Management's Discussion and Analysis

For the Year Ended December 31, 2019

This Management's Discussion and Analysis ("MD&A") is prepared as at June 15, 2020 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2019 and December 31, 2018, with the related notes thereto (the "Financial Statements"), of Flower One Holdings Inc. (the "Company" or "Flower One"). Additional information regarding the Company, including its Annual Information Form for the year ended 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:

- risks and uncertainties related to the recent outbreak of COVID-19 and the impact it may have on the global economy and cannabis sales in Nevada, and on regulation of the Company's activities in Nevada, particularly if there is any resurgence of the pandemic in the future;
- 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;
- potential default in the Company’s obligations to pay its indebtedness;
- strategic alliances;
- risks inherent in an agricultural business;
- energy costs;
- reliance on key personnel;
- reliance on a single jurisdiction;
- environmental and employee health and safety regulations;
- unknown environmental risks;
- security risks;
- information technology risks;
- product recalls;
- results of future clinical research;
- competition;
- failure to retain existing clients or acquire new clients;
- 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 and political risks;
- Flower One being 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 equity securities could decrease the value of the 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 or quotation standards of the CSE, the OTCQX or the FSE (as defined below);
- 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", the OTCQX Best Market in the United States ("OTCQX") under the symbol "FLOOF", and under the Frankfurt Stock Exchange ("FSE") under the symbol "F11". The records and registered office of the Company is located at 20 Richmond Street, Toronto Ontario, M5C 2R9.

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 own or operate eight Nevada state-issued marijuana licenses and certain real property.

The Company's wholly owned greenhouse facility, located at 3950 N. Bruce Street, North Las Vegas, Nevada (the "NLV Greenhouse") consists of a fully operational 400,000 square feet for the cultivation of cannabis, with capacity of up to 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 located at 3443 Neeham Road, North Las Vegas (the "Neeham Property") 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, known as the Neeham Property, also contains a licensed commercial kitchen which is used to produce a number of edible cannabis brands.

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, maximizing 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 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 31 grams per square-foot with a total cash cost per harvested gram of $0.40 for the year ended December 31, 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 2019. The Company has been focusing on cultivating specific strains for our anticipated brand launches through the first half of 2020. As a result of this, we have accumulated an inventory of high-quality flower. Through 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 began launching a number of its brand partners' cannabis derived distillate, concentrates, edibles and other products in the fourth quarter of 2019 and is continuing 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 a number of cannabis brands in Nevada of which we have already launched Old Pal, Kiva, Huxton, the Clear, 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.

As of the date of this MD&A, there are 70 licensed cannabis retailers in Nevada. The Company directly oversees the selling, marketing and promotional activities with each of the cannabis retailers it conducts business with. As of the date of this MD&A, the Company had sales with over 90% of these retailers as well as additional licensed manufacturers in Nevada.

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 Nevada within 16 months of starting construction.

The Company has shifted its focus from construction and build out to generating revenue by beginning to progressively launch products of its current brand partners in the fourth quarter of 2019 and through 2020.

The fourth quarter of 2019 represented the first full quarter of revenue generation under the Company's business model of brand partnerships. With its NLV Greenhouse fully operational, the Company transitioned its focus more to operations. Specifically, the Company's operational team in Nevada placed increasing priority on key performance indicators and SOP refinement of its cultivation and product manufacturing in order to meet the product fulfilment demands of the Nevada market. In addition, two new brands (Kiva and RDT) were launched into the market by the end of 2019.

KEY DEVELOPMENTS DURING THE YEAR

On February 1, 2019, the Company entered into a Master Lease Agreement (the "Agreement") with Landrace Financial, LLC (formerly "Reich Bros Commercial Finance"), for equipment financing on certain equipment at the NLV Greenhouse. 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 two draws for a total of $20 million as at December 31, 2019.

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 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 $5,623,454 (CAD$7,500,000), consisting of an additional 7,500 convertible debenture units at a price of CAD$1,000 per debenture unit, making the total gross proceeds from the offering $42,856,308 (CAD$57,500,000). During the year ended December 31, 2019, 14,931 of these debentures were converted by certain debenture holders in exchange for 6,235,094 common shares of the Company which included 492,426 common shares as payment for effective interest. Subsequent to December 31, 2019, and up to the date of this MD&A, a further 98 of these debentures were converted by certain debenture holders in exchange for 66,193 common shares of the Company which included 28,501 common shares as payment for effective interest.

