Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2019

This Management's Discussion and Analysis ("MD&A") is prepared as at November 26, 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 nine-month periods ended September 30, 2019 and September 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.

The financial information in this MD&A contains certain financial and operational performance measures that are not defined by and do not have any standardized meaning under International Financial Reporting Standards ("IFRS"). These financial and operational performance measures are used by management to assess the financial and operational performance of the Company. These include, but are not limited to, the following:

- Grams per square feet;
- cash cost per harvested gram;
- EBITDA; and
- Adjusted EBITDA.

The Company believes that these non-IFRS financial measures, in addition to conventional measures prepared in accordance with IFRS, enable investors to evaluate the Company's operating results, underlying performance and prospects in a similar manner to the Company's management. These non-IFRS financial performance measures are defined and reconciled to IFRS in the sections in which they appear. As there are no standardized methods of calculating these non-IFRS measures, the Company's approaches may differ from those used by others, and accordingly, the use of these measures may not be directly comparable. Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

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, 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; the ability of the Company to close sales or repay loans; operations and plans, including cultivation and licensing assets, distribution, production levels and the grant of licenses or renewals; receipt of regulatory approvals in a timely manner or at all; the transfer, acquisition and/or maintenance of licenses and third-party consents in a timely manner or at all; the expansion of existing cultivation and production facilities; 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, political, 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

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.

The Company is a cannabis cultivation, production and wholesale company and through its subsidiaries, holds a variety of strategic investments including Nevada’s largest commercial-scale cannabis greenhouse and Nevada’s largest cannabis production facility. The Company and its subsidiaries owns or operates eight Nevada state-issued marijuana licenses and certain real property.

The Company’s NLV Greenhouse consists of a fully operational 400,000 square feet for the cultivation of cannabis, with forecasted production of over 140,000 pounds of dry cannabis flower and trim per year assuming a yield of 135 grams per plant, a fully canopied greenhouse of approximately 140,000 plants at any given time, of which 80,000 are in flower zones, and approximately six harvest cycles per annum. Adjoined to the NLV Greenhouse is a fully operational 55,000 square foot production and packaging facility for the processing, production and high-volume packaging of dry flower, cannabis oils, concentrates and various infused products, capable of consuming approximately 3,000 to 5,000 pounds per week of biomass, we anticipate the inventory levels to shift to a more balanced mixture of flower and oils/concentrates.

The NLV Greenhouse is strategically positioned less than eight miles to the lucrative, tourism-driven Las Vegas adult-use and medical cannabis market.

The NLV Greenhouse was fully canopied with cannabis plants as of May 2019. The first commercial cannabis harvest took place on or about June 11, 2019, with the first sale of product from the NLV Greenhouse occurring the first week of August 2019. The Company fully commissioned the extraction lab and production facility in September 2019 and began the production of extracted cannabis products.

In addition to the NLV Greenhouse, the Company also operates a 25,000 square foot facility that is used for indoor cannabis cultivation to test various strains from its genetic library and to grow select, premium craft cannabis and is capable of production of up to 8,000 pounds annually at full capacity. This facility, knows and the Neeham Property, also contains a licensed commercial kitchen which is used to produce a number of edible cannabis brands in the market.

The Company also owns a building in North Las Vegas used for administrative offices, ensuring that the licensed properties are solely devoted to licensed activities, maximize their potential return.

STRATEGY AND OPERATIONS

The Company is currently focused solely on cannabis market opportunities within the United States. The Company's initial market entry strategy has targeted Nevada due several key market attributes including, but not limited to:

- Well-designed state regulatory framework with a limited number of licenses;
- Mandatory state-sanctioned testing of all cannabis to ensure there is a high standard for safe consumption of all cannabis products;
- Unique addressable market with approximately 55 million tourists visiting the state annually; and
- Concentrated market with more than 80% of the state's cannabis revenue derived from one County (Clark County).

The NLV Greenhouse is the only large, commercial-scale greenhouse in Nevada, giving the Company significant first mover advantage in the market as a large-scale, low cost operator. The Company's strategy is to achieve significant and timely scale in its chosen verticals of cultivation, production and brand fulfillment and doing so by being a quality, low-cost operator in its selected markets.

The Company's operational capacity in cultivation, extraction and packaging, coupled with its extensive and growing base of brand partners, is intended to give the Company significant competitive scale which it plans to leverage through volume discount pricing and a just-in-time delivery model that will enable all of Nevada's cannabis retailers to maintain competitive margins as the market matures.

The Company over the past 16 months, and as of the date of this MD&A, has fully completed the construction and renovation work of all cultivation areas of the 400,000 square foot NLV Greenhouse and as well all areas of its 55,000 square-foot post-harvest and production facility which is adjacent and interconnected to the NLV Greenhouse.

The Company's NLV Greenhouse is currently achieving cultivation yields equivalent to 32 grams per square foot with a total cash cost per harvested gram of $0.44 for the nine-month period ended September 30, 2019. The NLV Greenhouse is now in a routine harvest cycle of its eight flower zones and the Company was strategically building its dry cannabis inventory during Q3 2019 and into Q4. The Company has been focusing on cultivating specific strains for our anticipated brand launches in Q4 and through first half of 2020. As a result of this, we have accumulated an inventory of high-quality flower. Through Q4 and into 2020, we will continue to cultivate additional brand specific strains as well as shift a large portion of that dried flower into the extraction lab to facilitate the launch of derivative branded products.

The Company completed the full commissioning of the extraction lab in mid-September 2019 and began initial sales of packaged, branded product derivatives in late September 2019. With the extraction lab fully operational, the Company will begin launching a number of its brand partners' cannabis derived distillate, concentrates, edibles and other products in the fourth quarter of 2019 and into 2020. The lab is capable of consuming approximately 3,000 to 5,000 pounds per week of biomass. The Company anticipates the flower inventory levels to continue to shift to a more balanced mixture of flower and oils/concentrates. The proficiencies of the Company's extraction lab will allow it to respond to the composition of finished products that will evolve over time as the largely recreational market in Nevada grows and consumer knowledge of these more advanced product derivatives increases.

As of the date of this MD&A, the Company has entered separate licensing agreements to cultivate, manufacture, package and sell 15 cannabis brands in Nevada of which we have already launched Old Pal, Palms, Cannamerica and Flyte. These cannabis brands recognize the strategic and efficient opportunity to build brand equity that results from having strong retail shelf presence in Las Vegas and Nevada. Since the launch of flower out of the NLV Greenhouse in August 2019, Old Pal has been one of the top selling flower brands in Nevada.

Core to the Company's overall strategy is to facilitate and accelerate the entry of various cannabis brands into the Nevada market. Currently, it is not permissible for cannabis grown and processed by state-sanctioned license holders to cross state boundaries. All cannabis products legally sold in Nevada must be grown and produced in Nevada. Most cannabis brands looking to enter Nevada would have to either invest significant time and capital to establish the required licensed cultivation and production infrastructure in the state or enter a fulfillment partnership agreement with a currently existing licensed operator in the state capable of delivering finished product at scale in compliance with the brands manufacturing SOPs and quality controls.

In addition to manufacturing and selling the various SKUs of its brand partners, the Company's scale will also allow it to have revenue optionality by selling bulk products, as well as white label products for other Nevada cannabis brands or retailers.

There are currently 67 licensed cannabis retailers in Nevada. The Company directly oversees the selling, marketing and promotional activities with each of cannabis retailers it conducts business with. As of the date of this MD&A, the Company current had sales with approximately 85% of these retailers.

The Company's initial focus on a single state market (Nevada) has allowed it to focus on tight execution of its strategy and do so without being asset-heavy across multiple state markets. This initial single state focus also allowed the Company to be revenue generating with its flagship assets in the Nevada within 16 months of starting construction. The Company has now shifted its focus from construction and build out to generating revenue by beginning to progressively launch products of its current 15 brand partners in the fourth quarter of 2019 and through 2020.

