

*A copy of this preliminary short form base shelf prospectus has been filed with the securities regulatory authorities in each of the provinces of Canada, except Québec, but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form base shelf prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form base shelf prospectus is obtained from the securities regulatory authorities.*

*This preliminary short form prospectus is a base shelf prospectus. This short form base shelf prospectus has been filed under legislation in all of the provinces of Canada, except Québec, that permit certain information about these securities to be determined after this prospectus has become final and that permit the omission of that information from this prospectus. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.*

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form base shelf prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and only by persons permitted to sell these securities in those jurisdictions.*

*The securities offered under this short form prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”), or the securities laws of any state of the United States (as such term is defined in Regulation S under the U.S. Securities Act) (the “United States”), and may not be offered or sold within the United States, or to, or for the account or benefit of a U.S. Person (as defined in Rule 902(k) of Regulation S under the U.S. Securities Act) or a person in the United States, except in transactions exempt from registration under the U.S. Securities Act and applicable U.S. state securities laws. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States or to, or for the account or benefit of, U.S. persons.*

*Information has been incorporated by reference in this amended and restated preliminary short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of Flower One Holdings Inc. 20 Richmond Street East, Suite 600, Toronto, Ontario, M5C 2R9, Canada, telephone (416) 848-9835, and are also available electronically at [www.sedar.com](http://www.sedar.com).*

## PRELIMINARY SHORT FORM BASE SHELF PROSPECTUS

New Issue

September 27, 2019



### FLOWER ONE HOLDINGS INC.

**US\$250,000,000**

**Common Shares  
Warrants  
Options  
Subscription Receipts  
Debt Securities  
Units**

This short form base shelf prospectus (the “**Prospectus**”) relates to the offering for sale of common shares (the “**Common Shares**”), warrants (the “**Warrants**”), options (the “**Options**”), subscription receipts (the “**Subscription Receipts**”), debt securities (the “**Debt Securities**”), or any combination of such securities (the “**Units**”) (all of the foregoing, collectively, the “**Securities**”) by Flower One Holdings Inc. (“**Flower One**” or the “**Company**”), from time to time, during the 25-month period that the Prospectus, including any amendments thereto, remains effective, in one or more series or issuances, with a total offering price of the Securities in the aggregate, of up to US\$250,000,000.

The Securities may be offered in amounts and at prices to be determined based on market conditions at the time of the sale and set forth in an accompanying prospectus supplement (a “**Prospectus Supplement**”). In addition, Securities may be offered and issued in consideration for the acquisition of other businesses, assets or securities by the Company or a subsidiary of the

Company. The consideration for any such acquisition may consist of any of the Securities separately, a combination of Securities or any combination of, among other things, Securities, cash and assumption of liabilities.

**This offering is made by a Canadian issuer that is permitted, under a multijurisdictional disclosure system adopted by the United States and Canada, to prepare this Prospectus in accordance with Canadian disclosure requirements. Prospective investors should be aware that such requirements are different from those of the United States. Financial statements included or incorporated by reference herein have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and may not be comparable to financial statements of United States companies. The Company’s financial statements are audited in accordance with Canadian generally accepted auditing standards.**

**The enforcement by investors of civil liabilities under the United States federal securities laws may be affected adversely by the fact that the Company is incorporated under the laws of British Columbia, Canada, that the majority of its officers and directors are residents of Canada, that all of the experts named in the registration statement are not residents of the United States, and that a substantial portion of the assets of the Company and said persons are located outside the United States.**

**An investment in the Securities involves a high degree of risk and should only be made by persons who can afford the total loss of their investment. Prospective purchasers should carefully review and evaluate the risk factors described under “Risk Factors” in this Prospectus, any Prospectus Supplement and in the AIF (as defined herein), which can be found on SEDAR at [www.sedar.com](http://www.sedar.com), before purchasing the Securities. See “Cautionary Statement Regarding Forward-Looking Information” and “Risk Factors”.**

**Prospective investors should be aware that the acquisition of the Securities described herein may have tax consequences both in the United States and in Canada. Such consequences for investors who are resident in, or citizens of, the United States may not be described fully herein. Prospective investors should read the tax discussion contained in this Prospectus and any Prospectus Supplement with respect to a particular offering of Securities.**

The specific terms of the Securities with respect to a particular offering will be set out in one or more Prospectus Supplements and may include, where applicable: (i) in the case of Common Shares, the number of Common Shares offered, the offering price and any other specific terms; (ii) in the case of Warrants or Options, the number of Warrants or Options offered, the offering price, the designation, number and terms of the Common Shares issuable upon exercise of the Warrants or Options, any procedures that will result in the adjustment of these numbers, the exercise price, dates and periods of exercise, the currency in which the Warrants or Options are issued and any other specific terms; (iii) in the case of Subscription Receipts, the number of Subscription Receipts offered, the offering price, the procedures for the exchange of the Subscription Receipts for Common Shares or Warrants, as the case may be, and any other specific terms; (iv) in the case of Debt Securities, the specific designation, aggregate principal amount, the currency or the currency unit for which the Debt Securities may be purchased, the maturity, interest provisions, authorized denominations, offering price, covenants, events of default, any terms for redemption, any exchange or conversion terms, whether the debt is senior, senior subordinated or subordinated, whether the debt is secured or unsecured and any other terms specific to the Debt Securities being offered; and (v) in the case of Units, the designation, number and terms of the Common Shares, Warrants, Options, Subscription Receipts or Debt Securities comprising the Units. Where required by statute, regulation or policy, and where Securities are offered in currencies other than Canadian dollars, appropriate disclosure of foreign exchange rates applicable to the Securities will be included in the Prospectus Supplement describing the Securities.

In addition, the Debt Securities that may be offered may be guaranteed by certain direct and indirect subsidiaries of the Company with respect to the payment of the principal, premium, if any, and interest on the Debt Securities. The Company expects that any guarantee provided in respect of senior Debt Securities would constitute a senior and unsecured obligation of the applicable guarantor. For a more detailed description of the Debt Securities that may be offered, see “Description of Securities – Debt Securities - Guarantees”, below.

All information permitted under applicable securities legislation to be omitted from the Prospectus will be contained in one or more Prospectus Supplements that will be delivered to purchasers together with the Prospectus, except in cases where an exemption from such delivery requirements has been obtained. Each Prospectus Supplement will be incorporated by reference into the Prospectus for the purposes of applicable securities legislation as of the date of the Prospectus Supplement and only for the purposes of the distribution of the Securities to which the Prospectus Supplement pertains. Investors should read the Prospectus and any applicable Prospectus Supplement carefully before investing in the Securities.

This Prospectus constitutes a public offering of the Securities only in those jurisdictions where they may be lawfully offered for sale and only by persons permitted to sell the Securities in such jurisdictions. The Company may offer and sell Securities to, or through, underwriters or dealers, directly to one or more other purchasers, or through agents pursuant to exemptions from registration or qualification under applicable securities laws. A Prospectus Supplement relating to each issue of Securities will set

forth the names of any underwriters, dealers or agents involved in the offering and sale of the Securities and will set forth the terms of the offering of the Securities, the method of distribution of the Securities, including, to the extent applicable, the proceeds to the Company and any fees, discounts, concessions or other compensation payable to the underwriters, dealers or agents, and any other material terms of the plan of distribution. In connection with any offering of the Securities, other than an “at-the-market distribution” (as defined under applicable Canadian securities legislation) unless otherwise specified in a Prospectus Supplement, the underwriters or agents may over-allot or effect transactions which stabilize or maintain the market price of the Securities offered at a higher level than that which might exist in the open market. Such transaction, if commenced, may be interrupted or discontinued at any time. See “*Plan of Distribution*”.

No underwriter or dealer involved in an “at-the-market distribution” under this Prospectus, no affiliate of such an underwriter or dealer and no person or company acting jointly or in concert with such an underwriter or dealer will over-allot securities in connection with such distribution or effect any other transactions that are intended to stabilize or maintain the market price of the Securities.

**No underwriter has been involved in the preparation of the Prospectus or performed any review of the contents of the Prospectus.**

The Company’s outstanding Common Shares are listed for trading on the Canadian Securities Exchange (the “**CSE**”), under the trading symbol “FONE”, and are quoted on the OTCQX® Best Market (the “**OTCQX**”), under the trading symbol “FLOOF”. The closing price of the Company’s Common Shares on the CSE and the OTCQX on September 26, 2019 was \$1.69 per Common Share and US\$1.28 per Common Share, respectively. Unless otherwise disclosed in any applicable Prospectus Supplement, the Debt Securities, the Warrants, the Subscription Receipts and the Units will not be listed on any securities exchange. Unless the Securities are disclosed to be listed, there will be no market through which these Securities may be sold and purchasers may not be able to resell these Securities purchased under this Prospectus. This may affect the pricing of such Securities in the secondary market, the transparency and availability of trading prices, the liquidity of such Securities, and the extent of issuer regulation.

The Company’s head office is located at 20 Richmond Street East, Suite 600, Toronto, Ontario, M5C 2R9, Canada, and its registered office is located at 2900 - 550 Burrard St., Vancouver, British Columbia, V6C 0A3, Canada.

This Prospectus qualifies the distribution of securities of an entity that currently derives, directly, a substantial portion of its revenues from the cannabis industry in the State of Nevada, which industry is illegal under U.S. federal law and enforcement of relevant laws is a significant risk. The Company is directly involved (through its licensed subsidiaries) in the cannabis industry in the United States where local state laws permit such activities. Currently, the Company's subsidiaries are directly engaged in the manufacture, possession, use, sale or distribution of cannabis in the recreational and medicinal cannabis marketplace in the State of Nevada. Third-party service providers could suspend or withdraw services as a result of the Company operating in an industry that is illegal under U.S. federal law.

The United States federal government regulates drugs through the Controlled Substances Act (21 U.S.C. § 811) (the "CSA"), which places controlled substances, including cannabis, in a schedule. Other than industrial hemp, cannabis is classified as a Schedule I controlled substance. Under United States federal law, a Schedule I controlled substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. Except for one limited exception in which the United States Food and Drug Administration (the "FDA") approved a drug derived from marijuana, the FDA has not approved marijuana as a safe and effective drug for any indication.

In the United States, thirty-three states, the territories of Guam and Puerto Rico and the District of Columbia have legalized cannabis for medical use, and 11 states--Alaska, California, Colorado, Illinois, Maine, Massachusetts, Michigan, Nevada, Oregon, Vermont and Washington, and the District of Columbia—have legalized cannabis for adult or "recreational" use, although the District of Columbia does not permit the sale of cannabis.

State laws regulating cannabis are in direct conflict with the federal CSA, which makes cannabis use and possession federally illegal. Although certain states authorize medical or adult-use cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts under 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 shall apply.

On January 4, 2018, then U.S. Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the United States, including a memorandum issued by the U.S. Department of Justice, known as the "Cole Memorandum", on August 29, 2013, to the U.S. Attorneys' offices (federal prosecutors) directing that individuals and businesses that rigorously comply with state regulatory provisions in states that have strictly-regulated legalized medical or recreational cannabis programs should not be a prosecutorial priority for violations of federal law, provided that certain enumerated enforcement priorities are not implicated. With the Cole Memorandum rescinded, U.S. federal prosecutors have been given discretion in determining whether to prosecute cannabis-related violations of U.S. federal law. If the Department of Justice was to aggressively pursue financiers or equity owners of cannabis-related business, and United States Attorneys followed such Department of Justice policies through pursuing prosecutions, then the Company could face (i) seizure of its cash and other assets used to support or derived from its cannabis subsidiaries, (ii) the arrest of its employees, directors, officers, managers and investors, and charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to cannabis companies that service or provide goods to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis, and/or (iii) barring employees, directors, officers, managers and investors who are not U.S. citizens from entry into the United States for life.

Former U.S. Attorney General Jeff Sessions resigned on November 7, 2018. On February 14, 2019, William Barr was sworn in as Attorney General. Sessions' replacement, U.S. Attorney General William Barr during his confirmation hearing on January 15, 2019, pledged not to pursue marijuana companies that comply with state law. This pledge was made in writing, when responding to written questions from Senators: "As discussed in my hearing, I do not intend to go after parties who have complied with the state law in reliance on the Cole Memorandum". Moreover, in January of 2019, Attorney General William Barr, in a series of written responses to the Senate Judiciary Committee as a follow up to his confirmation hearing, stated his

preference is that the “legislative process, rather than administrative guidance, is ultimately the right way to resolve whether and how to legalize marijuana.” Attorney General William Barr’s statements are not official declarations of the U.S. Department of Justice (“DOJ”) policy, are not binding on the DOJ, on any U.S. Attorney, or on the federal courts. Attorney General William Barr may clarify, retract, or contradict these statements.

There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the United States Congress amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current U.S. federal law. If the U.S. federal government begins to enforce U.S. federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, the Company’s business, results of operations, financial condition and prospects would be materially adversely affected.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018 the Canadian Securities Administrators published a staff notice (“Staff Notice 51-352”) setting out the Canadian Securities Administrator’s disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry.

Since 2014, the United States Congress has passed appropriations bills which included provisions to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law (the “Joyce/Leahy Amendment” but also referred to as the Leahy Amendment, Rohrabacher-Farr Amendment or the Rohrabacher-Blumenauer Amendment). On February 15, the 2019 Fiscal Year Appropriations Bill, which included the Joyce/Leahy Amendment, was signed into law extending its application until the end of the 2019 fiscal year on September 30, 2019. There can be no assurances that the Joyce/Leahy Amendment will be included in future appropriations bills.

For these reasons, the Company’s operations in the United States cannabis market may subject the Company to heightened scrutiny by regulators, stock exchanges, clearing agencies and other Canadian and U.S. authorities. There are a number of risks associated with the business of the Company. See section entitled “*Risk Factors*” in this Prospectus and in the AIF, including under “*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*” and “*Heightened scrutiny by Canadian and U.S. regulatory authorities*”.

## TABLE OF CONTENTS

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION .....	1
GENERAL MATTERS .....	3
ABOUT THIS PROSPECTUS .....	3
MARKET AND INDUSTRY DATA.....	3
CURRENCY PRESENTATION AND EXCHANGE RATES.....	4
ELIGIBILITY FOR INVESTMENT.....	4
DOCUMENTS INCORPORATED BY REFERENCE.....	4
MARKETING MATERIALS .....	6
DESCRIPTION OF THE BUSINESS.....	6
CONSOLIDATED CAPITALIZATION.....	12
DESCRIPTION OF THE U.S. LEGAL CANNABIS INDUSTRY .....	13
USE OF PROCEEDS .....	26
EARNINGS COVERAGE RATIOS .....	26
PLAN OF DISTRIBUTION .....	26
DESCRIPTION OF SECURITIES .....	27
PRIOR SALES.....	38
TRADING PRICE AND VOLUME .....	39
CERTAIN INCOME TAX CONSIDERATIONS .....	40
INTERESTS OF EXPERTS .....	40
RISK FACTORS.....	40
MATERIAL CONTRACTS .....	56
AUDITORS, TRANSFER AGENT AND REGISTRAR.....	58
STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION .....	58
CONTRACTUAL RIGHTS OF RESCISSION .....	59
CERTIFICATE OF FLOWER ONE HOLDINGS INC. ....	63

## CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

The information provided in this Prospectus, including information incorporated by reference, 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, statements relating to the business and future activities of, and developments related to, the Company after the date of this Prospectus; 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; distributions of securities and prospectus supplements; tax consequences; governing law; use of proceeds; and other events or conditions that may occur in the future.

