Management's Discussion and Analysis

For the Nine and three Months Ended September 30, 2020

This Management's Discussion and Analysis ("MD&A") is prepared as at November 24, 2020 and should be read in conjunction with the unaudited condensed consolidated interim financial statements as at and for the nine and three-month periods ended September 30, 2020 and September 30, 2019, with the related notes thereto (the "Financial Statements"), of Flower One Holdings Inc. (the "Company" or "Flower One") and the audited consolidated financial statements for the year ended December 31, 2019, and the related notes thereto, of Flower One. Additional information regarding the Company, including its Annual Information Form for the year ended December 31, 2019, 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:

- 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 (as defined below), 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 2900 - 550 Burrard Street, Vancouver, British Columbia, V6C 0A3.

The Company is a cannabis cultivation, production, and wholesale company and through its subsidiaries, holds a variety of 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 is located at 3950 N. Bruce Street, North Las Vegas, Nevada (the "NLV Greenhouse"). 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.

The NLV Greenhouse is positioned less than eight miles north of the densely concentrated Las Vegas adult-use and medical cannabis market.

The NLV Greenhouse was operational 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 of more than 150 cultivars and to grow select, premium craft cannabis. 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.

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:

- a 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
- a concentrated market with more than 80% of the state's cannabis revenue derived from one county (Clark County – the Las Vegas area).

The NLV Greenhouse is the only large, commercial-scale greenhouse growing cannabis in Nevada, giving the Company first mover advantage in the market as a large-scale, low cost operator. The Company's strategy is to achieve 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.

Since the NLV Greenhouse was operational with cannabis plants as of May 2019, the Company has been focused on cultivating specific strains for our anticipated brand launches. As a result of this, the Company has accumulated a library and inventory of high-quality strains, flower and cannabis derivatives. In the fourth quarter of 2020, we will continue to cultivate additional brand specific strains as well as grow inventory of dried flower and cannabis derivatives 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 2019 and is continuing into 2020. 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 wide range of products from leading cannabis brands. 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 the greater Nevada market resulting in higher realized prices net of licensing fees than bulk and non-branded products.

Core to the Company's overall strategy is to facilitate and accelerate the entry of its licensed 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 Standard Operating Procedures ("SOPs") and quality controls.

In addition to manufacturing and selling the various products 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 approximately 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 95% 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 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, during Q1 2020, the Company transitioned its focus from build out to operations. During the nine-months ended September 30, 2020, the economy was impacted by the COVID19 pandemic resulting in decreased revenue for the Company. As a result, the Company reduced staff and production levels to correspond to the anticipated, near-term reduction in revenue due to the quarantines. Starting in July 2020, Nevada cannabis retail sales quickly returned to pre-quarantine levels, in spite of an only partial rebound of tourism. As a result, the Company: ramped back up production; saw a rebound of sales beyond pre-COVID levels, and continued its efforts to further diversify its cannabis product mix by continuing to launch new SKUs related to the Company's brand partnership portfolio.

KEY DEVELOPMENTS DURING THE PERIOD

Three-month and Nine-month Periods ended September 30, 2020

During March 2020, many governments ordered all but certain essential businesses closed and imposed significant limitations on the circulation of the populace due to the belief that: 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. The impact of COVID-10 not only adversely affects our customers' store traffic, but also the Company's ability to adequately staff and supply its facilities. While these restrictions have eased over the past few months, the Company could be adversely affected if governments under which it or its suppliers operate impose future mandatory closures, seek voluntary closures, or impose restrictions on operations.

During the first quarter of 2020, the pandemic did not have a material impact on the Company's operations – as the Company generated revenue of $8.8 million. During the second quarter of 2020, the Company experienced a decline in sales relative to the first quarter of 2020, which likely can be attributed to the economic uncertainty caused by the COVID-19 pandemic. Sales for April and May 2020 were approximately $1.9 million in aggregate. Sales in June 2020 were approximately $1.9 million resulting in total revenues of $3.8 million for the three-months ended June 30,2020. As the pandemic-related lockdowns eased results for the quarter ended September 30, 2020 improved to $11.9 million.

Beginning in the second quarter, the Company initiated steps to minimize the potential impact of the pandemic. These actions included: postponement of discretionary capital expenditures; reduction of general and administrative expenses; temporary staff reductions; transformation of flower to trim, thus extending the useful life of certain inventory, 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.

On March 6, 2020, the Company entered into a $10,000,000 debt financing agreement with a private lender. The agreement is for a one-year term at a rate of 15% with interest only payments for the term of the agreement. In July 2020, the agreement was amended extending the term an additional six (6) months and increasing the borrowing from $10,000,000 to $11,000,000. The Company has the ability to pre-pay the outstanding debt with no pre-payment penalty. On commencement of the loan and subsequent amendment, the debt component, net of transaction costs allocated to the debt component, was determined to be $9,900,000 which was the residual amount of the proceeds.

On May 1, 2020, the Company completed a private placement of 29,599,025 units at a subscription price of CDN$0.37 per unit for gross proceeds $7,785,895. Each unit consisted of one common share and one half of one share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of CDN$0.44 per share for 36 months after issuance. The Company may accelerate the expiration date if the volume-weighted, average price of the Company's common shares exceeds CAD$0.88 per share for 20 consecutive trading days. In connection with this private placement, the Company issued 14,799,509 common share purchase warrants.

On June 26, 2020, the Company completed a private placement of 16,102,018 units at a subscription price of CDN$0.51 per unit for gross proceeds $6,004,701. Each unit consisted of one common share and one half of one share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of CDN$0.61 per share for 36 months after issuance. The Company may accelerate the expiration date if the volume weighted average price of the Company's common shares exceeds CAD$01.22 per share for 20 consecutive trading days. In connection with this private placement, the Company issued 8,051,005 common share purchase warrants.

On March 31, 2019, the $18,000,000 note issued in connection with the acquisition of the greenhouse was amended to extend the maturity date to June 30, 2020 with interest beginning April 1, 2019 at a rate of 9.5% per annum. This change in terms resulted in a change in the recognized liability as at March 31, 2019 and a resulting gain of $976,026 being recorded on the consolidated statements of income (loss) and comprehensive income (loss) for the nine-month period ended September 30, 2019. The Company repaid $11,596,665 in principal of the note during the nine-month period ended September 30, 2019, and repaid in full, the remaining $7,261,847 of principal and accrued interest during the nine-month period ended September 30, 2020.

During the nine-month period ended September 30, 2020, the Company recognized $27,633,848 of inventory write-downs related to unrealized fair value gains previously recognized in inventory. During the periods, the Company reviewed the flower inventory on hand and determined that certain amounts would not be sold as flower or trim thus resulting in the total write down of the fair value associated with that flower.

In the nine-month period ended September 30, 2020, the Company performed an analysis and determined that conditions were met that impaired the realizability of intangible assets and goodwill. The Company determined that a provision of $9,300,225 was required consisting of: a provision of $8,505,000 for certain intangible assets and $795,225 against Goodwill.

As of the date of this MD&A, 15,029 (26%) of the March 28, 2019 debentures were converted by certain debenture holders in exchange for 6,301,287 common shares of the Company, which shares included 520,927 common shares as payment for effective interest. Additionally, 11,574 (56%) of the November 15, 2019 debentures were converted by certain debenture holders in exchange for 11,824,981 common shares of the Company, which shares included 4,108,994 common shares as payment for effective interest. The effective interest equaled the respective amounts of interest that the holder would have received if the holder had held the debentures until the maturity date.

On August 21, 2020, the Company entered into a debt financing arrangement with a private lender for $1,135,933 (CAD$1,500,000). The agreement is for a nine (9) month term at a rate of 11% with interest only payments for the term of the loan and principle due at maturity. As part of the loan, the Company granted to the lender 811,475 warrants at an exercise price of CAD$0.61 per warrant and a 36-month expiration date. The Company has recorded the transaction costs associated with the debt component of $111,110 as a debt discount, which amount is included in the amortization of the financial instrument using an effective interest rate of 25.2%.

On July 10, 2020, the Company entered into a debt financing agreement with a private lender for $1,000,000. The agreement is for a 60-day term at a rate of 18% with interest and principle due at maturity. As at September 30, 2020, this debt financing had not been paid.

On September 18, 2020, the Company completed a private placement of 9,497,000 units at a subscription price of CDN$0.25 per unit for gross proceeds $1,802,968. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of CDN$0.36 per share for 36 months after issuance. As part of this private placement, the Company issued 9,497,000 common share purchase warrants.

On September 18, 2020, the Company completed a public offering of 23,000,000 units at a subscription price of CDN$0.25 per unit for gross proceeds $4,355,165. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of CDN$0.36 per share for 36 months after issuance. As part of this public offering, the Company issued 23,000,000 common share purchase warrants. The Company paid a cash commission to the agents of $261,310, agent expenses of $82,257 and legal, regulatory and other fees of $137,855. Additionally, the Company issued to the agents 1,380,000 broker warrants with the same terms as the warrants issued on the units.

SELECTED FINANCIAL INFORMATION

The following table provides a summary of selected financial data for the three-month and nine-month periods ended September 30, 2020 and September 30, 2019. For more detailed information, refer to the Financial Statements prepared in accordance with IFRS.

		Three-month period ended September 30, 2020		Three-month period ended September 30, 2019		Nine-month period ended September 30, 2020		Nine-month period ended September 30, 2019
Revenue	$	11,903,134	$	2,498,274	$	24,581,555	$	3,668,239
Cost of goods Sold	$	8,909,731	$	1,881,910	$	17,339,577	$	3,217,261
Income (loss) for the period	$	(17,192,698)	$	15,668,608	$	(44,863,299)	$	36,398,712
Total Assets	$	194,169,964	$	250,449,692	$	194,169,964	$	250,449,692
Total non-current financial liabilities	$	50,548,685	$	87,296,262	$	50,548,685	$	87,296,262
Distribution of cash dividends	$	-	$	-	$	-	$	-
Basic EPS	$	(0.07)	$	0.09	$	(0.21)	$	0.20
Diluted EPS	$	(0.07)	$	0.05	$	(0.21)	$	0.18

QUARTERLY HIGHLIGHTS

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

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Revenue	11,903,134	3,863,055	8,815,366	5,808,484	2,498,274	635,793	534,172	130,969
Cost of sales	(8,909,731)	(2,095,086)	(6,334,760)	(3,228,232)	(1,881,910)	(843,594)	(491,757)	(133,094)
Income/(loss) for the period	(17,192,698)	(19,803,158)	(6,389,801)	(35,873,749)	15,679,305	19,050,620	1,668,786	(5,279,068)
Basic EPS	(0.07)	(0.09)	(0.03)	(0.20)	0.09	0.11	0.01	(0.03)
Diluted EPS	(0.07)	(0.09)	(0.04)	(0.20)	0.05	0.12	0.01	(0.03)
Weighted Avg. Shares O/S	247,128,177	213,414,892	187,967,259	183,540,002	181,193,514	178,990,380	176,699,779	174,754,508

Revenue

For the three-month and nine-month period ended September 30, 2020, the Company earned revenue of $11,901,134 and $24,581,555, respectively. For the three-month and nine-month period ended September 30, 2019, the Company earned revenue of $2,498,274 and $3,668,239, respectively. The Company began recording revenue on November 9, 2018, and as such, up to that point had been in “start-up” mode 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. The increase in revenue over the three-month and nine-month periods ended September 30, 2020 over the results from the three-month and nine-month periods ended September 30, 2019 was a result of the Company’s increased sales volumes generating from the NLV Greenhouse due in large part to Nevada’s partial reopening subsequent to the Nevada’s stay at home directives from the COVID-19 pandemic.

Cost of Sales

For the three-month and nine-month period ended September 30, 2020, cost of sales was $8,909,731 and $17,339,577, respectively as compared with $1,881,910 and $3,217,261, for the three-month and nine-month period ended September 30, 2020. Cost of sales for the three-month and nine-month periods ended September 30, 2020 increased by $7,027,821 and $14,122,316 over the same periods in 2019 due to the increase in operations of the Company with the NLV Greenhouse and extraction facility beginning operations in the last half of 2019. Cost of sales includes production costs expensed and the cost of inventory sold. Direct and indirect production costs include direct labor, processing, testing, packaging, quality assurance, shipping, depreciation of cultivation and production equipment, cultivation and production management and other related expenses.

Other expenses

The Company recorded net loss of $(17,192,698) and $(44,863,299) for the three-month and nine-month periods ended September 30, 2020, which is primarily composed of:

- $16,986,205 and $27,633,848 in non-cash write-downs and provisions on inventory on hand for the three-month and nine-month periods ended September 30, 2020, respectively. During the periods, the Company reviewed the flower inventory on hand and determined that certain amounts would not be profitably sold as flower or distillate and was written down to no value.
- $0 and $9,300,225 in non-cash write-downs and provisions on intangible assets and goodwill as a result of impairments driven by the COVID-19 pandemic for the three-month and nine-months periods ended September 30, 2020, respectively.
- $8,907,304 and $16,232,075 for the three-month and nine-month periods ended September 30, 2020, respectively in unrealized fair value gain (loss) on growth of biological assets. This amount represents the effect of the non-cash fair value adjustments of biological assets produced during the period, excluding capitalized production costs;
- $(5,299,280) and $(10,476,901) for the three-month and nine-month periods ended September 30, 2020, respectively in realized fair value adjustments on the sale of inventory. 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;
- $333,283 and $1,109,492 for the three-month and nine-month periods ended September 30, 2020, respectively in share-based compensation expense;
- $6,205,423 and $19,418,094 for the three-month and nine-month periods ended September 30, 2020, respectively in finance expenses which is comprised of interest and accretion, associated with the convertible debentures, notes payable, leases, term debt, fees in lieu default interest and other items;
- $4,779,798 and $11,686,519 in gains (loss) related to fair value adjustments on derivative liabilities for the three-month and nine-months periods ended September 30, 2020, respectively. 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, term debt and equity financings;
- $(421,697) and $1,576,624 in foreign exchange gains (loss) for the three-month and nine-months periods ended September 30, 2020, respectively related primarily to the Company's cash balances held in CAD$, the convertible debentures and the derivative liabilities;
- $1,529,568 and $4,703,160 in income tax recovery (expense) for the three-month and nine-month periods ended September 30, 2020, respectively related mainly to the inventory write-down and provision as well as the fair value gain on growth of biological assets; and
- $5,859,472 and $17,587,857 in general and administrative expenses for the three-month and nine-month periods ended September 30, 2020, respectively. The increase in general and administrative expenses for the as compared to the prior period 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 marijuana tax, 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 three-month and nine-month periods ended September 30, 2020 and 2019 follows:

	Three-Months Ended September 30, 2020	Three-Months Ended September 30, 2019	Change	Change %
Cannabis taxes and selling costs	$ 2,483,438	$ -	$ 2,483,438	100%
Wages and Salaries	1,125,795	794,111	331,684	42%
Accounting and Legal	444,087	640,091	(196,004)	(31%)
Insurance	503,447	549,310	(45,863)	(8%)
Rent and security	490,724	677,047	(186,323)	(28%)
Office, Admin and utilities	227,803	117,749	110,054	93%
Consulting	323,134	558,951	(235,817)	(42%)
Advertising and promotion	112,202	381,247	(269,045)	(71%)
Travel	44,086	399,428	(355,339)	(89%)
Other	104,756	313,250	208,494	(67%)
General and Administrative	$ 5,859,472	$ 4,431,181	$ 1,428,291	32%

	Nine-months Ended September 30, 2020	Nine-months Ended September 30, 2019	Change	Change %
Cannabis taxes and selling costs	$ 5,771,744	$ -	$ 5,771,744	100%
Wages and Salaries	3,905,195	1,743,826	2,161,369	124%
Accounting and Legal	1,463,754	2,023,637	(559,883)	(28%)
Insurance	2,220,581	892,876	1,327,705	149%
Rent and security	1,487,017	1,377,621	109,396	8%
Office, Admin and utilities	489,606	1,337,985	(848,379)	(63%)
Consulting	801,082	2,158,217	(1,357,135)	(63%)
Advertising and promotion	436,004	576,492	(140,488)	(24)%
Travel	243,173	1,114,170	(870,997)	(78%)
Other	769,701	576,601	193,102	33%
General and Administrative	$ 17,587,857	$ 11,801,425	$ 5,786,432	49%

Income for the Period

Net loss for the three-month and nine-month periods ended September 30, 2020 was $(17,192,698) and $(44,863,299), respectively as compared to a net income of $15,668,608 and $36,398,712 in for the three-months and nine-months ended September 30, 2019, respectively. The decrease in net income of $32,861,306 and $81,262,011, for the three and nine-months ended September 30, 2020 compare to the same period ended September 30, 2019 is mainly driven by a decrease in unrealized fair value gain on growth of biological assets, write downs of inventory, increased finance expenses and increased general and administrative expenses.