On March 31, 2019, the $18,000,000 note in connection with 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. Subsequent to December 31, 2019, the Company repaid a further $3,094,119 of principal and this note was further amended to extend the maturity date to September 30, 2020 with an option to extend to March 31, 2021.

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, the Company and Treehouse Real Estate Investment Trust Inc. ("Treehouse") entered into a sale and 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 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. On September 16, 2019, the Company was advanced the purchase price under the Treehouse Agreement as a loan, which bore interest at 15% annually. On November 18, 2019, the Company completed Treehouse Agreement whereby the loan was repaid through Treehouse's purchase of the Company's indoor cultivation facility and the Company began leasing the same property.

On November 15, 2019, the Company closed a short-form prospectus financing of 9.5% unsecured convertible debenture units for gross proceeds of $15,758,446 (CAD$20,850,000). Each debenture matures three years from the date of issuance, is convertible into 666 common shares of the Company and includes 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. None of these debentures were converted during the year ended December 31, 2019. Subsequent to December 31, 2019, and up to the date of this MD&A, 11,574 of these debentures were converted by certain debenture holders in exchange for 11,824,981 common shares of the Company which included 4,108,994 common shares as payment for effective interest.

In late 2019, COVID-19 was first detected in Wuhan, China. Since then, the virus has spread to over 100 countries. During March 2020, many governments ordered all but certain essential businesses closed and imposed significant limitations on the circulation of the populace. Furthermore, certain illnesses may be transmitted through human or surface contact, and the risk of contracting such illnesses could cause employees and customers to avoid gathering in public places, as was the case in many places during February and March 2020 due to concerns about the coronavirus. This could not only adversely affect our customer's store traffic, but also the Company's ability to adequately staff and supply its facilities. The Company could be adversely affected if governments under which it or its suppliers operate impose mandatory closures, seek voluntary closures, or impose restrictions on operations.

On March 12, 2020, Governor Sisolak declared a state of emergency in Nevada. Retail cannabis stores and medical cannabis businesses were deemed essential and allowed to operate. Through additional emergency regulation issued on March 20, cannabis businesses could operate by delivery only and all in-store sales were prohibited. The Governor's office released Directive 16 on April 29, allowing cannabis dispensaries to conduct curbside transactions beginning May 1, with pre-approval from the Department of Taxation after submission of a written plan. Further, on May 7, the Governor issued an updated emergency directive stating that the Department of Taxation in conjunction with the Cannabis Compliance Board will allow medical dispensaries and retail marijuana stores to re-open with limited instore access beginning Saturday, May 9, with pre-approval after submission of a written plan. The Company's ability to successfully operate and sell its products will depend on the whether it and its customers and suppliers are able to continue to operate, and the nature of restrictions on such operations. Depending on the duration and severity of the current COVID-19 pandemic, or if there is a resurgence of the COVID-19 pandemic, different or additional operating restrictions may be imposed on the Company, its customers and suppliers, and consumers of marijuana products. Such restrictions may negatively impact the Company's ability to maintain operations and the market for the Company's products.

During the first quarter of 2020, the pandemic did not have a material impact on the Company's operations. During the second quarter of 2020, the Company has experienced a decline in sales relative to the first quarter of 2020 which can likely be attributed to the economic uncertainty caused by the COVID-19 pandemic. Sales for April and May 2020 are expected to be approximately $2 million in aggregate. The re-opening of casinos and the Las Vegas Strip on June 4, 2020 appears to be having a positive impact on inventory levels at cannabis retailers as the Company has seen a notable increase in its weekly orders through its retail accounts in the first week since the re-opening occurred. The Company has taken steps to minimize the potential impact of the pandemic. These actions include postponement of discretionary capital expenditures, reduction of general and administrative expenses, temporary staff reductions, and enhanced process optimization to increase efficiencies and reduce costs.The ultimate extent of the impact of any epidemic, pandemic or other health crisis on the Company's business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. These and other potential impacts of an epidemic, pandemic or other health crisis, such as COVID-19, could therefore materially and adversely affect the Company's business, financial condition and results of operations.

SELECTED ANNUAL INFORMATION

The following table provides a summary of selected financial data for the years ended December 31, 2019 and December 30, 2018. For more detailed information, refer to the Financial Statements prepared in accordance with IFRS.