KEY DEVELOPMENTS DURING THE PERIOD

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 September 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 convertible into 384 common shares. 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). .

During the nine-month period ended September 30, 2019, 11,660 debentures were converted by certain debenture holders in exchange for 4,484,595 common shares of the Company. Subsequent to September 30, 2019, and up to the date of this MD&A, a further 3,206 debentures were converted by certain debenture holders in exchange for 1,709,325 common shares of the Company. Of the 1,709,325 common shares issued on conversion subsequent to September 30, 2019, 476,251 were related to the effective interest on conversions made subsequent to September 28, 2019.

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 and the agreement included a commitment fee of 4% of the advanced funds. 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. As part of the agreement, RB Loan Portfolio II, LLC and certain assignees have received warrant coverage, as follows:

(a) 1,139,757 warrants with a strike price of CAD$3.46;

(b) 1,139,757 warrants with a strike price of CAD$4.03;

(c) 589,964 warrants with a strike price of CAD$3.35; and

(d) 589,964 warrants with a strike price of CAD$3.91.

On September 16, 2019, CN Landco III, LLC, a subsidiary of the Company and Treehouse Real Estate Investment Trust Inc. ("Treehouse") entered into a sale-leaseback agreement for the Company's Neeham Property and the adjacent vacant lot acquired early in 2019 for a purchase price of US$20,000,000 (the "Treehouse Agreement"). The Company, through one of its subsidiaries, would then lease such property from Treehouse for a term of 20 years with two 10-year extension options. As part of the Treehouse Agreement, Treehouse has a five-year right of first offer on future sale-leasebacks by the Company. The Company had previously been advanced the purchase price under the Treehouse Agreement as a loan, which bore interest at 15% annually. Included in the Treehouse Agreement are the adjacent vacant lots which the Company acquired in 2019. Subsequent to September 30, 2019, the Company completed the sale-leaseback agreement with Treehouse whereby the loan was repaid through Treehouse's purchase of the Company's Neeham Property and the Company began leasing the same property.

SELECTED FINANCIAL INFORMATION

The following table provides a summary of selected financial data for the three and nine-month periods ended September 30, 2019 and September 30, 2018. For more detailed information, refer to the Financial Statements prepared in accordance with IFRS.

	Three-months ended September 30, 2019	Three-months ended September 30, 2018	Nine-months ended September 30, 2019	Nine-months ended September 30, 2018
Revenue	$ 2,498,274	$ –	$ 3,668,239	$ –
Cost of goods sold	1,881,910	–	3,217,261	–
Income (loss) for the period	15,668,608	(5,581,651)	36,398,712	(7,170,847)
Total assets	250,449,692	84,583,134	250,449,692	84,583,134
Total non-current financial liabilities	87,296,262	–	87,296,262	–
Distribution of cash dividends	–	–	–	–
Basic EPS	$ 0.09	$ (0.04)	$ 0.20	$ (0.06)
Diluted EPS	$ 0.05	$ (0.04)	$ 0.18	$ (0.06)

Revenue

The Company earned revenue of $2,498,274 and $3,668,239 during the three and nine-month periods ended September 30, 2019 as compared with $nil for both the three and nine-month periods ended September 30, 2018. The Company began recording revenue on November 9, 2018 subsequent to the acquisition of the assets of NLVO and current period revenue represents NLVO sales and revenues from the initial launch of 5 of the 15 brand partners. Cannabis flower sales began out of the NLV Greenhouse in August 2019 and cannabis derivative products out of the NLV Greenhouse extraction facility in late September 2019. During the period, the Neeham Property was being used to assist in the accelerated launching of the NLV Greenhouse by facilitating the cultivation of mother plants and as that facility is shifting back in to full production, we expect to see increased revenue contribution from the Neeham Property going forward.

Cost of Goods Sold

Cost of goods sold was $1,881,910 and $3,217,261 during the three and nine-month periods ended September 30, 2019 as compared with $nil for both the three and nine-month periods ended September 30, 2018 as no sales had occurred during those 2018 periods. 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, shipping, depreciation of cultivation and production equipment, cultivation and production management and other related expenses.

Other expenses

The Company recorded net income of $15,668,608 and $36,398,712 for the three and nine-month periods ended September 30, 2019. The net income amounts are mainly comprised of

- $18,415,924 and $66,056,569 in fair value gain on growth of biological assets for the three and nine-month periods ended September 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;
- $335,236 and $693,717 in realized fair value on the sale of inventory for the three and nine-month periods ended September 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;

- $1,136,514 and $2,479,473 in share-based compensation for the three and nine-month periods ended September 30, 2019;
- $3,674,709 and $9,382,659 in finance expenses for the three and nine-month periods ended September 30, 2019, related to interest, accretion and transaction costs associated with the convertible debenture, notes payable, leases, term debt and other items;
- $9,711,706 and $7,992,861 in gains related to fair value adjustments on derivative liabilities for the three and nine-month periods ended September 30, 2019. These gains were a result of the decreased value of the conversion feature on the convertible debentures and the warrants associated with the convertible debenture and term debt;
- $481,853 in foreign exchange gain and $637,050 in foreign exchange loss for the three and nine-month periods ended September 30, 2019 related to the Company's cash balances held in CAD$, the convertible debentures and the derivative liabilities;
- $3,912,231 and $13,937,468 in income tax expense for the three and nine-month periods ended September 30, 2019 related mainly to the fair value gain on growth of biological assets; and
- $4,431,181 and $11,801,425 in general and administrative expenses for the three and nine-month periods ended September 30, 2019. The increase in general and administrative expenses for the three and nine-months ended September 30, 2019 as compared to same periods in prior year is mainly due to the Company commencing operations in March 2018 and ramping up through completion of the NLV Greenhouse. This ramp up resulted in increased professional service fess (accounting and legal), wages and salaries as head counts increased, consulting services, security as the NLV Greenhouse came online, and travel costs associated with financing activities, brand licensing, project management and operational support

Cash Flows

During the nine-months ended September 30, 2019, the Company used $21,900,171 of cash in its operating activities (2018: $3,975,974) which was predominantly for staffing, populating the NLV Greenhouse, building inventory of flower and distillate, packaging and marketing and promotional items. The company invested $53,687,968 into property, plant and equipment (2018: $39,151,080). The property, plant and equipment invested in represents cash used on the construction of the NLV Greenhouse as well as additional capital purchases at the Neeham Property and the Company's administrative offices. During the period, the company raised a net amount $105,362,384 from financing activities (2018: $69,704,247) and repaid $26,759,833 in notes payable.

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

Share Capital and Stock Options

The Company issued 4,484,595 common shares during the nine-month period ended September 30, 2019 through the conversion of convertible debentures, 100 common shares from the exercise of warrants, 34,865 common shares from the exercise of stock options and 345,184 for the acquisition of license rights.

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 nine-month periods ended September 30, 2019, the Company expensed $197,655 and $685,034, respectively, related to these options.

During the three-month period ended September 30, 2019, the Company had various grants for a total of 1,525,000 stock options with fair value of $1,570,332 to employees, directors and consultants. These stock options are exercisable at exercise prices of ranging from CAD$1.80 to CAD$2.88 per share and may be exercised for five years from the date of grant. These options are 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 nine-month periods ended September 30, 2019, the Company expensed $539,492 related to these options.

For all previous stock option grants, the Company expensed $399,366 and $1,254,947 during the three and nine-month periods ended September 30, 2019, respectively.