Unrealized fair value gain on growth of biological assets in the three-month and nine-month period ended September 30, 2020 of $8,907,304 and $16,232,075, respectively compared to $18,415,924 and $66,056,569 during the three-months and nine-months ended September 30, 2019.

Provision for inventory of $16,986,205 and $27,633,848 for the three-month and nine-month periods ended September 30, 2020 compared to no provisions in the same periods in 2019. The provision was determined because certain amounts of flower and trim were deemed to be impaired and not saleable as either trim or distillate. As a result, the fair value associated with that flower was fully written down.

For the three-month and nine-month periods ended September 30, 2020, provision for the impairment of goodwill and intangible assets as a result of the COVID-19 pandemic of $0 and $9,300,225, (2019: $nil).

For the three-month and nine-month periods ended September 30, 2020, finance expense were $6,205,423 and $19,418,094, respectively compared to $3,674,709 and $9,382,659 in the same periods in 2019. The increased finance expenses in 2020 were related to increased interest bearing debt levels in 2020 compared to the same periods in 2019.

For the three-month and nine-month periods ended September 30, 2020, general and administrative expenses were $5,859,472 and $17,587,857, respectively compared to $4,431,181 and $11,801,425 in the same periods in 2019. The increased general and administrative expenses in 2020 were related to increased cannabis taxes due to increased in sales in 2020 compared to 2019, increased wages due to increase staff in administrative and sales positions and increased insurance. The increase in general and administrative expenses were partially offset by decreases in accounting and legal expenses, consulting and travel.

The unfavorable change in the net income was partially offset by favorable change in the fair value gain on derivatives. For the three-month and nine-month periods ended September 30, 2020, the fair value gain(loss) on derivates was $4,779,798 and $11,686,519, respectively. For the three-month and nine-month periods ended September 30, 2019, to a fair value loss on derivatives was $9,711,706 and $7,992,861 during the three-months and nine-month periods ended September 30, 2019. The favorable change in the fair value of derivatives is the result of the decreased value of the conversion feature of the convertible debentures and the warrants associated with the convertible debentures and term debt. Additionally, the Company recorded an income tax recovery of $1,529,568 and $4,703,160 for the three-month and nine-month periods ended September 30, 2020 compared to an income tax expense of $3,912,231 and $13,937,468, respectively for three-month and nine-month periods ended September 30, 2019. The income tax recovery during the three-months and nine-months ended September 30, 2020 was mainly driven by the inventory write-down and provision and unrealized fair value gain on growth of biological assets during the period.

Cash Flows

During the nine-month period ended September 30, 2020, the Company used $23,242,431 of cash in its operating activities (September 30, 2019: $14,715,094) which was predominantly for staffing, populating the NLV Greenhouse, building inventory of flower and distillate, packaging, marketing and promotional items. The Company invested $1,684,392 into property, plant and equipment (September 30, 2019: $39,015,852). The property, plant and equipment invested in represents cash used mainly on equipment and betterments to the NLV Greenhouse. During the nine-month period ended September 30, 2020, the Company raised a net amount of $31,452,547 from financing activities (September 30, 2019: $78,523,441) and repaid $8,687,478 in financing principal (September 30, 2019: $26,784,016).

The Company has historically funded its operations from debt and equity raises. The Company is actively seeking capital. However, there can no assurance that Company will be successful in raising enough capital to meet its short or long-term obligations until such time that it reaches positive cash flow net of debt and operational obligations.

Share Capital and Stock Options

The Company issued 11,891,174 common shares during the nine-month period ended September 30, 2020 through the conversion of convertible debentures, 386,842 common shares from the exercise of stock options, 96,428 in exchange for the provision of services, 55,198,043 common shares for two private placements and 23,000,000 common shares for a public offering.

During the nine-month period ended September 30, 2020, the Company granted 100,000 stock options with fair value of $27,670 of which $2,877 and $7,585 were expensed during the three-month and nine-month periods ended September 30, 2020, respectively.

During the nine-month period ended September 30, 2019, the Company granted a total of 2,155,000 stock options with fair value of $2,197,095 to employees, directors and consultants. These stock options are exercisable at an exercise prices ranging from CAD$1.80 to CAD$2.88 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 1,825,000 were 25% vested immediately, 25% will vest on the date that is twelve months from the date of the options are granted, 25% will vest on the date that is twenty-four months from the date of the options are granted and 25% will vest on the date that is thirty-six months from the date the options are granted. During the three-month and nine-months periods ended September 30, 2020, the Company expensed $116,623 and $523,683, respectively related to these options. During the three-month and nine-months periods ended September 30, 2019, the Company expensed $737,146 and $1,224,525, respectively related to these options.

Subsequent to September 30, 2019 and up to December 31, 2019, the Company had various grants for a total of 75,000 stock options with fair value of $40,017 to employees, directors and consultants. These stock options are exercisable at exercise prices ranging from CAD$0.96 to CAD$1.54 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 three-month and nine-month periods ended September 30, 2020, the Company expensed $4,614 and $13,740 related to these options.

NON-IFRS MEASURES

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

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Net income (loss)	$ (17,192,698)	$ 15,668,608	$ (44,863.299)	$ 36,398,712
Add:				
Interest and accretion	6,205,423	3,674,709	19,418,094	9,382,659
Income tax expense (recovery)	(1,529,568)	3,912,231	(4,703,160)	13,937,468
Depreciation and amortization	297,411	67,368	777,237	145,930
EBITDA	$ (12,219,432)	$ 23,322,916	$ (29,371,127)	$ 59,864,769
Add:				
Fair value gain on derivatives	(4,779,798)	(9,711,706)	(11,686,519)	(7,992,861)
Realized fair value adjustment on sale of inventory	5,299,280	335,236	10,476,901	693,717
Unrealized fair value adjustment on growth of biological assets	(8,907,304)	(18,415,924)	(16,232,075)	(66,056,569)
Write-down and provision for inventory	16,986,205	-	27,633,848	-
Gain on note payable modification	-	-	-	(976,026)
Share-based compensation	333,283	1,136,514	1,109,492	2,479,473
Adjusted EBITDA	$ (3,287,766)	$ (3,332,961)	$ (18,069,481)	$(11,987,497)

For the three-months and nine-month periods ended September 30, 2020, Adjusted EBITDA Increased (decreased) by $45,198 and $(6,081,984) respectively as compared to the same period in the prior year. The decreases were attributable to the Company's decreases in realized fair value adjustment on sale of inventory and increases in inventory write downs, combined with net losses.

LIQUIDITY AND CAPITAL RESOURCES

Trade and other payables are due within one year. The Company has a working capital deficit as at September 30, 2020 of $28,299,104 which mainly included $4,508,670 in cash, $5,627,104 in accounts receivables, $2,034,580 in prepaid expenses, $32,790,032 in inventory, $8,574,714 in biological assets, $12,321,663 in trade and other payables, $5,800,688 in construction payables, $451,366 in income taxes payable, $4,892,363 in cannabis taxes, $28,543,619 in term debt, $17,517,479 for equipment financing and $12,307,025 in short-term financing.

Subsequent to the quarter end, the Company secured an agreement with Subversive Real Estate LP ("Subversive") for a new $39M term loan (the "Subversive Loan"), which included an option to enter a sale-leaseback purchase agreement for the Company's greenhouse facility (together with the Subversive Loan, the "Subversive Transaction"). In October, 2020, subsequent to the Company's announcement of the Subversive Loan, RB Loan Portfolio II, LLC ("RB II"), the Company's existing term debt lender, advised that it considered certain liens filed by third parties against the certain assets of the Company to be a breach of the Term Debt with a balance of $30 million as of September 30, 2020, As a result of cross default provision with the Term Debt, RB Loan Portfolio I, LP ("RB I"), the Equipment Financing lender, considered the Company to be in breach of the Equipment Financing with a balance of $17.5 million and secured by equipment at the Company's greenhouse facility. In October 2020, the Company entered into a payout agreement with RB II and a forbearance agreement with RB I, respectively, with the intention of using part of the Subversive Loan proceeds to repay the existing Term Debt and remove the liens on or before November 18, 2020. The Company agreed to pay RB II a fee equal to incremental interest of 3% on the balance of the Term Debt and to pay RB I incremental interest of 6% on the balance of the Equipment Financing. These agreements expired on November 18, 2020, but the Company, RB I and RB II continued discussions in connection with the payout of the Term Debt. On November 26, 2020, Subversive announced that it had determined not to proceed with its previously announced qualifying transaction, and therefore the Company believes it is unlikely able to close the Subversive Loan. Nonetheless, the Company continues to work with Subversive to explore options to close the Subversive Transaction. Subversive's Qualifying Transaction and its postponement of such transaction do not involve and are unrelated to the Company. The Company is currently negotiating with RB II to extend and amend the terms of the Term Debt and with RB I to extend and amend the terms of the Equipment Financing. There can be no assurance that the Company will be successful in negotiating successful amendments to the Term Debt and the Equipment Financing.

The Company generates 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 $8,547,397 and $31,452,547 had been raised during the three-month and nine-month period ended September 30, 2020, 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 three-month and nine-months ended September 30, 2020, the Company repaid $2,068,401 and $8,687,478 towards the note payable, equipment financings and leases. The Company will be required to raise additional funds to fund future operating losses, working capital deficit and 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 includes the Company's Directors, President and Chief Executive Officer, Chief Financial Officer and Chief Strategy Officer. The amounts owing to key management personnel of $1,329,605 were included in trade and other payables as at September 30, 2020 (December 31, 2019: $141,823). During the nine-month and three-month period ended September 30, 2020, the Company incurred $1,379,077 and $513,870 in wages and salaries. During the nine-month and three-month period ended September 30, 2019, the Company incurred $480,245 and $265,745 in wages and salaries. During the nine-month and three-month period ended September 30, 2020, the Company incurred $387,500 and $129,167 in directors fees. During the nine-month and three-month period ended September 30, 2019, the Company incurred no director fees. During the nine-month and three-month period ended September 30, 2020, the Company incurred $578,602 and $129,514 in share-based compensation to key management personnel. During the nine-month and three-month period ended September 30, 2020, the Company incurred $1,099,931 and $665,147 in share-based compensation.

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 $45,627,796.

As part of the equipment financing, the Company is committed to repayment of the financing with interest totaling $21,857,084.

As part of the term debt financing, the Company is committed to repayment of the financing with interest totaling $32,338,767.

As part of a sale lease back agreement, the Company is committed to repayment of the principal lease payments plus interest totaling $77,147,480. In addition, the Company is committed to repayment of $999,550 of the principal lease payments plus interest for the Company's lease of a commercial warehouse.

As part of the short-term financing, the Company is committed to repayment of the financing with interest totaling $13,912,872.

During the quarter ending September 30, 2020, the Company entered into a payment plan with one of its vendors for $5,763,176. One of the Company's key management personnel provided a personal guarantee for this obligation.

SUBSEQUENT EVENTS

- None noted

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.

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 September 30, 2020, the fair values of cash, accounts receivable, trade and other payables, construction payables, short-term financing and notes payable are not materially different from their carrying values given the short term to maturity. The convertible debenture, 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 $nil at September 30, 2020. Based on the fair value of outstanding debentures at September 30, 2020 of $11,878,495, the fair value of the debt component was calculated as the residual being $11,878,495.

As the convertible debenture warrants and public offering warrants are freely traded on the CSE (symbols “FONE.WT”, “FONE.WT.A” and “FONE.WT.B”), the fair value of these outstanding warrants at September 30, 2020 is $593,169.

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 holdings and accounts receivables. The risk exposure is limited to their carrying amounts at the statement of financial position date. The risk for cash and cash equivalents is mitigated by holding these instruments with highly rated Canadian and United States financial institutions. Accounts receivables primarily consist of trade accounts receivable. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. As at September 30, 2020, 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 $5,627,104. At September 30, 2020, $1,203,362 of the accounts receivable balance was over 30 days. As of the date of these financial statements, $4,792,661 or 91% of the outstanding accounts receivable balance as of September 30, 2020 was collected. Maximum credit exposure to cash is $4,508,670.

- 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, the term debt which bears interest at LIBOR plus 8% (minimum LIBOR of 2.5%) and the short-term financing (Note 12) which bears interest at 15%. 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 Nine-month period ended September 30, 2020 would be approximately $236,466 (September 30, 2019: $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 September 30, 2020, the Company had cash of $4,001,555 (CAD$5,337,674) and trade and other payables of $453,462 (CAD$604,873) 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 nine-month period ended September 30, 2020 would be approximately $632,094 (September 30, 2019: $62,853).

- Liquidity risk

  The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet financial obligations as they come due. As at September 30, 2020, the Company's financial liabilities consist of trade and other payables, construction payables, notes payable, short-term financing and term debt (all of which are due within 12 months) as well as the convertible debentures, lease liability and equipment financing. 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.

- 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 September 30, 2020.

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:

	September 30, 2020	December 31, 2020
Borrowings	$ 86,563,093	$ 83,780,559
Share capital	110,863,535	89,124,193
Total	$ 197,426,629	$ 172,904,752

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 275,351,599 common shares outstanding.

As of the date of this MD&A, there were 12,107,500 stock options outstanding, each exercisable into one common share of the Company.