These statements speak only as at the date they are made and are based on information currently available and on the then current expectations of the party making the statement and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to risks and uncertainties related to:

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

- energy costs;
- reliance on key personnel;
- reliance on a single jurisdiction;
- environmental and employee health and safety regulations;
- unknown environmental risks;
- security risks;
- information technology risks;
- product recalls;
- results of future clinical research;
- competition;
- liquidity, financial resources and access to capital;
- licenses;
- future acquisitions or dispositions;
- insurance and uninsured risks;
- dependence on key inputs, suppliers and skilled labour;
- difficulty to forecast;
- management of growth;
- internal controls;
- failure to comply with anti-bribery laws;
- conflict of interest;
- litigation;
- product liability;
- general economic and political risks;
- Flower One is a Canadian company and shareholder protections differing 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 the Securities;
- there is no assurance Flower One will continue to meet the listing or quotation standards of the CSE or the OTCQX;
- currency fluctuations;
- there is no existing trading market for the Warrants, Options, Subscription Receipts, Debt Securities or Units;
- management having substantial discretion concerning the use of proceeds; and
- other factors beyond the Company's control, as more particularly described under the heading "*Risk Factors*" in this Prospectus.

Prospective purchasers 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, prospective purchasers should not place undue reliance on forward-looking information and statements, including the documents incorporated herein by reference, 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 prospective purchasers 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.

## GENERAL MATTERS

Prospective purchasers should rely only on the information contained or incorporated by reference in this Prospectus and are not entitled to rely on parts of the information contained or incorporated by reference in this Prospectus to the exclusion of others. The Company has not authorized any other person to provide prospective purchasers with additional or different information from that contained or incorporated by reference in this Prospectus. Prospective purchasers should not assume that the information contained in this Prospectus is accurate as of any date other than the date on the cover page of this Prospectus. If a prospective purchaser is provided with additional, different or inconsistent information, the prospective purchaser should not rely on such information. The information contained on the Company's website is not a part of this Prospectus and is not incorporated by reference into this Prospectus despite any references to such information in this Prospectus or the documents incorporated by reference, and prospective investors should not rely on such information when deciding whether or not to invest in the Securities.

Neither the Company nor any underwriters, dealers or agents participating in the distribution of the Securities will be making an offer to sell in any jurisdiction where the offer or sale is not permitted. The information contained or incorporated by reference in this Prospectus is accurate only as of the date of this Prospectus (or the date of the document incorporated by reference herein, as applicable), regardless of the time of delivery of this Prospectus or any sale of the Securities. The business, financial condition, results of operations and prospects of the Company may have changed since those dates. The Company does not undertake to update the information contained or incorporated by reference herein, except as required by applicable Canadian securities laws.

Unless the context otherwise requires, any references in this Prospectus to the "Company" or "FONE" refer , collectively, to Flower One Holdings Inc. and its wholly owned subsidiaries.

## ABOUT THIS PROSPECTUS

This Prospectus is a base shelf prospectus that the Company has filed with the securities commissions in each of the provinces of Canada, except Québec, in order to qualify the offering of the Securities described in this Prospectus in accordance with Canadian National Instrument 44-102—*Shelf Distributions* ("NI 44-102").

Under this Prospectus, the Company may sell any combination of the Securities described in this Prospectus in one or more offerings up to a total aggregate initial offering price of US\$250,000,000. This Prospectus provides you with a general description of the Securities that the Company may offer. Each time the Company sells Securities under this Prospectus, the Company will provide a Prospectus Supplement that will contain specific information about the terms of that specific offering. The specific terms of the Securities in respect of which this Prospectus is being delivered will be set forth in the Prospectus Supplement.

You should rely only on the information contained in or incorporated by reference into this Prospectus and in any applicable Prospectus Supplement. The Company has not authorized anyone to provide you with different information. The Company is not making any offer of these Securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this Prospectus and any Prospectus Supplement is accurate as of any date other than the date on the front of those documents or that any information contained in any document incorporated by reference is accurate as of any date other than the date of that document.

## MARKET AND INDUSTRY DATA

Unless otherwise indicated, information contained in this Prospectus, including the documents incorporated herein by reference, concerning the Company's industry and the markets in which it operates or seeks to operate is based on information from third party sources, industry reports and publications, websites and other publicly available information, and management studies and estimates. Unless otherwise indicated, the Company's estimates are derived from publicly available information released by third party sources as well as data from the Company's own internal research and include assumptions which the Company believes to be reasonable based on management's knowledge of the Company's industry and markets. The Company's internal research and assumptions have not been verified by any independent source, and the Company has not independently verified any third-party

information. While the Company believes that such third-party information to be generally reliable, such information and estimates are inherently imprecise. In addition, projections, assumptions and estimates of the Company's future performance or the future performance of the industry and markets in which the Company operates are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in this Prospectus under "*Risk Factors*" and "*Cautionary Statement Regarding Forward-Looking Information*" and in the AIF under "*Risk Factors*".

## CURRENCY PRESENTATION AND EXCHANGE RATES

Unless the context otherwise requires, all references to "\$", "C\$" and "dollars" mean references to the lawful money of Canada. All references to "US\$" refer to United States dollars.

On September 26, 2019, the daily average exchange rate for the United States dollar in terms of Canadian dollars, as quoted by the Bank of Canada, was US\$1.00 = \$1.326.

## ELIGIBILITY FOR INVESTMENT

In the opinion of Fasken Martineau DuMoulin LLP, counsel to the Company, based on the current provisions of the *Income Tax Act* (Canada) and the regulations thereunder (collectively, the "**Tax Act**") as of the date hereof, each of the different types of Securities, if issued on the date hereof, would be a "qualified investment" under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans, registered disability savings plans and tax-free savings accounts, each as defined in the Tax Act and trusts governed by deferred profit sharing plans (collectively "**Registered Plans**"), provided that:

- (i) in the case of Debt Securities, either (a) the Debt Securities are listed on a "designated stock exchange" as defined in the Tax Act (which currently includes the CSE), or (b) the Common Shares are listed on a "designated stock exchange" as defined in the Tax Act (which currently includes the CSE);
- (ii) in the case of Warrants, Options and Subscription Receipts either (a) the Warrants, Options or Subscription Receipts, as applicable, are listed on a "designated stock exchange" as defined in the Tax Act (which currently includes the CSE), or (b) the Common Shares are listed on a "designated stock exchange" as defined in the Tax Act (which currently includes the CSE) and the Company is not a "connected person" under the Registered Plan. For this purpose, a "connected person" under a Registered Plan is a person who is an annuitant, beneficiary, employer or subscriber under, or holder of, the Registered Plan, and each person that does not deal at arm's length with that person; and
- (iii) in the case of Common Shares, including Common Shares issuable upon exercise or conversion of other Securities, the Common Shares are listed on a "designated stock exchange" as defined in the Tax Act (which currently includes the CSE).

Notwithstanding the foregoing, holders, annuitants or subscribers of Registered Plans (each a "**Controlling Individual**") will be subject to a penalty tax in respect of Securities held in a trust governed by a Registered Plan if such Securities, as the case may be, are a "prohibited investment" under the Tax Act for the particular Registered Plan. Securities will generally not be a "prohibited investment" for a Registered Plan unless the Controlling Individual of the Registered Plan (i) does not deal at arm's length with the Company for purposes of the Tax Act; or (ii) has a "significant interest", as defined in the Tax Act, in the Company. However, Common Shares will not be a "prohibited investment" if such securities are "excluded property" (as defined in the Tax Act for purposes of the prohibited investment rules) for trusts governed by a Registered Plan.

**Persons who intend to hold Securities in a Registered Plan, should consult their own tax advisors in regard to the application of these rules in their particular circumstances.**

## DOCUMENTS INCORPORATED BY REFERENCE

**Information has been incorporated by reference in this Prospectus from documents filed with the securities commissions or similar regulatory authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of the Company at 20

Richmond Street East, Suite 600, Toronto, Ontario, M5C 2R9, Canada, telephone (416) 848-9835, and are also available electronically at [www.sedar.com](http://www.sedar.com).

The following documents filed with the securities commission or similar regulatory authorities in the provinces of Canada, except Québec, are specifically incorporated by reference into this Prospectus:

- (a) the annual information form of the Company for the year ended December 31, 2018 (the “**AIF**”);
- (b) the audited financial statements of the Company, and the notes thereto, for the years ended December 31, 2018 and January 31, 2018, together with the notes thereto and the auditor’s report thereon;
- (c) the management’s discussion and analysis of the financial condition of the Company for the year ended December 31, 2018;
- (d) the unaudited interim condensed consolidated financial statements of the Company for the three and six months ended on June 30, 2019 and June 30, 2018, together with the notes thereto (the “**Interim Financial Statements**”);
- (e) the management’s discussion and analysis of the financial condition of the Company for the three and six months ended on June 30, 2019;
- (f) the material change report of the Company dated August 7, 2019 regarding the announcement of the debt financing agreement entered into between the Company and RB Loan Portfolio II, LLC for up to US\$30,000,000 to be used for further investment at the Company’s 400,000 square-foot greenhouse and for general working capital and operational purposes (the “**Debt Financing Agreement**”);
- (g) the material change report of the Company dated April 5, 2019 regarding the announcement of the closing of the overnight marketed public offering of unsecured convertible debenture units (the “**Convertible Debenture Units**”) of the Company for gross proceeds of \$50,000,000 and the full exercise of the corresponding over-allotment option for additional gross proceeds of \$7,500,000, resulting in a public offering of gross proceeds of \$57,500,000, pursuant to the terms and conditions of an agency agreement dated March 22, 2019 among the Company and Mackie Research Capital Corporation and Canaccord Genuity Corp., as co-lead agents, and Cormark Securities Inc., Eight Capital, Industrial Alliance Securities Inc. and PI Financial Corp., as the remaining agents (the “**March 2019 Agency Agreement**”);
- (h) the material change report of the Company dated March 15, 2019 regarding the filing of a preliminary short form prospectus with the security regulatory authorities in all province of Canada (except Québec) in connection with a proposed overnight-marketed public offering of convertible debenture units;
- (i) the material change report of the Company dated February 11, 2019 regarding the announcement of the master lease agreement entered into between the Company and Reich Bros Commercial Finance for up to US\$30,000,000 in lease financing for certain equipment to be used at the Company’s 455,000 square-foot greenhouse and production facility in North Las Vegas, Nevada (the “**Master Lease Agreement**”); and
- (j) the management information circular of the Company dated May 29, 2019, prepared in connection with an annual and special meeting of shareholders of the Company held on June 28, 2019.

Any documents of the types referred to in the preceding paragraphs (a) through (j) or required by Item 11.1 of Form 44-101F1 – *Short Form Prospectus*, filed by the Company with a securities commission or similar regulatory authority pursuant to the requirements of applicable securities legislation after the date of this Prospectus and all Prospectus Supplements disclosing additional or updated information filed pursuant to the requirements of applicable securities legislation in Canada and during the period that this Prospectus is effective, shall be deemed to be incorporated by reference into this Prospectus.

**Any statement contained in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for the purposes of this Prospectus to the extent that a statement contained in this Prospectus or in any subsequently filed document that also is or is deemed to be**

**incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded will not constitute a part of this Prospectus, except as so modified or superseded. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the statement or document that it modifies or supersedes. The making of such a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed in its unmodified or superseded form to constitute part of this Prospectus.**

Upon a new annual information form and related annual financial statements being filed by the Company with, and where required, accepted by, the applicable securities regulatory authority during the currency of this Prospectus, the previous annual information form, the previous annual financial statements and all interim financial statements, material change reports and information circulars and all Prospectus Supplements filed prior to the commencement of the Company's financial year in which a new annual information form is filed shall be deemed no longer to be incorporated into this Prospectus for purposes of future offers and sales of Securities hereunder. Upon condensed consolidated interim financial statements and the accompanying management's discussion and analysis of financial condition and results of operations being filed by the Company with the applicable Canadian securities commissions or similar regulatory authorities during the period that this Prospectus is effective, all condensed consolidated interim financial statements and the accompanying management's discussion and analysis of financial condition and results of operations filed prior to such new condensed consolidated interim financial statements and management's discussion and analysis of financial condition and results of operations shall be deemed to no longer be incorporated into this Prospectus for purposes of future offers and sales of Securities under this Prospectus. In addition, upon a new management information circular for an annual meeting of shareholders being filed by the Company with the applicable Canadian securities commissions or similar regulatory authorities during the period that this Prospectus is effective, the previous management information circular filed in respect of the prior annual meeting of shareholders shall no longer be deemed to be incorporated into this Prospectus for purposes of future offers and sales of Securities under this Prospectus.

All information permitted under applicable securities legislation to be omitted from the Prospectus will be contained in one or more Prospectus Supplements that will be delivered to purchasers together with the Prospectus, except in cases where an exemption from such delivery requirements has been obtained. A Prospectus Supplement containing the specific terms of an offering of Securities will be delivered to purchasers of such Securities together with this Prospectus and will be deemed to be incorporated by reference into this Prospectus as of the date of such Prospectus Supplement, but only for the purposes of the offering of Securities covered by that Prospectus Supplement. Investors should read the Prospectus and any applicable Prospectus Supplement carefully before investing in the Company's Securities.

Any template version of any "marketing materials" (as such term is defined in National Instrument 44-101 – *Short Form Prospectus Distributions*) filed after the date of a Prospectus Supplement and before the termination of the distribution of the Securities offered pursuant to such Prospectus Supplement (together with this Prospectus) is deemed to be incorporated by reference in such Prospectus Supplement.

## **MARKETING MATERIALS**

Any template version of any "marketing materials" (as such terms are defined in National Instrument 41-101 – *General Prospectus Requirements* of the Canadian Securities Administrators) filed after the date of a Prospectus Supplement and before the termination of the distribution of Securities offered pursuant to such Prospectus Supplement (together with this Prospectus) is deemed to be incorporated by reference in such Prospectus Supplement.

## **DESCRIPTION OF THE BUSINESS**

### ***General***

The Company is a cannabis cultivation, production and wholesale company and through its subsidiaries, holds a variety of strategic cannabis investments in Nevada, including Nevada's largest commercial greenhouse; four

Nevada state-issued marijuana licenses; and certain real property. The Company will be the transferee of an additional four, and an application for a possible fifth, Nevada state marijuana licenses upon approval of the transfer by the Nevada Department of Taxation (“**NDOT**”).

### ***Name, Address and Incorporation***

The Company was incorporated on January 9, 2007 pursuant to the provisions of the *Business Corporations Act* (British Columbia) (the “**BCBCA**”) under the name “Theia Resources Ltd”.

