Management's Discussion and Analysis

For the Three and Six Months Ended June 30, 2019

This Management's Discussion and Analysis ("MD&A") is prepared as at August 13, 2019 and should be read in conjunction with the unaudited condensed consolidated interim financial statements, with the related notes thereto, of Flower One Holdings Inc. (formerly Theia Resources Ltd.) (the "Company" or "Flower One") as at and for the three and six--month periods ended June 30, 2019 and June 30, 2018 (the "Financial Statements"); and 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, of Flower One. Additional information regarding the Company, including its Annual Information Form for the year ended December 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;
- 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;
- foreign investors in Flower One and its directors, officers, and employees may be subject to entry bans into the United States;
- constraints on developing and 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;
- limited operating history;
- 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;
- strategic alliances;
- risks inherent in an agricultural business;
- energy costs;

- reliance on key personnel;
- reliance on a single jurisdiction;
- unknown environmental risks;
- security risks;
- information technology 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;
- failure to comply with anti-bribery laws;
- conflict of interest;
- litigation;
- product liability;
- general economic risks;
- Flower One bring a Canadian company and shareholder protections differ from shareholder protections in the United States and elsewhere;
- volatile market price for Flower One's securities;
- Flower One may not pay dividends;
- future sales or issuances of securities could decrease the value of securities, dilute investors' voting power and reduce earnings per share;
- the regulated nature of Flower One's business may impede or discourage a takeover, which could reduce the market price of Flower One's securities;
- there is no assurance Flower One will continue to meet the listing standards of the Canadian Securities Exchange or the OTCQX'
- Currency fluctuations; 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 PERIOD

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 OTCQX Best 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.

On February 1, 2019, the Company entered into a Master Lease Agreement (the "Agreement") with Landrace Financial, LLC (formerly Reich Bros Commercial Finance), for lease financing on certain equipment at its 455,000 square-foot greenhouse and production facility in North Las Vegas, Nevada. The Agreement has a five-year term. 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 as at June 30, 2019.

On March 28, 2019, the Company closed a short-form prospectus financing for gross proceeds of $37,200,000 (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. Each debenture is also subject to a forced conversion if the volume weighted average price of the Company's common shares exceeds CAD$3.51 per share for 20 consecutive trading days. The Company paid a cash commission to the agents of CAD$3,000,000 (equal to 6% of the gross proceeds of the financing), agent expenses of CAD$147,690 and legal and regulatory fees of CAD$369,418. Additionally, the Company issued to the agents 999,936 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 included as part of the convertible debenture unit). On April 1, 2019, the Company announced the full exercise of an over-allotment option for additional gross proceeds of $5,700,000 (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 $42,900,000 (CAD$57,500,000). As part of the over-allotment, the Company paid a cash commission to the agents of CAD$450,000 (equal to 6% of the gross proceeds of the financing) and issued to the agents 151,200 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 included as part of the convertible debenture unit).

During the six-month period ended June 30, 2019, 10,232 debentures were converted by certain debenture holders in exchange for 3,935,368 common shares of the Company.

On March 31, 2019, the $18,000,000 note on the acquisition of the greenhouse 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 and the Company repaid $4,596,665 of the balance. The Company repaid a further $7,000,000 of principal on June 28, 2019.

On June 27, 2019, the Company entered into a debt financing agreement with RB Loan Portfolio II, LLC for up to $30,000,000. The Agreement is for a two-year term at a rate of LIBOR plus 8% (minimum LIBOR of 2.5%) with interest only payments for the term of the agreement. The Company has the ability to extend the term for 6 months and the ability to pre-pay the outstanding debt with a pre-payment penalty of 3% during the first 12 months and 1% during months 13 to 24. The Company has completed two advances, one on June 27, 2019 for $20,000,000 and one on July 30, 2019 for $10,000,000. As part of the agreement, RB Loan Portfolio II, LLC and certain assignees have received a 25%-warrant coverage, as follows:

(a) with respect to the first advance advance, 1,139,757 warrants with a strike price of CAD$3.46 and 1,139,757 warrants with a strike price of CAD$4.03; and

(b) with respect to the second advance, 589,964 warrants with a strike price of CAD$3.35 and 589,964 warrants with a strike price of CAD$3.91.

During the six-month period ended June 30, 2019, the Company announced separate licensing agreements and brand partnerships which included Rapid Dose Therapeutics, Flyte Concentrates, Old Pal, Palms, Huxton, CannAmerica Brands, Grenco Science (G Pen), The Medicine Cabinet, La Vida Verde, The Clear Cannabis Group and Deuces 22.

The Company's NLV Greenhouse is Nevada's largest commercial greenhouse and the conversion for cannabis cultivation and production was completed in June 2019. The construction project resulted in approximately 400,000 square feet 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.

In addition to the NLV Greenhouse and the Neeham Property, the Company owns land and a building in North Las Vegas, which building the Company proposes to renovate to allow for administrative offices, ensuring that the licensed properties are solely devoted to licensed activities, maximize their potential return. The Company has additionally acquired a 24,000 square foot property immediately adjacent to the Neeham Property.

SELECTED FINANCIAL INFORMATION

The following table provides a summary of selected financial data for the three and six-month periods ended June 30, 2019 and June 30, 2018. For more detailed information, refer to the Financial Statements prepared in accordance with International Financial Reporting Standards ("IFRS").

	Three-months ended June 30, 2019	Three-months ended June 30, 2018	Six-months ended June 30, 2019	Six-months ended June 30, 2018
Revenue	$ 635,793	$ –	$ 1,169,965	$ –
Cost of goods sold	843,594	–	1,335,351	–
Income (loss) for the period	19,050,620	(1,119,592)	20,179,407	(1,589,196)
Total assets	203,927,451	26,079,736	203,927,451	26,079,736
Total non-current financial liabilities	87,259,044	–	87,259,044	–
Distribution of cash dividends	–	–	–	–
Basic EPS	$ 0.11	$ (0.01)	$ 0.12	$ (0.01)
Diluted EPS	$ 0.10	$ (0.01)	$ 0.11	$ (0.01)

Revenue

The Company earned revenue of $635,793 and $1,169,965 during the three and six-month periods ended June 30, 2019 as compared with $nil for both the three and six-month periods ended June 30, 2018. The Company began recording revenue on November 9, 2018 subsequent to the acquisition of the assets of NLVO. The Company expects to begin earning revenue from the sale of products from the NLV Greenhouse during Q3 2019.

Cost of Goods Sold

Cost of goods sold was $843,594 and $1,335,351 during the three and six-month periods ended June 30, 2019 as compared with $nil for both the three and six-month periods ended June 30, 2018. Cost of goods sold 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. Upon the acquisition of NLVO on November 9, 2018, all inventory and biological assets acquired were recorded at their fair value. As the majority of product sold for the six-month period ended June 30, 2019 was related to the acquired inventory and biological assets from NLVO, the cost of goods sold figures are approximately the fair value of those products.

Other expenses

The Company recorded net income of $19,050,620 and $20,719,407 for the three and six-month periods ended June 30, 2019. The net income amounts are mainly comprised of

- $37,267,198 and $47,640,645 in fair value gain on growth of biological assets for the three and six-month periods ended June 30, 2019. This amount represents the effect of the non-cash fair value adjustments of biological assets produced in the period, excluding capitalized production costs;
- $292,996 and $358,481 in realized fair value on the sale of inventory for the three and six-months ended June 30, 2019. This amount represents the effect of the non-cash fair value adjustments capitalized to inventory being recognized in the statement of operations as the corresponding inventory is sold;

- $460,915 and $1,342,959 in share-based compensation for the three and six-month periods ended June 30, 2019;
- $3,124,044 and $5,718,647 in finance expenses for the three and six-month periods ended June 30, 2019, related to interest, accretion and transaction costs associated with the convertible debenture, notes payable, leases and term debt;
- $1,790,654 and $1,718,814 in losses related to fair value adjustments on derivative liabilities for the three and six-month periods ended June 30, 2019;
- $nil and $976,026 in gains related to the modification to the note payable on the acquisition of the NLV Greenhouse for the three and six-month periods ended June 30, 2019;
- $795,582 and $1,118,903 in foreign exchange loss for the three and six-month periods ended June 30, 2019 related to the Company's cash balances held in CAD$, the convertible debentures and the derivative liabilities;
- $7,883,056 and $10,025,237 in income tax expense for the three and six-month periods ended June 30, 2019 related mainly to the fair value gain on growth of biological assets; and
- $3,732,450 and $7,370,244 in general and administrative expenses for the three and six-month periods ended June 30, 2019. Of these general and administrative expenses:
    - $944,383 and $1,383,546 in accounting and legal fees for the three and six-month periods ended June 30, 2019. The Company commenced operations in March 2018 which has increased accounting and legal costs incurred as compared to the three and six-month periods ended June 30, 2018.
    - $492,217 and $949,715 in wages and salaries for the three and six-month periods ended June 30, 2019. 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. The Company commenced operations in March 2018; increased wages and salaries were incurred as compared to the three and six-month periods ended June 30, 2018.
    - $679,587 and $1,599,266 in consulting services for the three and six-month periods ended June 30, 2019. These amounts relate to consultants used throughout the period in the areas of finance, growing, production scheduling, crop maintenance, irrigation, lighting and others. The Company commenced operations in March 2018; increased costs were incurred as compared to the three and six-month periods ended June 30, 2018.
    - $130,265 and $195,245 in advertising and promotion for the three and six-month periods ended June 30, 2019. These amounts relate to costs incurred to promote the Company including investor relations and public relations.
    - $201,798 and $343,566 in insurance for the three and six-month periods ended June 30, 2019. These amounts relate to insurance on the NLV greenhouse and for directors and officers.
    - $392,119 and $700,574 in rent and security for the three and six-month periods ended June 30, 2019. This amount relates primarily to security costs at the Neeham Property and the NLV Greenhouse.
    - $451,204 and $1,220,236 in office, admin and utilities for the three and six-month periods ended June 30, 2019. These amounts relate to general office and admin expenses and utilities on the NLV Greenhouse as well as the Neeham Property.
    - $286,354 and $714,745 in travel for the three and six-month periods ended June 30, 2019. Included in travel costs were travel expenses associated with financing activities, brand licensing, project management and operational support. The Company commenced operations in March 2018, increased travel costs were incurred as compared to the three and six-month periods ended June 30, 2018.