As of the date of this MD&A, there were 88,647,594 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

[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/.

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, Nevada's 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 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.

FLOWER ONE HOLDINGS INC.

Condensed Consolidated Interim Financial Statements

(UNAUDITED, PREPARED BY MANAGEMENT)

EXPRESSED IN UNITED STATES DOLLARS

FOR THE THREE AND NINE-MONTHS ENDED SEPTEMBER 30, 2020 AND SEPTEMBER 30, 2019

FLOWER ONE HOLDINGS INC.

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

(UNAUDITED, PREPARED BY MANAGEMENT)

		September 30, 2020		Audited December 31, 2019
Assets				
Current assets				
Cash and cash equivalents	$	4,508,670	$	6,670,424
Accounts receivable		5,627,104		2,482,357
Prepaids		2,034,580		1,568,738
Inventory (note 3)		32,790,032		49,789,426
Biological assets (note 4)		8,574,714		4,350,455
		53,535,100		64,861,400
Non-current assets				
Prepaids and deposits		1,205,333		1,205,333
Property, plant and equipment (note 5)		136,052,056		142,389,191
Intangible assets (note 6)		3,377,475		12,085,050
Goodwill (note 6)		-		795,225
Total assets	$	194,169,964	$	221,336,199
Liabilities				
Current liabilities				
Trade accounts payable and accrued liabilities (note 15)	$	12,321,663	$	12,773,185
Cannabis taxes payable (note 15)		4,892,363		-
Construction payables		5,800,688		6,141,493
Income tax payable		451,366		-
Term debt (note 11)		28,543,619		-
Equipment financing (note 10)		17,517,479		3,152,500
Short-term financing (note 12)		12,307,025		-
Notes payable (note 7)		-		6,772,369
		81,834,203		28,839,546
Non-current liabilities				
Convertible debenture (note 8)		28,194,970		30,100,509
Derivative liability (notes 8, 11 and 13)		1,857,048		9,501,328
Lease liability (note 9)		20,496,667		20,244,258
Equipment financing (note 10)		-		16,483,121
Term debt (note 11)		-		27,272,061
Deferred tax liability (note 18)		-		5,154,526
Total liabilities		132,382,888		137,595,349
Shareholders' equity				
Share capital (note 13)		110,863,535		89,124,193
Contributed surplus (note 14)		7,916,467		6,746,285
Deficit		(56,992,927)		(12,129,628)
		61,787,076		83,740,850
Total liabilities and shareholders' equity	$	194,169,964	$	221,336,199

Nature of operations (note 1)

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

Approved and authorized on behalf of the Board:

"Ken Villazor" — Ken Villazor, Director

"Amit Varma" — Amit Varma, Director

FLOWER ONE HOLDINGS INC.

Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in United States Dollars)
(UNAUDITED, PREPARED BY MANAGEMENT)

	Three-months ended September 30, 2020	Three-months ended September 30, 2019	Nine-months ended September 30, 2020	Nine-months ended September 30, 2019
Revenue	$ 11,903,134	$ 2,498,274	$ 24,581,555	$ 3,668,239
Cost of sales	(8,909,731)	(1,881,910)	(17,339,577)	(3,217,261)
Gross profit before fair value adjustments	2,993,403	616,364	7,241,978	450,978
Realized fair value adjustment on sale of inventory (note 4)	(5,299,280)	(335,236)	(10,476,901)	(693,717)
Unrealized fair value adjustment on growth of biological assets (note 4)	8,907,304	18,415,924	16,232,075	66,056,569
Write-down and provision for Inventory (note 3)	(16,986,205)	-	(27,633,848)	-
Gross profit (loss)	(10,384,778)	18,697,052	(14,636,696)	65,813,830
Expenses				
General and administrative (note 16)	(5,859,472)	(4,431,181)	(17,587,857)	(11,801,425)
Share-based compensation (note 14)	(333,283)	(1,136,514)	(1,109,492)	(2,479,473)
Depreciation and amortization (notes 5 and 6)	(297,411)	(67,368)	(777,237)	(145,930)
Income (loss) from operations	(16,874,944)	13,061,989	(34,111,283)	51,387,002
Other expenses				
Finance expenses (notes 10, 17)	(6,205,422)	(3,674,709)	(19,418,094)	(9,382,659)
Fair value gain(loss) on derivatives (notes 8, 10 and 13)	4,779,798	9,711,706	11,686,519	7,992,861
Gain on note payable modification (note 8)	-	-	-	976,026
Provision for Impairment on intangible assets and goodwill (note 6)	-	-	(9,300,225)	-
Foreign exchange gain (loss)	(421,697)	481,853	1,576,624	(637,050)
Income (loss) before income taxes	(18,722,266)	19,580,839	(49,566,459)	50,336,180
Income tax recovery (expense) (note 18)	1,529,568	(3,912,231)	4,703,160	(13,937,468)
Net income (loss) and comprehensive income (loss) for the period	$ (17,192,698)	$ 15,668,608	$ (44,863,299)	$ 36,398,712
Basic income (loss) per share (note 19)	$ (0.07)	$ 0.09	$ (0.21)	$ 0.20
Diluted income (loss) per share (note 19)	$ (0.07)	$ 0.05	$ (0.21)	$ 0.18

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

FLOWER ONE HOLDINGS INC.

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

(UNAUDITED, PREPARED BY MANAGEMENT)

		Nine months ended September 30, 2020		Nine months ended September 30, 2019
Operating activities:				
Income (loss) for the period	$	(44,863,299)	$	36,398,712
Items not affecting cash				
Unrealized foreign exchange loss/(gain)		(1,283,224)		413,834
Realized fair value adjustment on sale of inventory		10,476,901		693,717
Unrealized gain on fair value adjustment on growth of biological asset		(16,232,075)		(66,056,569)
Unrealized gain on note payable modification		-		(976,026)
Provision for inventory		27,633,848		-
Provision for intangibles		9,300,225		-
Unrealized fair value loss/(gain) on derivatives		(11,686,519)		(7,992,861)
Finance expenses (note 17)		19,418,094		9,382,659
Interest paid		(12,022,723)		(3,470,125)
Share-based compensation		1,109,492		2,479,473
Depreciation and amortization		3,313,199		1,630,493
Deferred income tax expense (recovery)		(5,154,526)		13,843,210
Changes in non-cash operating working capital (note 24)		(3,251,824)		(8,246,688)
		(23,242,431)		(21,900,171)
Financing activities:				
Proceeds on convertible debt financing, net of transaction costs		-		39,899,814
Proceeds of lease financing, net of transaction costs		-		19,566,900
Proceeds of term debt financing, net of transaction costs		-		26,273,810
Proceeds on short-term financing, net of transaction costs		11,924,823		19,621,860
Proceeds on equity financings, net of transaction costs		19,527,724		-
Repayment of lease financing principal		(101,037)		(49,527)
Repayment of equipment financing principal		(2,183,106)		-
Repayment of notes payable		(6,403,335)		(26,759,833)
Proceeds of issuance of common shares, net of share issuance costs		-		199
		22,765,069		78,553,223
Investing activities:				
Purchase of property, plant and equipment		(1,684,392)		(53,687,968)
		(1,684,392)		(53,687,968)
Net change in cash		(2,161,754)		2,965,084
Cash and cash equivalents, beginning of period		6,670,424		2,591,235
Cash and cash equivalents, end of period	$	4,508,670	$	5,556,319

Supplemental cash flow information (note 24).

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

FLOWER ONE HOLDINGS INC.

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

(UNAUDITED, PREPARED BY MANAGEMENT)

	SHARES	AMOUNT	CONTRIBUTED SURPLUS	RETAINED EARNINGS (DEFICIT)	TOTAL
Balance at December 31, 2018	176,629,779	$ 77,997,726	$ 3,236,632	$ (12,654,591)	$ 68,579,767
Shares issued on conversion of convertible debentures (note 8)	4,484,595	7,563,906	–	–	7,563,906
Shares issued for provision of services	345,184	750,000	–	–	750,000
Warrants issued as fees (note 8)	–	–	552,017	–	552,017
Warrants exercised	100	247	(48)	–	199
Options exercised	34,865	24,500	(24,500)	-	-
Share-based compensation	–	–	2,479,473	–	2,479,473
Net income	–	–	–	36,398,712	36,398,712
At September 30, 2019	181,494,523	$ 86,336,379	$ 6,243,574	$ 23,744,121	$ 116,324,074
At December 31, 2019	184,779,247	89,124,193	6,746,285	(12,129,628)	83,740,850
Shares issued on conversion of convertible debentures (note 8)	11,891,174	7,216,334	–	–	7,216,334
Shares issued for provision of services (note 13)	96,428	50,928	–	–	50,928
Shares issued on private placement, net of share issuance costs (note 13)	55,198,043	11,727,004	–	–	11,727,004
Share issues on prospectus (note 13)	23,000,000	2,741,927	63,840	–	2,805,767
Options exercised (note 13)	386,842	3,150	(3,150)	–	–
Share-based compensation (note 14)	–	–	1,109,492	–	1,109,492
Net loss	–	–	–	(44,863,299)	(44,863,299)
At September 30, 2020	275,351,599	$ 110,863,535	$ 7,916,467	$ (56,992,927)	$ 61,787,076

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

1) NATURE OF OPERATIONS

Flower One Holdings Inc. ("Flower One" or, the "Company") is a Canadian company incorporated on January 9, 2007 under the Business Corporations Act (British Columbia). The Company is listed on the Canadian Securities Exchange ("CSE") under the symbol "FONE", the OTCQX Best Market in the United States under the symbol "FLOOF" and under the Frankfurt Stock Exchange ("FSE") under the symbol "F11". The Company's convertible debentures and warrants issued as part of the March 2019 convertible debenture unit financing (note 8) are listed on the CSE under the symbols "FONE.DB" and "FONE.WT", respectively, the convertible debentures and warrants issued as part of the November 2019 convertible debenture unit financing (note 8) are listed on the CSE under the symbols "FONE.DB.A" and "FONE.WT.A", respectively, and the warrants issued as part of the September 2020 equity financing (note 13) are listed on the CSE under the symbol "FONE.WT.B". The registered office of the Company is located at 20 Richmond Street, Toronto Ontario, M5C 2R9.

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

Going Concern Uncertainty

These condensed consolidated interim financial statements of the Company for the three-month and nine-month periods ended September 30, 2020 and 2019 (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 the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

As at September 30, 2020, the Company has an accumulated deficit of $57.0 million and accumulated deficit at December 31, 2019 of $12.1 million. Net loss of $44.9 million for the nine-month period ended September 30, 2020 compared to net income of $36.4 million for the nine-month period ended September 30, 2019. As of September 30, 2020 and December 31, 2019, there is a working capital surplus (deficit) of $(28.3) million and $36.0 million, respectively. For the nine-month period ended September 30, 2020 negative cash flows from operations were $23.2 million. For the nine-month period ended September 30, 2019 negative cash flows from operations was $21.9 million. Whether, and when, the Company can attain profitability and positive cash flows from operations is subject to material uncertainty. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and obtain necessary financing to do so. The Company will need to raise additional capital in order to fund its planned operations and meet its obligations. While successful in obtaining financing to date, the Company believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, there can be no assurance that the Company will achieve profitability and be

1) NATURE OF OPERATIONS (CONT'D)

Going Concern Uncertainty (cont'd)

able to do so on terms favorable for the Company. The above events and conditions indicate there is a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

COVID-19

During the nine-month period ended September 30, 2020 and subsequent, 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 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, have had a material impact on the Company's revenue for the nine-month and three-month revenues, net loss and working capital. These impacts and future impacts could have additional material and adverse affects on the Company's business, financial condition and results of operations.

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

1) NATURE OF OPERATIONS (CONT'D)

Subsidiaries

These financial statements are comprised of the financial results of the Company and its subsidiaries, which are the entities over which the Company has control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and can affect those returns through its power over the investee.

The Company has the following subsidiaries:

Entity Name	Country	Functional Currency	Ownership percentage September 30, 2020	Ownership percentage December 31, 2019
Flower One Corp.	Canada	USD	100%	100%
FO Labour Management Ltd.	Canada	USD	100%	100%
Cana Nevada Corp.	USA	USD	100%	100%
CN Labor Management, Inc.	USA	USD	100%	100%
CN Licenseco I, Inc.	USA	USD	100%	100%
CN Licenseco III, Inc.	USA	USD	100%	100%
CN Landco LLC	USA	USD	100%	100%
CN Landco II, LLC	USA	USD	100%	100%
CN Landco III, LLC	USA	USD	100%	100%
North Las Vegas Equipment CO., Inc.	USA	USD	100%	100%
North Las Vegas Equipment CO. III, Inc.	USA	USD	100%	100%
North Las Vegas Services, Inc.	USA	USD	100%	100%

2) BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These financial statements should be read in conjunction with the Company's last annual consolidated financial statements as at and for the year ended December 31, 2019 ("last annual financial statements"). The accounting policies applied by the Company in these financial statements are the same as those applied in the last annual financial statements. These financial statements do not include all the information required for full annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of changes in the Company's financial position and performance since the last annual financial statements.

On November 24, 2020 the Company's Board of Directors approved and authorized these financial statements for issuance.

Basis of Measurement

These financial statements have been prepared on a historical cost basis except for certain financial instruments and biological assets that are measured at fair values at the end of each reporting period and certain equity instruments and warrants that are within the scope of IFRS 2 – *Share-based Payment* ("IFRS 2").

Basis of Presentation

The accompanying financial statements include the accounts of the Company and its subsidiaries. The financial statements incorporate the assets and liabilities of the Company and its subsidiaries as at September 30, 2020 and December 31, 2019 and the results of these subsidiaries for the nine-month and three-month periods ended September 30, 2020 and September 30, 2019.

Subsidiaries are all those entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. All intra-entity assets and liabilities, revenue, expenses and cash flows relating to transactions between subsidiaries of the Company are eliminated in full on consolidation.

Functional and Presentation Currency

These financial statements have been presented in United States dollars, which is the Company's functional and presentation currency as well as the functional currency of all subsidiaries.

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

2) BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Critical Accounting Estimates and Use of Judgments

The preparation of these financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from these estimates.

Estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. The critical accounting judgments within these financial statements remain the same as those applied to the last annual financial statements.

3) INVENTORY

The following is a breakdown of inventory at September 30, 2020:

	Capitalized Cost	Fair Value Adjustment	Reserves for Inventory	September 30, 2020
Harvested cannabis[1]	$ 22,735,695	$ 25,868,602	$ (29,230,702)	$ 18,372,596
Cannabis oils	8,857,185	3,427,295	–	12,284,480
Packaging and supplies	2,132,957	–	–	2,132,957
	$ 32,724,837	$ 29,295,897	$ (29,230,702)	$ 32,790,032

1 – Harvested cannabis includes flower, popcorn and trim.