SUMMARY OF QUARTERLY RESULTS

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

	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Period from incorporation on December 18, 2017 to December 31, 2017
Revenue	2,498,274	635,793	534,172	130,969	–	–	–	–
Cost of goods sold	(1,881,910)	(843,594)	(491,757)	(133,094)	–	–	–	–
Income/(loss) for the period	15,668,608	19,050,620	1,668,786	(5,279,068)	(5,581,651)	(1,589,196)	(469,604)	(204,676)
Basic EPS	0.09	0.11	0.01	(0.03)	(0.04)	(0.01)	(0.01)	(2,046.76)
Diluted EPS	0.05	0.12	0.01	(0.03)	(0.04)	(0.01)	(0.01)	(2,046.76)
Weighted Avg. Shares O/S	181,193,514	178,990,380	176,699,779	174,754,508	150,486,724	140,723,006	83,152,913	100

Revenue

During the three-months ended September 30, 2019, revenues were $2,498,274 compared to $635,793 in the prior quarter. The 292% increase is primarily from the beginning of flower sales out of the NLV Greenhouse in August 2019 and cannabis derived products out of the NLV Greenhouse in September 2019 and current period revenue represents NLVO sales and revenues from the initial launch of 5 of the 15 brand partners. Of the $2,498,274 in revenue, $1,801,440 was sales form the NLV Greenhouse and $696,834 was sales from the Neeham Property. The Neeham Property sales were 9.6% higher than the previous quarter mainly as a result of higher realized prices and slightly higher sales volumes. During the prior periods, the Neeham Property was being used to assist in the accelerated launching of the NLV Greenhouse by facilitating the cultivation of mother plants and as that facility is now shifting back in to full production, we expect to see increased revenue contribution from the Neeham Property going forward.

Cost of Goods Sold

During the three-months ended September 30, 2019, cost of goods sold were $1,881,910 compared to $843,594 in the prior quarter. The increase is a result of flower and cannabis derived product sales beginning during the three-months ended September 30, 2019. As sales out of the NLV Greenhouse continue to increase each period, the Company expects the per gram cost of goods sold to decrease as the sales mix continues to shift towards low-cost product out of the NLV Greenhouse as compared to the higher cost of indoor grown product out of the Neeham Property. The Neeham Property will continue to be used to test various strains from its genetic library and to grow select, premium craft cannabis. As the Company moves out of the initial start-up phase and into to steady-state operations, we expect the per gram costs of goods sold to decrease further as the operation gains efficiencies.

Income for the Period

Net income for the three-months ended September 30, 2019 was $15,668,608 as compared to $19,050,620 in the prior quarter. The decrease is mainly driven by fair value gain on derivatives of $9,711,706 in the current quarter compared to a fair value loss on derivatives of $1,790,685 in the prior quarter as a result in the decreased value of the conversion feature of the convertible debentures and the warrants associated with the convertible debentures and term debt. This was offset by the reduction in the unrealized fair value adjustment on growth of biological asset from $37,267,198 in the prior quarter to $18,415,924 in the current quarter as the biological asset balance has been reduced at September 30, 2019 as compared to June 30, 2019. This is mainly driven by lower plant counts in the flower and vegetation rooms as well as the focus of the Company to cultivate specific strains for our brand launched which is resulting in lower yielding strains currently being grown. Additionally, due to the timing of the period end, the plants in the flower rooms are not as far along in their growth cycle as compared to June 30, 2019.

NON-IFRS MEASURES

References in this MD&A to "EBITDA" are to earnings before interest and accretion, income tax expense, depreciation and amortization. "Adjusted EBITDA" is referred to EBITDA adjusted for fair value gains on derivatives, unrealized fair value adjustment on growth of biological asset, gain on note payable modification and share-based compensation. EBITDA and Adjusted EBITDA are cash flow measures that are not recognized under IFRS and do not have a standardized meaning prescribed by IFRS. Therefore, EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA and Adjusted EBITDA should not be construed as an alternative to net income or loss determined in accordance with IFRS as an indicator of the Company's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. Management believes that EBITDA and Adjusted EBITDA are important measures in evaluating the historical performance of the Company.

	Three-months ended September 30, 2019	**Three-months ended September 30, 2018**	**Nine-months ended September 30, 2019**	**Nine-months ended September 30, 2018**
Net income (loss)	$ 15,668,608	$ (5,581,651)	$ 36,398,712	$ (7,170,847)
Add:				
Interest and accretion	3,626,967	–	7,937,157	–
Income tax expense	3,912,231	–	13,937,468	–
Depreciation and amortization	1,132,496	–	1,630,493	–
EBITDA	**24,340,302**		**59,903,830**	
Add:				
Fair value gain on derivatives	(9,711,706)	–	(7,992,861)	
Realized fair value adjustment on sale of inventory	335,236	–	693,717	–
Unrealized fair value adjustment on growth of biological asset	(18,415,924)	–	(66,056,569)	–
Gain on note payable modification	–	–	(976,026)	–
Share-based compensation	1,136,514	312,411	2,479,473	505,146
Adjusted EBITDA	**$ (2,953,662)**	**$ (5,269,240)**	**$ (11,948,436)**	**$ (6,665,701)**

Adjusted EBITDA loss decreased by $2,953,662, or 56%, and increased $5,282,735, or 79%, for the three and nine-month periods ended September 30, 2019, respectively, as compared to the same periods in the prior year. The three-month decrease was attributable to the Company beginning generating revenues in November 2018 due to the acquisition of the NLVO assets and in August 2019 due to the completion of the NLV Greenhouse offset by lower expenditures in 2018 as the company was in the development stage. The nine-month increase was attributable to the fact that revenues did not get generated out of the NLV Greenhouse until August 2019.

LIQUIDITY AND CAPITAL RESOURCES

Accounts payable and accrued liabilities are due within one year. The Company has a working capital as at September 30, 2019 of $38,176,906 which mainly included $5,556,319 in cash and cash equivalents $1,337,039 in accounts receivables, $3,914,635 in prepaid expenses, $55,406,289 in inventory, $18,791,980 in biological assets, $10,056,666 in trade accounts payable and accrued liabilities, $8,707,475 in construction payables, $2,501,910 in current lease liability, $5,889,296 for notes payable and $19,674,009 in the short-term financing which was repaid subsequent to September 30, 2019 through the sale of the Neeham Property. 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 now generating revenues out of the both Neeham Property and the NLV Greenhouse. The Company has completed its renovation on the NLV Greenhouse and commissioned the extraction facility within the 55,000 square-foot post-harvest and production facility. The Company has been successful in obtaining financing as $68,987,928 had been raised during the year ended December 31, 2018, net of cash transaction costs. During the nine-months ended September 30, 2018, the Company raised an additional $105,362,384, net of cash transaction costs, and a further CAD$20,850,000 subsequent to September 30, 2019 The Company will be required to raise additional funds to repay the remainder of the note payable and to fund future expansion and growth.

These 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.

RELATED PARTY TRANSACTIONS

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 September 30, 2019 (December 31, 2018 - $197,139). During the three and nine-month periods ended September 30, 2019, the Company incurred $265,745 and $480,245 (three and nine-month periods ended September 30, 2018: $97,464 and $223,205) in wages and salaries, respectively, and $665,147 and $1,099,931 (three and nine-month periods ended September 30, 2018: $59,102 and $102,597), 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 part of the convertible debenture financing, based on the remaining convertible debentures, the Company is committed to repayment of the debentures with interest totaling $43,641,789.

The Company is committed to repay the note payable with interest totaling $6,865,322.

As part of the lease financing, the Company is committed to repayment of the financing with interest totaling $26,180,482.

As part of the term debt financing, the Company is committed to repayment of the financing with interest totaling $32,687,012.

As part of the Treehouse financing, the Company is committed to repayment of the financing with interest totaling $20,386,301. The Company repaid this loan on November 18, 2019 as part of the closing of the Treehouse agreement.

