisition-date fair values. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess of (a) the consideration transferred to obtain control and the amount of any noncontrolling interest in the acquire over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

*Income Taxes*

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

## 3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation**
These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances, transactions, revenues and expenses have been eliminated on consolidation. All subsidiaries are wholly owned: Flower One Corp., Cana Nevada Corp., CN Labor Management, Inc., Canna Nevada LLC, CN Licenseco I, Inc., CN Licenseco III, Inc., CN Landco LLC, CN Landco II, LLC, CN Landco III, LLC, North Las Vegas Equipment Co., Inc. and North Las Vegas Equipment Co. III, Inc.

**Foreign Currency**
The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries was determined by conducting an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*. The functional currency of the Company and its subsidiaries is the United States dollar (note 2).

Foreign currency transactions are translated into the functional currency of the Company at rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into USD at the period-end exchange rate. Revenue and expenses are translated at the average exchange rate during the period. Realized and unrealized foreign exchange gain or losses resulting from the settlement or translation of foreign currency transactions are included in the consolidated statement of operations and comprehensive loss. All foreign subsidiaries have a USD functional currency.

**Cash and Cash Equivalents**
Cash and cash equivalents include cash on hand and deposits with maturities from the date of acquisition of 90 days or less, which are readily convertible to known amounts of cash and are subject to insignificant changes in value. The Company does not currently have any cash equivalents.

**Inventory**
The direct and indirect costs of inventory initially include the fair value of the biological asset at the time of harvest. They also include subsequent costs such as materials, labour and depreciation expense on equipment involved in packaging, labeling and inspection. All direct and indirect costs related to inventory are capitalized as they are incurred and they are subsequently recorded within 'cost of sales' on the consolidated statements of operations and comprehensive loss at the time that the related product is sold, except for realized fair value amounts included in inventory sold which are recorded as a separate line on the face of the consolidated statements of operations and comprehensive loss. Inventory is measured at lower of cost or net realizable value on the consolidated statement of financial position and is determined using the weighted average costing method. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. Packaging and supplies are initially recorded at cost.

## 3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**Biological Assets**
The Company's biological assets consist of cannabis plants, from the date of initial cutting from mother plants, which are not yet harvested. While the Company's biological assets are within the scope of IAS 41, *Agriculture*, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2, *Inventories*. They include the direct cost of seeds and growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as depreciation on production equipment and the building portion associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred and they are all subsequently recorded within the line item 'cost of sales' on the consolidated statements of operations and comprehensive loss in the period that the related product is sold. Unrealized fair value gains/losses on growth of biological assets are recorded in a separate line on the face of the consolidated statements of operations and comprehensive loss. Biological assets are measured at their fair value less costs to sell on the consolidated statement of financial position.

Mother plants, or bearer plants, are plants grown for the purpose of taking cuttings in order to grow more quantity of the same plant. Bearer plants are critical to the success of the business and once mature, are held solely to grow produce over their useful life. Costs attributed to the growing of mother plants are included in the costs of biological assets.

**Property, Plant and Equipment**
Land, buildings, plant and equipment are recorded at cost, including all expenditures incurred to prepare an asset for its intended use, less accumulated depreciation and impairment losses, if any.

Repairs and maintenance costs are charged to expense as incurred, except when these repairs significantly extend the life of an asset or result in an operating improvement. In these instances, the portion of these repairs relating to the betterment is capitalized as part of plant and equipment.

Depreciation is based on the useful life and the cost of the asset less residual value. Where an item of plant and equipment is comprised of major components with different useful lives, the components are accounted for as separate items and depreciated separately. Depreciation commences when an asset is available for use. Estimates of remaining useful lives and residual values are reviewed annually. Changes in estimates are accounted for prospectively.

## 3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**Property, plant and equipment (continued)**

Construction in progress includes the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Construction in progress includes advances on long lead items. Construction in progress is not depreciated. Once the asset is complete and available for use, the costs of construction are transferred to the appropriate category of property, plant and equipment, and depreciation commences.

| Asset type | Depreciation method | Depreciation term |
|---|---|---|
| Land | Not amortized | No term |
| Production facility | Straight-line | 20 years |
| Equipment | Straight-line | 3-15 years |
| Construction in progress | Not amortized | No term |

**Impairment of Non-financial Assets**

The carrying amount of the Company's non-financial assets is reviewed at each financial reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized when the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in the consolidated statement of operations and comprehensive loss for the period.