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

3) INVENTORY (CONT'D)

The following is a breakdown of inventory at December 31, 2019:

	Capitalized Cost	Fair Value Adjustment	Reserves for Inventory	December 31, 2019
Harvested cannabis[1]	$ 16,677,738	$ 23,232,740	$ (1,596,584)	$ 38,313,624
Cannabis oils	5,672,602	4,025,878	–	9,698,480
Packaging and supplies	1,777,322	–	–	1,777,322
	$ 24,127,662	$ 27,258,618	$ (1,596,854)	$ 49,789,426

1 – Harvested cannabis includes flower, popcorn and trim.

During the three and nine-month period ended September 30, 2020, the Company recognized $7,444,100 and $14,228,953 of cash costs expensed to costs of sales. During the three and nine-month period ended September 30, 2019, the Company recognized $1,546,674 and $2,523,544 of cash costs expensed to costs of sales. During the three and nine-month period ended September 30, 2020, the Company recognized $1,465,631 and $3,110,624 of non-cash costs expensed to costs of sales. During the three and nine-month period ended September 30, 2019, the Company recognized $335,236 and $693,717 of non-cash depreciation expensed to costs of sales.

During the three and nine-month period ended September 30, 2020, the Company recognized $16,986,205 and $27,633,848 (September 30, 2019 - $nil) of inventory write-downs related to unrealized fair value gains previously recognized in inventory.

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

4) BIOLOGICAL ASSETS

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

Opening balance at January 1, 2018	$	391,456
Changes in fair value less costs to sell due to biological transformation		31,336,647
Production costs capitalized		10,437,643
Transferred to inventory upon harvest		(37,815,291)
Balance at December 31, 2019		4,350,455
Changes in fair value less costs to sell due to biological transformation		16,232,075
Production costs capitalized		9,008,078
Transferred to inventory upon harvest		(21,015,894)
Balance at September 30, 2020	$	8,574,714

The Company measures its biological assets in accordance with IAS 41, *Agriculture*, and are presented at their fair value less costs to sell up to the point of harvest. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price less costs to complete and sell per gram.

Biological assets as at September 30, 2020 includes $536,261 (December 31, 2019 - $272,266) of depreciation and amortization expense incurred in the period.

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

- Selling price – calculated as the expected future average selling price per gram of wholesale dried cannabis
- Stage of growth – represents the weighted average number of growing weeks completed as a percentage of total growing weeks as at period end
- Yield by plant – represents the weighted average number of expected grams of finished cannabis inventory which are to be obtained from each harvested cannabis plant
- Attrition – the weighted average of expected loss of plants from the valuation date until the expected date of harvest

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

4) BIOLOGICAL ASSETS (CONT'D)

- After harvest costs to complete and sell – calculated as the post-harvest costs per gram expected to be incurred up to the point of sale, as well as the incremental selling costs to be incurred in order to complete the sale
- Allocation of trim – represents the average amount of trim derived from the harvest of the cannabis plant once the drying and curing process is complete

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

	September 30, 2020	10% Change as at September 30, 2020	December 31, 2019	10% Change as at December 31, 2019
Selling price per gram	$0.22[1] to $4.85	$ 1,458,010	$1.00[1] to $4.85	$ 866,087
Stage of growth	44%	$ 854,524	69%	$ 334,580
Yield by plant (average)	125 grams	$ 854,524	117 grams	$ 492,021
Attrition	7%	$ 70,123	3-10%	$ 18,037
After harvest costs to complete and sell	$0.22 - $1.91	$ 603,486	$1.28[1] - $3.34	$ 582,113
Allocation of trim	19-38%	$ 501,138	17–33%	$ 59,731

1 – Relates to trim.

These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The Company estimates the harvest yields for cannabis at various stages of growth. As of September 30, 2020, it is expected that the Company's biological assets will yield approximately 6,514,588 grams of dry cannabis and 3,912,540 grams of dry trim when harvested.

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

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

5) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at September 30, 2020 and December 31, 2019 is as follows:

	Land	Building	Equipment	Right-of-use asset	Construction in process	TOTAL
Cost						
At December 31, 2018	$ 3,077,269	$ 9,525,839	$ 1,333,180	$ -	$ 76,305,224	$ 90,241,512
Additions	929,885	1,366,099	342,964	11,775,553	54,710,790	69,125,291
Disposals	(1,607,154)	(9,053,756)	(1,440,361)	-	-	(12,101,271)
Transfers between categories	-	61,538,352	69,477,662	-	(131,016,014)	-
At December 31, 2019	2,400,000	63,376,534	69,713,445	11,775,553	-	147,265,532
Additions	-	24,521	1,659,871	-	-	1,684,392
Disposals	-	-	(31,394)	-	-	(31,394)
Transfers between categories	-	(165,151)	165,151	-	-	-
At September 30, 2020	$ 2,400,000	$ 63,235,904	$ 71,507,073	$ 11,775,553	$ -	$ 148,918,530

	Land	Building	Equipment	Right-of-use asset	Construction in process	TOTAL
Accumulated depreciation						
At December 31, 2018	$ -	$ 59,554	$ 15,636	$ -	$ -	$ 75,190
Depreciation	-	2,762,353	2,418,455	185,360	-	5,366,168
Disposals	-	(428,347)	(136,670)	-	-	(565,017)
At December 31, 2019	-	2,393,560	2,297,421	185,360	-	4,876,341
Depreciation	-	1,695,835	5,808,528	517,164	-	8,021,527
Disposals		-	(31,394)	-		(31,394)
At September 30, 2020	$ -	$ 4,089,395	$ 8,074,555	$ 702,524	$ -	$ 12,866,474

	Land	Building	Equipment	Right-of-use asset	Construction in process	TOTAL
Net book value						
At December 31, 2019	$ 2,400,000	$ 60,982,974	$ 67,416,024	$ 11,590,193	$ -	$ 142,389,191
At September 30, 2020	$ 2,400,000	$ 59,146,509	$ 63,432,518	$ 11,073,029	$ -	$ 136,052,056

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

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

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

On November 18, 2019, the Company entered into a sale and leaseback agreement for the Company's indoor cultivation property in North Las Vegas (note 9) for a period of 20 years. Monthly rent for year 1 is $241,000 with 3% increase each year subsequently and contains two 10-year extensions at the option of the Company. As part of the sale and leaseback, the Company de-recognized the assets sold and recorded a right-of-use asset on November 18, 2019 for $10,142,120 related to the land, building and equipment which is being depreciated over a useful life of the shorter of the economic life or respective lease terms, which ranged between 15 to 20 years.

During the nine-month and three-month periods ended September 30, 2020, the Company capitalized $4,464,834 and $1,960,769, respectively of depreciation to the production of biological assets and inventory. During the nine-month and three-month periods ended September 30, 2019, the Company capitalized $ 3,483,559 and $1,704,225 respectively of depreciation to the production of biological assets and inventory.

6) INTANGIBLE ASSETS AND GOODWILL

Intangible assets as at September 30, 2020 and December 31, 2019 is as follows:

	Licenses – Indefinite useful life	Customer Relationships	Brand Licensing Agreements	TOTAL
At December 31, 2018	$ 10,632,500	$ 701,000	$ -	$ 11,333,500
Additions	-	-	1,000,000	1,000,000
Amortization	-	(81,783)	(166,667)	(248,450)
At December 31, 2019	10,632,500	619,217	833,333	12,085,050
Amortization	-	(52,575)	(150,000)	(202,575)
Impairment provision	(8,505,000)	-	-	(8,505,000)
At September 30, 2020	$ 2,127,500	$ 566,642	$ 683,333	$ 3,377,475

6) INTANGIBLE ASSETS AND GOODWILL (CONT'D)

Brand licensing agreements have finite useful lives and are depreciated over the term of the agreements, which is five years.

Impairments
At the end of each reporting period, the Company assesses whether there were events or changes in circumstances that would indicate that a Cash Generating Unit ("CGU") or group of CGUs were impaired. The Company considers external and internal factors, including overall financial performance and relevant Company specific factors, as part of this assessment.

The following factors were identified as impairment indicators as at September 30, 2020:

- Revenue decline - Constraints due to the global pandemic, COVID-19, in Nevada, resulted in a decrease of expected sales and profitability as compared to outcomes initially forecasted by management;
- Change in strategic plans – Due to global pandemic and resulting decrease in revenue, improvements to operations were halted or delayed;
- Decline in stock price and market capitalization - As at September 30th, the carrying amount of the Company's total net assets exceeded the Company's market capitalization.

North Las Vegas CGU
During the six months ending June 30, 2020, management had noted indicators of impairment present within its indoor cultivation property in North Las Vegas CGU ("NLVO CGU") and as a result performed a value-in-use based impairment test. Management compared the recoverable amount to the updated carrying value of the cannabis operating segment as at June 30, 2020.

As a result of the impairment test, management concluded that the carrying value was higher than the recoverable amount and recorded an impairment loss of $9,300,225 during the three-month and six-month periods ended June 30, 2020 (three-month and nine-months ended September 30, 2019 - $nil) was realized. Management allocated the impairment loss based on the relative carrying amounts of the CGU's assets at the impairment date, with no individual asset being reduced below its recoverable amount. Management allocated $795,225 of impairment losses to the CGU's goodwill and $8,505,000 to licenses - indefinite useful life.

During the three-month period ended September 30, 2020, Management noted that the same indicators of impairment were present and compared the recoverable amount to the updated carrying value of the cannabis operating segment as at September 30, 2020 and concluded that no further impairment was required.

Greenhouse CGU
As at September 30, 2020, management had noted indicators of impairment present within its greenhouse cultivation property CGU ("Greenhouse CGU") and as a result performed a value-in-use impairment test as at September 30, 2020. Management compared the recoverable amount to the updated carrying value of the cannabis operating segment as at September 30, 2020.

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

6) INTANGIBLE ASSETS AND GOODWILL (CONT'D)

As a result of the impairment test, management concluded that the recoverable amount was higher than the carrying value of the Greenhouse CGU resulting in no impairment provision.

Key assumptions used in calculating the recoverable amount for each CGU tested for impairment at September 30, 2020 is as follows:

	NLVO CGU	Greenhouse GCU
Terminal Value Growth rate	2%	2%
Discount Rate	21%	21%
Budgeted revenue growth rate	16%	16%

7) NOTES PAYABLE

Notes payable as at September 30, 2020 and December 31, 2019 is as follows:

Opening balance as at January 1, 2019	$	32,080,167
Repayment of NLVP note		(15,163,168)
Partial repayment of note payable on acquisition of greenhouse		(11,596,665)
Gain on modification to note payable on acquisition of greenhouse		(976,026)
Accretion on NLVP note		540,948
Interest expense on NLVP note		542,053
Accretion on note payable on acquisition of greenhouse		729,743
Interest expense on note payable on acquisition of greenhouse		615,316
As at December 31, 2019		6,772,368
Accretion on NLVP note		246,283
Interest expense on NLVP note		243,196
Repayment of NLVP note		(7,261,847)
As at September 30, 2020	$	-

The note payable issued on acquisition of NLVO was repaid in full during the nine-month period ended September 30, 2020.

On March 31, 2019, the $18,000,000 note issued on the acquisition of the greenhouse was amended to extend the maturity date to September 30, 2020 with interest beginning April 1, 2019 at a rate of 9.5% per annum. This change in terms resulted in a change in the recognized liability as at March 31, 2019 and a resulting gain of $976,026 being

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

7) NOTES PAYABLE (CONT'D)

recorded on the consolidated statements of income (loss) and comprehensive income (loss) for the nine-month period ended September 30, 2019. The Company repaid $11,596,665 in principal of the note during the nine-month period ended September 30, 2019 and repaid the full $7,261,847 of principal and accrued interest during the nine-month period ended September 30, 2020.

8) CONVERTIBLE DEBENTURES

Derivative Reconciliation:

Opening Balance at January 1, 2019	$	-
Amount allocated to conversion feature on March 28, 2019 and April 1, 2019 issuances		9,874,094
Amount allocated to warrant feature on March 28, 2019 and April 1, 2019 issuances		5,294,482
Amount allocated to conversion feature on November 15, 2019 issuance		2,833,684
Amount allocated to warrant feature on November 15, 2019 issuance		4,198,050
Fair value gain on conversion feature		(5,861,569)
Fair value gain on warrant feature		(4,801,399)
Foreign exchange loss		408,651
Conversions		(2,732,154)
As at December 31, 2019		9,213,839
Fair value gain on conversion feature		(3,637,727)
Fair value gain on warrant feature		(4,426,616)
Foreign exchange loss (gain)		(283,007)
Conversions		(388,300)
As at September 30, 2020	$	478,189

8) CONVERTIBLE DEBENTURES (CONT'D)

Debt Component Reconciliation:

Opening Balance at January 1, 2019	$	-
Issuance of convertible debenture - March 28, 2019 and April 1, 2019 issuances		27,687,732
Transaction costs - March 28, 2019 and April 1, 2019 issuances		(2,266,149)
Issuance of convertible debenture - November 15, 2019 issuances		8,726,712
Transaction costs - November 15, 2019		(798,476)
Foreign exchange loss (gain)		806,204
Accretion		2,733,475
Conversions		(6,788,989)
As at December 31, 2019		30,100,509
Foreign exchange loss (gain)		(769,740)
Accretion		3,566,761
Conversions		(4,702,560)
As at September 30, 2020	$	28,194,970

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

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

8) CONVERTIBLE DEBENTURES (CONT'D)

March 2019 Convertible Debenture Units

On March 28, 2019, the Company closed a short-form prospectus financing of 9.5% unsecured convertible debenture units for gross proceeds of $37,232,854 and on April 1, 2019, closed an over-allotment option for additional gross proceeds of $5,623,454. Each debenture matures three years from the date of issuance, is convertible into 384 common shares of the Company and includes 192 common share purchase warrants. Each warrant entitles the holder thereof to purchase one share at the exercise price of CAD$2.60 per share for a period of 36 months after the closing of the financing. Each debenture is also subject to a forced conversion if the volume weighted average price of the Company's common shares exceeds CAD$3.51 per share for 20 consecutive trading days. The Company paid a cash commission to the agents of $2,571,378, agent expenses of $109,978 and legal and regulatory fees of $275,090. Additionally, the Company issued to the agents 1,151,136 broker warrants with the same terms as the warrants issued on the convertible debenture units.

During the nine-month period ended September 30, 2020, 98 debentures were converted by certain debenture holders in exchange for 37,692 common shares of the Company (September 30, 2019: 11,660 debentures for 4,484,595 common shares). These conversions resulted in a reduction of the carrying amount of the convertible debenture liability of $49,567, a reduction of the derivative liability of $3,030 and the recording of the common shares issued of $52,597. During the nine-month period ended September 30, 2020, the Company also issued 28,501 common shares as payment for the effective interest on these conversions with a deemed value of $15,380 (September 30, 2019: $nil).