During the nine-month period ended September 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

On October 22, 2019, the Company filed and obtained receipts for a final short form base shelf prospectus (the “Shelf Prospectus”) with the securities regulatory authorities in each of the provinces of Canada except for the Province of Québec. The Shelf Prospectus will allow the Company to offer up to US$250 million of common shares, debt securities, subscription receipts, units, warrants, or any combination thereof, from time to time during the 25-month period after the applicable Canadian securities regulatory authorities have issued a receipt for the final prospectus. Should the Company decide to offer securities during this period, the specific terms, including the use of proceeds from any such offering, will be set forth in a prospectus supplement related to the Shelf Prospectus, which will be filed with the applicable Canadian securities regulatory authorities.

On November 14, 2019, the Company closed a financing via a prospectus supplement to its Shelf Prospectus for gross proceeds of CAD$20,850,000, consisting of 20,850 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 666 common share purchase warrants. Each warrant entitles the holder thereof to purchase one share at the exercise price of CAD$1.55 per share for a period of 36 months after the closing of the financing. Each debenture is convertible into 666 common shares of the Company and is also subject to a forced conversion if the volume weighted average price of the Company’s common shares exceeds CAD$2.25 per share for 20 consecutive trading days. Additionally, the Company issued to the agents 972,027 broker warrants.

On November 18, 2019, the completed the sale-leaseback agreement with Treehouse whereby the loan was repaid through Treehouse's purchase of the Company's indoor cultivation facility and the Company began leasing the same property.

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 September 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 $3,057,154 (CAD$4,048,589) at September 30, 2019. Based on the fair value of outstanding debentures at September 30, 2019 of $28,816,582 (CAD$38,161,800), the fair value of the debt component was calculated as the residual being $25,759,429 (CAD$34,113,211).

As the convertible debenture warrants are freely traded on the CSE (symbol “FONE.WT”), the fair value of these outstanding warrants at September 30, 2019 is $4,251,566 (CAD$5,630,349).

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 and United States 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 September 30, 2019, the expected credit loss on all the Company’s accounts receivable was nominal. All accounts receivables balances at September 30, 2019 are 30 days or less and the maximum credit exposure is $1,337,039. Maximum credit exposure to cash and cash equivalents is $5,556,319.

- 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 $65,853.

- 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 September 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 $62,853.

- 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 September 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 ($105,362,384 raised in the nine-months ended September 30, 2019, net of cash transaction costs), 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 $116,324,074 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, funds from the future sale of products and potentially future financings to fund operations and expansion activities.

OUTSTANDING SHARE DATA

As of the date of this MD&A, there were 184,703,848 common shares outstanding.

As of the date of this MD&A, there were 12,507,500 stock options outstanding, each exercisable into one common share of the Company.

As of the date of this MD&A, there were 30,508,605 warrants outstanding, each exercisable into one common share of the Company.

As of the date of this MD&A, there were 42,634 convertible debentures outstanding, each convertible into 384 common shares of the Company and 20,850 convertible debentures outstanding, each convertible into 666 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., § 801 et seq. (the "**CSA**"), 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 controlled substance 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 marijuana and any related 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 marijuana and any related 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 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 each 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 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.

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 its directors, officers, and employees may be subject to entry bans into the United States

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

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[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/.

Those employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry or lifetime bans from the United States for their business associations with U.S. cannabis businesses. Entry happens at the sole discretion of CBP officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a non-US citizen or foreign national. The government of Canada has started warning travelers on its website that previous use of cannabis, or any substance prohibited by U.S. federal laws, could mean denial of entry to the United States. Business or financial involvement in the legal cannabis industry in Canada or in the United States could also be reason enough for U.S. border guards to deny entry. On September 21, 2018, CBP released a statement outlining its current position with respect to enforcement of the laws of the United States. It stated that Canada's legalization of cannabis will not change CBP enforcement of United States laws regarding controlled substances and because cannabis continues to be a controlled substance under United States law, working in or facilitating the proliferation of the legal marijuana industry in the United States. States where it is deemed legal or Canada may affect admissibility to the United States. As a result, CBP has affirmed that, employees, directors, officers, managers and investors of companies involved in business activities related to cannabis in the United States or Canada (such as Flower One), who are not U.S. citizens face the risk of being barred from entry into the United States for life. On October 9, 2018, CBP released an additional statement regarding the admissibility of Canadian citizens working in the legal Canadian 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 the Company's ability to manage its 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 of the United States Internal Revenue Code of 1986 as amended ("**Section 280E**"), "no deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any state in which such trade or business is conducted.”. This provision has been applied by the U.S. Internal Revenue Service to cannabis operations, prohibiting them from deducting expenses directly associated with the sale of cannabis. Although the U.S. Internal Revenue Service issued a clarification allowing the deduction of certain expenses that can be categorized as cost of goods sold, the scope of such items is interpreted very narrowly and include the cost of seeds, plants, and labor related to cultivation, while the bulk of operating costs and general administrative costs are not permitted to be deducted. Section 280E therefore has a significant impact on the retail side of cannabis, but a lesser impact on cultivation, processing, production and packaging operations. A result of Section 280E is that an otherwise profitable business may, in fact, operate at a loss, after taking into account its U.S. income tax expenses.

Risk of civil asset forfeiture

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

Proceeds of crime statutes

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

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

Limited intellectual property protection

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

1. Flower One will not be able to register any United States federal trademarks for its cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a crime under the CSA, the United States Patent and Trademark Office will not permit the registration of

any trademark that identifies cannabis products. As a result, the Company likely will be unable to protect its cannabis product trademarks beyond the geographic areas in which it conducts business. The use of its trademarks outside the states in which it operates by one or more other persons could have a material adverse effect on the value of such trademarks.

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

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

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

Lack of access to U.S. bankruptcy protections

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

Potential FDA regulation

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

Legality of contracts

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

Risks Related to the Company

Limited operating history

As the Company 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 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 the Consulting Agreement. The termination of this agreement or the inability to access key personnel could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition. The loss of any of the Company's senior management or key consultants and employees could materially adversely affect the Company's ability to execute the Company's business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all. The Company does not maintain key person life insurance policies on any of the Company's employees.

Reliance on a single jurisdiction

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

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 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. The Company expects to be the transferee of an additional four, and an application for a possible fifth, Nevada state marijuana licenses upon approval of the transfer by the NDOT. Should the NDOT or any other licensing authority not grant, extend, transfer or renew any license or should it transfer or 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 the 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 or quotation 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 the quotation of the 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 or removes 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 NINE MONTHS ENDED SEPTMEBER 30, 2019 AND SEPTEMBER 30, 2018

FLOWER ONE HOLDINGS INC.

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

		September 30, 2019		Audited December 31, 2018
Assets				
Current assets				
Cash and cash equivalents	$	5,556,319	$	2,591,235
Accounts receivable		1,337,039		55,010
Prepaids		3,914,635		4,897,647
Inventory (note 4)		55,406,289		5,362,234
Biological assets (note 5)		18,791,980		391,456
		85,006,262		13,297,582
Non-current assets				
Property, plant and equipment (note 6)		152,628,963		90,166,322
Intangible assets (note 7)		12,019,242		11,333,500
Goodwill		795,225		795,225
Total assets	**$**	**250,449,692**	**$**	**115,592,629**
Liabilities				
Current liabilities				
Trade accounts payable and accrued liabilities (note 15)	$	10,056,666	$	2,898,805
Construction payables		8,707,475		11,185,275
Lease liability (note 10)		2,501,910		-
Notes payable (note 8)		5,889,296		32,080,167
Short-term financing (note 12)		19,674,009		-
		46,829,356		46,164,247
Non-current liabilities				
Convertible debenture (note 9)		21,495,298		-
Derivative liability (notes 9 and 11)		7,815,451		-
Lease liability (note 10)		18,728,628		-
Term debt (note 11)		24,565,060		-
Deferred tax liability (note 18)		14,691,825		848,615
Total liabilities		**134,125,618**		**47,012,862**
Shareholders' equity				
Share capital (note 13)		86,336,379		77,997,726
Contributed surplus (note 14)		6,243,574		3,236,632
Retained earnings (deficit)		23,744,121		(12,654,591)
		116,324,074		68,579,767
Total liabilities and shareholders' equity	**$**	**250,449,692**	**$**	**115,592,629**

Nature of operations (note 1)
Subsequent events (notes 9, 12 and 25)

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.