The recoverable amount of an asset or a CGU is the greater of its fair value less cost to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years, net of any depreciation that would have been claimed.

## 3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**Intangible Assets**

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization is provided on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively. The Nevada state licenses (notes 5 and 9) are classified as indefinite life intangible assets and are not amortized but are tested for impairment on an annual basis. These licenses do not expire, as such, there is no foreseeable limit to the period over which these assets are expected to generate future cash inflows to the Company. The Company does not currently have any intangible assets with definite useful lives.

**Goodwill**

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash generating unit ("CGU") or CGUs which are expected to benefit from the synergies of the combination.

Goodwill that has an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in the consolidated statement of operations and comprehensive loss in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

## 3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**Revenue**

IFRS 15, *Revenue from contracts with customers* ("IFRS 15"), effective for annual periods beginning on or after January 1, 2018, specifies how and when to recognize revenue, based on a five-step model, and enhances relevant disclosures to be applied to all contracts with customers. To recognize revenue under IFRS 15, the Company applies the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when or as the Company satisfies a performance obligation.

In accordance with IFRS 15, revenue from the sale of cannabis is generally recognized when control over the goods has been transferred to the customer. Payment is upon shipment and is recognized into revenue upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control to the customer upon delivery and acceptance by the customer.

**Share-based Compensation**

The Company applies the fair value method of accounting for stock option awards using the Black-Scholes option pricing model. Under this method, the Company recognizes compensation expense for employee stock option awards, based on the grant date fair value, for each vesting instalment, over the vesting period of the options. Each instalment is valued separately, based on assumptions determined from historical data, and recognized as compensation expense over each instalment's individual tranche vesting period, with a corresponding increase in equity (contributed surplus). Forfeiture estimates are recognized in the period they are estimated and are revised for actual forfeitures in subsequent periods.

In situations where stock option awards are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Upon the exercise of stock options, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve in contributed surplus is transferred to share capital.

## 3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**Earnings per Share**
The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding, if any, that may add to the total number of common shares.

**Financial Instruments**
The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI.

Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statement of operations and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the consolidated statement of operations and comprehensive loss in the period in which they arise.

Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date. The Company's financial assets carried at amortized cost includes cash and cash equivalents and accounts receivable.

## 3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**Financial Instruments (continued)**

The Company recognizes loss allowances for Expected Credit Losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the related financial asset. The Company does not have any financial assets that contain a financing component.

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. Financial liabilities are subsequently measured at amortized cost using effective interest rate method.

The following table summarizes the classification of the Company's financial instruments at December 31, 2018:

| | At December 31, 2018 |
|---|---|
| Cash and cash equivalents | Amortized cost |
| Accounts receivable | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |
| Notes payable | Amortized cost |

## 3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**Income Taxes**
Income tax on the statement of operations and comprehensive loss for the periods presented comprises current and deferred tax. Income tax is recognized in the statement of operations and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not record that excess.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis.

## 3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

**Adoption of New Accounting Policies**

***IFRS 15, Revenue from Contracts with Customers ("IFRS 15")***

The Company has adopted IFRS 15 on the required effective date of January 1, 2018. IFRS 15 was issued to replace IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations. IFRS 15 introduces a single contract-based five-step model that applies to contracts with customers and two approaches for the recognition of revenue: at a point in time and over time. The Company had no contracts in place as at December 31, 2017, therefore no practical expedient to adoption is applied, no retrospective application is necessary and no impact to the Company from adoption.

**New and Revised IFRS Issued but Not Effective**

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below except those which the Company does not expect any impacts on the consolidated financial statements.

***IFRS 16, Leases ("IFRS 16")***

In January 2017, the IASB issued this standard which is effective for periods beginning on or after January 1, 2019, which replaces the current guidance in IAS 17, *Leases*, and is to be applied either retrospectively or a modified retrospective approach. Early adoption is permitted, but only in conjunction with IFRS 15. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflective of future lease payments and a 'right-of-use asset' for virtually all lease contracts. As of December 31, 2018, the Company does not have any leases and therefore the adoption of IFRS 16 will only impact future leases.