- $154,523 and $263,351 in other expenses for the three and six-month periods ended June 30, 2019. These amounts relate mainly to repairs and maintenance, website charges, bank charges, business fees and licenses.

Cash Flows

During the six-months ended June 30, 2019, the Company used $14,715,094 of cash in its operating activities (2018: $2,718,169). The company invested $38,286,856 into property, plant and equipment (2018: $21,141,406) and has $728,996 in prepaid property, plant and equipment (2018: $nil). The property, plant and equipment invested in represents cash used on the construction of the NLV Greenhouse. During the period, the company raised a net amount $51,739,425 from financing activities (2018: $27,622,902); ($39,899,814 from the convertible debentures, $19,566,900 from the lease financing, $19,056,480 from the term debt and repaid $26,759,833 in notes payable).

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

OPERATIONS

As of the date of this MD&A, 100% of construction and renovation work have been completed on all cultivation areas of the 400,000 square foot NLV Greenhouse and the 55,000 propagation, post-harvest and production facility. The Company is fully canopied at the NLV Greenhouse and is currently commissioning the extraction lab and expects to begin the production of extracted cannabis products early Q3 2019.

The Company is now cultivating cannabis at its NLV Greenhouse at an average yield of 38.3 grams per sq/ft per harvest and for total cash cost per harvested gram of $0.45 for the period ended June 30, 2019. With the completion of its initial 4 harvests at the NLV Greenhouse, the Company had cannabis inventory of approximately 14,000 pounds at June 30, 2019.

As of the date of this MD&A, the Company has successfully completed initial harvests of all 8 flower zones of the NLV Greenhouse and has continued its weekly harvest cycle. With the commissioning of the extraction lab currently underway, a significant portion of this production will now transition to that facility to generate distilled product for our upcoming brand partner releases.

Share Capital and Stock Options

The Company issued 3,935,368 common shares during the three and six-month period ended June 30, 2019 through the conversion of convertible debentures and 100 common shares from the exercise of warrants.

On March 28, 2019, the Company granted a total of 630,000 stock options with fair value of $908,712 to employees, directors and consultants. These stock options are exercisable at an exercise price of $1.95 (CAD$2.62) per share and may be exercised for five years. Among these options, 330,000 options were granted to consultants and vested 100% immediately, the other 300,000 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 three and six-month period ended June 30, 2019, the Company expensed $37,866 and $487,379, respectively, related to these options.

For all previous stock option grants, the Company expensed $423,050 and $855,580 during the three and six-month periods ended June 30, 2019, respectively.

SUMMARY OF QUARTERLY RESULTS

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

	Q2 2019	**Q1 2019**	**Q4 2018**	**Q3 2018**	**Q2 2018**	**Q1 2018**	**Period from incorporation on December 18, 2017 to December 31, 2017**
Revenue	635,793	534,172	130,969	–	–	–	–
Cost of goods sold	(843,594)	(491,757)	(133,094)	–	–	–	–
Income/(loss) for the period	19,050,620	1,668,786	(5,279,068)	(5,581,651)	(1,589,196)	(469,604)	(204,676)
Basic EPS	0.11	0.01	(0.03)	(0.04)	(0.01)	(0.01)	(2,046.76)
Diluted EPS	0.12	0.01	(0.03)	(0.04)	(0.01)	(0.01)	(2,046.76)
Weighted Avg. Shares O/S	178,990,380	176,699,779	174,754,508	150,486,724	140,723,006	83,152,913	100

LIQUIDITY AND CAPITAL RESOURCES

Accounts payable and accrued liabilities are due within one year. The Company has a working capital as at June 30, 2019 of $41,905,093 which mainly included $599,714 in cash and cash equivalents $3,648,439 in prepaid expenses, $25,466,545 in inventory, $30,600,970 in biological assets, $11,615,992 in accounts payable and accrued liabilities, $1,425,505 in current lease liability and $5,737,634 for notes payable. During the period, the maturity date on the NLV Greenhouse note was extended to March 31, 2020 with interest commencing April 1, 2019 at a rate of 9.5% per annum resulting in a gain on debt modification of $976,026.

The Company is currently generating revenues out of the Neeham Property and anticipates revenues to begin at the NLV Greenhouse in Q3 2019. The Company has completed its renovation on the NLV Greenhouse and is in the commissioning stages of its extraction facility within the 55,000 square-foot post-harvest and production facility. The Company has been successful in obtaining financing as $70,878,750 had been raised during the year ended December 31, 2018. During the six-months ended June 30, 2018, the Company obtained lease financing of up to $30,000,000, for which it has drawn $20,000,000, $43,200,000 (CAD$57,500,000) in public financing, including the over-allotment which closed April 1, 2019 and $20,000,000 in term debt. The Company will be required to raise additional funds to repay the remainder of the note payable and to fund expansion and growth.

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

The amounts owing to key management personnel of $74,627 were included in accounts payable and accrued liabilities as at June 30, 2019 (December 31, 2018 - $197,139). During the three and six-month periods ended June 30, 2019, the Company incurred $102,250 and $214,500 (three and six-month periods ended June 30, 2018: $62,500 and $125,741) in wages and salaries, respectively, and $216,962 and $434,784 (three and six-month periods ended June 30, 2018: $40,914 and $43,495), respectively, in share-based compensation to key management personnel.

OFF-BALANCE SHEET ARRANGEMENTS

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

COMMITMENTS

As of June 30, 2019, the Company had spent $113,570,957 on the NLV Greenhouse, which includes the purchase price of $40,000,000. Additionally, included in prepaid expenses is $728,996 in funds advanced on the purchase of equipment for the NLV Greenhouse. As of the date of this MD&A, the Company is fully funded in order to complete the NLV Greenhouse but will be required to raise additional funds to repay the remainder of the NLV Greenhouse note.

As part of the convertible debenture financing, based on the remaining convertible debentures, the Company is committed to repayment of the debentures with interest totaling $45,537,736.

The Company is committed to repay the note payable with interest totaling $6,713,660.

As part of the lease financing, the Company is committed to repayment of the financing with interest totaling $26,980,482.

As part of the term debt financing, the Company is committed to repayment of the financing with interest totaling $24,200,000.

During the six-month period ended June 30, 2019, the Company entered into a five-year lease for an inventory management, production planning, packaging inventory and non-cannabis materials handling facility near the NLV Greenhouse for monthly lease amounts of $22,000.

SUBSEQUENT EVENTS

Term Debt Advance

On July 28, 2019, the Company completed the final advance on the term debt with RB Loan Portfolio II, LLC. As part of the advance, the Company issued 589,964 warrants with a strike price of CAD$3.35 and 589,964 warrants with a strike price of CAD$3.91.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the 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. 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.

Convertible Debentures

The identification of convertible note components is based on interpretations of the substance of the contractual arrangement and therefore requires judgement from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

NEW ACCOUNTING STANDARDS ADOPTED BY THE COMPANY

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 guidance in IAS 17, Leases, and is to be applied either retrospectively or a modified retrospective approach. IFRS 16 introduces a single accounting model for lessees. The Company, as lessee, is required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. The Company elected to not apply IFRS 16 to leases with a term of less than 12 months, which election is made by underlying class of assets to which the right of use asset relates, and leases where the underlying asset is of low value, which election is made on an asset by asset basis.

The Company had no leases in place as at December 31, 2018, therefore no retrospective application is necessary and there was no financial statement impact to the Company on adoption.

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.

When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. At June 30, 2019, the fair values of cash, accounts receivable, accounts payable and accrued liabilities and notes payable are not materially different from their carrying values given the short term to maturity. The carrying value of the term debt and lease financing, both discounted at their effective interest rates, approximates their fair value. The fair value of derivatives is disclosed in the financial statements.

As the convertible debentures are freely traded on the CSE (symbol "FONE.DB"), the fair value of the combined debt component and conversion feature is determinable. The fair value of the conversion feature is determined using a variant of the Black-Scholes option pricing model and was $10,402,066 (CAD$13,613,184) at June 30, 2019. Based on the fair value of outstanding debentures at June 30, 2019 of $39,730,114 (CAD$51,994,800), the fair value of the debt component was calculated as the residual being $29,328,048 (CAD$38,381,616).