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

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Revenue	$ 2,498,274	$ –	$ 3,668,239	$ –
Cost of sales	(1,881,910)	–	(3,217,261)	–
Gross profit before fair value adjustments	616,364	–	450,978	–
Realized fair value adjustment on sale of inventory (note 4)	(335,236)	–	(693,717)	–
Unrealized fair value adjustment on growth of biological assets (note 5)	18,415,924	–	66,056,569	–
Gross profit	18,697,052	–	65,813,830	–
Expenses				
General and administrative (note 16)	(4,431,181)	(1,256,529)	(11,801,425)	(2,275,184)
Share-based compensation (note 14)	(1,136,514)	(312,411)	(2,479,473)	(505,146)
Depreciation and amortization (notes 6 and 7)	(67,368)	–	(145,930)	–
Income (loss) from operations	13,061,989	(1,568,940)	51,387,002	(2,780,330)
Other expenses				
Finance expenses (note 17)	(3,674,709)	(3,803,582)	(9,382,659)	(3,803,582)
Fair value gain on derivatives (notes 9 and 11)	9,711,706	–	7,992,861	–
Gain on note payable modification (note 8)	–	–	976,026	–
Foreign exchange gain (loss)	481,853	(209,129)	(637,050)	(586,935)
Net income (loss) before income taxes	19,580,839	(5,581,651)	50,336,180	(7,170,847)
Income tax expense (note 18)	(3,912,231)	–	(13,937,468)	–
Net income (loss) and comprehensive income (loss) for the period	**$ 15,668,608**	**$ (5,581,651)**	**$ 36,398,712**	**$ (7,170,847)**
Basic income (loss) per share (note 19)	$ 0.09	$ (0.04)	$ 0.20	$ (0.06)
Diluted income (loss) per share (note 19)	$ 0.05	$ (0.04)	$ 0.18	$ (0.06)

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

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FLOWER ONE HOLDINGS INC.

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

(UNAUDITED)

		Nine months ended September 30, 2019		Nine months ended September 30, 2018
Operating activities:				
Income (loss) for the period	$	36,398,712	$	(7,170,847)
Items not affecting cash				
Unrealized foreign exchange loss		413,834		–
Realized fair value adjustment on sale of inventory		693,717		–
Unrealized gain on fair value adjustment on growth of biological asset		(66,056,569)		–
Unrealized gain on note payable modification		(976,026)		–
Unrealized fair value gain on derivatives		(7,992,861)		–
Finance expenses (note 17)		9,382,659		3,607,163
Interest paid		(3,470,125)		–
Share-based compensation		2,479,473		505,146
Depreciation		1,630,493		–
Deferred income tax expense		13,843,210		–
Changes in non-cash operating working capital (note 24)		(8,246,688)		(917,436)
		(21,900,171)		(3,975,974)
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		26,273,810		–
Proceeds on short-term financing, net of transaction costs		19,621,860		
Repayment of lease financing principal		(49,527)		–
Repayment of notes payable		(26,759,833)		–
Proceeds of issuance of common shares, net of share issuance costs		199		69,704,247
		78,553,223		69,704,247
Investing activities:				
Purchase of property, plant and equipment		(53,687,968)		(39,151,080)
Purchase of intangible assets		–		(2,127,500)
Prepayment of property, plant and equipment		–		–
		(53,687,968)		(41,278,580)
Increase in cash		2,965,084		24,449,693
Cash and cash equivalents, beginning of period		2,591,235		–
Cash and cash equivalents, end of period	**$**	**5,556,319**	**$**	**24,449,693**

Supplemental cash flow information (note 24)

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

FLOWER ONE HOLDINGS INC.

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

(UNAUDITED)

	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	168,507,594	68,613,140	–	–	68,613,140
Shares issued as fees for private placement	1,279,810	1,091,107	–	–	1,091,107
Shares issued on RTO closing	2,404,775	3,607,163			3,607,163
Share-based compensation	–	–	505,146	–	505,146
Net loss	–	–	–	(7,170,847)	(7,170,847)
At September 30, 2018	**172,192,279**	**73,311,420**	**505,146**	**(7,375,523)**	**66,441,043**
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)	4,484,595	7,563,906	–	–	7,563,758
Shares issued on acquisition of license rights	345,184	750,000	–	–	750,000
Warrants issued as fees for convertible debentures (notes 9 and 14)	–	–	552,017	–	552,017
Warrants exercised	100	247	(48)	–	199
Options exercised	34,865	24,500	(24,500)	–	–
Share-based compensation (note 14)	–	–	2,479,473	–	2,479,473
Net income	–	–	–	36,398,712	36,398,712
At September 30, 2019	**181,494,523**	**$ 86,336,379**	**$ 6,243,574**	**$ 23,744,121**	**$ 116,324,074**

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. Subsequent to September 30, 2019, the Company completed a further convertible debenture financing (note 25) and these debentures and warrants issued are listed on the CSE under the symbols "FONE.DB.A" and "FONE.WT.A". 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 November 26, 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.

Biological Assets and Inventory
In calculating the value of the biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices, expected yields for the cannabis plants, and oil conversion factors. In calculating final inventory values, management compares the inventory cost to estimated net realizable value.

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., FO Labour Management Ltd., 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 September 30, 2019:

		Capitalized Cost		Fair Value Adjustment		September 30, 2019
Harvested cannabis[1]	$	10,896,023	$	40,292,148	$	51,188,171
Cannabis oils		2,182,856		663,963		2,846,819
Packaging and supplies		1,371,299		–		1,371,299
	$	**14,450,178**	**$**	**40,956,111**	**$**	**55,406,289**

1 – Harvested cannabis includes flower, popcorn and trim.

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

		Capitalized Cost		Fair Value Adjustment		December 31, 2018
Harvested cannabis[1]	$	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 nine-month periods ended September 30, 2019, the Company recognized $1,881,910 (2018 - $nil) and $3,217,261 (2018 - $nil), respectively, of cash inventory expensed to cost of goods sold. For the three and nine-month periods ended September 30, 2019, the Company recognized $335,236 (2018 - $nil) and $693,717 (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 NLV Organics Inc. ("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		66,056,569
Production costs capitalized		10,404,749
Transferred to inventory upon harvest		(58,060,794)
Balance at September 30, 2019	**$**	**18,791,980**

The Company measures its biological assets in accordance with IAS 41, *Agriculture*, and are presented at their fair value less costs to sell up to the point of harvest. 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 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 number of weeks in the growing cycle that biological assets take to reach maturity and harvest
- **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, packaging and selling

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

5) BIOLOGICAL ASSETS (CONT'D)

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

	September 30, 2019	10% Change as at September 30, 2019
Selling price per gram	$4.50	$3,352,583
Stage of growth	16 weeks	$2,057,165
Yield by plant (average)	137 grams	$1,870,487
Post-harvest costs per gram to complete	$1.97	$1,481,597

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 September 30, 2019, $nil 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	37,345,614	64,028,876
Transfers between categories	–	65,253,271	50,797,567	–	(116,050,838)	–
At September 30, 2019	**$ 950,865**	**$ 99,446,475**	**$ 52,239,615**	**$ 1,633,433**	**$ –**	**$154,270,388**

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	–	750,922	733,641	81,672	–	1,566,235
At September 30, 2019	**$ –**	**$ 810,476**	**$ 749,277**	**$ 81,672**	**$ –**	**$ 1,641,425**

	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 September 30, 2019	**$ 950,865**	**$ 98,635,999**	**$ 51,490,338**	**$ 1,551,761**	**$ –**	**$152,628,963**