Notes to the Consolidated Financial Statements (Expressed in United States Dollars)

## 4) REVERSE TAKEOVER TRANSACTION

On September 21, 2018, Theia Resources Ltd., CNX and Flower One Corp. (a wholly owned subsidiary of Theia Resources Ltd.), completed a three-cornered amalgamation agreement entered into on June 29, 2018 whereby shareholders and option holders of CNX received corresponding securities of the Company on a 1:1 basis. Immediately preceding the RTO, Theia Resources Ltd. consolidated its share capital (the "Consolidation") on a ten for one basis with each ten pre-Consolidation common shares of Theia Resources Ltd. being exchanged for one post-Consolidation common share.

In accordance with IFRS 3, *Business combinations*, the substance of the transaction was a reverse takeover of a non-operating company. The transaction does not constitute a business combination since Theia Resources Ltd. did not meet the definition of a business under IFRS 3. As a result, the transaction has been accounted for as an asset acquisition with CNX being identified as the acquirer (legal subsidiary) and Theia Resources Ltd. being treated as the accounting subsidiary (legal parent) with the transaction being measured at the fair value of the equity consideration issued to Theia Resources Ltd. shareholders. The net liabilities acquired was the fair value of the net liabilities of Theia Resources Ltd., which on September 21, 2018 was $3,294. The Company incurred $428,561 transaction costs related to this RTO.

| | | On September 21, 2018 |
|---|---|---|
| **Net liabilities acquired** | | |
| Cash | | 1,226 |
| Accounts payable and accrued liabilities | | (4,520) |
| **Net liabilities acquired** | **$** | **(3,294)** |
| **Consideration** | | |
| Fair value of 2,404,775 shares issued by CNX at $1.50 per share | | 3,607,163 |
| Assumption of loan owed to the company | | 193,125 |
| **Listing expense** | **$** | **3,803,582** |

Notes to the Consolidated Financial Statements (Expressed in United States Dollars)

## 5) BUSINESS ACQUISITION

On November 9, 2018, the Company closed the previously announced agreement that it had entered into with NLV Organics, Inc. and related parties ("NLVO"), to purchase a 100% interest in a property in North Las Vegas, Nevada, and all of the business' tangible and intangible assets including the business name(s), product brands, inventory, biological assets, five Nevada cannabis licenses, intellectual property and assignable supply contracts associated with the current business of NLVO. As consideration for the purchase of the NLVO property and business, the Company paid NLVO consideration consisting of cash of $5,335,650, which includes $600,000 of advances previously provided and $100,000 in working capital, a note payable with a fair value of $14,023,402 and 4,000,000 common shares of Flower One. The Company has applied the acquisition method of accounting and the results of operations are included from the acquisition date. Goodwill consisted of the acquired workforce and the expected synergies of the future combined operations.

The table below summarizes the fair value of the assets acquired and the liabilities assumed at the acquisition date:

| | | On November 9, 2018 |
|---|---|---|
| **Consideration Transferred** | | |
| Cash | | 5,335,650 |
| Note payable | | 14,023,402 |
| Fair value of 4,000,000 shares issued by Flower One at $1.35 Per Share | | 5,400,000 |
| **Total Consideration** | **$** | **24,759,052** |
| **Net Assets Acquired** | | |
| Cash | | 67,985 |
| Accounts receivable | | 127,840 |
| Inventory | | 4,553,841 |
| Biological assets | | 580,666 |
| Land, buildings and equipment | | 10,200,000 |
| Intangible assets (licenses) | | 9,206,000 |
| Goodwill | | 795,225 |
| Deferred tax liability | | (772,505) |
| | **$** | **24,759,052** |

Notes to the Consolidated Financial Statements (Expressed in United States Dollars)

## 5) BUSINESS ACQUISITION (CONT'D)

Revenue of $130,969 and $446,737 in net loss and comprehensive loss included in the consolidated statement of operations and comprehensive loss relates to this acquisition. Had the Company completed the acquisition on January 1, 2018, $2,642,106 of revenue and $1,978,639 of net loss and comprehensive loss would have been included in the statement of operations and comprehensive loss. Basic and diluted loss per share would have increased to $0.10 per share.

## 6) INVENTORY

The following is a breakdown of inventory at December 31, 2018:

| | | Capitalized Cost | | Fair Value Adjustment | | December 31, 2018 |
|---|---|---|---|---|---|---|
| Harvested cannabis | $ | 4,128,856 | $ | 704,996 | $ | 4,833,852 |
| Cannabis oils | | 403,299 | | 22,897 | | 426,196 |
| Packaging and supplies | | 102,186 | | – | | 102,186 |
| | **$** | **4,634,341** | **$** | **727,893** | **$** | **5,362,234** |

The Company had no inventory as at December 31, 2017.