Conversion and Warrant Features

The Company determined the fair value of the conversion feature on the March 28, 2019 and April 1, 2019 issuances to be $9,874,094 using a barrier option pricing model which includes a knock-out based on the following assumptions:

Expected life – years	3
Interest rate	1.48 - 1.59%
Volatility	60.00%
Barrier price	CAD$3.51
Rebate	CAD$0.91
Exercise price	CAD$2.60
Share price	CAD$2.60 - CAD$2.61

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

8) CONVERTIBLE DEBENTURES (CONT'D)

March 2019 Convertible Debenture Units (cont'd)

The fair value of the conversion feature at September 30, 2020 for the remaining 42,471 debentures was determined to be $Nil (December 31, 2019: $1,636,160) using a barrier option pricing model which includes a knock-out based on the following assumptions:

Expected life – years	1.49
Interest rate	0.25%
Volatility	87.00%
Barrier price	CAD $3.51
Rebate	CAD $0.91
Exercise price	CAD$2.60
Share price	CAD$0.14

For nine-month and three-month periods ended September 30, 2020, the conversion feature, a fair value gain(loss) on derivatives of $1,504,992 and $244,532, respectively is recorded on the consolidated statements of income (loss) and comprehensive income (loss). For nine-month and three-month periods ended September 30, 2019, the conversion feature, a fair value gain(loss) on derivatives of $5,675,122 and $6,126,859 is recorded on the consolidated statements of income (loss) and comprehensive income (loss).

For nine-month and three-month periods ended September 30, 2020, the foreign exchange gain(loss) related to the conversion feature of $128,142 and $(5,188), respectively is recorded on the consolidated statements of income (loss) and comprehensive income (loss). For nine-month and three-month periods ended September 30, 2019, the foreign exchange gain(loss) related to the conversion feature of $(40,451) and $105,497, respectively is recorded on the consolidated statements of income (loss) and comprehensive income (loss).

The Company determined the fair value of the warrants on the March 28, 2019 issuance to be $4,646,660 using the trading price on that date of CAD$0.65 and $647,822 for the April 1, 2019 issuance using the trading price on that date of CAD$0.60. The fair value of the warrants on September 30, 2020 was determined to be $82,764 (December 31, 2019: $2,125,019), based on the trading price at that date of CAD$0.01 which resulted in a fair value gain(loss) on derivatives for the nine-month and three-month periods ended September 30, 2020 of $1,877,820 and $331,056, respectively recorded on the consolidated statements of income (loss) and comprehensive income (loss). For the nine-month and three-month periods ended September 30, 2019, the fair value gain (loss) on derivatives was $735,371 and $2,000,737, respectively. For the nine-month and three-month periods ended September 30, 2020, a foreign exchange gain(loss) was $164,434 and $(8,776), respectively recorded on the consolidated statements of income (loss) and comprehensive income (loss). For the nine-month and three-month periods ended September 30, 2019, a foreign exchange gain(loss) was $(28,750) and $74,529, respectively related to these warrants.

8) CONVERTIBLE DEBENTURES (CONT'D)

March 2019 Convertible Debenture Units (cont'd)

Debt Component

The debt component on the March 28, 2019 issuance, net of transaction costs allocated to the debt component, was determined to be $22,006,907 which is the residual amount of the proceeds. The debt component on the April 1, 2019 issuance, net of transaction costs allocated to the debt component, was determined to be $3,414,676 which is the residual amount of the proceeds. The debt component at September 30, 2020 is $23,999,660 (December 31, 2019: $21,834,159) and is calculated using the amortized cost method. For the nine-month and three-month periods ended September 30, 2020, interest expense of $2,236,556 and $757,215, respectively are recorded on the consolidated statements of income (loss) and comprehensive income (loss). For the nine-month and three-month periods ended September 30, 2019, interest expense of $1,813,947 and $835,951, respectively were recorded on the consolidated statement of income (loss) and comprehensive (loss). For the nine-month and three-month periods ended September 30, 2020, accretion expense of $2,749,258 and $1,000,658 respectively are recorded on the consolidated statements of income (loss) and comprehensive income (loss). For the nine-month and three-month periods ended September 30, 2019, accretion expense of $1,739,966 and $834,593, respectively are recorded on the consolidated statements of income (loss) and comprehensive income (loss). For the nine-month and three-month periods ended September 30, 2020, foreign exchange gain (loss) of $534,191 and $(486,403), respective are recorded on the consolidated statements of income (loss) and comprehensive income (loss). For the nine-month and three-month periods ended September 30, 2019, foreign exchange gain (loss) of $(297,238) and $253,819, respective are recorded on the consolidated statements of income (loss) and comprehensive income (loss).

Transaction Costs

The Company has allocated transaction costs associated with the convertible debenture in proportion to the value assigned to each component. The Company has recorded the transaction costs associated with the debt component of $2,266,149 as a debt discount which is included in the amortization of the financial instrument using an effective interest rate of 30.5%. The amount allocated to the conversion and warrants features of $1,242,314 was expensed immediately as these components are recorded at fair value.

Subsequent to September 30, 2020, no further debentures were converted by certain debenture holders in exchange for common shares of the Company.

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

8) CONVERTIBLE DEBENTURES (CONT'D)

November 2019 Convertible Debenture Units

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. 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. Each debenture is also subject to a forced conversion if the volume weighted average price of the Company's common shares exceeds CAD$2.25 per share for 20 consecutive trading days. The Company paid a cash commission to the agents of $945,507, agent expenses of $99,411 and legal and regulatory fees of $103,084. Additionally, the Company issued to the agents 972,027 broker warrants with primarily the same terms as the warrants issued on the convertible debenture units except that the exercise price is CAD$1.50.

During the nine-month period ended September 30, 2020, 11,574 debentures were converted by certain debenture holders in exchange for 7,715,987 common shares of the Company. These conversions resulted in a reduction of the carrying amount of the convertible debenture liability of $4,652,993, a reduction of the derivative liability of $385,270 and the recording of the common shares issued of $5,038,263. During the nine-month period ended September 30, 2020, the Company also issued 4,108,994 common shares as payment for the effective interest on these conversions with a deemed value of $2,110,094.

Conversion and Warrant Features

The Company determined the fair value of the conversion feature on the November 15, 2019 issuance to be $2,833,684 using a barrier option pricing model which includes a knock-out based on the following assumptions:

Expected life – years	3
Interest rate	1.54%
Volatility	75.00%
Barrier price	CAD$2.25
Rebate	CAD$0.75
Exercise price	CAD$1.50
Share price	CAD$1.04

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

8) CONVERTIBLE DEBENTURES (CONT'D)

November 2019 Convertible Debenture Units

The fair value of the conversion feature at September 30, 2020 for the remaining 9,276 debentures was determined to be $Nil (December 31, 2019: $2,672,871) using a barrier option pricing model which includes a knock-out based on the following assumptions:

Expected life – years	2.12
Interest rate	0.25%
Volatility	87.00%
Barrier price	CAD$2.25
Rebate	CAD$0.75
Exercise price	CAD$1.50
Share price	CAD$0.14

For the nine-months and three-months ended September 30, 2020, for the conversion feature, a fair value gain on derivatives of $2,132,735 and $370,511 is recorded on the consolidated statements of income (loss) and comprehensive income (loss) (September 30, 2019: $nil). A foreign exchange gain (loss) of $154,865 and $(7,857) is also recorded on the consolidated statements of income (loss) and comprehensive income (loss) for the nine-month and three-month periods, respectively ended September 30, 2020 related to the conversion feature (September 30, 2019: $nil).

The Company determined the fair value of the warrants on the November 15, 2019 issuance to be $4,198,050 using the trading price on that date of CAD$0.40. The fair value of the warrants on September 30, 2020 was determined to be $23,157 (December 31, 2019: $2,779,786), based on the trading price at that date of CAD$0.005 which resulted in a fair value gain(loss) on derivatives of $2,548,796 and $497,351 recorded on the consolidated statements of income (loss) and comprehensive income (loss) for the nine-month and three-month periods, respectively ended September 30, 2020 (September 30, 2019: $nil) related to the warrant feature. A foreign exchange gain(loss) of $207,834 and $(11,038) is also recorded on the consolidated statements of income (loss) and comprehensive income (loss) for the nine-month and three-month periods ended September 30, 2020 (September 30, 2019: $nil) related to these warrants.

8) CONVERTIBLE DEBENTURES (CONT'D)

November 2019 Convertible Debenture Units (cont'd)

Debt Component

The debt component on the November 15, 2019 issuance, net of transaction costs allocated to the debt component, was determined to be $7,928,236 which is the residual amount of the proceeds. The debt component at September 30, 2020 is $4,195,311 and is calculated using the amortized cost method. For the nine-month and three-month periods ended September 30, 2020, interest expense of $743,357 and $165,382, respectively is recorded on the consolidated statements of income (loss) and comprehensive income (loss) (September 30, 2019: $nil). For the nine-month and three-month periods ended September 30, 2020, accretion expense of $817,503 and $202,221 is recorded on the consolidated statements of income (loss) and comprehensive income (loss) (September 30, 2019: $nil). For the nine-month and three-month periods ended September 30, 2020, foreign exchange gain (loss) of $235,549 and $(84,411), respectively is recorded on the consolidated statements of income (loss) and comprehensive income (loss) (September 30, 2019: $nil).

Transaction Costs

The Company has allocated transaction costs associated with the convertible debenture in proportion to the value assigned to each component. The Company has recorded the transaction costs associated with the debt component of $798,476 as a debt discount which is included in the amortization of the financial instrument using an effective interest rate of 36.9%. The amount allocated to the conversion and warrants features of $643,389 is expensed immediately as these components are recorded at fair value.

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

9) LEASE OBLIGATIONS

The lease obligations as at September 30, 2020 and December 31, 2019 are as follows:

Opening Balance at January 1, 2019	$	-
Add: Additions		20,239,300
Add: Interest Expense		549,347
Add: Lease payments		(544,389)
As at December 31, 2019		20,244,258
Add: Interest expense		2,675,576
Less: Lease payments		(2,423,167)
As at September 30, 2020	$	20,496,667

Warehouse Lease
During the nine-month period ended September 30, 2019, the Company entered into a commercial lease on a warehouse. The lease is for a term of 5 years plus 1 month and contains a 5-year extension. The Company's incremental borrowing rate at the inception of the lease of 13.5% has been used to determine the present value of the minimum lease payments which was determined to be $1,633,433 as of March 18, 2019. A right-of-use asset was determined to be $1,633,433 on March 18, 2019 (note 5) with a corresponding lease obligation recognized for the same amount. Total payments over the initial 5-year term is $1,423,612. As at September 30, 2020, the Company has recorded $1,539,661 related to this lease liability (December 31, 2019: $1,595,931) and interest expense for the nine-month and three-month periods ended September 30, 2020 was $145,690 and $40,836, respectively. Interest expense for the nine-month and three-month periods ended September 30, 2019 was $132,000 and $66,000, respectively. During the nine-month period ended September 30, 2020, the Company repaid $56,270 in lease principal (September 30, 2019: $24,588).

Sale and Leaseback
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 September 16, 2019, the debt component, net of transaction costs allocated to the debt component, was determined to be $19,621,860 which is the residual amount of the proceeds.

9) LEASE OBLIGATIONS (CONT'D)

Sale and Leaseback (cont'd)

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.

Upon closing of the Treehouse Agreement on November 18, 2019, the Company determined that the sale and leaseback transaction resulted in a finance lease as defined under IFRS 16 and IFRS 15. The fair value of the assets sold was determined to be $11,536,253 and the remainder of the unallocated consideration of $8,463,747 was additional financing deemed to be provided. The Company used an incremental borrowing rate at the inception of the lease of 17.6% as the rate implicit in the lease was not readily available. Accordingly, the Company recorded a lease obligation at the present value of the minimum lease payments which was $18,605,867. As at September 30, 2020, the Company has recorded $18,957,006 related to this lease liability (December 31, 2019: $18,648,327) and interest expense for the nine-month and three-month periods ended September 30, 2020 of $2,529,886 and $847,816, respectively. Interest expense for the nine-month and three-month periods ended September 30, 2019 was $nil. A right-of-use asset was determined to be $10,142,120 on November 18, 2019 (note 5).

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

10) EQUIPMENT FINANCING

Opening Balance at January 1, 2019	$	-
Advance, net of transaction costs		19,566,900
Accretion		68,721
At December 31, 2019	$	19,635,621
Accretion		64,965
Principal repayment		(2,183,107)
At September 30, 2020	$	17,517,479

Current	$	17,517,479
Non-current		-
As at September 30, 2020	$	17,517,479

On February 1, 2019, the Company entered into a Master Lease Agreement (the "Master Lease Agreement") with RB Loan Portfolio I, LP ("RB I"), for equipment financing on certain equipment at its 455,000 square-foot greenhouse and production facility in North Las Vegas, Nevada (the "Equipment Financing"). The Master Lease Agreement has a five-year term. The Master Lease 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 totaling $20 million as at September 30, 2020 and paid fees totaling $433,100. The balance at September 30, 2020 is $17,517,479 (December 31, 2019: $19,635,621) and is calculated using the implied financing rate of 12%.

As noted under Note 11 below, as a result of cross default provisions between the Term Debt (defined in Note 11 below) and the Equipment Financing, RB I considers the Company to be in default of its obligations under the Equipment Financing. Concurrently with the execution of the payoff letter in respect of the Term Debt (Note 11), the Company and RB I entered into a forbearance agreement under which the Company agreed to pay RB I incremental interest of 6% and RB I agreed to forbear its rights under the Master Lease Agreement until November 18, 2020. As is described under Note 11, the Company's announced financing with Subversive Real Estate LP has been postponed and did not close prior to November 18, 2020.

The Company is currently negotiating with RB Loan Portfolio II, LP (the lender under Term Debt - (Note 11)) to extend and amend the terms of the Term Debt and with RB I to extend and amend the terms of the Equipment Financing. There can be no assurance that the Company will be successful in negotiating successful amendments to the Term Debt and the Equipment Financing. Due to the foregoing events, the Equipment Financing is presented as a current liability in the accompanying consolidated statements of financial position as of September 30, 2020.

Finance expense for the nine-month and three-month periods ended September 30, 2020 was $2,156,163 and $970,945, respectively in the condensed consolidated interim statements of income (loss) and comprehensive income (loss). Finance expense for the nine-month and three-month periods ended September 30, 2019 was $1,554,793 and $621,846, respectively.

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

11) TERM DEBT

Derivative Reconciliation:

Opening Balance at January 1, 2019	$	287,489
Fair value gain on warrant feature		(264,450)
Foreign exchange gain		(23,039)
As at September 30, 2020	$	-

Debt Component Reconciliation:

Opening Balance at January 1, 2019	$	-
Amount allocated to debt component		27,891,563
Transaction costs		(1,267,142)
Accretion		647,640
As at December 31, 2019		27,272,061
Accretion		1,271,558
As at September 30, 2020	$	28,543,619

On June 27, 2019, the Company entered into a loan agreement (the "Term Loan Agreement") with RB Loan Portfolio II, LLC ("RB II") in the principal amount of up to $30,000,000 (the "Term Debt"). The Term Debt 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 is secured by the Company's North Las Vegas greenhouse. The Company has the ability to extend the term for 6 months upon payment of a fee of 2% of the principal and the ability to pre-pay the outstanding debt with a pre-payment penalty of 3% of the principal during the first 12 months and 1% of the principal after the first 12 months. No value has been attributed to the pre-payment or extension options. As part of the Term Debt, RB II and certain assignees received, with respect to each advance, a 25%-warrant coverage with the warrants having a term of 30 months. With respect to each advance, the Company issued warrants at an exercise price equal to the greater of (A) the 20-day volume weighted average price (VWAP) of the common shares of the Company on the CSE from the date of such advance, multiplied by 1.2 with respect to half of such warrants and 1.4 with respect to the other half; and (B) the closing market price of the common shares on the trading day immediately prior to the announcement of such advance. As of September 30, 2020, the Company has completed draws totaling $30,000,000 and issued 1,139,757 warrants with a strike price of CAD$3.46, 1,139,757 warrants with a strike price of CAD$4.03, 589,964 warrants with a strike price of CAD$3.35 and 589,964 warrants with a strike price of CAD$3.91. The Term Loan Agreement contains no financial covenants.