As the convertible debenture warrants are freely traded on the CSE (symbol "FONE.WT"), the fair value of these outstanding warrants at June 30, 2019 is $6,326,832 (CAD$8,279,925).

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 June 30, 2019, the expected credit loss on all the Company's accounts receivable was nominal. All accounts receivables balances at June 30, 2019 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 interest-bearing financial instruments include the convertible debentures, which bears interest at 9.5% per annum, the note payable related to the greenhouse purchase which bears interest at 9.5% effective April 1, 2019 and the term debt which bears interest at LIBOR plus 8% (minimum LIBOR of 2.5%). As the term loan bears interest at LIBOR plus 8%, the Company is exposed to interest rate risk on fluctuations in LIBOR. The current LIBOR rate is below the minimum 2.5% per the term debt, and therefore the impact on the Company's consolidated interim statement of operations and comprehensive loss resulting from a 10% increase in LIBOR above the 2.5% minimum would be approximately $2,301.

- 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 June 30, 2019, 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. Additionally, the convertible debentures are denominated in CAD. The Company has not hedged its exposure to currency fluctuations at this time. The impact on the Company's consolidated interim statement of operations and comprehensive loss resulting from a 10% fluctuation in foreign exchange rates would be approximately $28,735.

- 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 June 30, 2019, the Company's financial liabilities consist of accounts payable and accrued liabilities and notes payable (both of which are due within 12 months) and the convertible debentures, lease financing and term debt. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis. Due to the Company's ability to raise funds ($82,856,308 raised in the six-months ended June 30, 2019), 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 $97,889,276 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 180,965,495 common shares outstanding.

As of the date of this MD&A, there were 13,882,500 stock options outstanding, each exercisable into one common share of the Company.

As of the date of this MD&A, there were 15,650,478 warrants outstanding, each exercisable into one common share of the Company.

As of the date of this MD&A, there were 46,318 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.

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 anti-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.

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

U.S. states and territories that have medical and/or adult-use markets 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 anti-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.

The FinCEN 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.

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, 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 anti-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.

Heightened scrutiny by Canadian and U.S. regulatory authorities

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.[1] 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 Flower One's 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 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

[1] 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/.

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 developing and marketing products

The development of Flower One's business and operating results may be hindered by applicable restrictions on development, 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. Flower One cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by government authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on Flower One's business, results of operation and financial condition.

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.

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.

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 just begun to generate revenue and it has recently completed its first commercial cannabis crop at the NLV Greenhouse, 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.

In addition, Flower One is subject to all of the business risks and uncertainties associated with any early-stage enterprise, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources, and lack of revenues. Flower One has been incurring operating losses. Flower One may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. Furthermore, the Company expects to continue to increase operating expenses as it implements initiatives to grow its business. There is no assurance that the Company will be successful in achieving a return on shareholders' investments and the likelihood of success must be considered in light of the early stage of the Company's operations.

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 completion of the conversion of the NLV Greenhouse and its ongoing operations, and other infrastructure, as well as for growth and for regulatory compliance. These costs, particularly if they exceed budget amounts, 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 completion 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. Cannabis is a controversial topic, and 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.

In addition to consumers, the parties with which Flower One does business may perceive that they are exposed to reputational risk as a result of Flower One's cannabis business activities. Failure to establish or maintain business relationships could have a material adverse effect on Flower One.

Strategic Alliances

Flower One may in the future enter into, strategic alliances with third parties that Flower One believes will complement or augment its existing business. Flower One's ability to complete strategic alliances is dependent upon, and may be limited by, the availability of suitable candidates and capital. In addition, strategic alliances could present unforeseen regulatory issues, integration obstacles or costs, may not enhance Flower One 's business, and may involve risks that could adversely affect Flower One, including significant amounts of management time that may be diverted from operations in order to pursue and complete such transactions or maintain such strategic alliances. Future strategic alliances could result in the incurrence of additional debt, costs and contingent liabilities, and there can be no assurance that future strategic alliances will achieve the expected benefits to Flower One's business or that Flower One will be able to consummate future strategic alliances on satisfactory terms, or at all. Any of the foregoing could have a material adverse effect on Flower One's business, financial condition and results of operations.

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 certain consulting agreements. 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.

Environmental laws and employee health and safety regulations

Flower One's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. Flower One incurs ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to obtain an environmental compliance approval under applicable regulations or otherwise comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on Flower One's manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to Flower One's operations or give rise to material liabilities, which could have a material adverse effect on Flower One's business, results of operations and financial condition.

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 or operations. The presence of other hazardous conditions will likely delay construction or operations 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.

Information technology risks

Flower One's operations depend, in part, on how well Flower One and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. Flower One's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact Flower One's reputation and results of operations.

Flower One has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that Flower One will not incur such losses in the future. Flower One's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, Flower One may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

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. Furthermore, any product recall affecting the cannabis industry more broadly could lead consumers to lose confidence in the safety and security of the products sold by Cannabis license holders generally, which could have a material adverse effect on Flower One's business, financial condition and results of operations.

Results of future clinical research

Research in Canada, the United States 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, readers 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.

Flower One's future success depends upon its ability to achieve competitive per unit costs through increased production and Flower One's ability to recognize higher margins through the sale of higher margin products. To the extent that Flower One is not able to produce its products at competitive prices or consumers prioritize established low margin products over innovative, higher margin products, Flower One's business, financial conditions and operations could be materially and adversely affected.

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.

There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be available on favorable terms. 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.

If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution. Debt financings may increase Flower One's debt levels above industry standards or its ability to service such debt. Any debt financing obtained in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which could make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. Debt financings may contain provisions, which, if breached, entitle lenders to accelerate repayment of debt and there is no assurance that Flower One would be able to repay such debt in such an event or prevent the enforcement of security, if any, granted pursuant to such debt financing.

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.

Failure to comply with anti-bribery laws

Flower One is subject to the *Corruption of Foreign Public Officials Act* (Canada) **("CFPOA")** and the United States Foreign Corrupt Practices Act ("**FCPA**"), which generally prohibit companies and company employees from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. The CFPOA and the FCPA also require companies to maintain accurate books and records and internal controls, including at foreign controlled subsidiaries. In addition, Flower One may become subject to other anti-bribery laws of any nations in which it conducts business that apply similar prohibitions as the CFPOA and FCPA (e.g. the Organization for Economic Co-operation and Development Anti-Bribery Convention). Flower One's employees or other agents may, without Flower One's knowledge and despite Flower One's efforts, engage in prohibited conduct under Flower One's policies and procedures and the CFPOA, the FCPA or other anti-bribery laws to which Flower One may be subject for which Flower One may be held responsible. If Flower One's employees or other agents are found to have engaged in such practices, Flower One could suffer severe penalties and other consequences that may have a material adverse effect on Flower One's business, financial condition and results of operations.

Conflict of interest

Certain of Flower One's directors and officers are also directors and officers of other companies. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers conflict with or diverge from Flower One's interests. In accordance with the BCBCA, directors who have a material interest in any person who is a party to a material contract or a proposed material contract are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract.

Litigation

Flower One may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Monitoring and defending against legal actions, whether or not meritorious, can be time-consuming, divert management's attention and resources and cause Flower One to incur significant expenses. In addition, legal fees and costs incurred in connection with such activities may be significant and Flower One could, in the future, be subject to judgments or enter into settlements of claims for significant monetary damages. Substantial litigation costs, even if Flower One wins, or an adverse result in any litigation may adversely affect Flower One's ability to continue operating and the market price for Common Shares and could use significant resources.

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 and political risks

Flower One may be affected by possible political or economic instability. The risks include, but are not limited to, terrorism, military repression, extreme fluctuations in currency exchange rates, high rates of inflation or unemployment, consumer trends and spending. Changes in medicine and agricultural development or investment policies or shifts in political attitude in certain countries may adversely affect Flower One's business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, distribution, price controls, export controls, income taxes, expropriation of property, maintenance of assets, environmental legislation, land use, land claims of local people and water use. The effect of these factors cannot be accurately predicted.

Flower One is a Canadian company and shareholder protections differ from shareholder protections in the United States and elsewhere

Flower One is organized and exists under the laws of British Columbia, Canada and, accordingly, is governed by the BCBCA. The BCBCA differs in certain material respects from laws generally applicable to United States corporations and shareholders, including the provisions relating to interested directors, mergers and similar arrangements, takeovers, shareholders' suits, indemnification of directors and inspection of corporation records.

Risks Related to Securities

Volatile market price for Flower One's securities

The market price for the Securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which will be beyond Flower One's control, including, but not limited to the following: (i) actual or anticipated fluctuations in Flower One's quarterly results of operations; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of companies in the industry in which Flower One will operate; (iv) addition or departure of Flower One's executive officers and other key personnel and consultants; (v") release or expiration of transfer restrictions on outstanding Securities; (vi) sales or perceived sales of additional shares; (vii) operating and financial performance that vary from the expectations of management, securities analysts and investors; (viii) regulatory changes affecting Flower One's industry generally and its business and operations both domestically and abroad; (ix) announcements of developments and other material events by Flower One or its competitors; (x) fluctuations in the costs of vital production materials and services; (xi) changes in global financial markets and global economies and general market conditions, such as interest rates and pharmaceutical product price volatility; (xii) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving Flower One or its competitors; (xiii) operating and share price performance of other companies that investors deem comparable to Flower One or from a lack of market comparable companies; and (xiv) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in Flower One's industry or target markets. Such volatility may affect the price at which you could sell any of the securities of Flower One, and the sale of substantial amounts of securities could adversely affect the price of Common Shares.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of each of the Flower One's securities may decline even if Flower One's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, Flower One's operations could be adversely impacted, and the trading price of the Securities may be materially adversely affected.