During the year ended December 31, 2018, the Company recognized $158,290 (2017 - $nil) of inventory expensed to cost of goods sold including $25,196 (2017 - $nil) non-cash expense relating to the changes in fair value of inventory sold.

## 7) BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis plants. The changes in the carrying value of biological assets are as follows:

| | | |
|---|---|---|
| Balance on acquisition of NLVO (note 5) | $ | 580,666 |
| Changes in fair value less costs to sell due to biological transformation | | 464,941 |
| Production costs capitalized | | 163,653 |
| Transferred to inventory upon harvest | | (817,804) |
| | **$** | **391,456** |

The Company had no biological assets as at December 31, 2017.

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price per gram and also for any additional costs to be incurred, such as post-harvest costs.

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

- **Selling price** – calculated as the Nevada Department of Taxation ("NDOT") determined wholesale fair market value for the period of future sales
- **Stage of growth** – represents the weighted average number of weeks out of the 9 -week flowering cycle that biological assets have reached as of the measurement date
- **Yield by plant** – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant
- **Wastage** – represents the weighted average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested
- **Post-harvest costs** – calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post harvest, consisting of the cost of direct and indirect materials and labour related to labelling and packaging

Notes to the Consolidated Financial Statements (Expressed in United States Dollars)

## 7) BIOLOGICAL ASSETS (CONT'D)

The following table quantifies each significant unobservable input, and also provides the impact a 10% increase/decrease in each input would have on the fair value of biological assets.

| | December 31, 2018 | 10% Change as at December 31, 2018 |
|---|---|---|
| Selling price per gram | $4.57 | $81,110 |
| Stage of growth | 9 weeks | $31,176 |
| Yield by plant (average) | 140 grams | $40,894 |
| Wastage | 2% | $819 |
| Post-harvest costs per gram | $0.39 | $6,644 |

The Company accretes fair value on a straight-line basis according to stage of growth. As a result, a cannabis plant that is 50% through its 9-week growing cycle would be ascribed approximately 50% of its harvest date expected fair value (subject to wastage adjustments) less remaining costs to complete and sell.

Mother plants, or bearer plants, are plants grown for the purpose of taking cuttings in order to grow more quantity of the same plant. Bearer plants are critical to the success of the business and once mature, are held solely to grow produce over their useful life. Costs attributed to the growing of mother plants are included in the costs of biological assets and cuttings are fair valued as an immature plant for which wholesale fair value is determined by NDOT.

## 8) PROPERTY, PLANT AND EQUIPMENT

During the year ended December 31, 2018, the Company entered a purchase agreement with a Nevada corporation (related to a significant shareholder) ("NevadaCo") for the purchase of land and buildings at a purchase price of $40,000,000 which will be paid by $22,000,000 in cash and a note payable of $18,000,000 non-interest bearing, which is secured by the first charge of the property and due on March 31, 2019. The $22,000,000 cash payment includes option payments for the exclusive right to purchase the property and rent for the use of the property for six months until the purchase closing date, the earlier of September 30, 2018 and the date on which the Company purchases the property. On August 30, 2018, the Company paid the final option payment and issued the $18,000,000 note payable to complete the purchase of the property.

Notes to the Consolidated Financial Statements (Expressed in United States Dollars)

## 8) PROPERTY, PLANT AND EQUIPMENT (CONT'D)

As part of the acquisition, and included as part of the $40,000,000, the Company entered a consulting services and intellectual property agreement dated August 17, 2018 with a Delaware corporation that provides services to the Company for a period of one year. On August 17, 2018, the Company allocated $2,172,905 of the $40,000,000 as a prepaid amount for these consulting service. As of December 31, 2018, $1,678,599 remains as prepaid expenses.