	Year ended December 31, 2019		Year ended December 31, 2018	
Revenue	$	9,476,723	$	130,969
Cost of sales		6,445,493		133,094
Net income (loss) for the period		524,963		(12,449,915)
Total assets		221,336,199		115,592,629
Total non-current financial liabilities		108,755,803		–
Distribution of cash dividends		–		–
Basic EPS	$	0.00	$	(0.09)
Diluted EPS	$	0.00	$	(0.09)

Revenue

The Company earned revenue of $9,476,723 during the year ended December 31, 2019 and $130,969 during the year ended December 31, 2018. The Company began recording revenue on November 9, 2018 subsequent to the acquisition of certain assets from NLV Organics, Inc. and related parties ("NLVO"). 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 year, 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 has now shifted back in to full production, we expect to see increased revenue contribution from the Neeham Property going forward.

Cost of Sales

Cost of sales was $6,445,493 during the year ended December 31, 2019 as compared with $133,094 for the year ended December 31, 2018. Cost of sales increased by $6,312,399 over 2018 due to the increase in operations of the Company with the NLV Greenhouse and extraction facility beginning operations in the year ended December 31, 2019. Cost of sales includes production costs expensed and the cost of inventory sold. Direct and indirect production costs include direct labor, State of Nevada wholesale marijuana taxes, 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 $524,963 for the year ended December 31, 2019, which is primarily composed of:

- $31,336,647 in unrealized fair value gain on growth of biological assets for the year ended December 31, 2019. This amount represents the effect of the non-cash fair value adjustments of biological assets produced during the year, excluding capitalized production costs;
- $2,115,759 in realized fair value adjustments on the sale of inventory for the year ended December 31, 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;
- $1,596,854 expense related to provision for inventory on hand. This amount represents an estimate of flower inventory on hand as of December 31, 2019 that may not meet the State of Nevada's testing requirements. Of this amount, $586,406 represents the Company's cash costs in inventory.
- $2,697,322 in share-based compensation expense for the year ended December 31, 2019;

- $16,003,607 in finance expenses for the year ended December 31, 2019, of which $8,897,902 related to interest, $5,098,667 related to accretion and $2,007,038 of transaction costs, which were all associated with the convertible debentures, notes payable, leases, term debt and other items;
- $12,474,527 in gains related to fair value adjustments on derivative liabilities for the year ended December 31, 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;
- $1,415,864 in foreign exchange loss for the year ended December 31, 2019 related to the Company's cash balances held in CAD$, the convertible debentures and the derivative liabilities;
- $4,305,911 in income tax expense for the year ended December 31, 2019 related mainly to the fair value gain on growth of biological assets; and
- $18,609,437 in general and administrative expenses for the year ended December 31, 2019. The increase in general and administrative expenses for the year ended December 31, 2019 as compared to the 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 fees (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. A breakdown of the components of general and administrative expenses for the years ended December 31, 2019 and 2018 is as follows:

	Year ended December 31, 2019	Year ended December 31, 2018	Change $	Change %
Consulting services	3,352,493	1,431,993	1,920,500	134%
Cannabis taxes and other selling costs	3,139,172	—	3,139,172	100%
Accounting and legal	2,181,125	887,450	1,293,675	146%
Insurance	2,108,894	251,275	1,857,619	739%
Security	1,971,163	634,599	1,336,564	211%
Wages and salaries	1,926,585	793,127	1,133,458	143%
Travel	1,648,272	365,481	1,282,791	351%
Office, admin and utilities	820,045	347,840	472,205	136%
Other	794,034	158,882	635,152	400%
Advertising and Promotion	667,654	183,214	484,440	264%
Total general and administrative	$ 18,609,437	$ 5,053,861	$ 13,555,576	268%

Cash Flows

During the year ended December 31, 2019, the Company used $39,490,260 of cash in its operating activities (2018: $5,470,771) which was predominantly for staffing, populating the NLV Greenhouse, building inventory of flower and distillate, packaging, marketing and promotional items. The Company invested $51,208,245 into property, plant and equipment (2018: $50,856,137). 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 year, the Company raised a net amount of $122,537,527 from financing activities (2018: $68,987,928) and repaid $26,759,833 (2018: $nil) in notes payable.

Share Capital and Stock Options

The Company issued 6,235,094 common shares during the year ended December 31, 2019 through the conversion of convertible debentures, 100 common shares from the exercise of warrants, 1,534,865 common shares from the exercise of stock options and 379,274 in exchange for the provision of services.

On March 28, 2019, the Company granted a total of 630,000 stock options with fair value of $626,763 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 year ended December 31, 2019, the Company expensed $506,896 related to these options.

Subsequent to March 31, 2019 and up to December 31, 2019, the Company had various grants for a total of 1,600,000 stock options with fair value of $1,610,349 to employees, directors and consultants. These stock options are exercisable at exercise prices ranging from CAD$0.96 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 the options are granted, 25% will vest on the date that is twenty-four months from the date the options are granted and 25% will vest on the date that is thirty-six months from the date the options are granted. During the year ended December 31, 2019, the Company expensed $732,746 related to these options.