Flower One may not pay dividends

Flower One has not paid dividends in the past and does not anticipate paying dividends in the near future. Flower One expects to retain its earnings to finance further growth and, when appropriate, retire debt. Any decision to pay dividends on the Common Shares in the future will be at the discretion of Flower One's board of directors and will depend on, among other things, Flower One's results of operations, current and anticipated cash requirements and surplus, financial condition, any future contractual restrictions and financing agreement covenants, solvency tests imposed by corporate law and other factors that the board of directors may deem relevant. As a result, investors may not receive any return on an investment in the Common Shares unless they are able to sell their shares for a price greater than that which such investors paid for them.

Future sales or issuances of securities could decrease the value of securities, dilute investors' voting power and reduce earnings per share

Flower One may sell additional securities in subsequent offerings (including through the sale of securities convertible into equity securities and may issue equity securities in acquisitions). Flower One cannot predict the size of future issuances of equity securities or the size and terms of future issuances of debt instruments or other securities convertible into equity securities or the effect, if any, that future issuances and sales of debt instruments or securities will have on the market price of the securities, where there is a market for such securities.

Issuance by Flower One or sales by Flower One or its existing security holders or substantial numbers of securities, or the perception that such issuances or sales could occur, may adversely affect the prevailing market prices for securities and result in dilution, possibly substantial, to current security holders. Such issuances or sales could occur at prices less than the current market price for such securities. Exercises of presently outstanding share options or warrants may also result in dilution to security holders.

The regulated nature of Flower One's business may impede or discourage a takeover, which could reduce the market price of Flower One's securities

Flower One requires and holds various government licenses to operate its business, which would not necessarily continue to apply to an acquiror of Flower One's business following a change of control. These licensing requirements could impede a merger, amalgamation, takeover or other business combination involving Flower One or discourage a potential acquirer from making a tender offer for Common Shares, which, under certain circumstances, could reduce the market price of Flower One's securities.

There is no assurance Flower One will continue to meet the listing standards of the CSE or the OTCQX

Flower One must meet continuing listing standards to maintain the listing of Common Shares, warrant and convertible debentures on the CSE and Common Shares on the OTCQX **(**the "**Listed Securities**"). If Flower One fails to comply with such listing standards and the CSE or the OTCQX delists any of the Listed Securities, Flower One and its security holders could face significant material adverse consequences, including:

- a limited availability of market quotations for the delisted Listed Securities;
- reduced liquidity for such Listed Securities;
- a determination that such Listed Securities are "penny stock," which would require brokers trading in such Listed Securities to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for such Listed Securities;
- a limited amount of news about Flower One and analyst coverage of it; and
- a decreased ability for Flower One to issue additional securities or obtain additional equity or debt financing in the future.

Flower One cannot assure that a market will exist or continue to develop or be sustained for its securities. If a market does not continue to develop or is not sustained, it may be difficult for investors to sell securities at an attractive price or at all. The Company cannot predict the prices at which its securities will trade.

Currency fluctuations

Due to Flower One's present operations in the United States, its intention to continue future operations outside Canada, certain of its operating expenses being incurred in United States dollars and certain of its operating expenses being incurred in Canadian dollars, Flower One is expected to be exposed to significant currency fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. All or substantially all of the Flower One's revenue will be earned in US dollars, but a portion of its operating expenses are incurred in Canadian dollars. Flower One does not have currency hedging arrangements in place and there is no expectation that the Flower One will put any currency hedging arrangements in place in the future. Fluctuations in the exchange rate between the US dollar and the Canadian dollar may have a material adverse effect on the Flower One's business, financial position or results of operations.

FLOWER ONE HOLDINGS INC.

Condensed Consolidated Interim Financial Statements

(UNAUDITED, PREPARED BY MANAGEMENT)

EXPRESSED IN UNITED STATES DOLLARS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND JUNE 30, 2018

FLOWER ONE HOLDINGS INC.

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

(UNAUDITED, PREPARED BY MANAGEMENT)

		June 30, 2019		December 31, 2018
Assets				
Current assets				
Cash and cash equivalents	$	599,714	$	2,591,235
Accounts receivable		368,556		55,010
Prepaids		3,648,439		4,897,647
Inventory (note 4)		25,466,545		5,362,234
Biological assets (note 5)		30,600,970		391,456
		60,684,224		13,297,582
Non-current assets				
Property, plant and equipment (note 6)		131,161,235		90,166,322
Intangible assets (note 7)		11,286,767		11,333,500
Goodwill		795,225		795,225
Total assets	**$**	**203,927,451**	**$**	**115,592,629**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (note 14)	$	11,615,992	$	14,084,080
Lease liability (note 10)		1,425,505		-
Notes payable (note 8)		5,737,634		32,080,167
		18,779,131		46,164,247
Non-current liabilities				
Convertible debenture (note 9)		21,564,895		-
Derivative liability (notes 9 and 11)		17,410,141		-
Lease liability (note 10)		19,806,421		-
Term debt (note 11)		17,603,736		-
Deferred tax liability (note 17)		10,873,851		848,615
Total liabilities		**106,038,175**		**47,012,862**
Shareholders' equity				
Share capital (note 12)		84,692,900		77,997,726
Contributed surplus (note 13)		5,131,560		3,236,632
Retained earnings (deficit)		8,064,816		(12,654,591)
		97,889,276		68,579,767
Total liabilities and shareholders' equity	**$**	**203,927,451**	**$**	**115,592,629**

Nature of operations (note 1)

Subsequent events (notes 9, 11 and 13)

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 condensed consolidated interim financial statements.

FLOWER ONE HOLDINGS INC.

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

(UNAUDITED, PREPARED BY MANAGEMENT)

	Three months ended June 30 2019	Three months ended June 30 2018	Six months ended June 30 2019	Six months ended June 30 2018
Revenue	**$ 635,793**	**$ –**	**$ 1,169,965**	**$ –**
Cost of sales	**(843,594)**	–	**(1,335,351)**	–
Gross profit before fair value adjustments	**(207,801)**	**–**	**(165,386)**	**–**
Realized fair value adjustment on sale of inventory (note 4)	(292,996)	–	(358,481)	–
Unrealized fair value adjustment on growth of biological assets (note 5)	37,267,198	–	47,640,645	–
Gross profit	36,766,401	–	47,116,778	–
Expenses				
General and administrative (note 15)	(3,732,450)	(724,693)	(7,370,244)	(1,018,655)
Share-based compensation (note 13)	(460,915)	(187,298)	(1,342,959)	(192,735)
Depreciation and amortization (notes 6 and 7)	70,951	–	(78,562)	–
Income (loss) from operations	32,643,987	(911,991)	38,325,013	(1,211,390)
Other expenses				
Finance expenses (note 16)	(3,124,044)	–	(5,718,647)	–
Fair value loss on derivatives (notes 9 and 11)	(1,790,685)	–	(1,718,845)	–
Gain on note payable modification (note 8)	–	–	976,026	–
Foreign exchange loss	(795,582)	(207,601)	(1,118,903)	(377,806)
Net income (loss) before income taxes	26,933,676	(1,119,592)	30,744,644	(1,589,196)
Income tax expense (note 17)	(7,883,056)	–	(10,025,237)	–
Net income (loss) and comprehensive income (loss) for the period	**$ 19,050,620**	**$ (1,119,592)**	**$ 20,719,407**	**$ (1,589,196)**
Basic income (loss) per share (note 18)	$ 0.11	$ (0.01)	$ 0.12	$ (0.01)
Diluted income (loss) per share (note 18)	$ 0.10	$ (0.01)	$ 0.11	$ (0.01)

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

FLOWER ONE HOLDINGS INC.

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

(UNAUDITED, PREPARED BY MANAGEMENT)

		Six months ended June 30, 2019		Six months ended June 30, 2018
Operating activities:				
Income (loss) for the period	$	20,719,407	$	(1,589,196)
Items not affecting cash				
Unrealized foreign exchange loss		863,202		–
Unrealized gain on fair value adjustment on growth of biological asset		(47,640,645)		–
Unrealized gain on note payable modification		(976,026)		–
Unrealized fair value loss on derivatives		1,718,845		–
Finance expenses (note 16)		5,718,647		–
Interest paid		(1,944,783)		–
Share-based compensation		1,342,959		192,735
Depreciation		78,562		–
Deferred income tax expense		10,025,237		–
Changes in non-cash operating working capital (note 23)		(4,620,499)		(1,321,708)
		(14,715,094)		(2,718,169)
Financing activities:				
Proceeds on convertible debt financing, net of transaction costs		39,899,814		–
Proceeds of lease financing, net of transaction costs		19,566,900		–
Proceeds of term debt financing, net of transaction costs		19,056,480		–
Repayment of lease financing principal		(24,183)		–
Repayment of notes payable		(26,759,833)		–
Proceeds of issuance of common shares, net of share issuance costs		247		27,622,902
		51,739,425		27,622,902
Investing activities:				
Purchase of property, plant and equipment		(38,286,856)		(19,013,906)
Purchase of intangible assets		–		2,127,500
Prepayment of property, plant and equipment		(728,996)		–
		(39,015,852)		(21,141,406)
Increase in cash		(1,991,521)		3,763,327
Cash and cash equivalents, beginning of period		2,591,235		–
Cash and cash equivalents, end of period	**$**	**599,714**	**$**	**3,763,327**

Supplemental cash flow information (note 23)

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

FLOWER ONE HOLDINGS INC.