11) TERM DEBT (CONT'D)

The Company has accounted for the Term Debt by assessing each component separately; debt component and warrants. The warrants are denominated in Canadian dollars with the functional currency of the Company being the United States dollar. As such, when the warrants are exercised, they do not exchange a fixed amount of cash for a fixed number of shares and are therefore considered derivative liability. The Company has determined the fair value of the warrants with the residual amount of the proceeds allocated to the debt component. The term debt also consists of an interest rate floor component, which is closely related to the host debt contract. Given that the floor interest rate is not in the money upon issuance, the floor is not leveraged in relation to the host contact, and as a result, the instrument is not bifurcated for measurement or presentation purposes.

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

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

The Company determined the fair value of the warrant feature on the July 31, 2019 issuance to be $608,002 using the Black-Scholes option pricing model based on the following assumptions:

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

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

11) TERM DEBT (CONT'D)

The fair value of the warrants on September 30, 2020 was determined to be $nil (December 31, 2019: $287,489), using the Black-Scholes option pricing model based on the following assumptions:

Expected life – years	1.24 and 1.34
Interest rate	0.25%
Volatility	87.00%
Exercise price	CAD$3.35, CAD$3.46, CAD$3.91 and CAD$4.03
Share price	CAD$0.14

This resulted in a fair value gain of $264,450 recorded on the consolidated statements of income (loss) and comprehensive income (loss) for the nine-month period ended September 30, 2020 (September 30, 2019: $1,582,368). A foreign exchange gain of $23,039 is recorded on the consolidated statements of income (loss) and comprehensive income (loss) for the nine-month period ended September 30, 2020 (September 30, 2019: foreign exchange gain of $19,337).

On the June 27, 2019 draw of $20,000,000, the debt component, net of transaction costs allocated to the debt component, was determined to be $17,592,202 which is the residual amount of the proceeds. On the July 31, 2019 draw of $5,189,884, the debt component, net of transaction costs allocated to the debt component, was determined to be $4,222,103 which is the residual amount of the proceeds. Additional draws of $4,810,116 were issued with no transaction costs or warrants. LIBOR on the date of issuance and at September 30, 2020 was below the 2.5% minimum and therefore an interest rate of 10.5% was used. The debt component at September 30, 2020 is $28,543,619 (December 31, 2019: $27,272,061) and is calculated using the amortized cost method. Accretion expense for the nine-month and three-month periods of $1,271,558 and $436,536, respectively is recorded on the consolidated statements of income (loss) and comprehensive income (loss). Accretion expense for the nine-month and three-month periods ended September 30, 2019 of $315,786 and $304,252, respectively is recorded on the consolidated statements of income (loss) and comprehensive income (loss). For the nine-month and three-month periods ended September 30, 2020, interest expense of $2,684,657 and $1,113,973, respectively, is recorded on the consolidated statements of income (loss) and comprehensive income (loss). For the nine-month and three-month periods ended September 30, 2019, interest expense of $658,528 and $635,514, respectively, is recorded on the consolidated statements of income (loss) and comprehensive income (loss).

The Company has allocated transaction costs associated with the Term Debt in proportion to the value assigned to each component. The Company has recorded the transaction costs associated with the debt component of $1,267,142 as a debt discount which is included in the amortization of the financial instrument using an effective interest rate of 17.4%. The amount allocated to the warrant feature of $121,335 was expensed immediately as this component is recorded at fair value.

As of December 31, 2019, this Term Debt was presented as a non-current liability on the accompanying condensed consolidated interim statements of financial position. As of September 30, 2020, this term debt is due within 12 months of September 30, 2020, and therefore presented as a current liability on the condensed consolidated interim statements of financial position.

11) TERM DEBT (CONT'D)

On October 6, 2020, the Company entered into an agreement with Subversive Real Estate LP ("Subversive") for a new $39M term loan (the "Subversive Loan"), which included an option to enter into a sale-leaseback purchase agreement for the Company's greenhouse facility (together with the Subversive Loan, the "Subversive Transaction"). The Company intended to use part of the proceeds from the Subversive Loan to repay the outstanding liens and the Term Debt. One of Subversive's conditions under the Subversive Loan was that Subversive complete a qualifying transaction, a transaction unrelated to the Company. Subversive initially advised the Company that it in early November 2020, it expected to close the qualifying transaction and shortly thereafter close the Subversive Loan.

In October 2020, subsequent to the Company's announcement of the Subversive Transaction, RB II advised the Company that it considered certain liens filed by third parties against certain assets of the Company to be a breach of the Company's obligations under the Term Debt. As a result of cross default provisions between the Term Debt and the Equipment Financing (Note 10), RB I (the Equipment Financing lender) considers the Company to be in default of its obligations under the Equipment Financing. On October 13, 2020 the Company entered into a payoff agreement with RB II under which: (a) the RB II agreed to agreed to forbear its rights under the Term Debt until November 18, 2020 (a date after the date the Company expected the Subversive Loan to close), and (b) the Company agreed to pay RB II incremental interest of 3% calculated from May 19, 2020 and payoff fee of $250,000.

On November 26, 2020, Subversive announced that it had determined not to proceed with its previously announced qualifying transaction, and therefore the Company believes it is unlikely able to close the Subversive Loan. Nonetheless, the Company continues to work with Subversive to explore options to close the Subversive Transaction. The Company is currently negotiating with RB II to extend and amend the terms of the Term Debt and with RB I to extend and amend the terms of the Equipment Financing (note 10). There can be no assurance that the Company will be successful in negotiating successful amendments to the Term Debt and the Equipment Financing.

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

12. SHORT-TERM FINANCING

Opening Balance at December 31, 2019	$	-
Borrowings		13,135,933
Transaction costs		(1,211,110)
Accretion		382,202
As at September 30, 2020	$	12,307,025

On March 6, 2020, 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. On July 21, 2020, concurrent with borrowing an additional $1,000,000 the term was extended by another 6 months to September 2021. The Company has the ability to pre-pay the outstanding debt with no pre-payment penalty. On commencement of the loan on March 6, 2020, the debt component, net of transaction costs allocated to the debt component, was determined to be $9,000,000 which is the residual amount of the proceeds. The debt component at September 30, 2020 is $10,277,135 and is calculated using the amortized cost method and includes the debt component of the July 21, 2020 draw of $900,000 which is the residual amount of the proceeds. For the nine-month and three-month periods ended September 30, 2020, $377,135 and $125,808 was charged to accretion expense. For the nine-month and three-month periods ended September 30, 2020, interest expense of $883,241 and $407,671, respectively, is recorded on the consolidated statements of income (loss) and comprehensive income (loss). As the loan is due September 6, 2021, it is classified as current.

On July 10, 2020, the Company entered into a debt financing agreement with a private lender for $1,000,000. The agreement is for a 60-day term at a rate of 18% with interest and principle due at maturity. As at September 30, 2020, this debt financing had not been paid.

On August 21, 2020, the Company entered into a debt financing arrangement with a private lender for $1,135,933 (CAD$1,500,000). The agreement is for a 9-month term at a rate of 11% with interest only payments for the term of the loan and principle due at maturity. As part of the loan, the Company granted 811,475 warrants to the lender at an exercise price of CAD$0.61 per warrant and a 36-month expiry date. The Company has recorded the transaction costs associated with the debt component of $111,110 as a debt discount which is included in the amortization of the financial instrument using an effective interest rate of 25.2%.

13) SHARE CAPITAL

Authorized

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

Issued and outstanding

Reconciliation of the Company's share capital is as follows:

		Number	Amount
Opening Balance at January 1, 2019		184,779,112	$ 89,124,193
Shares issued on conversions of convertible debentures	[a]	11,891,174	7,216,334
Shares issued for provision of services	[a]	96,428	50,928
Options exercised	[a]	386,842	3,150
Shares issued for public offering		23,000,000	2,741,927
Shares issue for private placement		55,198,043	11,727,004
Balance at September 30, 2020		275,351,599	$ 110,863,535

[a] The Company issued 11,981,174 common shares during the nine-month period ended September 30, 2020 through the conversion of convertible debentures (note 8), 386,842 common shares from the exercise of stock options and 96,428 common shares with a deemed value of $50,928 for the provision of services.

The Company accounts for private placements and public offering of units by assessing each component separately; equity component and warrants. The warrants are denominated in Canadian dollars with the functional currency of the Company being the United States dollar. As such, when the warrants are exercised, they do not exchange a fixed amount of cash for a fixed number of shares and are therefore considered embedded derivatives. The Company determines the fair value of the warrants with the residual amount of the proceeds allocated to the equity component.

May 2020 Private Placement

On May 1, 2020, the Company completed a private placement of 29,599,025 units at a subscription price of CDN$0.37 per unit for gross proceeds $7,785,895. Each unit consisted of one common share and one half of

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

13) SHARE CAPITAL (CONT'D)

May 2020 Private Placement (cont'd)

one share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of CDN$0.44 per share for 36 months after issuance. The Company may accelerate the expiry if the volume weighted average price of the Company's common shares exceeds CAD$0.88 per share for 20 consecutive trading days. As part of this private placement, the Company issued 14,799,509 common share purchase warrants (note 14).

The Company determined the fair value of the warrants on May 1, 2020 to be $2,104,295 using a barrier option pricing model which includes a knock-out based on the following assumptions:

Expected life – years	3
Interest rate	0.28%
Volatility	80.00%
Barrier price	CAD$0.88
Rebate	CAD$0.44
Exercise price	CAD$0.44
Share price	CAD$0.48

The fair value of the warrants at September 30, 2020 warrants was determined to be $332,847 using a barrier option pricing model which includes a knock-out based on the following assumptions:

Expected life – years	2.58
Interest rate	0.25%
Volatility	87.00%
Barrier price	CAD$0.88
Rebate	CAD$0.44
Exercise price	CAD$0.44
Share price	CAD$0.14

For the warrants, a fair value gain on derivatives of $1,997,085 and $1,888,489 is recorded on the consolidated statements of income (loss) and comprehensive income (loss) for the three and nine-month periods ended September 30, 2020, respectively. A foreign exchange loss of $49,409 and $117,041 is also recorded on the consolidated statements of income (loss) and comprehensive income (loss) for the three and nine-month periods ended September 30, 2020, respectively, related to these warrants.

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

13) SHARE CAPITAL (CONT'D)

June 2020 Private Placement

On June 26, 2020, the Company completed a private placement of 16,102,018 units at a subscription price of CDN$0.51 per unit for gross proceeds $6,004,701. Each unit consisted of one common share and one half of one share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of CDN$0.61 per share for 36 months after issuance. The Company may accelerate the expiry if the volume weighted average price of the Company's common shares exceeds CAD$01.22 per share for 20 consecutive trading days. As part of this private placement, the Company issued 8,051,005 common share purchase warrants (note 14).

The Company determined the fair value of the warrants on June 26, 2020 to be $1,295,131 using a barrier option pricing model which includes a knock-out based on the following assumptions:

Expected life – years	3
Interest rate	0.31%
Volatility	83.00%
Barrier price	CAD$1.22
Rebate	CAD$0.61
Exercise price	CAD$0.61
Share price	CAD$0.55

The fair value of the warrants at September 30, 2020 warrants was determined to be $181,071 using a barrier option pricing model which includes a knock-out based on the following assumptions:

Expected life – years	2.74
Interest rate	0.25%
Volatility	87.00%
Barrier price	CAD$1.22
Rebate	CAD$0.61
Exercise price	CAD$0.61
Share price	CAD$0.14

For the warrants, a fair value gain on derivatives of $965,710 and $1,142,941 is recorded on the consolidated statements of income (loss) and comprehensive income (loss) for the three and nine-month periods ended September 30, 2020, respectively. A foreign exchange loss of $24,319 and $28,881 is also recorded on the consolidated statements of income (loss) and comprehensive income (loss) for the three and nine-month periods ended September 30, 2020, respectively, related to these warrants.

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

13) SHARE CAPITAL (CONT'D)

September 2020 Private Placement

On September 18, 2020, the Company completed a private placement of 9,497,000 units at a subscription price of CDN$0.25 per unit for gross proceeds $1,802,968. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of CDN$0.36 per share for 36 months after issuance. As part of this private placement, the Company issued 9,497,000 common share purchase warrants (note 14).

The Company determined the fair value of the warrants on September 18, 2020 to be $439,342 using a Black-Scholes option pricing model based on the following assumptions:

Expected life – years	3.00
Interest rate	0.25%
Volatility	87.00%
Exercise price	CAD$0.36
Share price	CAD$0.165

The fair value of the warrants at September 30, 2020 warrants was determined to be $334,624 using a Black-Scholes option pricing model based on the following assumptions:

Expected life – years	2.97
Interest rate	0.25%
Volatility	87.00%
Exercise price	CAD$0.36
Share price	CAD$0.14

For the warrants, a fair value gain on derivatives of $99,676 is recorded on the consolidated statements of income (loss) and comprehensive income (loss) for the three and nine-month periods ended September 30, 2020, respectively. A foreign exchange gain of $5,039 is also recorded on the consolidated statements of income (loss) and comprehensive income (loss) for the three and nine-month periods ended September 30, 2020, respectively, related to these warrants.

September 2020 Public Offering

On September 18, 2020, the Company completed a public offering of 23,000,000 units at a subscription price of CDN$0.25 per unit for gross proceeds $4,355,165. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of CDN$0.36 per share

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

13) SHARE CAPITAL (CONT'D)

September 2020 Public Offering (cont'd)

for 36 months after issuance. As part of this public offering, the Company issued 23,000,000 common share purchase warrants (note 14). The Company paid a cash commission to the agents of $261,310, agent expenses of $86,257 and legal, regulatory and other fees of $137,855. Additionally, the Company issued to the agents 1,380,000 broker warrants with the same terms as the warrants issued on the units.