For all previous stock option grants, the Company expensed $1,457,680 during the year ended December 31, 2019.

SUMMARY OF QUARTERLY RESULTS

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

	Q4 2019	**Q3 2019**	**Q2 2019**	**Q1 2019**	**Q4 2018**	**Q3 2018**	**Q2 2018**	**Q1 2018**
Revenue	5,808,484	2,498,274	635,793	534,172	130,969	–	–	–
Cost of sales	(3,228,232)	(1,881,910)	(843,594)	(491,757)	(133,094)	–	–	–
Income/(loss) for the period	(35,873,749)	15,679,305	19,050,620	1,668,786	(5,279,068)	(5,581,651)	(1,589,196)	(469,604)
Basic EPS	(0.20)	0.09	0.11	0.01	(0.03)	(0.04)	(0.01)	(0.01)
Diluted EPS	(0.20)	0.05	0.12	0.01	(0.03)	(0.04)	(0.01)	(0.01)
Weighted Avg. Shares O/S	183,540,002	181,193,514	178,990,380	176,699,779	174,754,508	150,486,724	140,723,006	83,152,913

Revenue

During the three-months ended December 31, 2019, revenues were $5,808,484 compared to $2,498,274 in the prior quarter. The $3,310,210 or 132% increase is primarily from the benefit of a full three months of flower sales out of the NLV Greenhouse, which did not commence until August 2019 and cannabis derived products out of the NLV Greenhouse, which did not commence until September 2019. 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 Sales

During the three-months ended December 31, 2019, cost of sales were $3,228,232 compared to $1,881,910 in the prior quarter. The increase is a result of flower and cannabis derived product sales beginning during the three-months ended December 31, 2019. As sales out of the NLV Greenhouse continue to increase each period, the Company expects the per gram cost of sales 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 steady-state operations, we expect the per gram cost of sales to decrease further as the operation gains efficiencies.

Income for the Period

Net loss for the three-months ended December 31, 2019 was $35,873,749 as compared to net income of $15,679,305 in the prior quarter. The decrease of $51,553,054 is mainly driven by an unrealized fair value loss on growth of biological assets of $34,719,922 during the three months ended December 31, 2019 compared to a $18,415,924 unrealized fair value gain on growth of biological assets during the three months ended September 30, 2019. In addition, the decrease is also impacted by a fair value gain on derivatives of $4,481,666 during the three months ended December 31, 2019, compared to a fair value gain on derivatives of $9,711,706 during the three months ended September 30, 2019, as a result of 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 an income tax recovery of $9,631,557 for the three months ended December 31, 2019 compared to a $3,912,231 income tax expense recognized during the three months ended September 30, 2019. The income tax recovery during the three months ended December 31, 2019 was driven by the unrealized fair value loss on growth of biological assets during the period.

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 December 31, 2019	**Three-months ended December 31, 2018**	**Year ended December 31, 2019**	**Year ended December 31, 2018**
Net income (loss)	$ (35,873,749)	$ (5,279,068)	$ 524,963	$ (12,449,915)
Add:				
Interest and accretion	6,059,412	–	13,996,569	–
Income tax expense	(9,631,557)	76,110	4,305,911	76,110
Depreciation and amortization	402,783	75,190	548,713	75,190
EBITDA	**(39,043,111)**	**(5,127,768)**	**19,376,156**	**(12,298,615)**
Add:				
Fair value gain on derivatives	(4,481,666)	–	(12,474,527)	–
Realized fair value adjustment on sale of inventory	1,422,042	25,196	2,115,759	25,196
Unrealized fair value adjustment on growth of biological asset	34,719,922	(464,941)	(31,336,647)	(464,941)
Provision for inventory	1,596,854	–	1,596,854	–
Gain on note payable modification	–	–	(976,026)	–
Share-based compensation	217,849	2,734,111	2,697,322	3,239,957
Adjusted EBITDA	**$ (5,568,110)**	**$ (2,833,402)**	**$ (19,001,109)**	**$ (9,499,103)**

Adjusted EBITDA loss increased by $2,734,708 or 97%, and increased $9,502,006 or 100%, for the three months and year ended December 31, 2019, respectively, as compared to the same periods in the prior year. The three-month and annual increases were attributable to the Company's main operations beginning during 2019 whereas in the comparable period in 2018, the Company was in the construction phase with minimal operations outside of the construction of the NLV Greenhouse.