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

(UNAUDITED, PREPARED BY MANAGEMENT)

	SHARES	AMOUNT	CONTRIBUTED SURPLUS	RETAINED EARNINGS (DEFICIT)	TOTAL
Balance at December 31, 2017	100	$ 10	$ –	$ (204,676)	$ (204,666)
Issued on private placement, net of share issuance costs	139,805,777	26,954,026	–	–	26,954,026
Shares issued as fees for private placement	998,323	668,876	–	–	668,876
Share-based compensation	–	–	192,735	–	192,735
Net loss	–	–	–	(1,589,196)	(1,589,196)
At June 30, 2018	**140,804,200**	**27,622,912**	**192,735**	**(1,793,872)**	**26,021,775**
Balance at December 31, 2018	176,629,779	77,997,726	3,236,632	(12,654,591)	68,579,767
Shares issued on conversion of convertible debentures (note 9)	3,935,368	6,694,927	–	–	6,694,927
Warrants issued as fees for convertible debentures (notes 9 and 13)	–	–	552,017	–	552,017
Warrants exercised	100	247	(48)	–	199
Share-based compensation (note 13)	–	–	1,342,959	–	1,342,959
Net income	–	–	–	20,719,407	20,719,407
At June 30, 2019	**180,565,247**	**$ 84,692,900**	**$ 5,131,560**	**$ 8,064,816**	**$ 97,889,276**

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

1) NATURE OF OPERATIONS

Flower One Holdings Inc. ("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 OTCQX Best Market in the United States under the symbol "FLOOF". The Company's debentures and warrants issued as part of the convertible debenture financing (note 9), are listed on the CSE under the symbols "FONE.DB" and "FONE.WT", respectively. 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.

These condensed consolidated interim 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 condensed consolidated interim 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.

2) BASIS OF PRESENTATION

Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). These should be read in conjunction with the Company's last annual consolidated financial statements as at and for the year ended December 31, 2018 ("last annual financial statements"). The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied in the last annual financial statements with the exception of those discussed in note 3. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of changes in the Company's financial position and performance since the last annual financial statements.

On August 13, 2019, the Company's Board of Directors approved these condensed consolidated interim financial statements for issuance.

Basis of Measurement

These condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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 judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. The critical accounting judgments within these condensed consolidated interim financial statements remain the same as those applied to the last annual financial statements with the exception of:

2) BASIS OF PRESENTATION (CONT'D)

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

Convertible Debentures

The identification of convertible note components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These condensed consolidated interim 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., North Las Vegas Equipment Co. III, Inc and North Las Vegas Services, Inc.

Convertible Debentures

Convertible debentures are compound financial instruments which are accounted for separately by their components. For compound financial instruments that do not contain embedded derivatives, the financial liability, which represents the obligation to pay coupon interest on the convertible notes in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. Transaction costs are apportioned to the debt liability and equity components in proportion to the allocation of proceeds as a reduction to the carrying amount of the liability and equity component.

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

Convertible Debentures (cont'd)

For convertible debentures that contain embedded derivatives, the embedded derivatives are separated out, if they are not considered closely related, and recorded at fair value initially and at each reporting period. The residual amount is assigned to the debt host liability component and recorded at amortized cost. Transaction costs are apportioned to each component of the compound financial instrument with the amounts apportioned to the embedded derivatives being expensed immediately.

Upon conversion, the embedded derivatives are fair valued on their conversion date, the liability component and conversion feature embedded derivative are removed at their carrying amounts and common shares are issued at the carrying value of any embedded conversion feature and the unamortized carrying amount of the liability component.

Leases

A contract is or contains a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and is adjusted for certain re-measurements of the lease liability. The cost of the right-of-use asset includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs, and if applicable, an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The incremental borrowing rate reflects the rate of interest that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. The Company applies judgment to determine the lease term for some lease contracts which contain renewal options.

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

Leases (cont'd)
The Company does not recognize right-of-use assets and lease liabilities for leases of low-value assets and leases with lease terms that are less than 12 months. Lease payments associated with these arrangements are instead recognized as an expense over the term on either a straight-line basis, or another systematic basis if more representative of the pattern of benefit.

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 (note 7) 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. Customer relationships (note 7) are classified as definite life intangible assets and are amortized over 10 years.

Adoption of New Accounting Policies

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 guidance in IAS 17, *Leases*, and is to be applied either retrospectively or a modified retrospective approach. IFRS 16 introduces a single accounting model for lessees. The Company, as lessee, is required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. The Company elected to not apply IFRS 16 to leases with a term of less than 12 months, which election is made by underlying class of assets to which the right of use asset relates, and leases where the underlying asset is of low value, which election is made on an asset by asset basis.

The Company had no leases in place as at December 31, 2018, therefore no retrospective application is necessary and there was no financial statement impact to the Company on adoption.

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

4) INVENTORY

The following is a breakdown of inventory at June 30, 2019:

		Capitalized Cost		Fair Value Adjustment		June 30, 2019
Harvested cannabis	$	5,871,950	$	17,446,581	$	23,318,531
Cannabis oils		844,429		533,527		1,377,956
Packaging and supplies		770,058		–		770,058
	$	**7,486,437**	**$**	**17,980,108**	**$**	**25,466,545**

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**

During the three and six-month periods ended June 30, 2019, the Company recognized $843,594 (2018 - $nil) and $1,335,351 (2018 - $nil), respectively, of cash inventory expensed to cost of goods sold. For the three and six-month periods ended June 30, 2019, the Company recognized $292,996 (2018 - $nil) and $358,481 (2018 - $nil), respectively, of non-cash expense relating to the changes in fair value of inventory sold.

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

5) 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	$	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)
Balance at December 31, 2018		391,456
Changes in fair value less costs to sell due to biological transformation		47,640,645
Production costs capitalized		3,314,155
Transferred to inventory upon harvest		(20,745,286)
Balance at June 30, 2019	**$**	**30,600,970**

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 growing cycle that biological assets have reached as of the measurement date
- **Yield by plant** – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant
- **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 Condensed Consolidated Interim Financial Statements (Expressed in United States Dollars)

5) 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.

	June 30, 2019	10% Change as at June 30, 2019
Selling price per gram	$4.50	$4,634,488
Stage of growth	16 weeks	$2,833,329
Yield by plant (average)	141 grams	$2,764,831
Post-harvest costs per gram	$0.40	$249,936

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 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.

6) 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 was paid by $22,000,000 in cash and the issuance of 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 Condensed Consolidated Interim Financial Statements (Expressed in United States Dollars)

6) 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 June 30, 2019, $271,613 remains as prepaid expenses (December 31, 2018: $1,678,599).

On March 14, 2019, the Company entered into a commercial lease on a warehouse with the commencement of the lease to begin on April 1, 2019 for a period of 5 years. Monthly rent for year 1 is $22,000 with 3% increase each year subsequently and contains a 5-year extension at the option of the Company. The warehouse was available for use on March 18, 2019 and therefore the Company recorded the right-to-use asset on that date at the present value of the lease payments using the Company's incremental borrowing rate of 13.5%. This resulted in a $1,633,433 right-to-use asset, and related lease liability, being recorded.

On March 31, 2019, 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 (note 8).

	Land	Building	Equipment	Right-to-use asset	Construction in process	TOTAL
Cost						
At December 31, 2017	$ –	$ –	$ –	$ –	$ –	$ –
Additions	–	1,165,396	170,892	–	78,705,224	80,041,512
Acquisition of NLVO	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
Additions	273,596	24,667,365	108,868	1,633,433	14,762,915	41,446,177
Transfers between categories	–	19,046,046	40,825,079	–	(59,871,125)	–
At June 30, 2019	**$ 950,865**	**$ 53,239,250**	**$ 42,267,127**	**$ 1,633,433**	**$ 33,597,014**	**$131,687,689**

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

6) PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Land	Building	Equipment	Right-to-use asset	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
Depreciation	–	354,237	56,191	40,836	–	451,264
At June 30, 2019	**$ –**	**$ 413,791**	**$ 71,827**	**$ 40,836**	**$ –**	**$ 526,454**

	Land	Building	Equipment	Right-to-use asset	Construction in process	TOTAL
Net book value						
At December 31, 2018	**$ 677,269**	**$ 9,466,285**	**$ 1,317,544**	**$ –**	**$ 78,705,224**	**$ 90,166,322**
At June 30, 2019	**$ 950,865**	**$ 52,825,459**	**$ 42,195,300**	**$ 1,592,597**	**$ 33,597,014**	**$131,161,235**

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

7) INTANGIBLE ASSETS

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 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.