On September 21, 2018, the Company completed the Transaction (as defined below) under which it acquired all of the issued and outstanding shares of CNX. In connection with the Transaction, on September 20, 2018, the Company changed its name to “Flower One Holdings Inc.” and consolidated its shares on a ten for one basis. Upon closing of the Transaction, on September 21, 2018, the Company changed its year end from January 31 to December 31.

The Company’s head office is located at 20 Richmond Street East, Suite 600, Toronto, Ontario, M5C 2R9, Canada and its registered and records office is located at 2900 - 550 Burrard Street, Vancouver, British Columbia V6C 0A3.

The Company is a reporting issuer in British Columbia, Ontario and Alberta. Prior to the completion of the Transaction the shares of the Company were listed for trading on the TSXV Venture Exchange (the “**TSXV**”). In connection with the Transaction, the Company delisted from the TSXV and on October 10, 2018, the Company’s Common Shares commenced trading on the CSE under the symbol “FONE”. On November 6, 2018, the Company’s Common Shares commenced trading in the United States on the OTCQB under the symbol “FLOOF”. On May 22, 2019, the Common Shares graduated from the OTCQB to the OTCQX, where the Common Shares have been trading under the symbol “FLOOF”.

### ***Real Property***

The Company’s wholly owned greenhouse facility, located at 3950 N. Bruce Street, North Las Vegas, Nevada (the “**NLV Greenhouse**”) is Nevada’s largest commercial greenhouse, consisting of 400,000 square feet for the cultivation of marijuana and 55,000 square feet dedicated to a production and packaging facility for the processing, production and high-volume packaging of dry flower, cannabis oils, concentrates and infused products. The NLV Greenhouse is strategically positioned and within close proximity to the lucrative, tourism-driven Las Vegas adult-use and medical cannabis market.

The conversion of the NLV Greenhouse to cannabis cultivation, as well as the installation of equipment for cannabis production, is complete and the NLV Greenhouse is fully canopied with cannabis plants. The Company has fully commissioned the extraction lab and production facility and has begun the production of extracted cannabis products. The first commercial cannabis harvest took place on or about June 11, 2019 and initial harvest yields have averaged 38.3 grams per sq/ft per harvest with current total cash cost per harvested gram of US\$0.45 for the period ended June 30, 2019. With the completion of its initial four-zone harvests at the NLV Greenhouse, the Company had cannabis inventory of approximately 14,000 pounds at June 30, 2019. With the commissioning of the extraction lab complete, a significant portion of this production will transition to that facility to generate distilled and other oil-based products for the Company’s upcoming brand partner releases.

With the greenhouse 100% canopied, the Company has successfully completed initial harvests of all eight flower zones of the NLV Greenhouse and is now into its second harvest cycle while maintaining a consistent harvesting of approximately one zone per week averaging 10,000 high-quality, hydroponically-grown cannabis plants per zone. This, in conjunction with the completion of the greenhouse’s adjoining 55,000 square-foot cannabis production facility, has well positioned Flower One for the active cultivation and processing of over 100,000 plants housed in eight flower zones, per crop cycle

In addition to the NLV Greenhouse, the Company owns the land and building located at 4050 Losee Road, North Las Vegas, which building the Company proposes to renovate to allow for multiple uses; and the land and building located at 3443 Neeham Road, North Las Vegas (the “**Neeham Property**”). The Company has additionally acquired a 24,000 square foot property immediately adjacent to the Neeham Property and is in escrow on a further 45,000 square foot property behind the Neeham Property. On September 18, 2019, the Company announced that

one of its subsidiaries, CN Landco III, LLC, a subsidiary of the Company and Treehouse Real Estate Investment Trust Inc. (“**Treehouse**”) entered into a sale-leaseback agreement with for the Neeham Property and the adjacent vacant lot acquired early in 2019 for a purchase price of approximately US\$20,000,000 (the “**Treehouse Agreement**”). The Company, through one of its subsidiaries, will then lease such property from Treehouse for a term of 20 years with two 10-year extension options. As part of the Treehouse Agreement, Treehouse will have a five-year right of first offer on future sale-leasebacks by the Company. The Company expects the Treehouse Agreement to close on or before November 16, 2019. The Company has been advanced the purchase price under the Treehouse Agreement as a loan, which bears interest at 15% annually and the Company expects to repay upon closing of the Treehouse Agreement. The Company will use the net proceeds for facility improvements at the Neeham Property and for general working capital and operational purposes.

On October 9, 2018, the Company announced that it had entered into agreements dated October 5, 2018 with NLVO, to purchase a 100% interest in the Neeham Property, and all of the business’ tangible and intangible assets including the business name(s), product brands, inventory, biological assets, four Nevada cannabis licenses, intellectual property and assignable supply contracts associated with the current business of NLVO (the “**NLVO Agreement**”). As consideration for the purchase of the NLVO property and business, the Company agreed to pay NLVO consideration consisting of cash of US\$4,635,650, a vendor note for US\$14,564,350 (the “**NLVO Note**”) and 4,000,000 Common Shares. The Company closed this acquisition on November 9, 2018 and the vendor note was repaid in full in March 2019.

On February 11, 2019, the Company announced that it entered into the Master Lease Agreement with Reich Bros Commercial Finance, for up to US\$30,000,000 in lease financing for certain equipment at the NLV Greenhouse, the Company’s 455,000 square-foot greenhouse and production facility in North Las Vegas, Nevada. The Master Lease Agreement has a five-year term, with the first 12 monthly payments being the equivalent of interest only, followed by forty-eight equal payments, such that all amounts advanced under the lease facility are fully amortized by month 60. The 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 for a total of US\$20 million.

On July 2, 2019, the Company announced that it entered into the Debt Financing Agreement with RB Loan Portfolio II, LLC for up to US\$30,000,000 in financing for further investment in the NLV Greenhouse. The Debt Financing Agreement has a two-year term at a rate of LIBOR plus 8% with interest only payments for the term of the agreement. The Company has the ability to extend the term for a further 6 months and to pre-pay the outstanding debt at any time during the term, subject to a pre-payment penalty. As part of the agreement, RB Loan Portfolio II, LLC and certain assignees have received a 25% warrant coverage (the “**Debt Warrants**”) with the warrants having a term of 30 months. On closing, the Company completed an initial advance of US\$20,000,000 and issued 1,139,757 Debt Warrants with an exercise price of \$3.46 and 1,139,757 Debt Warrants with an exercise price of \$4.03. On July 30, 2019, the Company completed the second and last advance of US\$10,000,000 and issued 589,964 Debt Warrants with an exercise price of \$3.35 and 589,964 Debt Warrants with an exercise price of \$3.91.

Up to the date of this Prospectus, Flower One announced eleven separate licensing agreements and brand partnerships which included Flyte Concentrates, Rapid-Dose Therapeutics’ Quick Strip, Old Pal, Palms, HUXTON, CannAmerica Brands, Grenco Science (G Pen), The Medicine Cabinet, La Vida Verde, the Clear Cannabis Group and Deuces 22. These successful brands recognize that the cannabis retail landscape in Nevada is unique and growing rapidly and the Company offers them a capital efficient and timely pathway to enter Nevada’s cannabis market.

In the future, the Company intends to leverage its experience in Nevada by replicating its production and cultivation capabilities in other states with legal cannabis markets.

### ***Production and Services***

The Company has forecasted production of over 140,000 pounds per year with a fully canopied greenhouse of approximately 140,000 plants, of which 80,000 are in flower zones, and approximately six harvest cycles per annum. The 55,000 square-foot production facility at the NLV Greenhouse provides for the development and production of a diverse range of product derivatives ranging from pre-rolls, oils, concentrates, distillates, edibles and topicals. These products will be sold in both wholesale and packaged formats. The composition of finished

products will evolve over time as the largely recreational market in Nevada grows and consumer knowledge of the health and benefits of these product derivatives increases.

The Company plans to have three channels for supplying Nevada's retail cannabis market and post-harvest production market:

1. Direct Selling to Nevada's Dispensaries. The Company plans to sell its own branded products, along with those of third parties that have contracted with the Company as described below, directly to licensed dispensaries in the State of Nevada.
2. Wholesale Market. The Company plans to sell unbranded, wholesale products to existing production and retail license holders who are seeking to reformulate and package under their own brands. The Company plans to sell a broad range of wholesale product offerings including trim, oil, distillates and dry flower.
3. Contract Cultivation, Production and Packaging. It is not permissible for cannabis grown and processed by state-sanctioned license holders to cross state boundaries, so all cannabis legally sold in Nevada must be grown in Nevada. As the cannabis market continues to rapidly evolve and mature, various brands established in other states will seek to enter the Nevada market. The Company's planned commercial-scale volume of cultivation, production and packaging will provide the expertise, consistent ability to supply and standard operating procedures to enter private label and white label production agreements to meet these anticipated demands of the Nevada market.

The main raw materials and components used in the cultivation and production of the Company's products are cannabis seeds, clones, substrate, water, plant nutrients, and electricity.

### *Licenses*

The Company holds, through one of its subsidiaries, CN Licenseco I, Inc., four Nevada state-issued marijuana licenses to operate in the State of Nevada as a medical and recreational cultivator and producer, including one Medical Marijuana Production License, one Medical Marijuana Cultivation License, one recreational Marijuana Product Manufacturing License and one recreational Marijuana Cultivation Facility License. Under applicable laws, the licenses permit the Company to cultivate, manufacture, process, package, sell, and purchase cannabis pursuant to the terms of the licenses, which are issued by the NDOT under the provisions of Nevada Revised Statutes section 453A.

The Company holds, through one of its subsidiaries, CN Licenseco I, Inc., four municipal business licenses, one to allow for the operation of a medical marijuana cultivation facility, one to allow for the operation of a medical marijuana production facility, one to allow for the operation of a recreational marijuana cultivation facility and one to allow for the operation of a recreational marijuana production facility.

In connection with the acquisition of the assets of NLVO, the Company acquired four additional licenses, which includes one Medical Marijuana Production License, one Medical Marijuana Cultivation License, one recreational Marijuana Product Manufacturing License, and one recreational Marijuana Cultivation Facility License. The Company also has obtained NLVO's right to pursue a Marijuana Distribution License under a prior application made by NLVO, which license will be transferred to the Company once issued. These licenses are currently in the process of being transferred from NLVO to one of the Company's subsidiaries, CN Licenseco III, Inc., and are awaiting final approval by the NDOT. Since the transfer applications were submitted, the NDOT has undertaken a reorganization which included appointment of a new director, appointment of new staff members and reorganization of the licensing review processes. This resulted in a significant slowdown in processing of all pending license-related applications while these changes were implemented. Just as those changes were falling into place, the Nevada State Legislature passed a law in June 2019 to create the Cannabis Control Board, similar to the State Gaming Board, along with other measures to further reorganize the administration of marijuana licensing, which has caused further delay in the process. While the NDOT has not given a timeline for response, the NDOT is actively processing the transfer and the Company reasonably expects to receive a response the near future. See section entitled "*Material Contracts*" in this Prospectus.

The licenses are independently issued for each approved activity for use at Flower One's facilities. The table below lists the licenses in respect of Flower One's operations in Nevada:

<b>Holding Entity</b>	<b>Permit/License</b>	<b>Issuing Authority</b>	<b>Expiration/Renewal Date (if applicable)</b>	<b>Description</b>
CN Licenseco I., Inc.	Medical Marijuana Cultivation License 66298101522105826229	NDOT	Expires 06-30-20	State license to allow medical marijuana cultivation at 3950 North Bruce Street, North Las Vegas
CN Licenseco I., Inc.	Medical Marijuana Production License 93277852865535573437	NDOT	Expires 06-30-20	State license to allow medical marijuana production at 3950 North Bruce Street, North Las Vegas
CN Licenseco I., Inc.	Municipal Medical Marijuana Cultivation License License Number: 113211	City of North Las Vegas	Expires 10-31-19	Municipal business license to allow for the operation of a medical marijuana cultivation facility at 3950 North Bruce Street, Las Vegas
CN Licenseco I., Inc.	Municipal Medical Marijuana Production License License Number: 113212	City of North Las Vegas	Expires 10-31-19	Municipal business license to allow for the operation of a medical marijuana production facility at 3950 North Bruce Street, Las Vegas
CN Licenseco I., Inc.	Marijuana Product Manufacturing License 68782695892471568312	NDOT	Expires 08-31-20	State license to allow recreational marijuana manufacturing at 3950 North Bruce Street, North Las Vegas
CN Licenseco I., Inc.	Marijuana Cultivation Facility License 42764648009006859903	NDOT	Expires 08-31-20	State license to allow recreational marijuana cultivation at 3950 North Bruce Street, North Las Vegas
CN Licenseco I., Inc.	Municipal Recreational Marijuana Cultivation License License Number: 114555	City of North Las Vegas	Expires 10-31-19	Municipal business license to allow for the operation of a recreational marijuana cultivation facility at 3950 North Bruce Street, Las Vegas
CN Licenseco I., Inc.	Municipal Recreational Marijuana Production License License Number: 114556	City of North Las Vegas	Expires 10-31-19	Municipal business license to allow for the operation of a recreational marijuana production facility at 3950 North Bruce Street, Las Vegas
CN Licenseco I., Inc.	M67-00056	City of Las Vegas	Expires 12-12-19	Marijuana Cultivation Facility Business License at 3950 North Bruce St., North Las Vegas
CN Licenseco I., Inc.	M67-00057	City of Las Vegas	Expires 12-12-19	Marijuana Production Facility Business License at 3950 North Bruce St., North Las Vegas
CN Licenseco I., Inc.	NV20171779258	State of Nevada	Expires 12-31-19	State license to conduct business in the state of Nevada

<b>Holding Entity</b>	<b>Permit/License</b>	<b>Issuing Authority</b>	<b>Expiration/Renewal Date (if applicable)</b>	<b>Description</b>
NLV Organics, Inc.	Marijuana Cultivation Facility License 10982097214978528659	NDOT	Expires 06-30-20	State license to allow recreational marijuana cultivation at 3443 Neeham Road, North Las Vegas
NLV Organics, Inc.	Marijuana Product Manufacturing License 22741245849235539745	NDOT	Expires 06-30-20	State license to allow recreational marijuana production at 3443 Neeham Road, North Las Vegas
NLV Organics, Inc.	Medical Marijuana Production License 25747995029047849072	NDOT	Expires 06-30-20	State license to allow medical marijuana production at 3443 Neeham Road, North Las Vegas
NLV Organics, Inc.	Medical Marijuana Cultivation License 42117353798137771623	NDOT	Expires 06-30-20	State license to allow medical marijuana cultivation at 3443 Neeham Road, North Las Vegas
NLV Organics, Inc.	NV20141491568	State of Nevada	Expires 07-31-20	State license to conduct business in the state of Nevada
NLV Organics, Inc.	2016301702	City of Henderson, NV	Expires 12-31-19	General business license at 3443 Neeham Road, North Las Vegas
NLV Organics, Inc.	M64-00045	City of Las Vegas	Expires 01-01-20	Marijuana Cultivation Facility Business License at 3443 Neeham Road, North Las Vegas
NLV Organics, Inc.	M65-00001	City of Las Vegas	Expires 01-01-20	Marijuana Production Facility Business License at 3443 Neeham Road, North Las Vegas
NLV Organics, Inc.	111278	City of North Las Vegas	Expires 10-31-19	Municipal business license to allow for the operation of a recreational marijuana production facility at 3443 Neeham Road, North Las Vegas
NLV Organics, Inc.	111277	City of North Las Vegas	Expires 10-31-19	Municipal business license to allow for the operation of a recreational marijuana cultivation facility at 3443 Neeham Road, North Las Vegas
NLV Organics, Inc.	105727	City of North Las Vegas	Expires 10-31-19	Municipal business license to allow for the operation of a medical marijuana cultivation facility at 3443 Neeham Road, North Las Vegas
NLV Organics, Inc.	105728	City of North Las Vegas	Expires 10-31-19	Municipal business license to allow for the operation of a medical marijuana production facility at 3443 Neeham Road, North Las Vegas

See section entitled “*Material Contracts*” in this Prospectus.