The Company determined the fair value of the warrants on September 18, 2020 to be $1,064,007 using a Black-Scholes option pricing model based on the following assumptions:

Expected life – years	3.00
Interest rate	0.25%
Volatility	87.00%
Exercise price	CAD$0.36
Share price	CAD$0.165

The fair value of the warrants at September 30, 2020 warrants was determined to be $810,406 using a Black-Scholes option pricing model based on the following assumptions:

Expected life – years	2.97
Interest rate	0.25%
Volatility	87.00%
Exercise price	CAD$0.36
Share price	CAD$0.14

For the warrants, a fair value gain on derivatives of $241,397 is recorded on the consolidated statements of income (loss) and comprehensive income (loss) for the three and nine-month periods ended September 30, 2020, respectively. A foreign exchange gain of $12,204 is also recorded on the consolidated statements of income (loss) and comprehensive income (loss) for the three and nine-month periods ended September 30, 2020, respectively, related to these warrants.

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

14) STOCK OPTIONS AND WARRANTS

Stock Options

The Company has established a stock option plan (the "Plan"). Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares and the exercise term of any option granted under the Plan may not exceed ten years. Each option vesting period is determined on a grant by grant basis by the Board of Directors. Total share-based compensation for the nine-month and three-month periods ended September 30, 2020 was $1,109,492 and $333,283, respectively. Total share-based compensation for the nine-month and three-month periods ended September 30, 2019 was $2,479,473 and $1,136,514, respectively.

The following is a summary of outstanding options as of September 30, 2020 and December 31, 2019:

	Number of Options		Weighted Average Exercise Price (CAD$)
Balance, December 31, 2018	11,852,500	$	1.16
Granted	2,230,000		2.70
Exercised	(1,550,000)		0.22
Balance, December 31, 2019	12,532,500		1.55
Granted	100,000		0.61
Exercised	(525,000)		0.20
Balance, September 30, 2020	12,107,500	$	1.60

During the nine-month period ended September 30, 2020, the Company granted stock options with fair value of $27,670, of which $7,585 and $2,877 was expensed during the nine-month and three-month periods ended September 30, 2020, respectively. During the nine-month period ended September 30, 2020, 525,000 stock options (September 30, 2019: nil) were exercised by way of a cashless exercise resulting in the Company issuing common shares.

During the nine-month period ended September 30, 2019, the Company granted a total of 2,155,000 stock options with fair value of $2,197,095 to employees, directors and consultants. These stock options are exercisable at exercise prices ranging from CAD$1.80 to CAD$2.88 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 1,825,000 were 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-nine-months from the date the options are granted. During the nine-month and three periods ended September 30, 2020, the Company expensed $523,683 and $116,623, respectively related to these options. During the nine-month and three-month periods ended September 30, 2019, the Company expensed $1,224,525 and $737,146, respectively, related to these options.

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

14) STOCK OPTIONS AND WARRANTS (CONT'D)

Subsequent to September 30, 2019 and up to December 31, 2019, the Company had various grants for a total of stock options with fair value of $40,017 to employees, directors and consultants. These stock options are exercisable at exercise prices ranging from CAD$0.96 to CAD$1.54 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 nine-month and three-month-periods ended September 30, 2020, the Company expensed $13,740 and $4,614, respectively related to these options.

During the nine-month and three-month periods ended September 30, 2020, the Company also expensed $540,294 and $181,413, respectively related to options issued in the year ended December 31, 2018. During the nine-month and three-month periods ended September 30, 2019, the Company also expensed $1,254,946 and $399,366, respectively related to options issued in the year ended December 31, 2018.

The fair values of share-based compensations were measured based on the Black-Scholes option pricing model. The inputs used in the measurement of the fair values during the following periods were:

	Nine-months ended September 30, 2020	Nine-months ended September 30, 2019
Expected life	5 years	5 years
Interest rate	0.36 - 1.58%	1.15 – 1.57%
Volatility	75 - 84%	60 - 100%
Dividend and forfeiture	0%	0%
Exercise price	CAD$0.49 - 0.95	CAD$1.80 - 2.88
Share price	CAD$0.49 - 0.87	CAD$1.79 - 2.85

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

14) STOCK OPTIONS AND WARRANTS (CONT'D)

The following table is a summary of the Company's share options outstanding and exercisable as at September 30, 2020:

	Outstanding as at September 30, 2020			Exercisable as at September 30, 2020		
Exercise Price (CAD$)	Number of Options	Weighted Average Exercise Price (CAD$)	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Exercise Price (CAD$)	Weighted Average Remaining Contractual Life (years)
$ 0.20	4,112,500	$ 0.20	2.43	4,112,500	$ 0.20	2.43
$ 0.85	1,290,000	$ 0.85	2.67	1,290,000	$ 0.85	2.67
$ 2.60	4,375,000	$ 2.60	3.02	2,812,500	$ 2.60	3.02
$ 2.62	630,000	$ 2.62	3.49	480,000	$ 2.62	3.49
$ 2.88	100,000	$ 2.88	3.77	50,000	$ 2.88	3.77
$ 2.85	1,275,000	$ 2.85	3.79	637,500	$ 2.85	3.79
$ 2.70	50,000	$ 2.70	3.83	25,000	$ 2.70	3.83
$ 2.55	25,000	$ 2.55	3.85	12,500	$ 2.55	3.85
$ 2.14	50,000	$ 2.14	3.93	25,000	$ 2.14	3.93
$ 1.80	25,000	$ 1.80	3.99	12,500	$ 1.80	3.99
$ 1.54	25,000	$ 1.54	4.05	6,250	$ 1.54	4.05
$ 0.96	25,000	$ 0.96	4.14	6,250	$ 0.96	4.14
$ 1.11	25,000	$ 1.11	4.25	6,250	$ 1.11	4.25
$ 0.95	25,000	$ 0.95	4.27	6,250	$ 0.95	4.27
$ 0.49	75,000	$ 0.49	4.75	18,750	$ 0.49	4.75
	12,107,500	$ 1.60	2.93	9,101,250	$ 1.27	2.93

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

14) STOCK OPTIONS AND WARRANTS (CONT'D)

The following table is a summary of the Company's share options outstanding and exercisable as at December 31, 2019:

	Outstanding as at December 31, 2019			Exercisable as at December 31, 2019		
Exercise Price (CAD$)	Number of Options	Weighted Average Exercise Price (CAD$)	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Exercise Price (CAD$)	Weighted Average Remaining Contractual Life (years)
$ 0.20	4,637,500	$ 0.20	3.18	4,637,500	$ 0.20	3.18
$ 0.85	1,290,000	$ 0.85	3.42	1,290,000	$ 0.85	3.42
$ 2.60	4,375,000	$ 2.60	3.78	2,031,250	$ 2.60	3.78
$ 2.62	630,000	$ 2.62	4.24	405,000	$ 2.62	4.24
$ 2.88	100,000	$ 2.88	4.52	25,000	$ 2.88	4.52
$ 2.85	1,275,000	$ 2.85	4.54	318,750	$ 2.85	4.54
$ 2.70	50,000	$ 2.70	4.58	12,500	$ 2.70	4.58
$ 2.55	25,000	$ 2.55	4.60	6,250	$ 2.55	4.60
$ 2.14	50,000	$ 2.14	4.68	12,500	$ 2.14	4.68
$ 1.80	25,000	$ 1.80	4.74	6,250	$ 1.80	4.74
$ 1.54	25,000	$ 1.54	4.80	6,250	$ 1.54	4.80
$ 0.96	25,000	$ 0.96	4.89	6,250	$ 0.96	4.89
$ 1.11	25,000	$ 1.11	5.00	6,250	$ 1.11	5.00
	12,532,500	$ 1.55	3.64	8,763,750	$ 1.08	3.47

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

14) STOCK OPTIONS AND WARRANTS (CONT'D)

Warrants

The Company granted a total of 58,138,989 warrants during the nine-month periods ended September 30, 2020 as part of certain financings and advisory agreement. During 2019, the Company granted broker warrants and warrants as a component of the convertible debt financing and term debt transactions throughout 2019.

The following is a summary of outstanding warrants at each period end:

	Number of Warrants		Weighted Average Exercise Price (CAD$)
Balance, December 31, 2019	30,508,605	$	2.21
Granted	58,138,989		0.42
Balance, September 30, 2020	88,647,494	$	1.04

The Company granted 14,799,509 and 8,051,005 warrants as a component of the May 1, 2020 and June 26, 2020 private placements, respectively. The warrants granted in the May 1, 2020 private placement entitles the holder thereof to purchase one share at the exercise price of CAD$0.44 per share for a period of 36 months after the closing. The warrants granted in the June 26, 2020 private placement entitles the holder thereof to purchase one share at the exercise price of CAD$0.61 per share for a period of 36 months after the closing. The Company may accelerate the expiry if the volume weighted average price of the Company's common shares exceeds certain pricing thresholds for 20 consecutive trading days (note 13). The fair value of these warrants granted was determined to be $2,104,295 and $1,295,131 for the May 1, 2020 and the June 26, 2020 private placements, respectively, using the trading price on the grant date.

As part of a short-term loan (note 12), the Company granted 811,475 warrants with an exercise price of CAD$0.61 per share for a period of 36 months after closing. The Company may accelerate the expiry if the volume weighted average price of the Company's common shares exceeds CAD$01.22 per share for 20 consecutive trading days.

As part of an advisory agreement signed on September 18, 2020, the Company granted 600,000 warrants with an exercise price of CAD$0.36 per share for a period of 36 months.

The Company granted 23,000,000 warrants as a component of the September 18, 2020 public offering and 9,497,000 warrants as a component of the September 18, 2020 private placement. These warrants granted entitles the holder thereof to purchase one share at the exercise price of CAD$0.36 per share for a period of 36 months after the closing. The fair value of these warrants granted was determined to be $1,064,007 and $439,342 for the September 18, 2020 public offering and the September 18, 2020 private placement, respectively, using the trading price on the grant

14) STOCK OPTIONS AND WARRANTS (CONT'D)

date. The Company also granted 1,380,000 broker warrants on the same terms which had a fair value of $63,840. These warrants were recorded as a share issuance cost.

The Company granted 1,151,136 broker warrants as part of the March 28, 2019 convertible debt financing (note 8). Each warrant entitles the holder thereof to purchase one share at the exercise price of CAD$2.60 per share for a period of 36 months after the closing of the financing. The fair value of these warrants was determined to be $552,017 using the trading price on the grant date.

The Company also issued 11,040,000 warrants as a component of the March 28, 2019 convertible debt financing (note 8), 13,886,100 warrants as a component of the November 15, 2019 convertible debt financing (note 8) and 3,459,442 warrants as a component of the term debt (note 11).

The Company granted 972,027 broker warrants as part of the November 15, 2019 convertible debt financing (note 8). Each warrant entitles the holder thereof to purchase one share at the exercise price of CAD$1.50 per share for a period of 36 months after the closing of the financing. The fair value of these warrants was determined to be $293,864 using the trading price on the grant date.

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

14) STOCK OPTIONS AND WARRANTS (CONT'D)

The following table is a summary of the Company's warrants outstanding (all exercisable) and weighted average remaining contractual life (years) as at September 30, 2020:

	Number of Warrants		Weighted Average Exercise Price (CAD$)	Weighted Average Remaining Contractual Life (years)	Expiry Date
Warrants issued in connection with convertible debentures					
March 28, 2019	11,039,900	$	2.60	1.49	March 28, 2022
November 15, 2019	13,886,100	$	1.55	2.13	November 15, 2022
Warrants issued in connection with term debt					
June 27, 2019	1,139,757	$	3.46	1.24	December 27, 2021
June 27, 2019	1,139,757	$	4.03	1.24	December 27, 2021
June 30, 2019	589,964	$	3.35	1.33	January 30, 2022
June 30, 2019	589,964	$	3.91	1.33	January 30, 2022
Warrants issued in connection with term debt					
March 28, 2019	1,151,136	$	2.60	1.49	March 28, 2022
November 15, 2019	972,027	$	1.50	2.13	November 15, 2022
Warrants issued in connection with private placement					
May 1, 2020	14,799,509	$	0.44	2.58	May 1, 2023
June 26, 2020	8,051,005	$	0.61	2.74	June 26, 2023
Warrants issued in connection with short term debt					
August 21, 2020	811,475	$	0.61	2.89	August 21, 2023
Warrants issued in connection with offerings – September 18, 2020					
Public Offering	23,000,000	$	0.36	2.97	September 18, 2023
Private Placement	9,497,000	$	0.36	2.97	September 18, 2023
Broker Warrants	1,380,000	$	0.36	2.97	September 18, 2023
Advisory	600,000	$	0.36	2.97	September 18, 2023
Outstanding at September 30, 2020	88,647,594	$	1.04	2.470	

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

14) STOCK OPTIONS AND WARRANTS (CONT'D)

The following table is a summary of the Company's warrants outstanding (all exercisable) and weighted average remaining contractual life (years) as at December 31, 2019:

	Number of Warrants	Weighted Average Exercise Price (CAD$)	Weighted Average Remaining Contractual Life (years)	Expiry Date
Warrants issued in connection with convertible debentures				
March 28, 2019	11,039,900	2.60	2.24	March 28, 2022
November 15, 2019	13,886,100	1.55	2.88	November 15, 2022
Warrants issued in connection with term debt				
June 27, 2019	1,139,757	3.46	1.99	December 27, 2021
June 27, 2019	1,139,757	4.03	1.99	December 27, 2021
July 30, 2019	589,964	3.35	2.08	January 30, 2022
July 30, 2019	589,964	3.91	2.08	January 30, 2022
Issuance of Broker Warrants with convertible debentures				
March 28, 2019	1,151,136	2.60	2.24	March 28, 2022
November 15, 2019	972,027	1.50	2.88	November 15, 2022
Outstanding at end of the period	30,508,605	$ 2.21	2.53	

15) RELATED PARTY TRANSACTIONS

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

Key management personnel includes the Company's Directors, President and Chief Executive Officer, Chief Financial Officer and Chief Strategy Officer. The amounts owing to key management personnel of $1,329,605 were included in accounts payable and accrued liabilities as at September 30, 2020 (December 31, 2019: $141,823). During the nine-month and three-month periods ended September 30, 2020, the Company incurred $1,379,077 and $513,870 in wages and salaries, respectively. During the nine-month and three-month periods ended September 30, 2019, the Company incurred $480,245 and $265,745 in wages and salaries, respectively. During the nine-month and three-month periods ended September 30, 2020, the Company incurred $387,500 and $129,167 in board director fees, respectively. During the nine-month and three-month periods ended September 30, 2019, the Company incurred no board director fees. During the nine-month and three-month periods ended September 30, 2020, the Company incurred $578,602 and $129,514 in share-based compensation to key management personnel, respectively. During the nine-month and three-month periods ended September 30, 2019, the Company incurred $1,099,931 and $665,147 in share-based compensation, respectively to key management.

Cannabis taxes payable

As of September 30, 2020, the Company owed $4,891,363 to the State of Nevada for unpaid cannabis taxes from November 2019. In May 2020, the State of Nevada placed liens on the certain assets of the Company. In July 2020, the Company and the State of Nevada agreed to a payment plan whereby the Company would pay no less than $25,000 per week to settle the debt. In addition to the payment plan, the State of Nevada regulations require a personal guarantee when certain thresholds are met. One the Company's key management personnel and board members provided a personal guarantee to the State of Nevada for the cannabis taxes due.