The changes in the intangible assets are as follows:

Opening balance at January 1, 2018	$ –
Acquisition of medical cultivation and recreational licenses - indefinite useful life	2,000,000
Acquisition of NLVO licenses – indefinite useful life	8,505,000
Acquisition of NLVO customer relationships – definite useful life	701,000
Additional State of Nevada licenses - indefinite useful life	127,500
At December 31, 2018	11,333,500
Amortization of NLVO customer relationship	(46,733)
At June 30, 2019	**$ 11,286,767**

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

8) NOTES PAYABLE

Opening balance at January 1, 2018	$ –
Note payable issued on acquisition of greenhouse (note 6)	18,000,000
Note issued on acquisition of NLVO	14,023,402
Accrued interest	56,765
At December 31, 2018	32,080,167
Repayment of NLVO note	(15,163,168)
Partial repayment of note payable on acquisition of greenhouse	(11,596,665)
Gain on modification to note payable on acquisition of greenhouse	(976,026)
Accretion on NLVO note	540,948
Interest expense on NLVO note	542,053
Interest expense on note payable on acquisition of greenhouse	310,325
At June 30, 2019	**$ 5,737,634**

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

On March 31, 2019, the $18,000,000 note on the acquisition of the greenhouse 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 and the Company repaid $4,596,665 of the balance. This change in terms has resulted in a change in the recognized liability at March 31, 2019 and a resulting gain of $976,026 being recorded on the consolidated statement of operations and comprehensive income (loss) for the six-month period ended June 30, 2019. During the three-month period ended June 30, 2019, the Company repaid a further $7,000,000 in principal of the note.

9) CONVERTIBLE DEBENTURES

On March 28, 2019, the Company closed a short-form prospectus financing for gross proceeds of $37,232,854 (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. Each debenture is also subject to a forced conversion if the volume weighted average price of the Company's common shares exceeds CAD$3.51 per share for 20 consecutive trading days. The Company paid a cash commission to the agents of CAD$3,000,000 (equal to 6% of the gross proceeds of the financing), agent expenses of CAD$147,690 and legal and regulatory fees of CAD$369,418. Additionally, the Company issued to the agents 999,936 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 included as part of the convertible debenture unit). On April 1, 2019, the Company closed an over-allotment option for additional gross proceeds of $5,623,454 (CAD$7,500,000), consisting of an additional 7,500 convertible debenture units at a price of CAD$1,000 per debenture unit, with the same terms as the debenture units issued March 28, 2019, making the total gross proceeds from the offering $42,856,308 (CAD$57,500,000). As part of the over-allotment, the Company paid a cash commission to the agents of CAD$450,000 (equal to 6% of the gross proceeds of the financing) and issued to the agents 151,200 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 included as part of the convertible debenture unit).

The Company has accounted for the convertible debentures by assessing each component separately; debt component, conversion feature and warrants. The conversion feature and warrants are denominated in Canadian dollars with the functional currency of the Company being the United States dollar. As such, when the conversion feature or warrants are exercised, they do not exchange a fixed amount of cash for a fixed number of shares and are therefore considered embedded derivatives. The Company has determined the fair value of the conversion feature and warrants with the residual amount of the proceeds allocated to the debt component.

During the three-months ended June 30, 2019, 10,232 debentures were converted by certain debenture holders in exchange for 3,935,368 common shares of the Company. These conversions resulted in a reduction of the carrying amount of the convertible debenture liability of $4,415,746, a reduction of the derivative liability of $2,279,181 and the recording of the common shares issued of $6,694,927.

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

9) CONVERTIBLE DEBENTURES (CONT'D)

Conversion and Warrant Features

The Company determined the fair value of the conversion feature on the March 28, 2019 issuance to be $9,579,269 (CAD$12,864,000) using a variant of the Black-Scholes option pricing model which includes a knock-out based on the following assumptions:

Expected life – year	3
Interest rate	1.48%
Volatility	100.00%
Barrier price	$3.51
Rebate	$0.91
Exercise price	CAD$2.60
Share price	CAD$2.60

The Company determined the fair value of the conversion feature on the April 1, 2019 issuance to be $1,274,050 (CAD$1,699,200) using a variant of the Black-Scholes option pricing model which includes a knock-out based on the following assumptions:

Expected life – year	3
Interest rate	1.59%
Volatility	60.00%
Barrier price	$3.51
Rebate	$0.91
Exercise price	CAD$2.60
Share price	CAD$2.61

The fair value of the conversion feature at June 30, 2019 for the remaining 47,268 debentures was determined to be $9,569,901 (CAD$12,524,129) using a variant of the Black-Scholes option pricing model which includes a knock-out based on the following assumptions:

Expected life – year	2.75
Interest rate	1.43%
Volatility	60.00%
Barrier price	$3.51
Rebate	$0.91
Exercise price	CAD$2.60
Share price	CAD$2.90

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

9) CONVERTIBLE DEBENTURES (CONT'D)

Conversion and Warrant Features (cont'd)

A fair value loss on derivatives of $523,577 and $810,938 is recorded on the consolidated statement of operations and comprehensive income (loss) for the three and six-month periods ended June 30, 2019 (three and six-month periods ended June 30, 2018: $nil and $nil), respectively, related to the conversion feature. A foreign exchange loss of $145,948 and $193,260 is also recorded on the consolidated statement of operations and comprehensive income (loss) for the three and six-month periods ended June 30, 2019 (three and six-month periods ended June 30, 2018: $nil and $nil), respectively, related to the conversion feature.

The Company determined the fair value of the warrants on the March 28, 2019 issuance to be $4,646,660 (CAD$6,240,000) using the trading price on that date of CAD$0.65 and $647,822 (CAD$864,000) for the April 1, 2019 issuance using the trading price on that date of CAD$0.60. The fair value of the warrants on June 30, 2019 was determined to be $6,326,832 (CAD$8,279,925), based on the trading price at that date of CAD$0.75 which resulted in a fair value loss on derivatives of $1,265,366 and $906,165 recorded on the consolidated statement of operations and comprehensive income (loss) for the three and six-month periods ended June 30, 2019 (three and six-month periods ended June 30, 2018: $nil and $nil), respectively, related to the warrant feature. A foreign exchange loss of $103,279 and $126,229 is also recorded on the consolidated statement of operations and comprehensive loss for the three and six-month periods ended June 30, 2019 (three and six-month periods ended June 30, 2018: $nil and $nil), respectively, related to these warrants.

Opening balance at January 1, 2019	$ –
Amount allocated to conversion feature on issuance of convertible debenture – March 28, 2019	9,579,269
Amount allocated to warrant feature on issuance of convertible debenture – March 28, 2019	4,646,660
Amount allocated to conversion feature on issuance of convertible debenture – April 1, 2019	1,274,050
Amount allocated to warrant feature on issuance of convertible debenture – April 1, 2019	647,822
Fair value loss on conversion feature	810,938
Fair value loss on warrant feature	906,165
Foreign exchange loss	319,489
Conversions	(2,279,181)
At June 30, 2019	**$ 15,905,212**

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

9) CONVERTIBLE DEBENTURES (CONT'D)

Debt Component

The debt component on the March 28, 2019 issuance, net of transaction costs allocated to the debt component, was determined to be $21,089,498 which is the residual amount of the proceeds. The debt component on the April 1, 2019 issuance, net of transaction costs allocated to the debt component, was determined to be $3,434,713 which is the residual amount of the proceeds. The debt component at June 30, 2019 is $21,564,895 and is calculated using the amortized cost method. Interest expense of $938,501 and $977,955 is recorded on the consolidated statement of operations and comprehensive income (loss) for the three and six-month periods ended June 30, 2019 (three and six-month periods ended June 30, 2018: $nil and $nil), respectively. Accretion expense of $870,610 and $905,373 is recorded on the consolidated statement of operations and comprehensive income (loss) for the three and six-month periods ended June 30, 2019 (three and six-month periods ended June 30, 2018: $nil and $nil), respectively. Foreign exchange loss of $447,730 and $551,057 is recorded on the consolidated statement of operations and comprehensive income (loss) for the three and six-month periods ended June 30, 2019 (three and six-month periods ended June 30, 2018: $nil and $nil), respectively.

Opening balance at January 1, 2019	$ –
Amount allocated on issuance of convertible debenture – March 28, 2019	23,006,925
Transaction costs – March 28, 2019	(1,917,427)
Amount allocated on issuance of convertible debenture – April 1, 2019	3,701,582
Transaction costs – April 1, 2019	(266,869)
Foreign exchange loss	551,057
Accretion	905,373
Conversions	(4,415,746)
At June 30, 2019	**$ 21,564,895**

Transaction Costs

The Company has allocated transaction costs associated with the convertible debenture in proportion to the value assigned to each component. The Company has recorded the transaction costs associated with the debt component of $2,184,297 as a debt discount which is included in the amortization of the financial instrument using an effective interest rate of 31.5%. The amount allocated to the conversion and warrants features of $1,324,167 is expensed immediately as these components are recorded at fair value.

Subsequent to June 30, 2019, a further 950 debentures were converted by certain debenture holders in exchange for 365,383 common shares of the Company.