Subsequent to December 31, 2018, the $18,000,000 note was amended to extend the maturity date to March 31, 2020 with interest beginning April 1, 2019 at a rate of 9.5% per annum.

| | Land | Building | Equipment | Construction in process | TOTAL |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At December 31, 2017 | $ – | $ – | $ – | $ – | $ – |
| Additions | – | 1,165,396 | 170,892 | 78,705,224 | 80,041,512 |
| Acquisition of NLVO (note 5) | 677,269 | 8,360,443 | 1,162,288 | – | 10,200,000 |
| **At December 31, 2018** | **$ 677,269** | **$ 9,525,839** | **$ 1,333,180** | **$ 78,705,224** | **$ 90,241,512** |

| | Land | Building | Equipment | Construction in process | TOTAL |
|---|---|---|---|---|---|
| **Accumulated depreciation** | | | | | |
| At December 31, 2017 | $ – | $ – | $ – | $ – | $ – |
| Depreciation | – | 59,554 | 15,636 | – | 75,190 |
| **At December 31, 2018** | **$ –** | **$ 59,554** | **$ 15,636** | **$ –** | **$ 75,190** |

| | Land | Building | Equipment | Construction in process | TOTAL |
|---|---|---|---|---|---|
| **Net book value** | | | | | |
| At December 31, 2017 | $ – | $ – | $ – | $ – | $ – |
| **At December 31, 2018** | **$ 677,269** | **$ 9,466,285** | **$ 1,317,544** | **$ 78,705,224** | **$ 90,166,322** |

The Company had no property, plant and equipment as at December 31, 2017.

Notes to the Consolidated Financial Statements (Expressed in United States Dollars)

## 9) INTANGIBLE ASSETS

In April 2018, the Company paid $2,000,000 to an arm's-length party for a provisional medical cultivation and medical production licenses in the state of Nevada. The Company received approval of the transfer of the provisional licenses from the state on April 24, 2018 to the Company's 455,000 square foot greenhouse and production facility in North Las Vegas, Nevada. During the year ended December 31, 2018, these licenses were approved for operational medical and recreational cultivation and medical and recreational production by the state of Nevada.

The Company additionally obtained operational medical and recreational cultivation and medical and recreational production licenses, as well as intangible customer relationships, through its acquisition of the assets of NLVO (note 5).

The changes in the intangible assets are as follows:

| | |
|---|---|
| Opening balance at January 1, 2018 | $ – |
| Acquisition of medical cultivation and recreational licenses | 2,000,000 |
| Acquisition of NLVO licenses (note 5) | 9,206,000 |
| Additional State of Nevada licenses | 127,500 |
| | **$ 11,333,500** |

## 10) NOTES PAYABLE

| | |
|---|---|
| Opening balance at January 1, 2018 | $ – |
| Note payable issued on acquisition of greenhouse (note 8) | 18,000,000 |
| Note issued on acquisition of NLVO (note 5) | 14,023,402 |
| Accrued interest | 56,765 |
| | **$ 32,080,167** |

Fair value of the note payable on acquisition of NLVO was determined using an interest rate of 2.55% and an effective interest rate of 18.1%.

## 11) SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of Class A Common Shares, voting, without nominal or par value.

During the year ended December 31, 2018, the Company closed private placements of:

- 33,955,124 common shares at a price of $0.005 per share for gross proceeds of $131,669.
- 66,044,776 common shares at a price of $0.02 per share for gross proceeds of $1,024,418.
- 39,805,877 common shares at a price of $0.67 per share for gross proceeds of $26,669,938.
- 22,150,950 common shares at a price of $1.50 per share for gross proceeds of $33,226,425.
- 6,550,867 subscription receipts ("SR") at a price of $1.50 per SR for gross proceeds of $9,826,301 for which each SR was converted to common shares on a 1:1 basis upon closing of the RTO on September 21, 2018.

The Company paid cash of $1,957,591 and issued 998,323 common shares, with a deemed value of $0.67 per share, and 281,487 common shares, with a deemed value of $1.50 per share, as fees in relation to these private placements.

As part of the RTO (note 4), the Company issued 2,404,775 common shares to former shareholders of Theia Resources Ltd. at a deemed price of $1.50 per common share.

Throughout the period, 437,500 common shares were issued from the exercise of stock options with an exercise price $0.15 (CAD$0.20) for cash consideration of $66,768 (CAD$87,500).

As part of the acquisition of the assets of NLVO (Note 5), the Company issued 4,000,000 common shares to the former owners of the assets of NLVO at a price of $1.35 per common share being the fair value on the closing date. 500,000 of these shares were to be held in escrow for 90 days after acquisition date. Subsequent to December 31, 2018, these shares were released from escrow.