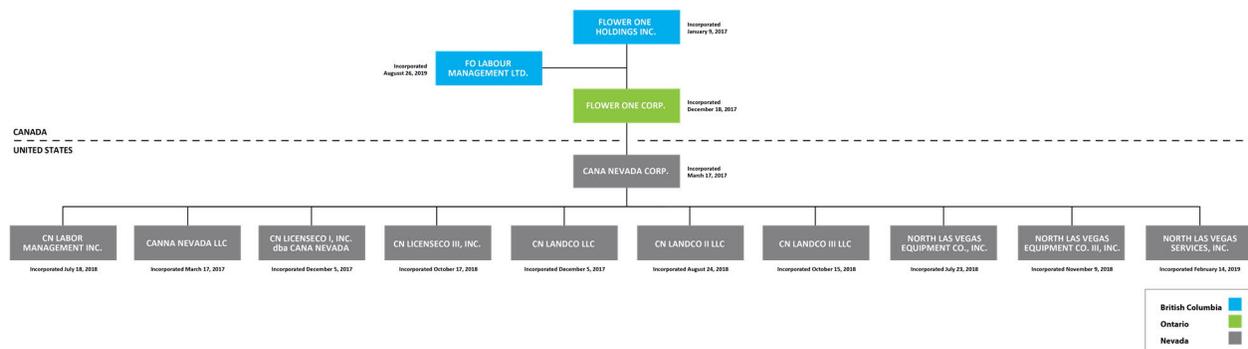
**Inter-corporate Relationships**

As at January 31, 2018, the Company had no subsidiaries. On June 29, 2018, the Company incorporated Flower One Corp. (“**Flower One Subco**”) under the provisions of the *Business Corporations Act* (Ontario) (the “**OBCA**”) as a wholly owned subsidiary. On August 26, 2019, the Company incorporated FO Labour Management Ltd. (“**FO Labour Management**”) under the provisions of the *Business Corporations Act* (British Columbia) as a wholly owned subsidiary.

CNX was incorporated under the OBCA on December 18, 2017. On September 21, 2018, Flower One Subco amalgamated with CNX pursuant to the terms of an Amalgamation Agreement dated June 29, 2018 between the Company, Flower One Subco and CNX (the “**Transaction**”).

Prior to the closing of the Transaction, CNX was the sole shareholder of Cana Nevada Corp., which in turn was the shareholder of six wholly-owned subsidiaries: Canna Nevada LLC, CN Landco LLC, CN Landco II, LLC, CN Licenseco I, Inc., CN Labor Management, Inc., and North Las Vegas Equipment Co., Inc. Other than CNX, all of these subsidiaries were incorporated under the laws of Nevada.

On the closing of the Transaction, CNX’s subsidiaries became indirect subsidiaries of Flower One Subco (other than Cana Nevada Corp., which became a direct subsidiary) and indirect subsidiaries of the Company. The following chart illustrates the Company’s capital structure, including all of its subsidiaries and jurisdictions of incorporation as of the date hereof. All of the subsidiaries are wholly owned.



**Notes:**

- (1) The Board of Directors of the Company consists of four directors: Ken Villazor (President and Chief Executive Officer), Warner Fong, David Wesley and Amit Varma, the last three of which are not officers of the Company and are therefore independent directors of the Company. The Chief Financial Officer of the Company is Geoff Miachika and the Chief Strategy Officer is Kellen O’Keefe.
- (2) The Board of Directors of Flower One Subco consists of a sole director, Amit Varma. The management of Flower One Subco consists of the following: (i) a President and Chief Executive Officer, Ken Villazor; (ii) a Chief Financial Officer, Geoff Miachika; and (iii) a Corporate Secretary, Jean St. Martin.
- (3) The Board of Directors of FO Labour Management consists of a sole director, Ken Villazor. The management of FO Labour Management consists of the following: (i) Chief Executive Officer, Ken Villazor; and (ii) a Chief Financial Officer, Geoff Miachika.
- (4) The officers and directors of the Company’s direct subsidiary, Cana Nevada Corp. and all subsidiaries of Cana Nevada Corp., are the same and are as follows: Karl Fox is President; Robert Pulido is sole director, treasurer and secretary; Dillon Kass as Vice President; and Geoff Miachika is Chief Accounting Officer.

**Escrowed Common Shares**

As of the date of this Prospectus, certain shareholders have entered into a pooling agreement dated October 4, 2018 (the “**First Pooling Agreement**”) with Odyssey Trust Company, as pooling agent (the “**Pooling Agent**”), pursuant to which 24,429,975 Common Shares remain in escrow. 24,429,975 Common Shares are to be released by the Pooling Agent on March 21, 2020.

**CONSOLIDATED CAPITALIZATION**

Except as described in this Prospectus, there have been no material changes in our share and loan capital, on a consolidated basis, since June 30, 2019, being the date of the Company’s most recently filed unaudited interim condensed consolidated financial statements incorporated by reference in this Prospectus, other than:

- the conversion of 1,428 convertible debenture initially issued as part of the Convertible Debenture Units for 547,227 Common Shares;
- the grant of 1,525,000 stock options with exercise prices ranging from \$1.80 to \$2.88;
- the cashless exercise of 50,000 stock options resulting in the issuance of 34,865 Common Shares;
- the issuance of 345,184 Common Shares for the acquisition of certain licenses; and
- the issuance of 589,964 Debt Warrants with a strike price of \$3.35 and 589,964 Debt Warrants with a strike price of \$3.91.

Information relating to any issuances of our Common Shares within the previous twelve month period will be provided as required in the Prospectus Supplement under the heading “Prior Sales”.

### DESCRIPTION OF THE U.S. LEGAL CANNABIS INDUSTRY

Below is a discussion of the current federal and state-level U.S. regulatory regimes in the State of Nevada, the only jurisdiction where the Company currently has operations. The Company intends to evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and expects to supplement and amend the disclosure in public filings, in the event of material government policy changes or the introduction of new or amended material guidance, laws or regulations regarding marijuana regulation.

#### Legal and Regulatory Matters

##### *Summary of Flower One’s United States Cannabis Activity*

The Company has exposure to U.S. cannabis-related activities through the cultivation, production and sale of its cannabis consumer products in the State of Nevada.

The Company cultivates, produces and sells its cannabis consumer products in the State of Nevada in connection with the NLV Greenhouse as well as the Neeham Property and related assets. The finished products are sold through licensed retailers. All such activity is recorded through U.S. operating subsidiaries in which the Company has a 100% controlling interest.

The Company completed the acquisition of the Neeham Property and related assets on November 9, 2018 and therefore was not directly or indirectly engaged in cannabis-related activity prior to this date.

The following table is a summary of the Company’s balance sheet exposure to U.S. cannabis-related activities as of June 30, 2019:

<b>Balance</b>	<b>Amount</b>	<b>% of Total Balance</b>
Current assets	\$60,684,224	30%
Non-current assets	\$143,243,227	70%
Total assets	\$203,927,451	100%
Current liabilities	\$18,779,131	18%
Non-current liabilities	\$87,259,044	82%
Total liabilities	\$106,038,175	100%

Intangibles related to the licenses owned for the Neeham Property and NLV Greenhouse and are included in the non-current assets balance.

Of the Company’s net income of \$20,719,407 for the six month period ended June 30, 2019, \$26,704,040 in net income related to U.S. cannabis-related activities while \$5,984,633 in net loss related to corporate expenses incurred in Canada.

Readers are cautioned that the foregoing financial information, though extracted from the Company's financial systems that support its Interim Financial Statements, has not been audited in its presentation format and accordingly is not in compliance with IFRS based on consolidation principles.

### *United States Federal Overview*

In the United States, 33 states and Washington D.C. have legalized medical marijuana, while eleven states, Washington D.C. and the territory of Guam have also legalized adult-use marijuana. At the federal level, however, cannabis, other than industrial hemp, currently remains a Schedule I controlled substance under the CSA. Under U.S. federal law, a Schedule I controlled substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, the manufacture, importation, possession, use or distribution of cannabis remains illegal under U.S. federal law. This has created a dichotomy between state and federal law, whereby many states have elected to regulate and remove state-level penalties regarding a substance which is still illegal at the federal level.

While technically illegal, the U.S. federal government's approach to enforcement of such laws has trended toward non-enforcement. On August 29, 2013, the U.S. Department of Justice ("DOJ") issued the Cole Memo to all U.S. Attorneys' offices (federal prosecutors). The Cole Memo generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly-regulated medical or adult-use cannabis programs. The Cole Memo, while not legally binding, assisted in managing the tension between state and federal laws concerning state regulated marijuana businesses.

However, on January 4, 2018 the Cole Memo was revoked by then Attorney General Jeff Sessions. While this did not create a change in federal law - as the Cole Memo was not itself law - the revocation added to the uncertainty of U.S. federal enforcement of the CSA in states where cannabis use is regulated. Sessions also issued a one-page memorandum known as the "Sessions Memorandum". This confirmed the rescission of the Cole Memo and explained that the Cole Memo was "unnecessary" due to existing general enforcement guidance as set forth in the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the Cole Memo, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

While the Sessions Memorandum does emphasize that marijuana is a Schedule I controlled substance and states the statutory view that it is a "dangerous drug and that marijuana activity is a serious crime," it does not otherwise guide U.S. Attorneys that the prosecution of marijuana-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether to prosecute marijuana-related offenses. U.S. Attorneys could individually continue to exercise their discretion in a manner similar to that displayed under the Cole Memo's guidance. Dozens of U.S. Attorneys across the country have affirmed their commitment to proceeding in this manner, or otherwise affirming that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence. On November 7, 2018, Mr. Sessions tendered his resignation as Attorney General at the request of President Donald Trump.

On February 14, 2019, William Barr was sworn in as Attorney General. Mr. Barr stated during his confirmation hearings in a response to a question from Senator Cory Booker, "I'm not going to go after companies that have relied on Cole memorandum". Mr. Barr also confirmed this response in writing as part of the formal confirmation proceedings. In June 2019, the U.S. Attorney for Nevada, Nicholas Trutanich, was quoted in the *Reno Gazette Journal* as stating: "Marijuana remains illegal under federal law, and my job is to enforce federal law." However, in the same interview, U.S. Attorney Trutanich stated that enforcement priorities were focused on combatting human trafficking and opioid use in Nevada.

To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Nevada.

While it is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memo, a nationwide "crackdown" is unlikely. Regardless, marijuana remains a Schedule I controlled substance at the federal

level, and neither the Cole Memo nor its rescission has altered that fact. The U.S. federal government has always retained the right to enforce federal law in regard to the sale and disbursement of medical or adult-use marijuana, even if state law sanctioned such sale and disbursement

Additionally, under U.S. federal law, it may potentially be a violation of federal anti-money laundering statutes for financial institutions to take any proceeds from the sale of marijuana or any other Schedule I controlled substance. Canadian banks are likewise hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions, particularly those that are federally chartered in the United States, could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses.

Despite these laws, the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("**FinCEN**") issued a memorandum on February 14, 2014 (the "**FinCEN Memorandum**") outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses in compliance with federal enforcement priorities. The FinCEN Memorandum echoed the enforcement priorities of the Cole Memo. Under these guidelines, financial institutions must submit a Suspicious Activity Report ("**SAR**") in connection with all marijuana-related banking activities by any client of such financial institution, in accordance with federal anti-money laundering laws. These marijuana-related SARs are divided into three categories – marijuana limited, marijuana priority, and marijuana terminated – based on the financial institution's belief that the business in question follows state law, is operating outside of compliance with state law, or where the banking relationship has been terminated, respectively. On the same day as the FinCEN Memorandum was published, the DOJ issued a memorandum (the "**2014 Cole Memo**") directing prosecutors to apply the enforcement priorities of the Cole Memo in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related conduct. The 2014 Cole Memo has been rescinded as of January 4, 2018, along with the Cole Memo, removing guidance that enforcement of applicable financial crimes against state-compliant actors was not a DOJ priority.

However, the revocation of the Cole Memo and the 2014 Cole Memo has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memo and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum is a standalone document which explicitly lists the eight enforcement priorities originally cited in the Cole Memo. The FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance. However, in the United States, it is difficult for cannabis-based businesses to open and maintain a bank account with any bank or other financial institution.

One legislative safeguard for the medical marijuana industry remains in place: Congress has used a rider provision in the FY 2015, 2016, 2017, 2018 and 2019 Consolidated Appropriations Acts to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The Joyce/Leahy Amendment was included in the FY 2019 budget passed on February 15, 2019, meaning that, the Joyce/Leahy Amendment is still in effect as of today's date and will remain in effect until September 30, 2019, when FY 2020 begins. Should the Joyce/Leahy Amendment not be renewed upon expiration in subsequent spending bills there can be no assurance that the federal government will not seek to prosecute cases including medical cannabis businesses that are otherwise compliant with State law. Notably, the safeguard described above has always applied only to medical cannabis programs, and have no effect on pursuit of recreational cannabis activities.

As an industry best practice, despite the recent rescission of the Cole Memo, the Company intends to abide by the following to ensure compliance with the guidance provided in the Cole Memo:

- ensure that its operations are compliant with all licensing requirements as established by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions;
- ensure that its cannabis related activities adhere to the scope of the licensing obtained (for example: in the states where cannabis is permitted only for adult-use, the products are only sold to individuals who meet the requisite age requirements);
- implement policies and procedures to ensure that cannabis products are not distributed to minors;

- implement policies and procedures in place to ensure that funds are not distributed to criminal enterprises, gangs or cartels;
- implement an inventory tracking system and necessary procedures to ensure that such compliance system is effective in tracking inventory and preventing diversion of cannabis or cannabis products into those states where cannabis is not permitted by state law, or cross any state lines in general;
- ensure that its state-authorized cannabis business activity is not used as a cover or pretence for trafficking of other illegal drugs, is engaged in any other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes; and
- ensure that its products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and prevent impaired driving.

In addition, the Company may (and frequently does) conduct background checks to ensure that the principals and management of its operating subsidiaries are of good character, and have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or use of firearms in cultivation, manufacturing or distribution of cannabis. The Company will also conduct ongoing reviews of the activities of its cannabis businesses, the premises on which they operate and the policies and procedures that are related to possession of cannabis or cannabis products outside of the licensed premises, including the cases where such possession is permitted by regulation.