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:

	Indefinite useful life	Acquired on Acquisition of NLVO – Indefinite useful life	Acquired on acquisition of NLVO – finite useful life	Finite useful life	TOTAL
At December 31, 2017	$ –	$ –	$ –	$ –	$ –
Additions	2,127,500	8,505,100	701,000	–	11,333,500
Depreciation	–	–	–	–	–
At December 31, 2018	**2,127,500**	**8,505,100**	**701,000**	**–**	**11,333,500**
Additions	–	–	–	750,000	750,000
Depreciation	–	–	(64,258)	–	(64,258)
At September 30, 2019	**$ 2,127,500**	**$ 8,505,100**	**$ 636,742**	**$ 750,000**	**$ 12,019,242**

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	461,987
At September 30, 2019	**$ 5,889,296**

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 nine-month period ended September 30, 2019. The Company has 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 nine-months ended September 30, 2019, 11,660 debentures were converted by certain debenture holders in exchange for 4,484,595 common shares of the Company. These conversions resulted in a reduction of the carrying amount of the convertible debenture liability of $5,066,117, a reduction of the derivative liability of $2,497,789 and the recording of the common shares issued of $7,563,906.

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 September 30, 2019 for the remaining 45,840 debentures was determined to be $3,057,154 (CAD$4,048,589) using a variant of the Black-Scholes option pricing model which includes a knock-out based on the following assumptions:

Expected life – year	2.5
Interest rate	1.51%
Volatility	60.00%
Barrier price	$3.51
Rebate	$0.91
Exercise price	CAD$2.60
Share price	CAD$1.55

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

9) CONVERTIBLE DEBENTURES (CONT'D)

Conversion and Warrant Features (cont'd)

For the conversion feature, a fair value gain on derivatives of $6,126,859 and $5,675,122 is recorded on the consolidated statement of operations and comprehensive income (loss) for the three and nine-month periods ended September 30, 2019 (three and nine-month periods ended September 30, 2018: $nil and $nil), respectively, related to the conversion feature. A foreign exchange gain of $105,497 and foreign exchange loss of $40,451 is also recorded on the consolidated statement of operations and comprehensive income (loss) for the three and nine-month periods ended September 30, 2019 (three and nine-month periods ended September 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 September 30, 2019 was determined to be $4,251,566 (CAD$5,630,349), based on the trading price at that date of CAD$0.51 which resulted in a fair value gain on derivatives of $2,000,737 and $735,371 recorded on the consolidated statement of operations and comprehensive income (loss) for the three and nine-month periods ended September 30, 2019 (three and nine-month periods ended September 30, 2018: $nil and $nil), respectively, related to the warrant feature. A foreign exchange gain of $74,529 and a foreign exchange loss of $28,750 is also recorded on the consolidated statement of operations and comprehensive income (loss) for the three and nine-month periods ended September 30, 2019 (three and nine-month periods ended September 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 gain on conversion feature	(5,675,122)
Fair value gain on warrant feature	(735,371)
Foreign exchange loss	69,201
Conversions	(2,497,789)
At September 30, 2019	**$ 7,308,720**

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 September 30, 2019 is $21,510,012 and is calculated using the amortized cost method. Interest expense of $835,951 and $1,813,947 is recorded on the consolidated statement of operations and comprehensive income (loss) for the three and nine-month periods ended September 30, 2019 (three and nine-month periods ended September 30, 2018: $nil and $nil), respectively. Accretion expense of $834,593 and $1,739,966 is recorded on the consolidated statement of operations and comprehensive income (loss) for the three and nine-month periods ended September 30, 2019 (three and nine-month periods ended September 30, 2018: $nil and $nil), respectively. Foreign exchange gain of $253,819 and a foreign exchange loss of $297,238 is recorded on the consolidated statement of operations and comprehensive income (loss) for the three and nine-month periods ended September 30, 2019 (three and nine-month periods ended September 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	297,238
Accretion	1,739,966
Conversions	(5,066,117)
At September 30, 2019	**$ 21,495,298**

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 31.8%. 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 September 30, 2019, a further 3,206 debentures were converted by certain debenture holders in exchange for 1,709,325 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 draws totaling $20 million as at September 30, 2019. The lease liability balance at September 30, 2019 is $19,621,693 and finance expense for the three-month period ended September 30, 2019 was $621,846 (three-month period ended September 30, 2018: $nil) and $1,554,793 for the nine-month period ended September 30, 2019 (nine-month period ended September 30, 2018: $nil). $2,444,230 is classified as current liability with $17,177,463 classified as long-term liability.

During the nine-month period ended September 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 September 30, 2019, the Company has recorded $1,608,845 related to this lease liability and finance expense for the three and nine-month periods ended September 30, 2019 was $66,000 and $132,000, respectively (three and nine-month periods ended September 30, 2018: $nil). $57,680 is classified as current liability with $1,551,165 classified as long-term liability.

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. As of September 30, 2019, the Company has completed draws totaling $27,624,852 and issued 1,139,757 warrants with a strike price of CAD$3.46, 1,139,757 warrants with a strike price of CAD$4.03, 589,964 warrants with a strike price of CAD$3.35 and 589,964 warrants with a strike price of CAD$3.91. 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 Company determined the fair value of the warrant feature on the July 31, 2019 issuance to be $608,002 (CAD$799,401) using the Black-Scholes option pricing model based on the following assumptions:

Expected life – year	2.5
Interest rate	1.52%
Volatility	60.00%
Exercise price	CAD$3.35 and CAD$3.91
Share price	CAD$2.53

The fair value of the warrants on September 30, 2019 was determined to be $506,731 (CAD$671,064), using the Black-Scholes option pricing model based on the following assumptions:

Expected life – year	2.33
Interest rate	1.51%
Volatility	60.00%
Exercise price	CAD$3.35, CAD$3.46, CAD$3.91 and CAD$4.03
Share price	CAD$1.55

This resulted in a fair value gain of $1,584,110 and $1,582,368 recorded on the consolidated statement of operations and comprehensive income (loss) for the three and nine-month periods ended September 30, 2019, respectively (three and nine-month periods ended September 30, 2018: $nil and $nil), respectively. A foreign exchange gain of $22,089 and $19,337 is recorded on the consolidated statement of operations and comprehensive loss for both the three and nine-month periods ended September 30, 2019, respectively (three and nine-month periods ended September 30, 2018: $nil and $nil).

11) TERM DEBT (CONT'D)

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. On July 31, 2019, the debt component, net of transaction costs allocated to the debt component, was determined to be $4,222,103 which is the residual amount of the proceeds. LIBOR on the date of issuance and at September 30, 2019 was below the 2.5% minimum and therefore an interest rate of 10.5% was used. The debt component at September 30, 2019 is $24,565,060 and is calculated using the amortized cost method. Accretion expense of $304,252 and $315,786, respectively, is recorded on the consolidated statement of operations and comprehensive income (loss) for the three and nine-month periods ended September 30, 2019 (three and nine-month periods ended September 30, 2018: $nil and $nil). Interest expense of $635,514 and $658,528, is recorded on the consolidated statement of operations and comprehensive income (loss) for the three and nine-month periods ended September 30, 2019 (three and nine-month periods ended September 30, 2018: $nil and $nil).

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 $1,267,142 as a debt discount which is included in the amortization of the financial instrument using an effective interest rate of 18.1%. The amount allocated to the warrant feature of $121,335 is expensed immediately as this component is recorded at fair value.

12) SHORT-TERM FINANCING

On September 16, 2019, the Company and Treehouse Real Estate Investment Trust Inc. ("Treehouse") entered into a sale-leaseback agreement for the Company's indoor cultivation property in North Las Vegas for a purchase price of $20,000,000 (the "Treehouse Agreement"). The Company will then lease such property from Treehouse for a term of 20 years with two 10-year extension options. As part of the Treehouse Agreement, Treehouse will have a five-year right of first offer on future sale-leasebacks by the Company. The Company has been advanced the purchase price under the Treehouse Agreement as a loan, which bears interest at 15% annually and the Company expects to repay upon closing of the Treehouse Agreement.