## 12) STOCK OPTIONS

The Company has established a stock option plan (the "Plan"). Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares and the exercise term of any option granted under the Plan may not exceed ten years. Each option vesting period is determined on a grant by grant basis by the Board of Directors. Total share-based compensation for the year ended December 31, 2018 was $3,239,257 (2017: $nil).

Notes to the Consolidated Financial Statements (Expressed in United States Dollars)

## 12) STOCK OPTIONS (CONT'D)

On March 7, 2018, the Company granted a total of 6,575,000 stock options with fair value of $40,674 to shareholders. These stock options are exercisable at an exercise price of $0.15 (CAD$0.20) per share and may be exercised for five years. Among these options, 2,400,000 options were vested 100% upon the Company's completion of the RTO, the other 4,175,000 were 50% vested upon the Company's completion of the RTO, 25% vested on the date that was six months from the date of the options are granted, and 25% will vest on the date that is twelve months from the date the options were granted. During the year ended December 31, 2018, the Company expensed $39,507 related to these options.

On June 1, 2018, the Company granted a total of 1,340,000 stock options with fair value of $659,915 to shareholders. These stock options are exercisable at an exercise price of $0.67 (CAD$0.85) per share and may be exercised for five years. All options were 50% vested upon the Company's completion of the RTO, 25% will vest on the date that is six months from the date of the options are granted, and 25% will vest on the date that is twelve months from the date the options are granted. During the year ended December 31, 2018, the Company expensed $591,212 related to these options.

On October 9, 2018, the Company granted a total of 4,375,000 stock options with fair value of $4,842,364 to shareholders. These stock options are exercisable at an exercise price of $2.00 (CAD$2.60) per share and may be exercised for five years. Among these options, 1,250,000 options were granted to consultants and vested 100% immediately, the other 3,125,000 were 25% vested immediately, 25% will vest on the date that is twelve months from the date of the options are granted, 25% will vest on the date that is twenty four months from the date of the options are granted and 25% will vest on the date that is thirty six months from the date the options are granted. During the year ended December 31, 2018, the Company expensed $2,608,538 related to these options.

The fair value of each option grant is calculated using the following assumptions:

| | |
|---|---|
| Expected life – year | 5 |
| Interest rate | 2.04-2.11% |
| Volatility | 100.00% |
| Dividend yield | –% |
| Forfeiture rate | –% |
| Exercise price | CAD$0.20-CAD$2.60 |
| Share price | CAD$0.02-CAD$2.00 |

Notes to the Consolidated Financial Statements (Expressed in United States Dollars)

## 12) STOCK OPTIONS (CONT'D)

| | Number of Options | | Weighted Average Exercise Price (CAD$) | Expiry Date |
|---|---|---|---|---|
| Balance, December 31, 2017 | – | $ | – | – |
| Granted, on March 7, 2018 | 6,575,000 | | 0.20 | March 7, 2023 |
| Granted, on June 1, 2018 | 1,340,000 | | 0.85 | June 1, 2023 |
| Granted, on October 9, 2018 | 4,375,000 | | 2.60 | October 9, 2023 |
| Exercised, on November 2, 2018 | (437,500) | | 0.20 | NA |
| Balance, December 31, 2018 | 11,852,500 | $ | 1.16 | |

| Outstanding as at December 31, 2018 | | | | Exercisable as at December 31, 2018 | | |
|---|---|---|---|---|---|---|
| Exercise Price (CAD$) | Number of Options | Weighted Average Exercise Price (CAD$) | Weighted Average Remaining Contractual Life (years) | Number of Options | Weighted Average Exercise Price (CAD$) | Weighted Average Remaining Contractual Life (years) |
| $ 0.20 | 6,137,500 | $ 0.20 | 4.18 | 5,093,750 | $ 0.20 | 4.18 |
| $ 0.85 | 1,340,000 | $ 0.85 | 4.42 | 1,005,000 | $ 0.85 | 4.42 |
| $ 2.60 | 4,375,000 | $ 2.60 | 4.78 | 2,031,250 | $ 2.60 | 4.78 |
| | **11,852,500** | **$ 1.16** | **4.43** | **8,130,000** | **$ 0.88** | **4.43** |

The Company did not grant any stock options in the period from incorporation on December 18, 2017 to December 31, 2017.