#### *Ability to Access Public and Private Capital*

The Company has historically, and continues to have, access to equity and debt financing from the prospectus exempt (private placement) markets in Canada and the United States. The Company's executive team and its Board of Directors also have extensive relationships with sources of private capital (such as funds and high net worth individuals), that could be investigated at a higher cost of capital.

While the Company is not able to obtain bank financing in the United States or financing from other U.S. federally regulated entities, it currently has access to equity financing through the private markets in Canada. Because of concerns regarding money laundering and other federal financial crime related to marijuana, U.S. banks have been reluctant to accept deposit funds from businesses involved with the marijuana industry.

Consequently, businesses involved in the marijuana industry often have difficulty finding a bank willing to accept their business. Likewise, marijuana businesses have limited, if any, access to credit card processing services. As a result, marijuana businesses in the United States are largely cash-based. This complicates the implementation of financial controls and increases security issues.

Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and projects similar to the Company's projects. Although there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability. See "*Risk Factors – Restricted Access to Banking*".

#### *Nevada State Law Overview*

Nevada has a medical marijuana program and passed adult-use legislation through the ballot box in November 2016. In 2000, Nevada voters passed a medical marijuana initiative allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a limited non-commercial medical marijuana patient/caregiver system. Senate Bill 374, which passed the legislature and was signed by the Governor in

2013, expanded this program and established a for-profit regulated medical marijuana industry. Medical marijuana in Nevada is now regulated under Chapter 453A of the Nevada revised Statutes (“NRS”).

The Nevada Division of Public and Behavioral Health (the “**Division**”) licensed medical marijuana establishments up until July 1, 2017 when the state’s medical marijuana program merged with adult-use marijuana enforcement under the NDOT. In 2014, Nevada accepted medical marijuana business applications and a few months later the Division approved 182 cultivation licenses, 118 licenses for the production of edibles and infused products, 17 independent testing laboratories, and 55 medical marijuana dispensary licenses. The number of dispensary licenses was then increased to 66 by legislative action in 2015. The application process was merit-based, competitive, and is currently closed.

Nevada does not have any U.S. residency requirements. In the State of Nevada, only cannabis that is grown or produced in the state by a licensed establishment may be sold in the state. In addition, vertical integration is neither required nor prohibited. All medical marijuana sales are made subject to the recipient holding a registry identification card issued by the State of Nevada under NRS 453A.200 through 250. The Company is permitted to sell medical marijuana products to non-Nevada patients as non-Nevada patients are permitted reciprocity under NRS 453A.364, which states at sub-paragraph (2), “A medical marijuana dispensary may dispense marijuana to a person described in subsection 1 if the person presents to the medical marijuana dispensary any document which is valid to prove the authorization of the person to engage in the medical use of marijuana under the laws of his or her state or jurisdiction of residence. Such documentation may include, without limitation, written documentation from a physician or other provider of health care if, under the laws of the person’s state or jurisdiction of residence, written documentation from a physician or other provider of health care is sufficient to exempt the person from prosecution for engaging in the medical use of marijuana.” Nevada also allows for dispensaries to deliver medical marijuana to patients in the State of Nevada.

Under Nevada’s adult-use marijuana law, the NDOT licenses marijuana cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. After merging medical and adult-use marijuana regulation and enforcement, the single regulatory agency is now known as the “Marijuana Enforcement Division of the Department of Taxation.” For the first 18 months after legalization, applications to the Department for adult-use establishment licenses could only be accepted from existing medical marijuana establishments and from existing liquor distributors for the adult-use distribution license. On November 16, 2018, the period of exclusivity for adult-use marijuana licenses ended and eligibility is no longer limited to Medical Marijuana Establishment Certificate holders (or liquor wholesalers for distribution licenses).

#### *Medical Marijuana Program*

A medical cultivation license permits its holder to acquire, possess, cultivate, deliver, transfer, have tested, transport, supply or sell marijuana and related supplies to medical marijuana dispensaries, facilities for the production of edible medical marijuana products and/or medical marijuana-infused products, and other medical marijuana cultivation facilities; The medical product manufacturing license permits its holder to acquire, possess, manufacture, deliver, transfer, transport, supply, or sell edible marijuana products or marijuana infused products to other medical marijuana production facilities or medical marijuana dispensaries.

Each medical marijuana establishment must register with the NDOT and apply for a medical marijuana establishment registration certificate. Among other requirements, there are minimum liquidity requirements and restrictions on the geographic location of a medical marijuana establishment as well as restrictions relating to the age and criminal background of employees, owners, officers and board members of the establishment. All employees must be over 21 and all owners, officers and board members must not have any previous felony convictions or had a previously granted medical marijuana registration revoked. Additionally, each volunteer, employee, owner, officer and board member of a medical marijuana establishment must be registered with the NDOT as a medical marijuana agent and hold a valid medical marijuana establishment agent card. The establishment must have adequate security measures and use an electronic verification system and inventory control system. If the proposed medical marijuana establishment will sell or deliver edible marijuana products or marijuana-infused products, proposed operating procedures for handling such products must be preapproved by the NDOT.

In determining whether to issue a medical marijuana establishment registration certificate pursuant to NRS 453A.322, the NDOT, considers the following criteria of merit:

- the total financial resources of the applicant, both liquid and illiquid;
- the previous experience of the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment at operating other businesses or non-profit organizations;
- the educational achievements of the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment;
- any demonstrated knowledge or expertise on the part of the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment with respect to the compassionate use of marijuana to treat medical conditions;
- whether the proposed location of the proposed medical marijuana establishment would be convenient to serve the needs of persons who are authorized to engage in the medical use of marijuana;
- the likely impact of the proposed medical marijuana establishment on the community in which it is proposed to be located;
- the adequacy of the size of the proposed medical marijuana establishment to serve the needs of persons who are authorized to engage in the medical use of marijuana;
- whether the applicant has an integrated plan for the care, quality and safekeeping of medical marijuana from seed to sale;
- the amount of taxes paid to, or other beneficial financial contributions made to, the State of Nevada or its political subdivisions by the applicant or the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment; and
- any other criteria of merit that the Division determines to be relevant.

Medical marijuana establishment registration certificate expires one year after the date of issuance and may be renewed upon resubmission of the application information and renewal fee to the NDOT.

#### *Adult Use/Recreational Program*

In February 2017, the NDOT announced plans to issue “early start” recreational marijuana establishment licenses in the summer of 2017. These licenses expire at the end of the year and, beginning on July 1, 2017, allowed marijuana establishments holding both a retail marijuana store and dispensary license to sell their existing medical marijuana inventory as either medical or adult-use marijuana. All cannabis cultivated, and infused products produced under the adult-use program that were not existing inventory at a medical marijuana dispensary must be transported to retail marijuana stores utilizing a licensed retail marijuana distributor. Starting on July 1, 2017, medical and adult-use marijuana became subject to a 15% excise tax on the first wholesale sale (calculated on the fair market value) and adult-use cannabis is subject to an additional 10% special retail marijuana sales tax in addition to any general state and local sales and use taxes.

NDOT is responsible for licensing and regulating retail marijuana businesses and medical marijuana program in Nevada. There are five types of retail marijuana establishment licenses:

- *Cultivation Facility* - Licenses to cultivate (grow), process, and package marijuana; to have marijuana tested by a testing facility; and to sell marijuana to retail marijuana stores, to marijuana product manufacturing facilities, and to other cultivation facilities, but not to consumers.
- *Distributor* - Licenses to transport marijuana from a marijuana establishment to another marijuana establishment.

- *Product Manufacturing Facility* - Licenses to purchase marijuana; manufacture, process, and package marijuana and marijuana products; and sell marijuana and marijuana products to other product manufacturing facilities and to retail marijuana stores, but not to consumers.
- *Testing Facility* - Licenses to test marijuana and marijuana products, including for potency and contaminants.
- *Retail Store* - Licenses to purchase marijuana from cultivation facilities, marijuana and marijuana products from product manufacturing facilities, and marijuana from other retail stores; can sell marijuana and marijuana products to consumers.

The regular retail marijuana program began in early 2018. The Regulation and Taxation of Marijuana Act (codified as Chapter 453D of the NRS) specifies that, for the first 18 months of the program, only existing medical marijuana establishment certificate holders can apply for a retail marijuana establishment license. Beginning in November 2018, NDOT opened the application process to those not holding a medical marijuana establishment certificate. The regular program will be governed by permanent regulations, drafted by NDOT. On July 6, 2018, the Department issued a Notice of Intent to Accept Applications for Marijuana Licenses and released a Recreational Marijuana Establishment License Application for Recreational Retail Marijuana Stores only. The request for applications was limited to existing MME certificate holders seeking a retail recreational marijuana establishment license pursuant to Section 78 of the Approved Regulations, and the Notice required that all applications be submitted between September 7, 2018 and September 20, 2018. On December 5, 2018, the Department provided each applicant with written notice of the grant or denial of their application for a license. The Department awarded approximately 61 recreational retail marijuana store licenses, 31 of which were for Clark County, Nevada. Since the award of licenses in December 2018, several lawsuits have been filed alleging defects in NDOT's license application process, one of which resulted in an injunction hearing. As a result of the hearing, the Court enjoined NDOT from conducting a final inspection of any of the licenses issued in December 2018 for applicants who did not provide the identification of each prospective owner, officer and board member as required by NRS 453D.200(6) pending a trial on the merits, preventing NDOT from conducting a final inspection of 25 of the conditional licenses issued.

On May 6, 2019, the Nevada legislature enacted SB 32 (Effective May 10, 2019) which revises provisions relating to the confidentiality and privilege of certain records and files of the NVDOT, making the names of marijuana business owners public in Nevada. The new law authorizes certain disclosures of information relating to an application to operate a marijuana establishment or a person who is licensed to operate a marijuana establishment, including the identity of an applicant and any owner, officer or board member of an applicant, the methodology used to rank applicants for a license to operate a marijuana establishment, and the score assigned to applicants.

On June 2, 2019, the Nevada Senate voted, to approve AB 533 with an amendment that places a two-year moratorium on cannabis lounges throughout the state. AB 533 adds a Cannabis Advisory Commission and a Cannabis Control Board (CCB), and was signed into law on June 12, 2019. The CCB will consist of five members appointed by the governor and will be a comprehensive regulatory board that will include expertise in a range of fields, including financial and accounting, law enforcement, medicine, regulatory and legal compliance, and cannabis. The governor has begun the appointment process for the five members of the CCB. AB 533 also establishes a Cannabis Advisory Commission, to which the governor will appoint experts in direct and marijuana-related fields. The Advisory Commission members are intended to inform the CCB and its decision making but the CCB will not be bound by its recommendations. The new structure will take over regulatory issues. However, tax collections from medical and retail cannabis products will remain the responsibility of the Department of Taxation. Establishing the CCB is part of Governor Sisolak's multi-pronged approach to reforming and strengthening Nevada's legal cannabis industry, along with removing economic barriers to legal cannabis users and individuals with prior cannabis convictions.

#### *Storage and Security*

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis products, Nevada state law requires the following to each licensed facility:

- be an enclosed, locked facility;

- have a single secure entrance;
- train employees in security measures and controls, emergency response protocol, confidentiality requirements, safe handling of equipment, procedures for handling products, as well as the differences in strains, methods of consumption (if applicable), methods of cultivation, methods of fertilization and methods of health monitoring;
- install security equipment to deter and prevent unauthorized entrances, which includes:
  - o devices that detect unauthorized intrusion which may include a signal system; and
  - o exterior lighting to facilitate surveillance;
- electronic monitoring must be in place, which includes:
  - o at least one call-up monitoring that is 19 inches or more;
  - o a video printer capable of immediately producing a clear still photo from any video camera image;
- video cameras with a recording resolution of at least 704x480 which provides coverage of all entrances to and exists from limited access areas and all entrances to and exits from the building and which can identify any activity occurring in or adjacent to the building;
- a video camera in each grow room which can identify any activity occurring within the grow room in low light conditions:
  - o a method for storing video recordings from the video cameras for at least thirty (30) calendar days;
  - o a failure notification system that provides an audible and visual notification of any failure of the electronic monitoring system;
  - o sufficient battery backup for video cameras and recording equipment to support at least five (5) minutes of recording in the vent of a power outage;
  - o security alarm to alert local law enforcement of an unauthorized breach of security; and
- implement security procedures that:
  - o restrict access of the establishment to only those persons/employees authorized to be there;
  - o deter and prevent theft;
  - o provide identification (badge) for those persons/employees authorized to be in the establishment;
  - o prevent loitering;
  - o require and explain electronic monitoring; and
  - o require and explain the use of automatic or electronic notification to alert local law enforcement of an unauthorized breach of security.

### *Transportation*

The issuance of retail marijuana distribution licenses has been subject to an ongoing legal battle after NDOT opened distribution licenses to existing medical marijuana establishments based on the premise that there was an insufficient number of applications from existing liquor distributors to service the new adult-use cannabis market. There are

currently 24 licensed distributors that are medical marijuana establishments and six licensed distributors that are liquor distributors. This process has just opened up again and prior applicants have been given notice that they can proceed with their applications.

In Nevada, marijuana may only be transported from a licensed cultivation or production facility by a licensed marijuana distributor. Prior to transporting the marijuana or marijuana products, the distributor must complete a trip plan which includes: the agent name and registration number providing and receiving the marijuana, the date and start time of the trip, a description, including the amount, of the marijuana and marijuana products being transported and the anticipated route of transportation.

During the transportation of marijuana or marijuana products, the licensed marijuana distributor agent must: (i) carry a copy of the trip plan with him or her for the duration of the trip; (ii) have his or her marijuana establishment agent card in his or her immediate possession; (iii) use a vehicle without any identification relating to marijuana and which is equipped with a secure lockbox or locking cargo area which must be used for the sanitary and secure transportation of marijuana, or marijuana products; (iv) have a means of communicating with the marijuana establishment for which he or she is providing the transportation; and (v) ensure that all marijuana or marijuana products are not visible. After transporting marijuana and marijuana products, a licensed marijuana distributor agent must enter the end time of the trip and any changes to the trip plan that was completed.

Each licensed marijuana distributor agent transporting marijuana or marijuana products must report any: (i) vehicle accident that occurs during the transportation to a person designated by the marijuana distributor to receive such reports within two (2) hours after the accident occurs; and (ii) loss or theft of marijuana or marijuana products that occurs during the transportation to a person designated by the marijuana distributor to receive such reports immediately after the marijuana establishment agent becomes aware of the loss or theft. A marijuana distributor that receives a report of loss or theft pursuant to this paragraph must immediately report the loss or theft to the appropriate law enforcement agency and to the NDOT. The distributor must report any unauthorized stop that lasts longer than two (2) hours to the NDOT.

A marijuana distributor shall maintain the required documents and provide a copy of the documents required to the NDOT for review upon request. Each marijuana distributor shall maintain a log of all received reports.