LIQUIDITY AND CAPITAL RESOURCES

Trade and other payables are due within one year. The Company has a working capital as at December 31, 2019 of $36,021,854 which mainly included $6,670,424 in cash, $2,482,357 in accounts receivables, $1,568,738 in prepaid expenses, $49,789,426 in inventory, $4,350,455 in biological assets, $12,773,185 in trade and other payables, $6,141,493 in construction payables, $6,772,368 for notes payable and $3,152,500 for equipment financing.

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 year ended December 31, 2019, the Company raised an additional $122,537,527, net of cash transaction costs. During the year ended December 31, 2019 the Company repaid $26,759,833 towards the note payable and subsequent to December 31, 2019 repaid a further $3,094,119 of principal and accrued interest and extended the note to September 30, 2020 with an option to extend to March 31, 2021. Additionally, subsequent to December 31, 2019, the Company completed a $10 million debt financing and completed a private placement for gross proceeds of $7.8 million. The Company will be required to raise additional funds to repay the remainder of the note payable and to fund future expansion and growth.

The 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 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 include 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 $141,823 were included in trade and other payables as at December 31, 2019 (December 31, 2018 – $197,139). During the year ended December 31, 2019, the Company incurred $685,660 (year ended December 31, 2018: $377,969) in wages and salaries, $180,688 (year ended December 31, 2018: $nil) in Director fees and $1,358,689 (year ended December 31, 2018: $784,328) 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 $60,194,151.

The Company is committed to repay the note payable with interest totaling $7,018,651.

As part of the equipment financing, the Company is committed to repayment of the financing with interest totaling $25,780,482.

As part of the term debt financing, the Company is committed to repayment of the financing with interest totaling $34,703,425.

As part of a sale lease back agreement, the Company is committed to repayment of the principal lease payments plus interest totaling $77,271,245. In addition, the Company is committed to repayment of $1,225,612 of the principal lease payments plus interest for the Company's lease of a commercial warehouse.

During the year ended December 31, 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

Subsequent to December 31, 2019, the Company entered into a debt financing agreement with a private lender for $10,000,000. The agreement is for a one-year term at a rate of 15% with interest only payments for the term of the agreement. The Company has the ability to pre-pay the outstanding debt with no pre-payment penalty.

Subsequent to December 31, 2019, the Company closed a non-brokered private placement of 29,599,025 units for gross proceeds of $7,828,310 (CAD$10,951,639). Each unit consists of one common share of the Company and one-half share purchase warrant with each full warrant exercisable into one common share of the Company for CAD$0.44 for a period of 36 months.

Subsequent to December 31, 2019, the outbreak of the novel strain of coronavirus, COVID-19, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The extent to which COVID-19 and any other pandemic or public health crisis impacts the Company's business, affairs, operations, financial condition, liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of the COVID-19 virus and the actions required to contain the COVID-19 virus or remedy its impact, among others. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods.

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 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.

Going Concern

The Company's assessment of its ability to continue as a going concern requires judgments 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.

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.

Estimated Useful Lives of Property, Plant and Equipment and Intangible Assets

Depreciation of property, plant and equipment and intangible 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 cash generating unit ("CGU") 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

Goodwill and indefinite life intangible asset impairment testing requires management to make estimates in the impairment testing model. On an annual basis, the Company tests whether goodwill and indefinite life intangible assets are impaired. The recoverable value of the CGU which goodwill or indefinite intangible assets are allocated 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 and Warrants

The fair value of share-based compensation and warrants are estimated using the Black-Scholes option pricing model and rely on a number of estimates, such as the expected term, expected dividend yield, the volatility of the underlying share price, the risk free rate of return, and the estimated rate of forfeiture. Such estimates and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of share-based compensation and warrants.

Business Combinations

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

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

Fair Value of Financial Instruments

Certain of the Company’s assets and liabilities are measured at fair value. In estimating fair value the Company uses market-observable data to the extent it is available. In certain cases where Level 1 inputs are not available the Company will engage third party qualified specialists to perform the valuation. Information about the valuation techniques and inputs used in determining the fair value of biological assets is disclosed in the respective notes.

Leases

The application of IFRS 16 Leases requires assumptions and estimates in order to determine the value of the right-of-use assets and the lease liabilities. Judgment must be applied when determining the implicit and incremental rates of borrowing, as applicable. Judgment must also be applied as to whether renewal options are reasonably certain of being exercised and whether periods covered by an option to terminate are reasonably certain of not being exercised.