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

16) GENERAL AND ADMINISTRATIVE EXPENSES

Components of general and administrative expenses for the nine-month periods ended September 30, 2020 and 2019 were as follows:

	Three-Months Ended September 30, 2020	Three-Months Ended September 30, 2019	Nine-months Ended September 30, 2020	Nine-months Ended September 30, 2019
Cannabis taxes and selling costs	$ 2,483,438	$ -	$ 5,771,744	$ -
Wages and Salaries	1,125,795	794,111	3,905,195	1,743,826
Accounting and Legal	444,087	640,091	1,463,754	2,023,637
Insurance	503,447	549,310	2,220,581	892,876
Rent and security	490,724	677,047	1,487,017	1,377,621
Office, Admin and utilities	227,803	117,749	489,606	1,337,985
Consulting	323,134	558,951	801,082	2,158,217
Advertising and promotion	112,202	381,247	436,004	576,492
Travel	44,086	399,425	243,173	1,114,170
Other	104,756	313,250	769,701	576,601
General and Administrative	$ 5,859,472	$ 4,431,181	$ 17,587,857	$ 11,801,425

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

17) FINANCE AND OTHER COSTS

Components of finance and other costs for the nine-month and three-month periods September 30, 2020 and 2019 were as follows:

	Three-month period ended September 30, 2020	Three-month period ended September 30, 2019	Nine-month period ended September 30, 2020	Nine-month period ended September 30, 2019
Accretion expense (notes 7, 8, 10, 11, 12)	$ 1,921,706	$ 1,225,336	$ 5,895,663	$ 2,728,230
Interest Expense (notes 7, 8, 10, 11, 12)	4,283,717	2,401,631	13,522,431	5,208,927
Transaction costs (notes 8, 12)	-	47,742	-	1,445,502
Finance expense	$ 6,205,423	$ 3,674,709	$ 19,418,094	$ 9,382,659

During the nine-month and three-month periods ended September 30, 2020, the Company paid $11,956,977 and $4,228,417, respectively, of interest relating to the convertible debentures, lease obligations, equipment financing and term debt. During the nine-month and three-month periods ended September 30, 2019, the Company paid $12,022,723 and $4,794,162, respectively, of interest relating to the convertible debentures, lease obligations, equipment financing and term debt.

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

18) INCOME TAXES

The following table reconciles the expected income taxes expense at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of income (loss) and comprehensive income (loss) for the nine-month periods ended September 30, 2020 and 2019:

	Three-month period ended September 30, 2020	Three-month period ended September 30, 2019	Nine-month period ended September 30, 2020	Nine-month period ended September 30, 2019
Current tax expense	$ 451,366	$ 94,258	$ 451,366	$ 94,258
	-		-	
Deferred tax expense (recovery)	(1,980,934)	3,817,973	(5,154,526)	13,843,210
Total income tax expense (recovery)	$ (1,529,568)	$ 3,912,231	$ (4,703,160)	$ 13,937,468

	Three-month period ended September 30, 2020	Three-month period ended September 30, 2019	Nine-month period ended September 30, 2020	Nine-month period ended September 30, 2019
Income (loss) before taxes	$ (18,722,266)	$ 19,580,839	$ (49,566,459)	$ 50,336,180
Statutory tax rate	27%	27%	27%	27%
Expected income tax expense (recovery)	(5,055,014)	5,286,827	(13,382,945)	13,590,769
Difference in foreign tax rates	1,685,890	(785,338)	3,036,424	(3,302,588)
Difference in foreign exchange and other	(144,179)	(196,683)	110,969	(32,388)
Fair value gain on derivatives	(1,281,776)	-	(3,146,591)	-
Non-deductible items	3,027,867	(951,161)	4,736,003	1,779,742
Change in deferred tax asset not recognized	237,643	558,586	3,942,980	1,901,933
Total income tax expense	$ (1,520,568)	$ 3,912,231	$ (4,703,160)	$ 13,937,468

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

18) INCOME TAXES (CONT'D)

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

		September 30, 2020	December 31, 2019
Property, plant and equipment	$	(2,640,603)	(757,942)
Inventory and biological assets		2,636,430	(5,893,393)
Lease liability		4,173	335,146
Intangible assets		-	-
Tax loss carry forwards		-	1,161,663
Deferred tax liability	$	-	(5,154,526)

The significant components of deductible temporary differences for which no deferred income tax assets have been recognized as at September 30, 2020 and December 31, 2019:

		September 30, 2020	December 31, 2019
Tax loss carryforwards	$	25,806,920	$ 17,609,063
Financing costs		2,228,643	2,711,762
Inventory and biological assets		-	-
Property plant and equipment		1,564,085	-
Intangibles		7,754,528	-
Total	$	37,354,176	$ 20,320,825

Deferred income tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefit. The Company has non-capital loss carryforwards, for which no deferred tax asset has been recognized of $25,806,906 which may be carried forward to apply against future income for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Expiry		Total
2036	$	178,358
2037		1,370,481
2038		3,300,993
2039		12,472,139
2040		8,484,949
Total	$	25,806,920

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

19) EARNINGS PER SHARE

Basic net income (loss) (per share)

	Three-month period ended September 30, 2020	Three-month period ended September 30, 2019	Nine-month period ended September 30, 2020	Nine-month period ended September 30, 2019
Net income (loss)	$ (17,192,698)	$ 15,668,608	$ (44,863,299)	$ 36,398,712
Weighted average number of common share outstanding	247,128,177	181,193,514	216,323,373	178,948,677
Basic net income (loss) per share	$ (0.07)	$ 0.09	$ (0.21)	$ 0.20

Diluted net income (loss) (per share)

	Three-month period ended September 30, 2020	Three-month period ended September 30, 2019	Nine-month period ended September 30, 2020	Nine-month period ended September 30, 2019
Net income (loss)	$ (17,192,698)	$ 15,668,608	$ (44,863,299)	$ 36,398,712
Dilutive effect on income (loss)	-	(4,815,631)	-	1,783,520
	$ (17,192,698)	$ 10,852,977	$ (44,411,933)	$ 34,615,192
Weighted average number of common shares outstanding - basic	247,128,177	181,193,514	216,323,373	178,948,677
Dilutive effect of convertible debentures	-	17,602,560	-	11,735,040
Dilutive effect of options outstanding	-	5,917,816	-	6,207,139
Dilutive effect of warrants outstanding	-	-	1,054,664	347,515
Weighted average number of common shares outstanding – diluted	247,128,177	204,713,890	217,378,037	197,238,371
Basic earnings (loss) per share	$ (0.07)	$ 0.05	$ (0.21)	$ 0.18

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

20) FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Hierarchy

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

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

When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. At September 30, 2020, the fair values of cash and cash equivalents, accounts receivable, trade and other payables, construction payables, short-term financing, notes payable and equipment financing are not materially different from their carrying values given the short term to maturity. The convertible debenture, term debt, short-term financing 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 notes 8 and 11 and is determined with level 2 inputs (barrier option pricing models).

The carrying values of financial instruments September 30, 2020 are summarized in the following table:

	Amortized Cost	FVTPL	Total
Financial assets			
Cash and cash equivalents	$ 4,508,670	$ -	$ 4,508,670
Accounts receivable	5,627,104	-	5,627,104
Financial liabilities			
Trade and other payables	17,665,392	-	17,665,392
Construction payables	5,800,688	-	5,800,688
Short-term financing	12,307,025	-	12,307,025
Convertible debentures	28,194,970	-	28,194,970
Derivative liabilities	-	1,857,048	1,857,048
Equipment financing	17,517,479	-	17,517,479
Term debt	28,543,619	-	28,543,619

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

20) FAIR VALUE OF FINANCIAL INSTRUMENTS (CON'T)

The carrying values of financial instruments at December 31, 2019 are summarized in the following table:

	Amortized Cost	FVTPL	Total
Financial assets			
Cash and cash equivalents	$ 6,670,424	–	$ 6,670,424
Accounts receivable	2,482,357	–	2,482,357
Financial liabilities			
Trade and other payables	12,733,185	–	12,733,185
Construction payables	6,141,493	–	6,141,493
Notes payable	6,772,368	–	6,772,368
Convertible debentures	30,100,509	–	30,100,509
Derivative liabilities	–	9,501,328	9,501,328
Equipment financing	19,635,621	–	19,635,621
Term debt	27,272,061	–	27,272,061

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 $nil at September 30, 2020. Based on the fair value of outstanding debentures at September 30, 2020 of $11,878,495, the fair value of the debt component was calculated as the residual being $11,878,495.

As the convertible debenture warrants and public offering warrants are freely traded on the CSE (symbols "FONE.WT", "FONE.WT.A" and "FONE.WT.B"), the fair value of these outstanding warrants at September 30, 2020 is $593,169.

There have been no transfers between fair value categories during the nine-month period ended September 30, 2020.

21) FINANCIAL INSTRUMENTS RISK

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

Credit risk

Credit risk is the risk of 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 holdings and accounts receivables. The risk exposure is limited to their carrying amounts at the statement of financial position date. The risk for cash and cash equivalents is mitigated by holding these instruments with highly rated Canadian and United States financial institutions. Accounts receivables primarily consist of trade accounts receivable. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. As at September 30, 2020, 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 $5,627,104. At September 30, 2020, $1,203,362 of the accounts receivable balance was over 30 days. As of the date of these financial statements, 4,792,661 or 91% of the outstanding accounts receivable balance as of September 30, 2020 was collected. Maximum credit exposure to cash is $4,508,670.

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 (note 8), which both bear interest at 9.5% per annum, the note payable related to the greenhouse purchase (note 7) which bears interest at 9.5% effective April 1, 2019, the term debt which bears interest at LIBOR plus 8% (minimum LIBOR of 2.5%) (note 11) and the short-term financing (note 12) which bears interest at 15%. 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 nine-month period ended September 30, 2020 would be approximately $236,466 (September 30, 2019: $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 September 30, 2020, the Company had cash of $4,001,555 (CAD$5,337,674) and trade and other payables of $453,462 (CAD$604,873) 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 nine-month period ended September 30, 2020 would be approximately $632,094 (September 30, 2019: $62,853).

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

21) FINANCIAL INSTRUMENTS RISK (CONT'D)

Liquidity risk
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet financial obligations as they come due. As at September 30, 2020, the Company's financial liabilities consist of trade and other payables, construction payables, notes payable, short-term financing, term debt and equipment financing (all of which are due within 12 months) as well as the convertible debentures and lease liability. 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.

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 September 30, 2020.

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

	Total	<1 year	1-3 years	3-5 years	>5 years
Trade and other payables	$ 17,665,392	$ 17,665,392	$ -	$ -	$ -
Construction payables	5,800,688	5,800,688	-	-	-
Short-term financing	13,912,872	13,912,872	-	-	-
Convertible debentures and interest	45,627,796	4,915,965	40,711,831	-	-
Leases	78,147,030	3,336,460	6,976,204	6,938,900	60,895,466
Equipment financing	21,857,084	21,857,084	-	-	-
Term debt	32,338,767	32,338,767	-	-	-

22) SEGMENTED INFORMATION

The Company reports segment information based on internal reports used by the chief operating decision maker ("CODM") to make operating and resource decisions and to assess performance. The CODM is the Chief Executive Officer of the Company. The CODM makes decisions and assesses performance of the Company on a consolidated basis such that the Company is a single reportable operating segment. For the nine-month and three-month periods ended September 30, 2020 and 2019 all revenues generated by the Company were earned through their operations based in the United States. As at September 30, 2020 and December 31, 2019, all property, plant and equipment were held by the Company's US domiciled subsidiaries.

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

23) CAPITAL MANAGEMENT

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

Total managed capital is as follows:

		September 30, 2020		December 31, 2020
Borrowings	$	86,563,093	$	83,780,559
Share capital		110,863,535		89,124,193
Total	$	197,426,629	$	172,904,752

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.

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

24) SUPPLEMENTAL CASH FLOW INFORMATION

The changes in working capital are as follows:

	Nine-month period ended September 30, 2020	Nine-month period ended September 30, 2019
Accounts receivable	$ (3,144,747)	$ (1,282,029)
Prepaids	(465,842)	983,012
Inventory	4,279,181	7,323,022
Biological assets	(8,471,817)	(10,404,749)
Trade and other payables	4,551,401	(4,865,944)
	$ (3,251,824)	$ (8,246,688)

Reconciliation of movements of liabilities to cash flows arising from financing activities at September 30, 2020:

	Convertible Debentures	Lease obligations	Term Debt	Equipment Financing	Notes Payable	Short Term Financing	Total
January 1, 2020	$30,100,509	$20,244,258	$27,272,061	$19,635,621	$6,772,368	$ -	$104,024,817
Proceeds on financing	-	-	-	-	-	11,924,823	11,924,823
Repayment of borrowings	-	(101,037)	-	(2,183,106)	(6,403,335)	-	(8,687,478)
Total cash flows	30,100,509	20,143,221	27,272,061	17,451,515	369,033	11,924,823	107,262,162
Non-cash items:							-
Foreign exchange	(769,740)	-	-	-	-	-	(769,740)
Conversions	(4,702,560)	-	-	-	-	-	(4,702,560)
Finance expenses	6,547,124	2,747,485	3,956,215	2,221,128	489,479	1,265,443	147,226,874
Interest paid	(2,980,364)	(2,394,040)	(2,684,657)	(2,156,164)	(858,512)	(883,241)	$ (11,956,977)
As at September 30, 2020	$28,194,970	$20,496,667	$ 28,543,619	$ 17,517,479	$ -	$ 12,307,027	$107,059,760

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

24) SUPPLEMENTAL CASH FLOW INFORMATION (CONT'D)

Reconciliation of movements of liabilities to cash flows arising from financing activities at December 31, 2019:

	Convertible debentures	Lease obligations	Term debt	Equipment financing	Notes payable	Total
January 1, 2019	$ –	$ –	$ –	$ –	$ 32,080,167	$ 32,080,167
Cash items:						
Proceeds on financing	54,510,305	19,621,860	28,611,523	19,566,900	–	122,310,588
Repayment of borrowings	–	–	–	–	(26,759,833)	(26,759,833)
Total cash flows	54,510,305	19,621,860	28,611,523	19,566,900	(26,759,833)	95,550,755
Non-cash items:						
Foreign exchange	806,204	–	–	–	–	806,204
Allocated to derivatives	(22,200,310)	–	(2,108,437)	–	–	(24,308,747)
Changes in fair-value	–	–	–	–	(976,026)	(976,026)
Lease liability – right to use asset, net	–	239,300	–	–	–	239,300
Conversions	(6,788,989)	–	–	–	–	(6,788,989)
Finance expenses	6,569,471	1,460,820	2,158,615	1,968,721	2,428,060	14,585,687
Interest paid	(2,796,172)	(1,077,722)	(1,389,640)	(1,900,000)	–	(7,163,534)
December 31, 2019	$ 30,100,509	$ 20,244,258	$ 27,272,061	$ 19,635,621	$ 6,772,368	$ 104,024,817