Employees of licensed marijuana distributors, including drivers transporting marijuana and marijuana products, must be 21 years of age or older and must obtain a valid marijuana establishment agent registration card issued by the NDOT. If a marijuana distributor is co-located with another type of business, all employees of co-located businesses must have marijuana establishment agent registration cards unless the co-located business does not include common entrances, exists, break room, restrooms, locker rooms, loading docks, and other areas as are expedient for business and appropriate for the site as determined and approved by Department inspectors. While engaged in the transportation of marijuana and marijuana products, any person that occupies a transport vehicle when it is loaded with marijuana or marijuana products must have their physical marijuana establishment agent registration card in their possession.

All drivers must carry in the vehicle valid driver's insurance at the limits required by the State of Nevada and the NDOT. All drivers must be bonded in an amount sufficient to cover any claim that could be brought, or disclose to all parties that their drivers are not bonded. Marijuana establishment agent registration cardholders and the licensed marijuana distributor they work for are responsible for the marijuana and marijuana product once they take control of the product and leave the premises of the marijuana establishment.

There is no load limit on the amount or weight of marijuana and marijuana products that are being transported by a licensed marijuana distributor. Marijuana distributors are required to adhere to NDOT regulations and those required through their insurance coverage. When transporting by vehicle, marijuana and marijuana product must be in a lockbox or locked cargo area. A trunk of a vehicle is not considered secure storage unless there is no access from within the vehicle and it is not the same key access as the vehicle. Live plants can be transported in a fully enclosed, windowless locked trailer or secured area inside the body-compartment of a locked van or truck so that they are not visible to the outside. If the value of the marijuana and marijuana products being transported by the vehicle is in excess of \$10,000 (the insured value per the shipping manifest), the transporting vehicle must be equipped with a car alarm with sound or have no less than two (2) of the marijuana distributor's marijuana establishment agent registration cardholders involved in the transportation. All marijuana and marijuana products

must be tagged for purposes of inventory tracking with a unique identifying label as required by the NDOT and remain tagged during transport. This unique identifying label should be similar to the stamp for cigarette distribution. All marijuana and marijuana product when transported by vehicle must be transported in sealed packages and contains and remains unopened during transport. All marijuana and marijuana product transported by vehicle should be inventoried and accounted for in the inventory tracking system. Loading and unloading of marijuana and marijuana products from the transporting vehicle must be within view of existing video surveillance systems prior to leaving the origination location.

#### *Relationship between Federal and Nevada Law*

In response to the rescission of the Cole Memo (as defined below), Former Nevada Attorney General Adam Laxalt had issued a public statement, pledging to defend the law after it was approved by voters. Then-Governor Brian Sandoval also stated, “Since Nevada voters approved the legalization of recreational marijuana in 2016, I have called for a well-regulated, restricted and respected industry. My administration has worked to ensure these priorities are met while implementing the will of the voters and remaining within the guidelines of both the Cole and Wilkinson federal memos,” and that he would like for Nevada to follow in the footsteps of Colorado, where the U.S. attorneys do not plan to change the approach to prosecuting crimes involving recreational marijuana. In the November 2018 election, Nevada elected a new governor, Steve Sisolak, and a new Attorney General, Aaron Ford. Both have historically been supportive of Nevada’s marijuana industry and allowing it to grow in a healthy, regulated market in the state. They began their four-year terms of office at the beginning of January 2019. Governor Sisolak has a multi-pronged approach to reforming and strengthening Nevada’s legal cannabis industry and ensuring the economic opportunities it creates are available to all Nevadans. In May of 2019, Nevada Attorney General Aaron Ford announced that he joined a bipartisan coalition of other attorneys general urging Congress to pass legislation to give cannabis businesses access to the federal banking system.

The Company will continue to monitor, evaluate and re-assess the regulatory framework in the State of Nevada and any state that it may look to expand its operations to in the future, and the federal laws applicable thereto, on an ongoing basis; and will update its continuous disclosure regarding government policy changes or new or amended guidance, laws or regulations regarding cannabis in the United States.

#### *Compliance with Nevada State Law*

In Nevada, Kaempfer Crowell has provided and continues to provide legal advice to the Company with respect to compliance with applicable state regulatory frameworks. Kaempfer Crowell provides such advice on an ongoing basis.

The Company complies with applicable Nevada state licensing requirements as follows: (i) CN Licenseco I, Inc. and NLVO (which operates under its current license until the transfer of such licenses are approved by NDOT) are licensed pursuant to applicable Nevada state law to cultivate, possess and sell on the wholesale marijuana market in Nevada; (ii) renewal dates for such licenses are docketed by the Regulatory Compliance Officer, legal counsel and/or other advisors; (iii) random internal audits of the Company’s business activities are conducted by the applicable Nevada state regulator and by the Company to ensure compliance with applicable Nevada state law; (iv) each employee of the Company is provided with an employee handbook that outlines internal standard operating procedures in connection the cultivation, possession and distribution of marijuana to ensure that all marijuana inventory and proceeds from the sale of such marijuana are properly accounted for and tracked; (v) each room that marijuana inventory and/or proceeds from the sale of such inventory enter is monitored by video surveillance; (vi) software is used to track marijuana inventory from seed to sale; (vii) the Company’s subsidiaries are contractually obligated to comply with applicable Nevada state law in the United States in connection with the cultivation, possession and/or distribution of marijuana in Nevada in all of its contracts; and (viii) all marijuana sales are to licensed dispensaries only (no retail sales), and in each sale transaction, the Company’s subsidiaries engage in the standard practice of exchanging evidence of licensing from all parties (the wholesale seller, wholesale buyer and distributor) to ensure each transaction is legally compliant.

#### *Regulatory Compliance Officer*

The Company has a Regulatory Compliance Officer, which position is currently held by Dillon Kass (who is also a vice president of each of the Company’s subsidiaries), whose responsibilities include monitoring the activities of

staff, including ensuring that the established standard operating procedures are being adhered to at each stage of the cultivation, processing and distribution cycle, to identify any non-compliance matters and to put in place the necessary modifications to ensure compliance. The qualifications for this position are:

- strong knowledge of regulatory compliance at all levels of government (Local, County, State, and Federal);
- ethical conduct;
- ability to prepare complex technical documents for submission to regulatory agencies;
- excellent technical report writing skills;
- ability to understand the balance between operational requirements, regulatory requirements, and political messaging;
- highly developed written and oral communication skills;
- strong analytical, organizational and problem-solving skills; and
- ability to work independently as well as in a team, managing multiple priorities and timelines

The Regulatory Compliance Officer, performs ongoing reviews of the Company's established standard operating procedures and State of Nevada regulations and reports directly to the State and the Company's Board of Directors and other members of management on a regular basis to ensure compliance. Each employee is provided with an employee handbook outlining the standard operating procedures and state regulations upon hiring. The Company's licenses are in good standing to cultivate and produce marijuana in the State of Nevada and the Company, through CN Licenseco I, Inc. and NLVO is in compliance with Nevada's marijuana regulatory program. CN Licenseco I, Inc. and NLVO have not experienced any non-compliance nor has it been subject to any notices of violation by the State of Nevada.

The Company's Regulatory Compliance Officer also works with external legal advisors in Nevada to ensure that the Company and its subsidiaries are in on-going compliance with applicable Nevada state law, including:

- regular correspondence and updates with advisors;
- regular contact with State inspectors and regulators to ensure compliance;
- development of standard operating procedures with respect to cultivation, processing and distribution, including a documentation control SOP which requires annual SOP review to ensure regulatory compliance, with the first annual review to occur in May 2019;
- ongoing monitoring of compliance with operating procedures and regulations by on-site management;
- appropriate employee training for all standard operating procedures; and
- subscription to monitoring programs to ensure the Company and its subsidiaries are aware of and in compliance with the ongoing changes in State regulations.

In addition to the Regulatory Compliance Officer, all supervisors and managers are tasked with monitoring compliance which is required in the course of their specific job areas, and to report back to the Regulatory Compliance Officer and other members of the management team on a regular basis.

*Inventory Management Requirements:*

The Company, through its licensed subsidiaries, maintains policies and procedures and employs industry-specific software (METRC) and other inventory and accounting software applications to track inventory and ensure strict regulatory compliance at both the retail and wholesale levels. These processes include:

- wholesale transfer;
- inventory intake;
- inventory management;
- sales data tracking and reporting.

Procedures exist to ensure each licensed subsidiary tracks its cumulative inventory of seeds, plants, and usable marijuana. Generally, these inventory control systems are designed to:

- establish and maintain a perpetual inventory system which adequately documents the flow of materials through the manufacturing process;
- establish procedures which reconcile the raw material used to the finished product on the basis of each job; and
- seek to ensure the absence of significant variances between system outputs and physical inventory counts.

For cultivation and production facilities, for each lot received at a facility, such inventory control systems are designed to document:

- the batch or lot number;
- the strain of the marijuana seeds or marijuana cuttings planted;
- the number of marijuana seeds or marijuana cuttings planted;
- the date on which the marijuana seeds or cuttings were planted;
- a log or schedule of chemical additives used in the cultivation, including nonorganic pesticides, herbicides and fertilizers;
- the number of marijuana plants grown to maturity;
- harvest information, including: the date of harvest; the final yield weight of processed usable marijuana; and the name and agent registration card number of the agent responsible for the harvest;
- marijuana flowers in process in all locations;
- marijuana in storage by location;
- marijuana in locked containers awaiting disposal; and
- an audit trail of all material inventory adjustments.

For all wholesale sales, all invoices and delivery documents must be systematically filed and maintained for a period of five years from date of delivery and must show a legible and complete statement of terms and conditions for each purchase. Sales records must be compliant with all applicable policies and procedures according to applicable

documented plans, State laws and regulations, and must include for regulatory authority reporting and internal tracking purposes:

- the date and time of each sale;
- the method of distribution;
- the quantity, form, and price marijuana and any other products sold;
- the consideration given;
- the name, address, and identification number of the marijuana facility as recorded on the electronic verification system;
- the name and agent card number of the person preparing the manifest in METRC; and
- the name and agent card number of the driver who is transporting the product from cultivation/production facility to another cultivation/production facility or dispensary.

*Disposal of Inventory:*

All marijuana waste, including waste composed of or containing finished marijuana, must be stored, secured, and managed in accordance with applicable state and local statutes, ordinances, and regulations. All disposed of waste is recorded in the relevant inventory control system, including:

- a description of and reason for the marijuana being disposed of, including, if applicable, the number of failed or other unusable marijuana plants;
- the date of disposal;
- confirmation that the marijuana was rendered unusable before disposal;
- the method of disposal; and
- the name and card number of the agent responsible for the disposal.

Only specifically authorized employees can destroy product. A list of authorized employees that may destroy product is required to be maintained under each licensed subsidiary. Permissions are defined by agent and password protected. The destroyed weight and the reason for destruction is required and recorded. The licensed subsidiary's inventory control systems can generate reports on destroyed material at any point in the destruction process. In addition to controls over inventory,

*General Security Guidelines*

State regulatory frameworks specify guidelines in respect of general security. The applicable general security guidelines include:

- background checks for current/new employees, particularly if the employee is to be accessing restricted areas;
- maintaining video surveillance of facilities;
- maintaining visitor logs;
- providing for and maintaining secure perimeters for facilities;

- requesting employees to watch for suspicious activities;
- keeping all access system credentials, access codes, access cards, passwords, etc., in a way that is designed to be secure and accessible only to specifically authorized personnel;
- retrieving keys and employment identification cards from an employee and changing computer access passwords when their employment ends;
- arranging for prompt and safe disposal of materials;
- all employees being required to be trained on emergency procedures; and
- posting emergency response numbers, including fire, law enforcement, and executive team in several locations in each facility.

The Company will continue to ensure it is in compliance with applicable licensing requirements and the regulatory framework enacted in Nevada by continuous review of its licenses and affirmation certifications from management. While the Company's business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law. See "*Risk Factors – Risks Related to the United States Regulatory Regime – Marijuana is illegal under U.S. federal law*".

#### **USE OF PROCEEDS**

Unless otherwise specified in a Prospectus Supplement, the net proceeds from the sale of the Securities will be used for general corporate purposes, including funding working capital, potential future acquisitions, debt repayments and capital expenditures. Each Prospectus Supplement will contain specific information concerning the use of proceeds from that sale of Securities.

All expenses relating to an offering of Securities and any compensation paid to underwriters, dealers or agents, as the case may be, will be paid out of the Company's general funds, unless otherwise stated in the applicable Prospectus Supplement.

#### **EARNINGS COVERAGE RATIOS**

Earnings coverage ratios will be provided as required in the applicable Prospectus Supplement(s) with respect to the issuance of Debt Securities pursuant to this Prospectus.

#### **PLAN OF DISTRIBUTION**

The Company may offer and sell Securities directly to one or more purchasers, through agents, or through underwriters or dealers designated by the Company from time to time. The Company may distribute the Securities from time to time in one or more transactions at fixed prices (which may be changed from time to time), at market prices prevailing at the times of sale, at varying prices determined at the time of sale, at prices related to prevailing market prices or at negotiated prices including sales in transactions that are deemed to be "at-the-market distributions" (as defined under applicable Canadian securities legislation), including sales made directly on the CSE or other existing trading markets for the Securities in compliance with applicable law. A description of such pricing will be disclosed in the applicable Prospectus Supplement. The Company may offer different classes of Securities in the same offering, or it may offer different classes of Securities in separate offerings.

A Prospectus Supplement will describe the terms of each specific offering of Securities, including: (i) the terms of the Securities to which the Prospectus Supplement relates, including the type of Security being offered; (ii) the name or names of any agents, underwriters or dealers involved in such offering of Securities; (iii) the purchase price of the Securities offered thereby and the proceeds to, and the portion of expenses borne by, the Company from the sale of such Securities; (iv) any agents' commission, underwriting discounts and other items constituting compensation payable to agents, underwriters or dealers; and (v) any discounts or concessions allowed or re-allowed or paid to agents, underwriters or dealers.

If underwriters are used in an offering, the Securities offered thereby will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters to purchase Securities will be subject to the conditions precedent agreed upon by the parties and the underwriters will be obligated to purchase all Securities under that offering if any are purchased. Any public offering price and any discounts or concessions allowed or re-allowed or paid to agents, underwriters or dealers may be changed from time to time.

Underwriters, dealers and agents who participate in the distribution of the Securities may be entitled under agreements to be entered into with the Company to indemnification by the Company against certain liabilities, including liabilities under the U.S. Securities Act and Canadian securities legislation, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof. Such underwriters, dealers and agents may be customers of, engage in transactions with, or perform services for, the Company in the ordinary course of business.

In connection with any offering of Securities, other than an “at-the-market distribution”, the underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Securities offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

The Securities may also be sold: (i) directly by the Company at such prices and upon such terms as agreed to; or (ii) through agents designated by the Company from time to time. Any agent involved in the offering and sale of the Securities in respect of which this Prospectus is delivered will be named, and any commissions payable by the Company to such agent will be set forth, in the Prospectus Supplement.

The Company may agree to pay the underwriters or agents a commission for various services relating to the issue and sale of any Securities offered under any Prospectus Supplement. In addition, underwriters or agents may sell the securities to or through dealers, and those dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters or agents and/or commissions from the purchasers for which they may act as agent. Agents, underwriters or dealers who participate in the distribution of the Securities may be entitled under agreements to be entered into with the Company to indemnification by the Company against certain liabilities, including liabilities under securities legislation, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof.