10) LEASES

On February 1, 2019, the Company entered into a Master Lease Agreement (the "Agreement") with Landrace Financial, LLC (formerly Reich Bros Commercial Finance), for lease financing on certain equipment at its 455,000 square-foot greenhouse and production facility in North Las Vegas, Nevada. The Agreement has a five-year term. 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 as at June 30, 2019. The lease liability balance at June 30, 2019 is $19,610,585 and finance expense for the three-month period ended June 30, 2019 was $629,219 (three-month period ended June 30, 2018: $nil) and $943,685 for the six-month period ended June 30, 2019 (six-month period ended June 30, 2018: $nil). $1,371,629 is classified as current liability with $18,238,956 classified as long-term liability.

During the period ending June 30, 2019, the Company entered into a commercial lease on a warehouse (note 6). The lease is for a term of 5 years plus 1 month and contains a 5-year extension. The Company's incremental borrowing rate of 13.5% has been used to determine the present value of the lease payments. Total payments over the initial 5-year term is $1,423,612. As at June 30, 2019, the Company has recorded $1,621,341 related to this lease liability and finance expense for the three and six-month periods ended June 30, 2019 was $53,908 (three and six-month periods ended June 30, 2018: $nil). $53,876 is classified as current liability with $1,567,465 classified as long-term liability. The Company has recorded

The Company does not have any leases with a term of less than 12 months, or any leases where the underlying asset is of low value.

11) TERM DEBT

On June 27, 2019, the Company entered into a debt financing agreement with RB Loan Portfolio II, LLC for up to $30,000,000. The agreement is for a two-year term at a rate of LIBOR plus 8% (minimum LIBOR of 2.5%) with interest only payments for the term of the agreement. The Company has the ability to extend the term for 6 months upon payment of a fee of 2% of the principal and the ability to pre-pay the outstanding debt with a pre-payment penalty of 3% of the principal during the first 12 months and 1% of the principal after the first 12 months. As part of the agreement, RB Loan Portfolio II, LLC and certain assignees will receive, with respect to each advance, a 25%-warrant coverage with the warrants having a term of 30 months. With respect to each advance, the Company will issue warrants at an exercise price equal to the greater of (A) the 20-day volume weighted average price (VWAP) of the common shares of the Company on the CSE from the date of such advance, multiplied by 1.2 with respect to half of such warrants and 1.4 with respect to the other half; and (B) the closing market price of the common shares on the trading day immediately prior to the announcement of such advance. The Company has completed an initial advance of $20,000,000 and issued 1,139,757 warrants with a strike price of CAD$3.46 and 1,139,757 warrants with a strike price of CAD$4.03. The debt financing contains no financial covenants.

11) TERM DEBT (CONT'D)

The Company has accounted for the term debt by assessing each component separately; debt component and warrants. The warrants are denominated in Canadian dollars with the functional currency of the Company being the United States dollar. As such, when the warrants are exercised, they do not exchange a fixed amount of cash for a fixed number of shares and are therefore considered embedded derivatives. The Company has determined the fair value of the warrants with the residual amount of the proceeds allocated to the debt component.

The Company determined the fair value of the warrant feature on the June 27, 2019 issuance to be $1,500,435 (CAD$1,967,221) using the Black-Scholes option pricing model based on the following assumptions:

Expected life – year	2.5
Interest rate	1.40%
Volatility	60.00%
Exercise price	CAD$3.46 and CAD$4.03
Share price	CAD$2.90

The fair value of the warrants on June 30, 2019 was determined to be $1,504,929 (CAD$1,969,500), using the Black-Scholes option pricing model based on the following assumptions:

Expected life – year	2.5
Interest rate	1.43%
Volatility	60.00%
Exercise price	CAD$3.46 and CAD$4.03
Share price	CAD$2.90

This resulted in a fair value loss of $1,742 recorded on the consolidated statement of operations and comprehensive income (loss) for the three and six-month periods ended June 30, 2019 (three and six-month periods ended June 30, 2018: $nil and $nil), respectively. A foreign exchange loss of $2,752 is recorded on the consolidated statement of operations and comprehensive loss for both the three and six-month periods ended June 30, 2019 (three and six-month periods ended June 30, 2018: $nil and $nil).

On June 27, 2019, the debt component, net of transaction costs allocated to the debt component, was determined to be $17,592,202 which is the residual amount of the proceeds. LIBOR on date of issuance and at June 30, 2019 was below the 2.5% minimum and therefore an interest rate of 10.5% was used. The debt component at June 30, 2019 is $17,603,736 and is calculated using the amortized cost method. Accretion expense and interest expense of $11,534 and $23,014, respectively, is recorded on the consolidated statement of operations and comprehensive income (loss) for the three and six-month periods ended June 30, 2019 (three and six-month periods ended June 30, 2018: $nil and $nil).

11) TERM DEBT (CONT'D)

The Company has allocated transaction costs associated with the term debt in proportion to the value assigned to each component. The Company has recorded the transaction costs associated with the debt component of $907,363 as a debt discount which is included in the amortization of the financial instrument using an effective interest rate of 17.5%. The amount allocated to the warrant feature of $73,593 is expensed immediately as this component is recorded at fair value.

Subsequent to June 30, 2019, the Company completed the second advance of $10,000,000 and issued 589,964 warrants with a strike price of CAD$3.35 and 589,964 warrants with a strike price of CAD$3.91.

12) SHARE CAPITAL

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

The Company issued 3,935,368 common shares during the three and six-month period ended June 30, 2019 through the conversion of convertible debentures (note 9) and 100 common shares from the exercise of warrants.

13) STOCK OPTIONS AND WARRANTS

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 three and six-month periods ended June 30, 2019 was $460,915 and $1,342,959 (three and six-month periods ended June 30, 2018: $187,298 and $192,735).

On March 28, 2019, the Company granted a total of 630,000 stock options with fair value of $908,712 to employees, directors and consultants. These stock options are exercisable at an exercise price of $1.95 (CAD$2.62) per share and may be exercised for five years. Among these options, 330,000 options were granted to consultants and vested 100% immediately, the other 300,000 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 three and six-month period ended June 30, 2019, the Company expensed $37,866 and $487,379, respectively, related to these options.

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

13) STOCK OPTIONS AND WARRANTS (CONT'D)

Stock Options (cont'd)
The fair value of the March 28, 2019 option grant is calculated using the following assumptions:

Expected life – year	5
Interest rate	1.45%
Volatility	100.00%
Dividend and forfeiture	–%
Exercise price	CAD$2.62
Share price	CAD$2.60

	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	
Granted, March 28, 2019	630,000	2.62	March 28, 2024
Balance, June 30, 2019	**12,482,500**	**$ 1.23**	

Outstanding as at June 30, 2019				Exercisable as at June 30, 2019		
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	3.69	6,137,500	$ 0.20	3.69
$ 0.85	1,340,000	$ 0.85	3.92	1,340,000	$ 0.85	3.92
$ 2.60	4,375,000	$ 2.60	4.28	2,031,250	$ 2.60	4.28
$ 2.62	630,000	$ 2.62	4.75	405,000	$ 2.62	4.75
	12,482,500	**$ 1.23**	**3.96**	**9,913,750**	**$ 0.88**	**3.96**

Subsequent to June 30, 2019, the Company issued 1,450,000 stock options to management and employees with exercise prices ranging from CAD$2.55 to CAD$2.88.

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

13) STOCK OPTIONS AND WARRANTS (CONT'D)

Warrants

The Company granted 1,151,136 broker warrants as part of the convertible debt financing (note 9). 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 fair value of these warrants was determined to be $552,017 (CAD$740,678) using the trading price on the grant date.

The Company also issued 11,040,000 warrants as a component of the convertible debt financing (note 9) and 2,279,514 warrants as a component of the term debt (note 11).

	Number of Warrants		Weighted Average Exercise Price (CAD$)	Expiry Date
Balance, December 31, 2018	–	$	–	–
Granted, March 28, 2019	10,599,936		2.60	March 28, 2022
Granted, April 1, 2019	1,591,200		2.60	March 28, 2022
Granted, June 27, 2019	1,139,757		3.46	December 27, 2021
Granted, June 27, 2019	1,139,757		4.03	December 27, 2021
Exercised, April 23, 2019	(100)		2.60	N/A
Balance, June 30, 2019	**14,470,550**	**$**	**2.78**	

		Outstanding as at June 30, 2019			Exercisable as at June 30, 2019		
Exercise Price (CAD$)		Number of Warrants	Weighted Average Exercise Price (CAD$)	Weighted Average Remaining Contractual Life (years)	Number of Warrants	Weighted Average Exercise Price (CAD$)	Weighted Average Remaining Contractual Life (years)
$	2.60	12,191,036	$ 2.60	2.75	12,191,036	$ 2.60	2.75
	3.46	1,139,757	3.46	2.50	1,139,757	3.46	2.50
	4.03	1,139,757	4.03	2.50	1,139,757	4.03	2.50
		14,470,550	**$ 2.78**	**2.71**	**14,470,550**	**$ 2.78**	**2.71**

Subsequent to June 30, 2019, the Company issued 589,964 warrants with a strike price of CAD$3.35 and 589,964 warrants with a strike price of CAD$3.91 as part of the second advance of the term debt (note 11).