Notes to the Consolidated Financial Statements (Expressed in United States Dollars)

## 13) RELATED PARTY TRANSACTIONS

The Company considers a person or entity as a related party if they are a member of key management personnel including their close relatives, an associate or joint venture, those having significant influence over the Company, as well as entities that are controlled by related parties. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Key management personnel includes the Company's Directors, President and Chief Executive Officer, Chief Financial Officer and Corporate Secretary. The amounts owing to key management personnel of $197,139 (2017 - $nil) were included in accounts payable and accrued liabilities. During the year ended December 31, 2018, the Company incurred $377,969 (2017 - $nil) in wages and salaries and $784,328 (2017 - $nil) in share based compensation to key management personnel.

The $40,000,000 purchase of the property from NevadaCo (note 8) is considered a related party as NevadaCo is owned by a significant shareholder of the Company.

## 14) GENERAL AND ADMINISTRATIVE EXPENSES

| | | Year Ended December 31, 2018 | | Period of Incorporation on December 18, 2017 to December 31, 2017 |
|---|---|---|---|---|
| Accounting and Legal | $ | 887,450 | $ | 56,280 |
| Wages and Salaries | | 793,127 | | – |
| Consulting Service | | 1,431,993 | | – |
| Advertising and promotion | | 183,214 | | – |
| Insurance | | 251,275 | | – |
| Rent | | 634,599 | | – |
| Office, Admin and Utilities | | 347,840 | | – |
| Travel | | 365,481 | | 141,785 |
| Other | | 158,882 | | – |
| **General and Administrative** | **$** | **5,053,861** | **$** | 198,065 |

Notes to the Consolidated Financial Statements (Expressed in United States Dollars)

## 15) INCOME TAXES

The following table reconciles the expected income taxes expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the statements of operations and comprehensive loss for the year ended December 31, 2018 and for the period from incorporation on December 18, 2017 to December 31, 2017:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Current tax expense | $ | - | $ | – |
| Deferred tax expense (recovery) | | 76,110 | | – |
| Total income tax expense (recovery) | $ | 76,110 | $ | – |

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Loss before taxes | $ | (12,373,805) | $ | (204,676) |
| Statutory tax rate | | 27.00% | | 26.00% |
| Expected income tax (recovery) | | (3,340,927) | | (53,216) |
| Difference in foreign tax rates | | 76,934 | | – |
| Difference in tax rates and foreign exchange | | (31,867) | | – |
| Non-deductible items | | 2,420,180 | | 1,263 |
| Change in deferred tax asset not recognized | | 951,791 | | 51,953 |
| **Total income tax expense (recovery)** | **$** | **76,110** | **$** | **–** |

The statutory combined federal and provincial tax rate increased from 26% to 27% due to an increase in the provincial tax rate on January 1, 2018.

The significant components of the recognized deferred tax liabilities are as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Property, plant and equipment | $ | (756,715) | $ | – |
| Inventory and biological assets | | (92,346) | | |
| Tax loss carry forwards | | 446 | | – |
| Deferred tax liability | $ | (848,615) | $ | – |

Notes to the Consolidated Financial Statements (Expressed in United States Dollars)

## 15) INCOME TAXES (CONTINUED)

The significant components of deductible temporary differences for which no deferred tax assets have been recognized at December 31, 2018 and December 31, 2017 are as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Tax loss carry-forwards | $ | 3,819,098 | $ | 199,818 |
| Share issuance costs | | 2,041,323 | | – |
| Other | | 484,685 | | – |
| | $ | 6,345,105 | $ | 199,818 |

Deferred income tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefit.

The Company has net-operating losses in the United States of $2,125. These losses do not expire and are available to offset 80% of future taxable profits. The Company has non-capital loss carryforwards, for which no deferred tax asset has been recognized of $3,773,906 which may be carried forward to apply against future income for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following year:

| EXPIRY | | TOTAL |
|---|---|---|
| 2038 | $ | 2,304,659 |
| 2037 | | 1,340,042 |
| 2036 | | 174,397 |
| **TOTAL** | **$** | **3,819,098** |

## 16) FAIR VALUE OF FINANCIAL INSTRUMENTS

**Fair Value Hierarchy**

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

**Level 1** – Unadjusted quoted prices in active markets for identical assets or liabilities;
**Level 2** – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;
**Level 3** – Inputs for the asset or liability that are not based on observable market data.