Impairment of Financial Assets

An expected credit loss ("ECL") model applies to financial assets measured at amortized cost. The Company's financial assets measured at amortized cost and subject to the ECL model consist primarily of accounts receivable. In determining the ECLs management makes estimates related to the probability-weighted amount of ECLs based on a ranger of outcomes, the discount rate that reflects the effective interest rate of the asset and other information available as of the reporting date relating to past events, current conditions and forecasts regarding future economic conditions.

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 for the asset or liability that are not based on observable market data.

When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. At December 31, 2019, the fair values of cash, accounts receivable, trade and other payables, construction payables and notes payable are not materially different from their carrying values given the short term to maturity. The term debt and equipment financing are classified at amortized cost and accounted for using the effective interest rate method. Their carrying values approximate fair value as the interest rate used to discount the host debt contract and financing liability approximate market rates. The fair value of derivatives is disclosed in the Financial Statements.

As the convertible debentures are freely traded on the CSE (symbols "FONE.DB" and "FONE.DB.A"), the fair value of the combined debt component and conversion feature is determinable. The fair value of the conversion feature is determined using a barrier option pricing model and was $4,309,031 (CAD$5,596,569) at December 31, 2019. Based on the fair value of outstanding debentures at December 31, 2019 of $35,357,476 (CAD$45,922,290), the fair value of the debt component was calculated as the residual being $31,048,445 (CAD$40,325,721).

As the convertible debenture warrants are freely traded on the CSE (symbols "FONE.WT" and "FONE.WT.A"), the fair value of these outstanding warrants at December 31, 2019 is $4,904,805 (CAD$6,370,361).

MARKET RISK

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

- **Credit risk**
  Credit risk is the risk of financial 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 December 31, 2019, the expected credit loss on all the Company's accounts receivable was nominal. All customers are on terms of 30 days or less and the maximum credit exposure is $2,482,357. At December 31, 2019, $638,368 of the accounts receivable balance was over 30 days. As of the date of this MD&A, 99% of the outstanding accounts receivable balance as of December 31, 2019 was collected. Maximum credit exposure to cash and cash equivalents is $6,670,424.

- **Interest rate risk**
  Interest rate risk is the risk that the fair value or 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 both bear 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 statements of income (loss) and comprehensive income (loss) resulting from a 10% increase or decrease in LIBOR above the 2.5% minimum for the year ended December 31, 2019 would be approximately $138,964 (2018 - $nil).

- **Foreign currency risk**
  Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. As at December 31, 2019, the Company had cash of $2,729,517 (CAD$3,545,096) and trade and other payables of $636,068 (CAD$826,125) 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 statements of income (loss) and comprehensive income (loss) resulting from a 10% increase or decrease in foreign exchange rates for the year ended December 31, 2019 would be approximately $151,351 (2018 – $70,459).

- **Liquidity risk**
  The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2019, the Company's financial liabilities consist of trade and other payables 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. Liquidity risk is mitigated through management of working capital, cash flows, the issuance of shares and debt. Due to the Company's ability to raise funds ($122,537,527 raised in the year ended December 31, 2019, net of cash transaction costs), the Company regards liquidity risk to be low.

- **Other price risk**
  Other price risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to other price risk as at December 31, 2019.

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.

Total managed capital is as follows:

		December 31, 2019		**December 31, 2018**
Borrowings	$	83,780,559	$	32,080,167
Share capital		89,124,193		77,997,726
Total	**$**	**172,904,752**	**$**	**110,077,893**

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 funds from the future sale of products to fund operations and expansion activities.

OUTSTANDING SHARE DATA

As of the date of this MD&A, there were 226,752,581 common shares outstanding.

As of the date of this MD&A, there were 12,032,500 stock options outstanding, each exercisable into one common share of the Company.

As of the date of this MD&A, there were 45,308,114 warrants outstanding, each exercisable into one common share of the Company.

As of the date of this MD&A, there were 42,471 convertible debentures outstanding, each convertible into 384 common shares of the Company and 9,276 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.

COVID-19 Pandemic

The Company's business could be materially and adversely affected by the outbreak of a widespread epidemic or pandemic or other public health crisis, including arising from the novel strain of the coronavirus known as "COVID-19." A local, regional, national or international outbreak of a contagious virus, including the novel coronavirus, COVID-19 could cause staff shortages, reduced customer demand, supply shortages, and increased government regulation all of which may negatively impact the business, financial condition and results of operations of the Company.