On September 16, 2019, the debt component, net of transaction costs allocated to the debt component, was determined to be $19,621,860 which is the residual amount of the proceeds. The debt component at September 30, 2019 is $19,674,009 and is calculated using the amortized cost method. Accretion expense and interest expense of $52,149 and $125,000, respectively, is recorded on the consolidated statement of operations and comprehensive income (loss) for the three and nine-month periods ended September 30, 2019 (three and nine-month periods ended September 30, 2018: $nil and $nil). As the loan is due on November 16, 2019 upon closing of the Treehouse Agreement, it is classified as current.

Subsequent to September 30, 2019, the Company completed the sale-leaseback agreement with Treehouse whereby the loan was repaid through Treehouse's purchase of the Company's indoor cultivation facility and the Company began leasing the same property.

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

13) 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 4,484,595 common shares during the nine-month period ended September 30, 2019 through the conversion of convertible debentures (note 9), 100 common shares from the exercise of warrants, 34,865 common shares from the exercise of stock options and 345,184 for the acquisition of license rights.

14) 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 nine-month periods ended September 30, 2019 was $1,136,514 and $2,479,473 (three and nine-month periods ended September 30, 2018: $312,411 and $505,146).

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 nine-month periods ended September 30, 2019, the Company expensed $197,655 and $685,034, respectively, related to these options.

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

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

14) STOCK OPTIONS AND WARRANTS (CONT'D)

Stock Options (cont'd)

During the three-month period ended September 30, 2019, the Company had various grants for a total of 1,525,000 stock options with fair value of $1,570,332 to employees, directors and consultants. These stock options are exercisable at exercise prices of ranging from CAD$1.80 to CAD$2.88 per share and may be exercised for five years from the date of grant. These options are 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 nine-month periods ended September 30, 2019, the Company expensed $539,492 related to these options.

The fair value of these option grants was calculated using the following assumptions:

Expected life – year	5
Interest rate	1.15% - 1.57%
Volatility	60.00%
Dividend and forfeiture	–%
Exercise price	CAD$1.80 – CAD$2.88
Share price	CAD$1.79 – CAD$2.85

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

14) STOCK OPTIONS AND WARRANTS (CONT'D)

Stock Options (cont'd)

	Number of Options	Weighted Average Exercise Price (CAD$)	Expiry Date
Balance, December 31, 2017	–	$ –	–
Granted, March 7, 2018	6,575,000	0.20	March 7, 2023
Granted, June 1, 2018	1,340,000	0.85	June 1, 2023
Granted, October 9, 2018	4,375,000	2.60	October 9, 2023
Exercised, 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
Exercised, July 4, 2019	(25,000)	0.85	NA
Granted, July 8, 2019	100,000	2.88	July 8, 2024
Granted, July 15, 2019	1,275,000	2.85	July 15, 2024
Exercised, July 26, 2019	(25,000)	0.85	NA
Granted, July 29, 2019	50,000	2.70	July 29, 2024
Granted, August 6, 2019	25,000	2.55	August 6, 2024
Granted, September 4, 2019	50,000	2.14	September 4, 2024
Granted, September 24, 2019	25,000	1.80	September 24, 2024
Balance, September 30, 2019	**13,957,500**	**$ 1.41**	

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

14) STOCK OPTIONS AND WARRANTS (CONT'D)

Stock Options (cont'd)

	Outstanding as at September 30, 2019			Exercisable as at September 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	3.44	6,137,500	$ 0.20	3.44
$ 0.85	1,290,000	$ 0.85	3.67	1,290,000	$ 0.85	3.67
$ 2.60	4,375,000	$ 2.60	4.03	2,031,250	$ 2.60	4.03
$ 2.62	630,000	$ 2.62	4.50	405,000	$ 2.62	4.50
$ 2.88	100,000	$ 2.88	4.78	25,000	$ 2.88	4.78
$ 2.85	1,275,000	$ 2.85	4.79	318,750	$ 2.85	4.79
$ 2.70	50,000	$ 2.70	4.83	12,500	$ 2.70	4.83
$ 2.55	25,000	$ 2.55	4.85	6,250	$ 2.55	4.85
$ 2.14	50,000	$ 2.14	4.93	12,500	$ 2.14	4.93
$ 1.80	25,000	$ 1.80	4.99	6,250	$ 1.80	4.99
	13,957,500	**$ 1.41**	**3.84**	**10,245,000**	**$ 0.95**	**3.68**

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 3,459,442 warrants as a component of the term debt (note 11).

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

14) STOCK OPTIONS AND WARRANTS (CONT'D)

Warrants (cont'd)

	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
Granted, July 30, 2019	589,964	3.35	January 30, 2022
Granted, July 30, 2019	589,964	3.91	January 30,2022
Exercised, April 23, 2019	(100)	2.60	N/A
Balance, September 30, 2019	**15,650,478**	**$ 2.84**	

	Outstanding as at September 30, 2019			Exercisable as at September 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	2.49	12,191,036	$ 2.60	2.49
3.46	1,139,757	3.46	2.24	1,139,757	3.46	2.24
4.03	1,139,757	4.03	2.24	1,139,757	4.03	2.24
3.35	589,964	3.35	2.34	589,964	3.35	2.34
3.91	589,964	3.91	2.34	589,964	3.91	2.34
	15,650,478	**$ 2.84**	**2.45**	**15,650,478**	**$ 2.84**	**2.45**

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

15) 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 September 30, 2019 (December 31, 2018 - $197,139). During the three and nine-month periods ended September 30, 2019, the Company incurred $265,745 and $480,245 (three and nine-month periods ended September 30, 2018: $97,464 and $223,205) in wages and salaries, respectively, and $665,147 and $1,099,931 (three and nine-month periods ended September 30, 2018: $59,102 and $102,597), 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.

16) GENERAL AND ADMINISTRATIVE EXPENSES

	Three-Months Ended September 30, 2019	Three-Months Ended September 30, 2018	Nine-Months Ended September 30, 2019	Nine-Months Ended September 30, 2018
Accounting and Legal	$ 640,091	$ 198,694	$ 2,023,637	$ 374,478
Wages and Salaries	794,111	97,341	1,743,826	220,489
Consulting Service	558,951	256,683	2,158,217	319,517
Advertising and promotion	381,247	–	576,492	–
Insurance	549,310	56,647	892,876	56,647
Rent and security	677,047	284,651	1,377,621	564,651
Office, Admin and Utilities	117,749	145,976	1,337,985	245,332
Travel	399,425	200,230	1,114,170	426,750
Other	313,250	16,307	576,601	67,320
General and Administrative	**$ 4,431,181**	**$ 1,256,529**	**$ 11,801,425**	**$ 2,275,184**

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

17) FINANCE EXPENSES

	Three-Months Ended September 30, 2019	Three-Months Ended September 30, 2018	Nine-Months Ended September 30, 2019	Nine-Months Ended September 30, 2018
Accretion expense	$ 1,225,336	$ –	$ 2,728,230	$ –
Interest expense	2,401,631	–	5,208,927	–
Transaction costs (notes 9 and 11)	47,742	–	1,445,502	–
Finance expense	**$ 3,674,709**	**$ –**	**$ 9,382,659**	**$ –**

18) 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 income (loss) for the three and nine-month periods ended September 30, 2019 and September 30, 2018:

	Three-Months Ended September 30, 2019	Three-Months Ended September 30, 2018	Nine-Months Ended September 30, 2019	Nine-Months Ended September 30, 2018
Current tax expense	$ 94,258	$ –	$ 94,258	$ –
Deferred tax expense	3,817,973	–	13,843,210	–
Total income tax expense (recovery)	**$ 3,912,231**	**$ –**	**$ 13,937,468**	**$ –**