When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. At December 31, 2018, there were no financial assets and liabilities measured and recognized at fair value on a recurring basis. The fair value of cash, accounts receivable, accounts payable and accrued liabilities and notes payable is not materially different from its carrying value given the short term to maturity.

## 17) FINANCIAL INSTRUMENTS RISK

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring and approving the Company's risk management processes.

**Credit risk**

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash and cash Equivalents and accounts receivables. The risk exposure is limited to their carrying amounts at the statement of financial position date. The risk for cash and cash equivalents is mitigated by holding these instruments with highly rated Canadian financial institutions. Accounts receivables primarily consist of trade accounts receivable. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. As at December 31, 2018, the expected credit loss on all the Company's accounts receivable was $nil (2017 - $nil). All accounts receivables balances at December 31, 2018 are 30 days or less.

**Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's only interest-bearing financial instrument is the NLVO Note which bears interest at the current Applicable Federal Rate as prescribed by the IRS. Subsequent to December 31, 2018, this NLVO Note was repaid in full. As at December 31, 2018, it is management's opinion that the Company is not exposed to significant interest rate risk.

## 17) FINANCIAL INSTRUMENTS RISK (CONTINUED)

**Foreign currency risk**
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. As at December 31, 2018, the Company had cash and accounts payable and accrued liabilities denominated in CAD as the Company incurs expenses in both United States and Canadian dollars. The Company has not hedged its exposure to currency fluctuations at this time. The impact on the Company's consolidated statement of operations and comprehensive loss resulting from a 10% fluctuation in foreign exchange rates would be approximately $70,459.

**Liquidity risk**
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2018, the Company's financial liabilities consist of accounts payable and accrued liabilities and notes payable; all of which are due within 12 months. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis. Due to the Company's ability to raise funds ($63,200,000 raised subsequent to December 31, 2018), the Company regards liquidity risk to be low.

## 18) SEGMENTED INFORMATION

The Company separates its operating segments by geographical areas; Canada and the United States.

| | Canada | United States | TOTAL |
|---|---|---|---|
| Non-current assets | 116,439 | 102,178,608 | 102,295,047 |
| Revenue | – | 130,969 | 130,969 |
| Gross Profit | – | 437,620 | 437,620 |
| Net loss and comprehensive loss | 11,091,571 | 1,358,344 | 12,449,915 |

## 19) CAPITAL MANAGEMENT

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

The capital structure of the Company consists of $68,579,767 in shareholders' equity. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. The Company plans to use existing funds, as well as funds from the future financings (note 20), to fund the completion of the NLV Greenhouse. Additionally, the Company plans to use funds from the future sale of products to fund operations and expansion activities.

## 20) SUBSEQUENT EVENTS

***Lease financing***

On February 1, 2019, the Company entered into a Master Lease Agreement (the "Agreement") with Reich Bros Commercial Finance, for up to $30,000,000 in lease financing for certain equipment at its 455,000 square-foot greenhouse and production facility in North Las Vegas, Nevada. The Agreement has a five-year term, with the first 12 monthly payments being the equivalent of interest only, followed by forty-eight equal payments, such that all amounts advanced under the lease facility are fully amortized by month 60. The Agreement includes a buyout right upon expiration of the term, and early buyout options at months 13, 25 and 37, at the Company's discretion. The Company has completed 2 draws for a total of $20 million.

***Convertible debt financing***

On March 28, 2019, the Company closed a short-form prospectus financing for gross proceeds of $37,600,000 (CAD$50,000,000), consisting of 50,000 convertible debenture units at a price of CAD$1,000 per debenture unit. Each unit consisted of one 9.5% unsecured convertible debenture of the Company maturing three years from the date of issuance and 192 common share purchase warrants. Each warrant entitles the holder thereof to purchase one share at the exercise price of CAD$2.60 per share for a period of 36 months after the closing of the financing. The Company paid a cash commission to the agents equal to 6% of the gross proceeds of the financing and issued to the agents broker warrants equal to 3.5% of the number of common shares issuable upon the conversion of the convertible debentures and 3.5% of the number of common shares issuable upon exercise of the warrants sold as part of the convertible debenture unit. Additionally, on April 1, 2019, the Company announced the full exercise of an over-allotment option for additional gross proceeds of $5,600,000 (CAD$7,500,000), consisting of an additional 7,500 convertible debenture units at a price of CAD$1,000 per debenture unit, making the total gross proceeds from the offering $43,200,000 (CAD$57,500,000).