In late 2019, COVID-19 was first detected in Wuhan, China. Since then, the virus has spread to over 100 countries. During March 2020, many governments ordered all but certain essential businesses closed and imposed significant limitations on the circulation of the populace. Furthermore, certain illnesses may be transmitted through human or surface contact, and the risk of contracting such illnesses could cause employees and customers to avoid gathering in public places, as was the case in many places during February and March 2020 due to concerns about the coronavirus. This could not only adversely affect our customer's store traffic, but also the Company's ability to adequately staff and supply its facilities. The Company could be adversely affected if governments under which it or its suppliers operate impose mandatory closures, seek voluntary closures, or impose restrictions on operations.

On March 12, 2020, Governor Sisolak declared a state of emergency in Nevada. Retail cannabis stores and medical cannabis businesses were deemed essential and allowed to operate. Through additional emergency regulation issued on March 20, cannabis businesses could operate by delivery only and all in-store sales were prohibited. The Governor's office released Directive 16 on April 29, allowing cannabis dispensaries to conduct curbside transactions beginning May 1, with pre-approval from the Department of Taxation after submission of a written plan. Further, on May 7, the Governor issued an updated emergency directive stating that the Department of Taxation in conjunction with the Cannabis Compliance Board will allow medical dispensaries and retail marijuana stores to re-open with limited instore access beginning Saturday, May 9, with pre-approval after submission of a written plan. The Company's ability to successfully operate and sell its products will depend on the whether it and its customers and suppliers are able to continue to operate, and the nature of restrictions on such operations. Depending on the duration and severity of the current COVID-19 pandemic, or if there is a resurgence of the COVID-19 pandemic, different or additional operating restrictions may be imposed on the Company, its customers and suppliers, and consumers of marijuana products. Such restrictions may negatively impact the Company's ability to maintain operations and the market for the Company's products.

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

[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/.

of people who are crossing the United States-Canada border with respect to persons involved in cannabis businesses in the United States.

Those employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry or lifetime bans from the United States for their business associations with U.S. cannabis businesses. Entry happens at the sole discretion of CBP officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a non-US citizen or foreign national. The government of Canada has started warning travelers on its website that previous use of cannabis, or any substance prohibited by U.S. federal laws, could mean denial of entry to the United States. Business or financial involvement in the legal cannabis industry in Canada or in the United States could also be reason enough for U.S. border guards to deny entry. On September 21, 2018, CBP released a statement outlining its current position with respect to enforcement of the laws of the United States. It stated that Canada's legalization of cannabis will not change CBP enforcement of United States laws regarding controlled substances and because cannabis continues to be a controlled substance under United States law, working in or facilitating the proliferation of the legal marijuana industry in the United States. States where it is deemed legal or Canada may affect admissibility to the United States. As a result, CBP has affirmed that, employees, directors, officers, managers and investors of companies involved in business activities related to cannabis in the United States or Canada (such as Flower One), who are not U.S. citizens face the risk of being barred from entry into the United States for life. On October 9, 2018, CBP released an additional statement regarding the admissibility of Canadian citizens working in the legal 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 sales, 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

Risks related to COVID-19

At the time this MD&A is prepared, the Company cautions that its business could be materially and adversely affected by the risks, or the public perception of the risks, related to the COVID-19 pandemic. The risk of a pandemic, or public perception of such a risk, could cause temporary or long-term disruptions in the Company's supply chains and/or delays in the delivery of its products. Further, such risks could also adversely affect the Company's customers' financial condition, resulting in reduced buying of its products. Moreover, an epidemic, pandemic, outbreak or other public health crisis, such as COVID-19, could cause employees to avoid the Company's properties, which could adversely affect its ability to adequately staff and manage its businesses. "Shelter-in-place" or other such orders by governmental entities could also disrupt the Company's operations, if employees who cannot perform their responsibilities from home are not able to report to work. Risks related to an epidemic, pandemic or other health crisis, such as COVID-19, could also lead to the complete or partial closure of one or more of the Company's stores, facilities or operations of its partners. Although the Company's customers dispensaries may be considered essential services and therefore be allowed to remain operational, they are currently only allowed to provide delivery services to its customers.