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

18) INCOME TAXES (CONT'D)

	Three-Months Ended September 30, 2019	Three-Months Ended September 30, 2018	Nine-Months Ended September 30, 2019	Nine-Months Ended September 30, 2018
Income (loss) before taxes	$ 19,580,839	$ (5,581,651)	$ 50,336,180	$ (7,170,847)
Statutory tax rate	27.00%	27.00%	27.00%	27.00%
Expected income tax (recovery)	5,286,827	(1,507,046)	13,590,769	(1,936,129)
Difference in foreign tax rates	(785,338)	–	(3,302,588)	–
Difference in tax rates and foreign exchange	(196,683)	–	(32,388)	–
Non-deductible items	(951,161)	–	1,779,742	–
Change in deferred tax asset not recognized	558,586	1,507,046	1,901,933	1,936,129
Total income tax expense (recovery)	**$ 3,912,231**	**$ –**	**$ 13,937,468**	**$ –**

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

	September 30, 2019	December 31, 2018
Property, plant and equipment	$ (708,919)	$ (756,715)
Inventory and biological assets	(13,849,191)	(92,346)
Licenses	(133,715)	–
Tax loss carry forwards	–	446
Deferred tax liability	**$ (14,691,825)**	**$ (848,615)**

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

19) INCOME (LOSS) PER SHARE

Basic income (loss) (per share)

	Three-Months Ended September 30, 2019	Three-Months Ended September 30, 2018	Nine-Months Ended September 30, 2019	Nine-Months Ended September 30, 2018
Net income (loss)	$ 15,668,608	$ (5,581,651)	$ 36,398,712	$ (7,170,847)
Weighted average number of common shares outstanding	181,193,514	150,486,724	178,948,677	125,021,205
Basic income (loss) per share	**$ 0.09**	**$ (0.04)**	**$ 0.20**	**$ (0.06)**

Diluted income (loss) (per share)

	Three-Months Ended September 30, 2019	Three-Months Ended September 30, 2018	Nine-Months Ended September 30, 2019	Nine-Months Ended September 30, 2018
Net income (loss)	$ 15,668,608	$ (5,581,651)	$ 36,398,712	$ (7,170,847)
Dilutive effect on income	(4,815,631)	–	(1,783,520)	–
	10,852,977	(5,581,651)	34,615,192	(7,170,847)
Weighted average number of common shares outstanding - basic	181,193,514	150,486,724	178,948,677	125,021,205
Dilutive effect of convertible debentures	17,602,560	–	11,735,040	–
Dilutive effect of options outstanding	5,917,816	–	6,207,139	–
Dilutive effect of warrants outstanding	–	–	347,515	–
Weighted average number of common shares outstanding – diluted	204,713,890	150,486,724	197,238,371	125,021,205
Basic income (loss) per share	**$ 0.05**	**$ (0.04)**	**$ 0.18**	**$ (0.06)**

20) 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 September 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 $3,057,154 (CAD$4,048,589) at September 30, 2019. Based on the fair value of outstanding debentures at September 30, 2019 of $28,816,582 (CAD$38,161,800), the fair value of the debt component was calculated as the residual being $25,759,429 (CAD$34,113,211).

As the convertible debenture warrants are freely traded on the CSE (symbol "FONE.WT"), the fair value of these outstanding warrants at September 30, 2019 is $4,251,566 (CAD$5,630,349).

21) 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 and United States 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 September 30, 2019, the expected credit loss on all the Company's accounts receivable was nominal. All accounts receivables balances at September 30, 2019 are 30 days or less and the maximum credit exposure is $1,337,039. Maximum credit exposure to cash and cash equivalents is $5,556,319.

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 $65,853 for the nine months ended September 30, 2019.

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 September 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 $62,853.

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

21) FINANCIAL INSTRUMENTS RISK (CONT'D)

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 September 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 ($105,362,384 raised in the nine-months ended September 30, 2019 net of transaction costs), the Company regards liquidity risk to be low.

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	$ 10,056,666	$ 10,056,666	$ –	$ –	$ –
Construction payables	8,707,475	8,707,475			
Convertible debentures and interest	43,641,789	4,354,800	39,286,989	–	–
Note payable and interest	6,865,322	6,865,322	–	–	–
Leases	27,672,094	4,790,699	13,199,139	9,682,256	–
Term debt including short-term financing	53,073,313	23,286,911	29,786,402	–	–

22) 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	$ 165,438,551	$ 165,443,430
Revenue	–	3,668,239	3,668,239
Gross Profit	–	65,813,830	65,813,830
Net income and comprehensive income	(7,213,487)	43,612,199	36,398,712

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

23) 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 $116,324,074 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.

24) SUPPLEMENTAL CASH FLOW INFORMATION

The changes in working capital are as follows:

		Nine-Months Ended September 30, 2019		Nine-Months Ended September 30, 2018
Accounts receivable	$	(1,282,029)	$	(600,000)
Prepaids		983,012		(254,861)
Inventory		7,323,022		–
Biological assets		(10,404,749)		–
Accounts payable and accrued liabilities		6,319,331		(62,575)
Construction payables		(11,185,275)		–
Changes in non-cash working capital	**$**	**(8,246,688)**	**$**	**(917,436)**

Additional supplementary cash flow information is summarized as follows:

		Nine-Months Ended September 30, 2019		Nine-Months Ended September 30, 2018
Property, plant and equipment in account payable	$	8,707,475	$	–
Right-to-use asset	$	1,633,433	$	–

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

24) SUPPLEMENTAL CASH FLOW INFORMATION (CONT'D)

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Convertible debentures	Lease liability	Term debt	Short-term financing	Notes payable	Total
January 1, 2018	$ –	$ –	$ –	$ –	$ –	$ –
Non-cash items:						
Additions	–	–	–	–	32,023,402	32,023,402
Finance expenses	–	–	–	–	56,765	56,765
December 31, 2018	–	–	–	–	32,080,167	32,080,167
Cash items:						
Proceeds on financing	39,899,814	19,566,900	26,273,810	19,621,860	–	105,362,384
Repayment of borrowings	–	(49,527)	–	–	(26,759,833)	(26,809,360)
Total cash flows	39,899,814	19,517,373	26,273,810	19,621,860	(26,759,833)	78,553,024
Non-cash items:						
Foreign exchange	297,238	–	–	–	–	297,238
Allocated to derivatives	(16,147,800)	–	(2,108,437)	–	–	(18,256,237)
Changes in fair value	–	–	–	–	(976,026)	(976,026)
Lease liability – right to use asset	–	1,633,433	–	–	–	1,633,433
Conversions	(5,066,117)	–	–	–	–	(5,066,117)
Finance expenses	3,553,913	1,687,144	1,095,650	177,149	1,544,988	8,058,844
Interest paid	(1,041,750)	(1,607,412)	(695,963)	(125,000)	–	(3,470,125)
September 30, 2019	**$ 21,495,298**	**$ 21,230,538**	**$ 24,565,060**	**$ 19,674,009**	**$ 5,889,296**	**$ 92,854,201**

25) SUBSEQUENT EVENT

On November 15, 2019, the Company closed a prospectus supplement financing for gross proceeds of CAD$20,850,000, consisting of 20,850 convertible debenture units at a price of CAD$1,000 per debenture unit with each debenture unit convertible into common shares of the Company at a conversion price of CAD$1.50 per common share. Each unit consisted of one 9.5% unsecured convertible debenture of the Company maturing three years from the date of issuance and 666 common share purchase warrants. Each warrant entitles the holder thereof to purchase one share at the exercise price of CAD$1.55 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$2.25 per share for 20 consecutive trading days. Additionally, the Company issued to the agents 972,027 broker warrants