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

14) 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, Chief Strategy Officer and Corporate Secretary. The amounts owing to key management personnel of $74,627 were included in accounts payable and accrued liabilities as at June 30, 2019 (December 31, 2018 - $197,139). During the three and six-month periods ended June 30, 2019, the Company incurred $102,250 and $214,500 (three and six-month periods ended June 30, 2018: $62,500 and $125,741) in wages and salaries, respectively, and $216,962 and $434,784 (three and six-month periods ended June 30, 2018: $40,914 and $43,495), respectively, in share-based compensation to key management personnel.

The $40,000,000 purchase of the property from NevadaCo (note 6) is considered a related party as NevadaCo is owned by a significant shareholder of the Company.

15) GENERAL AND ADMINISTRATIVE EXPENSES

	Three-Months Ended June 30, 2019	Three-Months Ended June 30, 2018	Six-Months Ended June 30, 2019	Six-Months Ended June 30, 2018
Accounting and Legal	$ 944,383	$ 51,125	$ 1,383,546	$ 175,784
Wages and Salaries	492,217	62,500	949,715	125,741
Consulting Service	679,587	50,489	1,599,266	60,241
Advertising and promotion	130,265	–	195,245	–
Insurance	201,798	–	343,566	–
Rent and security	392,119	225,806	700,574	280,000
Office, Admin and Utilities	451,204	–	1,220,236	–
Travel	286,354	184,939	714,745	226,520
Other	154,523	149,834	263,351	150,369
General and Administrative	**$ 3,732,450**	**$ 724,693**	**$ 7,370,244**	**$ 1,018,655**

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

16) FINANCE EXPENSES

	Three-Months Ended June 30, 2019	Three-Months Ended June 30, 2018	Six-Months Ended June 30, 2019	Six-Months Ended June 30, 2018
Accretion expense	$ 956,267	$ –	$ 1,619,287	$ –
Interest expense	1,954,967	–	2,700,942	–
Transaction costs (notes 9 and 11)	212,810	–	1,398,418	–
Finance expense	**$ 3,124,044**	**$ –**	**$ 5,718,647**	**$ –**

17) 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 three and six-month periods ended June 30, 2019 and June 30, 2018:

	Three-Months Ended June 30, 2019	Three-Months Ended June 30, 2018	Six-Months Ended June 30, 2019	Six-Months Ended June 30, 2018
Current tax expense	$ –	$ –	$ –	$ –
Deferred tax expense	7,883,056	–	10,025,236	–
Total income tax expense (recovery)	**$ 7,883,056**	**$ –**	**$ 10,025,236**	**$ –**

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

17) INCOME TAXES (CONT'D)

	Three-Months Ended June 30, 2019	Three-Months Ended June 30, 2018	Six-Months Ended June 30, 2019	Six-Months Ended June 30, 2018
Income (loss) before taxes	$ 26,933,676	$ (1,119,592)	$ 30,744,644	$ (1,589,196)
Statutory tax rate	27.00%	27.00%	27.00%	27.00%
Expected income tax (recovery)	7,272,093	(291,094)	8,301,054	(413,191)
Difference in foreign tax rates	(2,088,611)	–	(2,517,250)	–
Difference in tax rates and foreign exchange	28,150	–	164,295	–
Non-deductible items	1,832,495	–	2,733,790	–
Change in deferred tax asset not recognized	838,929	291,094	1,343,347	413,191
Total income tax expense (recovery)	**$ 7,883,056**	**$ –**	**$ 10,025,236**	**$ –**

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

	June 30, 2019	December 31, 2018
Property, plant and equipment	$ (731,641)	$ (756,715)
Inventory and biological assets	(10,039,990)	(92,346)
Licenses	(137,396)	
Tax loss carry forwards	35,177	336
Deferred tax liability	**$ (10,873,851)**	**$ (848,615)**

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

18) EARNINGS (LOSS) PER SHARE

Basic earnings (loss) (per share)

	Three-Months Ended June 30, 2019	Three-Months Ended June 30, 2018	Six-Months Ended June 30, 2019	Six-Months Ended June 30, 2018
Net income (loss)	$ 19,050,620	$ (1,119,592)	$ 20,719,407	$ (1,589,196)
Weighted average number of common shares outstanding	178,990,380	140,723,006	177,810,079	111,746,911
Basic earnings (loss) per share	**$ 0.11**	**$ (0.01)**	**$ 0. 12**	**$ (0.01)**

Diluted earnings (loss) (per share)

	Three-Months Ended June 30, 2019	Three-Months Ended June 30, 2018	Six-Months Ended June 30, 2019	Six-Months Ended June 30, 2018
Net income (loss)	$ 19,050,620	$ (1,119,592)	$ 20,719,407	$ (1,589,196)
Dilutive effect on income	–	–	–	–
	19,050,620	(1,119,592)	20,719,407	(1,589,196)
Weighted average number of common shares outstanding - basic	178,990,380	140,723,006	177,810,079	111,746,911
Dilutive effect of options outstanding	7,368,036	–	6,389,161	–
Dilutive effect of warrants outstanding	1,658,920	–	1,258,015	–
Weighted average number of common shares outstanding – diluted	188,017,337	140,723,006	185,457,255	111,746,911
Basic earnings (loss) per share	**$ 0.10**	**$ (0.01)**	**$ 0.11**	**$ (0.01)**

19) 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 June 30, 2019, the fair values of cash, accounts receivable, accounts payable and accrued liabilities and notes payable are not materially different from their carrying values given the short term to maturity. The carrying value of the term debt and lease financing, both discounted at their effective interest rates, approximates their fair value. The fair value of derivatives is disclosed in notes 9 and 11.

As the convertible debentures are freely traded on the CSE (symbol “FONE.DB”), the fair value of the combined debt component and conversion feature is determinable. The fair value of the conversion feature is determined using a variant of the Black-Scholes option pricing model and was $10,402,066 (CAD$13,613,184) at June 30, 2019. Based on the fair value of outstanding debentures at June 30, 2019 of $39,730,114 (CAD$51,994,800), the fair value of the debt component was calculated as the residual being $29,328,048 (CAD$38,381,616).

As the convertible debenture warrants are freely traded on the CSE (symbol “FONE.WT”), the fair value of these outstanding warrants at June 30, 2019 is $6,326,832 (CAD$8,279,925).

20) 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 June 30, 2019, the expected credit loss on all the Company's accounts receivable was nominal. All accounts receivables balances at June 30, 2019 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 interest-bearing financial instruments include the convertible debentures, which bears interest at 9.5% per annum, the note payable related to the greenhouse purchase (note 8) which bears interest at 9.5% effective April 1, 2019 and the term debt which bears interest at LIBOR plus 8% (minimum LIBOR of 2.5%) (note 11). As the term loan bears interest at LIBOR plus 8%, the Company is exposed to interest rate risk on fluctuations in LIBOR. The current LIBOR rate is below the minimum 2.5% per the term debt, and therefore the impact on the Company's consolidated interim statement of operations and comprehensive income (loss) resulting from a 10% increase in LIBOR above the 2.5% minimum would be approximately $2,301.

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 June 30, 2019, 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. Additionally, the convertible debentures are denominated in CAD. The Company has not hedged its exposure to currency fluctuations at this time. The impact on the Company's consolidated interim statement of operations and comprehensive income (loss) resulting from a 10% fluctuation in foreign exchange rates would be approximately $28,735.

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 June 30, 2019, the Company's financial liabilities consist of accounts payable and accrued liabilities and notes payable (both of which are due within 12 months) as well as the convertible debentures, lease financing and term debt. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis. Due to the Company's ability to raise funds ($82,856,308 raised in the six-months ended June 30, 2019), the Company regards liquidity risk to be low.

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

20) FINANCIAL INSTRUMENTS RISK

The Company has the following gross contractual obligations subject to liquidity risk:

	Total	<1 year	1-3 years	3-5 years	>5 years
Accounts payable and accrued liabilities	$ 11,615,992	$ 11,615,992	$ –	$ –	$ –
Convertible debentures and interest	45,537,736	4,490,460	41,047,276	–	–
Note payable and interest	6,713,660	6,713,660	–	–	–
Leases	28,338,094	3,808,688	13,194,999	11,334,407	–
Term debt	24,200,000	2,100,000	22,100,000	–	–

21) SEGMENTED INFORMATION

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

	Canada	United States	TOTAL
Non-current assets	$ 4,879	$ 143,238,347	$ 143,243,227
Revenue	–	1,169,965	1,169,965
Gross Profit	–	47,116,778	47,116,778
Net income and comprehensive income	(5,984,633)	26,704,040	20,719,407

22) 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 $97,889,276 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.

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

23) SUPPLEMENTAL CASH FLOW INFORMATION

The changes in working capital are as follows:

		Six-Months Ended June 30, 2019		Six-Months Ended June 30, 2018
Accounts receivable	$	(313,546)	$	(642,614)
Prepaids		1,978,204		(532,389)
Inventory		1,060,410		–
Biological assets		(3,314,155)		–
Accounts payable and accrued liabilities		(4,031,412)		(146,705)
Changes in non-cash working capital	**$**	**(4,620,499)**	**$**	**(1,321,708)**

Additional supplementary cash flow information is summarized as follows:

		Six-Months Ended June 30, 2019		Six-Months Ended June 30, 2018
Property, plant and equipment in account payable	$	1,525,888	$	–
Right-to-use asset	$	1,633,433	$	–