We are actively assessing and responding, where possible, to the effects of the COVID-19 pandemic on employees, customers, suppliers and service providers, and evaluating governmental actions being taken to curtail its spread. At our facilities that continue to operate, in accordance with applicable laws, we are taking steps to safeguard employees through enhanced administrative controls, reconfiguration of production workflows, employee monitoring strategies, more rigorous cleaning and hygiene practices, as well as physical distancing and the availability of personal protective equipment in certain circumstances. In addition, employees who can work remotely are doing so. We are also taking measures to manage costs, including a reduction of operating expenses and the exploration of applicable government programs. Such measures and government mandates in response to the pandemic may not be effective and one or more of the Company's employees may get sick and may come to work infected, necessitating a short or long-term closure of the affected facilities, disrupting production. Such measures and mandates may also increase the Company's expenses and otherwise impair the Company's production levels or cause it to close or severely limit production at its facilities. Further, the inability of cannabis retailers in Canada to conduct ordinary operations may reduce Flower One's ability to distribute cannabis. Consumer demand for cannabis may be reduced as a result of reductions in consumers' disposable income associated with lay-offs and work or pay limitations due to mandatory social distancing and lockdown measures implemented by provincial governments in Canada. Production limitations or stoppages, social distancing measures and other impediments affecting Flower One's suppliers, partners or producers of goods, should they materialize, may make it difficult, more costly, or impossible for the Company to produce or distribute cannabis, or otherwise market and sell its products. Limitations on the function of regulators as a result of remote work of its employees or redeployment of its resources to addressing the pandemic may delay the Company's communications with the regulatory authorities and delay renewal of its existing licences or the receipt of additional licences required for Flower One's operations, should such licences be sought. If macroeconomic conditions continue to worsen in Canada, and the rest of the world, demand for cannabis may significantly decline and industry participants, including the Company's customers and suppliers, may face financial hardship. In addition, the increased market volatility resulting from global business and economic disruption related to the pandemic and measures to contain it has made it more difficult for companies to access capital markets. Such volatility has hampered, and may in the future hamper, Flower One's efforts to secure additional financing. The duration and severity of the COVID-19 pandemic is currently unknown and the pandemic may continue for a significant period of time. Any of the foregoing may adversely affect the Company's financial position, results of operations and liquidity. The longer the pandemic continues, the more severe such impacts may be. Depending on the duration and severity of the current COVID-19 pandemic, it may also have the effect of heightening many of the other risks described in this MD&A, such as risks relating to our ability to renew licenses and our ability to maintain adequate internal controls in the event that our employees are restricted from accessing our regular offices for a significant period of time.

The ultimate extent of the impact of any epidemic, pandemic or other health crisis on the Company's business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. These and other potential impacts of an epidemic, pandemic or other health crisis, such as COVID-19, could therefore materially and adversely affect the Company's business, financial condition and results of operations.

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.

The Company may default on its obligations to pay its indebtedness

Any default under the agreements governing the Company's indebtedness that is not waived by the required lenders, and the remedies sought by the holders of such indebtedness, could have a material adverse effect on the Company's business, prospects, financial condition and results of operations. If the Company is unable to generate sufficient cash flow and is otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on its indebtedness, or if the Company otherwise fails to comply with the various covenants, including financial and operating covenants in the instruments governing its indebtedness, the Company could be in default under the terms of the agreements governing such indebtedness. In the event of such default: (i) the holders of such indebtedness may be able to cause all of the Company's available cash flow to be used to pay such indebtedness and, in any event, could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest; (ii) the lenders could institute foreclosure proceedings against the Company's assets; and (iii) the Company could be forced into bankruptcy or other involuntary insolvency proceedings. If the Company's operating performance declines, it may in the future need to obtain waivers from the required lenders under its debt agreements to avoid being in default. If the Company breaches its covenants under such agreements and seeks a waiver, it may not be able to obtain a waiver from the required lenders. If this occurs, the Company would be in default under such debt agreements, the lenders could exercise their rights, as described above, and the Company could be forced into bankruptcy or other involuntary insolvency proceedings. In addition, there are cross default provisions included in the debt agreements of the Company, which could result in a default occurring under one debt agreement placing the Company into a default under other debt agreements, notwithstanding that a particular event would not be a default under all debt agreements of the Company.

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.

The Corporation may fail to retain existing clients or acquire new clients

The Company's success depends on its ability to attract and retain clients. There are many factors which could affect the Company's ability to attract and retain clients, including but not limited to its ability to continually produce desirable and effective product, the successful implementation of its marketing plan and the continued growth in the aggregate number of cannabis users. Moreover, even if the Company is successful at attracting a new client, there is no guarantee that such client will continue to purchase product from Flower One. The Company's failure to acquire and retain clients would have a material adverse effect on its business, financial condition and results of 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, the OTCQX or the FSE

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 chares on the OTCQX and the FSE **(**the "Listed Securities"). If Flower One fails to comply with such listing standards and the CSE, the OTCQX or the FSE 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.