Each class or series of Warrants, Options, Subscription Receipts, Debt Securities and Units will be a new issue of Securities with no established trading market. Unless otherwise specified in the applicable Prospectus Supplement, Warrants, Options, Subscription Receipts, Debt Securities or Units will not be listed on any securities or stock exchange. Unless otherwise specified in the applicable Prospectus Supplement, there is no market through which the Warrants, Options, Subscription Receipts, Debt Securities or Units may be sold and purchasers may not be able to resell Warrants, Options, Subscription Receipts, Debt Securities or Units purchased under this Prospectus or any Prospectus Supplement. This may affect the pricing of the Warrants, Options, Subscription Receipts, Debt Securities or Units in the secondary market, the transparency and availability of trading prices, the liquidity of the Securities, and the extent of issuer regulation. Subject to applicable laws, certain dealers may make a market in the Warrants, Options, Subscription Receipts, Debt Securities or Units, as applicable, but will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given that any dealer will make a market in the Warrants, Options, Subscription Receipts or Units or as to the liquidity of the trading market, if any, for the Warrants, Options, Subscription Receipts, Debt Securities or Units.

In connection with any offering of Securities, unless otherwise specified in a Prospectus Supplement, underwriters or agents may over-allot or effect transactions which stabilize, maintain or otherwise affect the market price of Securities offered at levels other than those which might otherwise prevail on the open market. Such transactions may be commenced, interrupted or discontinued at any time.

## **DESCRIPTION OF SECURITIES**

The Securities may be offered under this Prospectus in amounts and at prices to be determined based on market conditions at the time of the sale and such amounts and prices will be set forth in the accompanying Prospectus

Supplement. The Securities may be issued alone or in combination and for such consideration determined by the Company's board of directors.

### **Common Shares**

The holders of Common Shares are entitled to receive notice of any meeting of the shareholders of the Company and to attend and vote thereat, except those meetings at which only the holders shares of another class or of a particular series are entitled to vote. Each Common Share entitles its holder to one vote. The holders of Common Shares are entitled to receive on a pro-rata basis such dividends as the board of directors may declare out of funds legally available therefor. In the event of the dissolution, liquidation, winding-up or other distribution of the Company's assets, such holders are entitled to receive on a pro-rata basis all of assets of the Company remaining after payment of all of liabilities. The Common Shares carry no pre-emptive or conversion rights.

### **Warrants**

This section describes the general terms that will apply to any Warrants for the purchase of Common Shares. To the extent required under applicable law, the Company will not offer Warrants for sale separately to any member of the public in Canada unless the offering of such Warrants is in connection with and forms a part of the consideration for an acquisition or merger transaction, or unless the applicable Prospectus Supplement containing the specific terms of the Warrants to be offered separately is first approved, in accordance with applicable laws, for filing by the securities commissions or similar regulatory authorities in each of the jurisdictions where the Warrants will be offered for sale.

Subject to the foregoing, the Company may issue Warrants independently or together with other securities, and Warrants sold with other securities may be attached to or separate from the other securities. Warrants may be issued directly by the Company to the purchasers thereof or under one or more warrant indentures or warrant agency agreements to be entered into by the Company and one or more banks or trust companies acting as warrant agent. Warrants, like other Securities that may be sold, may be listed on a securities exchange subject to exchange listing requirements and applicable legal requirements.

This summary of some of the provisions of the Warrants is not complete. The statements made in the Prospectus relating to any warrant agreement and Warrants to be issued under the Prospectus are summaries of certain anticipated provisions thereof and do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all provisions of the applicable warrant agreement. Investors should refer to the warrant indenture or warrant agency agreement relating to the specific warrants being offered for the complete terms of the Warrants. A copy of any warrant indenture or warrant agency agreement relating to an offering of Warrants will be filed by the Company with the applicable securities regulatory authorities in Canada following its execution.

The particular terms of each issue of Warrants will be described in the applicable Prospectus Supplement. This description will include, where applicable: (i) the designation and aggregate number of Warrants; (ii) the price at which the Warrants will be offered; (iii) the currency or currencies in which the Warrants will be offered; (iv) the date on which the right to exercise the Warrants will commence and the date on which the right will expire; (v) if applicable, the identity of the Warrant agent; (vi) whether the Warrants will be listed on any securities exchange; (vii) any minimum or maximum subscription amount; (viii) the number of Common Shares that may be purchased upon exercise of each Warrant and the price at which and currency or currencies in which the Common Shares may be purchased upon exercise of each Warrant; (ix) the designation and terms of any securities with which the Warrants will be offered, if any, and the number of the Warrants that will be offered with each security; (x) the date or dates, if any, on or after which the Warrants and the related securities will be transferable separately; (xi) whether the Warrants will be subject to redemption and, if so, the terms of such redemption provisions; (xii) whether the Warrants are to be issued in registered form, "book-entry only" form, non-certificated inventory system form, bearer form or in the form of temporary or permanent global securities and the basis of exchange, transfer and ownership thereof; (xiii) any material risk factors relating to such Warrants and the Common Shares to be issued upon exercise of the Warrants; (xiv) any other rights, privileges, restrictions and conditions attaching to the Warrants and the Common Shares to be issued upon exercise of the Warrants; (xv) material Canadian and United States federal income tax consequences of owning and exercising the Warrants; and (xvi) any other material terms or conditions of the Warrants and the Securities to be issued upon exercise of the Warrants.

The terms and provisions of any Warrants offered under a Prospectus Supplement may differ from the terms described above and may not be subject to or contain any or all of the terms described above.

Prior to the exercise of any Warrants, holders of Warrants will not have any of the rights of holders of the Common Shares purchasable upon such exercise or the right to vote such underlying securities.

### **Options**

The Company may issue or grant Options in connection with acquisitions, merger transactions, or to directors, officers employees or consultants, as applicable. This section describes the general terms that may apply to such Options and does not purport to be complete.

The particular terms and conditions applicable to each Option issue will be comprehensively described in the applicable Option Agreement and related Prospectus Supplement. This description will include, where applicable: (i) the designation and aggregate number of Options; (ii) the price at which the Options will be offered; (iii) the currency or currencies in which the Options will be offered; (iv) the date on which the right to exercise the Options will commence and the date on which the right will expire; (v) the number of Common Shares that may be issued upon exercise of each Option and the price and currency or currencies in which the Common Shares may be purchased upon exercise of each Option; (vi) the date or dates, if any, on or after which the Options and the related securities will be transferable separately; (vii) any resale restrictions and vesting criteria related to the Options; (viii) any applicable accelerated vesting provisions applicable to the Options; (ix) any early termination provisions relating to the Options; (x) any material risk factors relating to such Options and the Common Shares to be issued upon exercise of the Options; (xi) any other rights, privileges, restrictions and conditions attaching to the Options and the Common Shares to be issued upon exercise of the Options; (xii) material Canadian and United States federal income tax consequences of owning and exercising the Options; and (xiii) any other material terms or conditions of the Options and the Securities to be issued upon exercise of the Options.

Prior to the exercise of any Options, holders of Options will not have any of the voting or other rights applicable to holders of Common Shares.

### **Subscription Receipts**

This section describes the general terms that will apply to any Subscription Receipts that may be offered by the Company pursuant to the Prospectus. Subscription Receipts may be offered separately or together with Common Shares or Warrants, as the case may be. The Subscription Receipts will be issued under a Subscription Receipt agreement.

In the event the Company issues Subscription Receipts, it may provide the original purchasers of Subscription Receipts a contractual right of rescission exercisable following the issuance of Common Shares to such purchasers.

The applicable Prospectus Supplement will include details of the Subscription Receipt agreement covering the Subscription Receipts being offered. A copy of the Subscription Receipt agreement relating to an offering of Subscription Receipts will be filed by the Company with the applicable securities regulatory authorities after it has been entered into by the Company. The specific terms of the Subscription Receipts, and the extent to which the general terms described in this section apply to those Subscription Receipts, will be set forth in the applicable Prospectus Supplement. This description will include, where applicable: (i) the number of Subscription Receipts; (ii) the price at which the Subscription Receipts will be offered; (iii) the currency at which the Subscription Receipts will be offered and whether the price is payable in installments; (iv) the procedures for the exchange of the Subscription Receipts into Common Shares, Warrants or Units; (v) the number of Common Shares, Warrants or Units that may be issued upon exercise or deemed conversion of each Subscription Receipt; (vi) the designation and terms of any other Securities with which the Subscription Receipts will be offered, if any, and the number of Subscription Receipts that will be offered with each Security; (vii) conditions to the conversion or exchange of Subscription Receipts into other Securities and the consequences of such conditions not being satisfied; (viii) terms applicable to the gross or net proceeds from the sale of the Subscription Receipts plus any interest earned thereon; (ix) the dates or periods during which the Subscription Receipts may be converted or exchanged; (x) the circumstances, if any, which will cause the Subscription Receipts to be deemed to be automatically converted or exchanged; (xi) provisions applicable to any escrow of the gross or net proceeds from the sale of the Subscription

Receipts plus any interest or income earned thereon, and for the release of such proceeds from such escrow; (xii) if applicable, the identity of the Subscription Receipt agent; (xiii) whether the Subscription Receipts will be listed on any securities exchange; (xiv) whether the Subscription Receipts will be issued with any other Securities and, if so, the amount and terms of these Securities; (xv) any minimum or maximum subscription amount; (xvi) whether the Subscription Receipts are to be issued in registered form, “book-entry only” form, non-certificated inventory system form, bearer form or in the form of temporary or permanent global securities and the basis of exchange, transfer and ownership thereof; (xvii) any material risk factors relating to such Subscription Receipts and the Securities to be issued upon conversion or exchange of the Subscription Receipts; (xviii) any other rights, privileges, restrictions and conditions attaching to the Subscription Receipts and the Securities to be issued upon exchange of the Subscription Receipts; (xix) material Canadian and United States income tax consequences of owning or converting or exchanging the Subscription Receipts; and (xx) any other material terms and conditions of the Subscription Receipts and the Securities to be issued upon the exchange of the Subscription Receipts.

The terms and provisions of any Subscription Receipts offered under a Prospectus Supplement may differ from the terms described above and may not be subject to or contain any or all of the terms described above.

Prior to the exchange of any Subscription Receipts, holders of such Subscription Receipts will not have any of the rights of holders of the Securities for which the Subscription Receipts may be exchanged, including the right to receive payments of dividends or the right to vote such underlying securities.

### **Description of Debt Securities**

The Company may issue Debt Securities in one or more series under an indenture (the “**Indenture**”), to be entered into among the Company and a trustee. The following description sets forth certain general material terms and provisions of the Debt Securities and is not intended to be complete. For a more complete description, prospective investors should refer to the Indenture and the terms of the Debt Securities. If Debt Securities are issued, the Company will describe in the applicable Prospectus Supplement the particular terms and provisions of any series of the Debt Securities and a description of how the general terms and provisions described below may apply to that series of the Debt Securities. Prospective investors should rely on information in the applicable Prospectus Supplement and not on the following information to the extent that the information in such Prospectus Supplement is different from the following information.

The Company may issue Debt Securities and incur additional indebtedness other than through the offering of Debt Securities pursuant to this Prospectus.

### **General**

The Indenture will not limit the aggregate principal amount of Debt Securities that the Company may issue under the Indenture and will not limit the amount of other indebtedness that it may incur. The Indenture will provide that the Company may issue Debt Securities from time to time in one or more series and may be denominated and payable in U.S. dollars, Canadian dollars or any foreign currency. Unless otherwise indicated in the applicable Prospectus Supplement, the Debt Securities will be unsecured obligations of the Company. The Indenture will also permit the Company to increase the principal amount of any series of the Debt Securities previously issued and to issue that increased principal amount.

The applicable Prospectus Supplement for any series of Debt Securities that the Company offers will describe the specific terms of the Debt Securities and may include, but is not limited to, any of the following: (i) the title of the Debt Securities; (ii) any limit on the aggregate principal amount of the Debt Securities and, if no limit is specified, the Company will have the right to re-open such series for the issuance of additional Debt Securities from time to time; (iii) whether the payment of principal, interest and premium, if any, on the Debt Securities will be the Company’s senior, senior subordinated or subordinated obligations; (iv) whether payment of principal, interest and premium, if any, on the Debt Securities will be secured by certain assets of the Company and any applicable guarantors; (v) whether payment of the Debt Securities will be guaranteed by any other person; (vi) the date or dates, or the method by which such date or dates will be determined or extended, on which the principal (and premium, if any) of the Debt Securities of the series is payable; (vii) the rate or rates at which the Securities of the series shall bear interest, if any, or the method by which such rate or rates shall be determined, whether such interest shall be payable in cash or additional Securities of the same series or shall accrue and increase the aggregate

principal amount outstanding of such series, the date or dates from which such interest shall accrue, or the method by which such date or dates shall be determined; (viii) the place or places the Company will pay principal, premium and interest, if any, and the place or places where Debt Securities can be presented for registration of transfer, exchange or conversion; (ix) whether and under what circumstances the Company will be required to pay any additional amounts for withholding or deduction for taxes with respect to the Debt Securities, and whether and on what terms the Company will have the option to redeem the Debt Securities rather than pay the additional amounts; (x) whether the Company will be obligated to redeem, repay or repurchase the Debt Securities pursuant to any sinking or other provision, or at the option of a holder and the terms and conditions of such redemption, repayment or repurchase; (xi) whether the Company may redeem the Debt Securities, in whole or in part, prior to maturity and the terms and conditions of any such redemption; (xii) the denominations in which the Company will issue any registered Debt Securities; (xiii) whether the Company will make payments on the Debt Securities in a currency other than Canadian dollars; (xiv) whether payments on the Debt Securities will be payable with reference to any index, formula or other method; (xv) whether the Company will issue the Debt Securities as global securities and, if so, the identity of the depository for the global securities; (xvi) whether the Company will issue the Debt Securities as unregistered securities, registered securities or both; (xvii) any changes or additions to, or deletions of, events of default or covenants whether or not such events of default or covenants are consistent with the events of default or covenants in the Indenture; (xviii) the applicability of, and any changes or additions to, the provisions for defeasance described under “Defeasance” below; (xix) whether the holders of any series of Debt Securities have special rights if specified events occur; (xx) the terms, if any, for any conversion or exchange of the Debt Securities for any other securities; (xxi) provisions as to modification, amendment or variation of any rights or terms attaching to the Debt Securities; and (xxii) any other terms, conditions, rights and preferences (or limitations on such rights and preferences).

Unless stated otherwise in the applicable Prospectus Supplement, no holder of Debt Securities will have the right to require the Company to repurchase the Debt Securities and there will be no increase in the interest rate if the Company becomes involved in a highly leveraged transaction or if the Company has a change of control.

The Company may issue Debt Securities bearing no interest or interest at a rate below the prevailing market rate at the time of issuance, and may offer and sell the Debt Securities at a discount below their stated principal amount. The Company may also sell any of the Debt Securities for a foreign currency or currency unit, and payments on the Debt Securities may be payable in a foreign currency or currency unit. In any of these cases, the Company will describe certain Canadian federal and U.S. federal income tax consequences and other special considerations in the applicable Prospectus Supplement.

The Company may issue Debt Securities with terms different from those of Debt Securities previously issued and, without the consent of the holders thereof, the Company may reopen a previous issue of a series of Debt Securities and issue additional Debt Securities of such series (unless the reopening was restricted when such series was created).

### ***Guarantees***

The Company’s payment obligations under any series of Debt Securities may be guaranteed by certain of the Company’s direct or indirect subsidiaries. In order to comply with certain registration statement form requirements under U.S. law, these guarantees may in turn be guaranteed by the Company. The terms of such guarantees will be set forth in the applicable Prospectus Supplement.

### ***Ranking and Other Indebtedness***

Unless otherwise indicated in an applicable Prospectus Supplement, and except to the extent prescribed by law, each series of Debt Securities shall be senior, unsubordinated and unsecured obligations of the Company and shall rank *pari passu* and ratably without preference among themselves and *pari passu* with all other senior, unsubordinated and unsecured obligations of the Company.

The Company’s Board of Directors may establish the extent and manner, if any, to which payment on or in respect of a series of Debt Securities will be senior, senior subordinated or will be subordinated to the prior payment of the Company’s other liabilities and obligations, and whether the payment of principal, premium, if any, and interest, if any, will be guaranteed by any other person and the nature and priority of any security.

## ***Debt Securities in Global Form***

### *The Depositary and Book-Entry*

Unless otherwise specified in the applicable Prospectus Supplement, a series of the Debt Securities may be issued in whole or in part in global form as a “global security” and will be registered in the name of or issued in bearer form and be deposited with a depositary, or its nominee, each of which will be identified in the applicable Prospectus Supplement relating to that series. Unless and until exchanged, in whole or in part, for the Debt Securities in definitive registered form, a global security may not be transferred except as a whole by the depositary for such global security to a nominee of the depositary, by a nominee of the depositary to the depositary or another nominee of the depositary or by the depositary or any such nominee to a successor of the depositary or a nominee of the successor.

The specific terms of the depositary arrangement with respect to any portion of a particular series of the Debt Securities to be represented by a global security will be described in the applicable Prospectus Supplement relating to such series. The Company anticipates that the provisions described in this section will apply to all depositary arrangements.

Upon the issuance of a global security, the depositary therefor or its nominee will credit, on its book entry and registration system, the respective principal amounts of the Debt Securities represented by the global security to the accounts of such persons, designated as “participants”, having accounts with such depositary or its nominee. Such accounts shall be designated by the underwriters, dealers or agents participating in the distribution of the Debt Securities or by the Company if such Debt Securities are offered and sold directly by the Company. Ownership of beneficial interests in a global security will be limited to participants or persons that may hold beneficial interests through participants. Ownership of beneficial interests in a global security will be shown on, and the transfer of that ownership will be effected only through, records maintained by the depositary therefor or its nominee (with respect to interests of participants) or by participants or persons that hold through participants (with respect to interests of persons other than participants). The laws of some states in the United States may require that certain purchasers of securities take physical delivery of such securities in definitive form.

So long as the depositary for a global security or its nominee is the registered owner of the global security or holder of a global security in bearer form, such depositary or such nominee, as the case may be, will be considered the sole owner or holder of the Debt Securities represented by the global security for all purposes under the Indenture. Except as provided below, owners of beneficial interests in a global security will not be entitled to have a series of the Debt Securities represented by the global security registered in their names, will not receive or be entitled to receive physical delivery of such series of the Debt Securities in definitive form and will not be considered the owners or holders thereof under the Indenture.

Any payments of principal, premium, if any, and interest, if any, on global securities registered in the name of a depositary or securities registrar will be made to the depositary or its nominee, as the case may be, as the registered owner of the global security representing such Debt Securities. None of the Company, any trustee or any paying agent for the Debt Securities represented by the global securities will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of the global security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that the depositary for a global security or its nominee, upon receipt of any payment of principal, premium, if any, or interest, if any, will credit participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the global security as shown on the records of such depositary or its nominee. The Company also expects that payments by participants to owners of beneficial interests in a global security held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in “street name”, and will be the responsibility of such participants.

### *Discontinuance of Depositary’s Services*

If a depositary for a global security representing a particular series of the Debt Securities is at any time unwilling or unable to continue as depositary, and a successor depositary is not appointed by the Company within 90 days, the

Company will issue such series of the Debt Securities in definitive form in exchange for a global security representing such series of the Debt Securities. If an event of default under the Indenture has occurred and is continuing, Debt Securities in definitive form will be printed and delivered upon written request by the holder to the appropriate trustee. In addition, the Company may at any time and in the Company's sole discretion determine not to have a series of the Debt Securities represented by a global security and, in such event, will issue a series of the Debt Securities in definitive form in exchange for all of the global securities representing that series of Debt Securities.

### ***Debt Securities in Definitive Form***

A series of the Debt Securities may be issued in definitive form, solely as registered securities, solely as unregistered securities or as both registered securities and unregistered securities. Unless otherwise indicated in the applicable Prospectus Supplement, unregistered securities will have interest coupons attached.

Unless otherwise indicated in the applicable Prospectus Supplement, payment of principal, premium, if any, and interest, if any, on the Debt Securities in definitive form will be made at the office or agency designated by the Company, or at the Company's option the Company can pay principal, interest, if any, and premium, if any, by check mailed to the address of the person entitled at the address appearing in the security register of the trustee or electronic funds wire transfer to an account of persons who meet certain thresholds set out in the Indenture who are entitled to receive payments by wire transfer. Unless otherwise indicated in the applicable Prospectus Supplement, payment of interest, if any, will be made to the persons in whose name the Debt Securities are registered at the close of business on the day or days specified by the Company.

At the option of the holder of Debt Securities, registered securities of any series will be exchangeable for other registered securities of the same series, of any authorized denomination and of a like aggregate principal amount. If, but only if, provided in an applicable Prospectus Supplement, unregistered securities (with all unmatured coupons, except as provided below, and all matured coupons in default) of any series may be exchanged for registered securities of the same series, of any authorized denominations and of a like aggregate principal amount and tenor. In such event, unregistered securities surrendered in a permitted exchange for registered securities between a regular record date or a special record date and the relevant date for payment of interest shall be surrendered without the coupon relating to such date for payment of interest, and interest will not be payable on such date for payment of interest in respect of the registered security issued in exchange for such unregistered security, but will be payable only to the holder of such coupon when due in accordance with the terms of the Indenture. Unless otherwise specified in an applicable Prospectus Supplement, unregistered securities will not be issued in exchange for registered securities.

The applicable Prospectus Supplement may indicate the places to register a transfer of the Debt Securities in definitive form. Service charges may be payable by the holder for any registration of transfer or exchange of the Debt Securities in definitive form, and the Company may, in certain instances, require a sum sufficient to cover any tax or other governmental charges payable in connection with these transactions.

The Company shall not be required to:

- issue, register the transfer of or exchange any series of the Debt Securities in definitive form during a period beginning at the opening of 15 days before any selection of securities of that series of the Debt Securities to be redeemed and ending on the relevant date of notice of such redemption, as provided in the Indenture;
- register the transfer of or exchange any registered security in definitive form, or portion thereof, called for redemption, except the unredeemed portion of any registered security being redeemed in part;
- exchange any unregistered security called for redemption except to the extent that such unregistered security may be exchanged for a registered security of that series and like tenor; provided that such registered security will be simultaneously surrendered for redemption; or

- issue, register the transfer of or exchange any of the Debt Securities in definitive form which have been surrendered for repayment at the option of the holder, except the portion, if any, of such Debt Securities not to be so repaid.

### *Events of Default*

Unless otherwise specified in the applicable Prospectus Supplement relating to a particular series of Debt Securities, the following is a summary of events which will, with respect to any series of the Debt Securities, constitute an event of default under the Indenture with respect to the Debt Securities of that series:

- the Company fails to pay principal of, or any premium on any Debt Security of that series when it is due and payable;
- the Company fails to pay interest payable on any Debt Security of that series when it becomes due and payable, and such default continues for 30 days;
- the Company fails to make any required sinking fund or analogous payment when due for that series of Debt Securities;
- the Company fails to observe or perform any of its covenants or agreements in the Indenture that affect or are applicable to the Debt Securities of that series for 90 days after written notice to the Company by the trustees or to the Company and the trustees by holders of at least 25% in aggregate principal amount of the outstanding Debt Securities of that series;
- certain events involving the Company's bankruptcy, insolvency or reorganization; and
- any other event of default provided for in that series of Debt Securities.

A default under one series of Debt Securities will not necessarily be a default under another series. A trustee may withhold notice to the holders of the Debt Securities of any default, except in the payment of principal or premium, if any, or interest, if any, if in good faith it considers it in the interests of the holders to do so and so advises the Company in writing.

If an event of default for any series of Debt Securities occurs and continues, a trustee or the holders of at least 25% in aggregate principal amount of the Debt Securities of that series may require the Company to repay immediately:

- the entire principal and interest of the Debt Securities of the series; or
- if the Debt Securities are discounted securities, that portion of the principal as is described in the applicable Prospectus Supplement.

If an event of default relates to events involving the Company's bankruptcy, insolvency or reorganization, the principal of all Debt Securities will become immediately due and payable without any action by the trustee or any holder.

Subject to certain conditions, the holders of a majority of the aggregate principal amount of the Debt Securities of the affected series can rescind and annul an accelerated payment requirement. If Debt Securities are discounted securities, the applicable Prospectus Supplement will contain provisions relating to the acceleration of maturity of a portion of the principal amount of the discounted securities upon the occurrence or continuance of an event of default.

Other than its duties in case of a default, a trustee is not obligated to exercise any of the rights or powers that it will have under the Indenture at the request or direction of any holders, unless the holders offer the trustee reasonable security or indemnity. If they provide this reasonable security or indemnity, the holders of a majority in aggregate principal amount of any series of Debt Securities may, subject to certain limitations, direct the time, method and

place of conducting any proceeding for any remedy available to a trustee, or exercising any trust or power conferred upon a trustee, for any series of Debt Securities.

The Company will be required to furnish to the trustees a statement annually as to its compliance with all conditions and covenants under the Indenture and, if the Company is not in compliance, the Company must specify any defaults. The Company will also be required to notify the trustees as soon as practicable upon becoming aware of any event of default.

No holder of a Debt Security of any series will have any right to institute any proceeding with respect to the Indenture, or for the appointment of a receiver or a trustee, or for any other remedy, unless:

- the holder has previously given to the trustees written notice of a continuing event of default with respect to the Debt Securities of the affected series;
- the holders of at least 25% in principal amount of the outstanding Debt Securities of the series affected by an event of default have made a written request, and the holders have offered reasonable indemnity, to the trustees to institute a proceeding as trustees; and
- the trustees have failed to institute a proceeding, and have not received from the holders of a majority in aggregate principal amount of the outstanding Debt Securities of the series affected (or in the case of bankruptcy, insolvency or reorganization, all series outstanding) by an event of default a direction inconsistent with the request, within 60 days after receipt of the holders' notice, request and offer of indemnity.

However, such above-mentioned limitations do not apply to a suit instituted by the holder of a Debt Security for the enforcement of payment of the principal of or any premium, if any, or interest on such Debt Security on or after the applicable due date specified in such Debt Security.

### *Defeasance*

When the Company uses the term "defeasance", it means discharge from its obligations with respect to any Debt Securities of or within a series under the Indenture. Unless otherwise specified in the applicable Prospectus Supplement, if the Company deposits with a trustee cash, government securities or a combination thereof sufficient to pay the principal, interest, if any, premium, if any, and any other sums due to the stated maturity date or a redemption date of the Debt Securities of a series, then at the Company's option:

- the Company will be discharged from the obligations with respect to the Debt Securities of that series; or
- the Company will no longer be under any obligation to comply with certain restrictive covenants under the Indenture and certain events of default will no longer apply to the Company.

If this happens, the holders of the Debt Securities of the affected series will not be entitled to the benefits of the Indenture except for registration of transfer and exchange of Debt Securities and the replacement of lost, stolen, destroyed or mutilated Debt Securities. These holders may look only to the deposited fund for payment on their Debt Securities.

To exercise the defeasance option, the Company must deliver to the trustees:

- an opinion of counsel in the United States to the effect that the holders of the outstanding Debt Securities of the affected series will not recognize income, gain or loss for U.S. federal income tax purposes as a result of a defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the defeasance had not occurred;
- an opinion of counsel in Canada or a ruling from the Canada Revenue Agency to the effect that the holders of the outstanding Debt Securities of the affected series will not recognize income, gain or loss for Canadian federal, provincial or territorial income or other tax purposes as a result of a defeasance and will

be subject to Canadian federal, provincial or territorial income tax and other tax on the same amounts, in the same manner and at the same times as would have been the case had the defeasance not occurred; and

- a certificate of one of the Company's officers and an opinion of counsel, each stating that all conditions precedent provided for relating to defeasance have been complied with.

If the Company is to be discharged from its obligations with respect to the Debt Securities, and not just from the Company's covenants, the U.S. opinion must be based upon a ruling from or published by the United States Internal Revenue Service or a change in law to that effect.

In addition to the delivery of the opinions described above, the following conditions must be met before the Company may exercise its defeasance option:

- no event of default or event that, with the passing of time or the giving of notice, or both, shall constitute an event of default shall have occurred and be continuing for the Debt Securities of the affected series;
- the Company is not an "insolvent person" within the meaning of applicable bankruptcy and insolvency legislation; and
- other customary conditions precedent are satisfied.

#### ***Modification and Waiver***

Modifications and amendments of the Indenture may be made by the Company and the trustees pursuant to one or more Supplemental Indentures (a "**Supplemental Indenture**") with the consent of the holders of at least a majority in aggregate principal amount of the outstanding Debt Securities of each series affected by the modification. However, without the consent of each holder affected, no such modification may:

- change the stated maturity of the principal of, premium, if any, or any instalment of interest, if any, on any Debt Security;
- reduce the principal, premium, if any, or rate of interest, if any, or change any obligation of the Company to pay any additional amounts;
- reduce the amount of principal of a debt security payable upon acceleration of its maturity or the amount provable in bankruptcy;
- change the place or currency of any payment;
- affect the holder's right to require the Company to repurchase the Debt Securities at the holder's option;
- impair the right of the holders to institute a suit to enforce their rights to payment;
- adversely affect any conversion or exchange right related to a series of Debt Securities;
- reduce the percentage of Debt Securities required to modify the Indenture or to waive compliance with certain provisions of the Indenture; or
- reduce the percentage in principal amount of outstanding Debt Securities necessary to take certain actions.

The holders of at least a majority in principal amount of outstanding Debt Securities of any series may on behalf of the holders of all Debt Securities of that series waive, insofar as only that series is concerned, past defaults under the Indenture and compliance by the Company with certain restrictive provisions of the Indenture. However, these holders may not waive a default in any payment of principal, premium, if any, or interest on any Debt Security or compliance with a provision that cannot be modified without the consent of each holder affected.

The Company may modify the Indenture pursuant to a Supplemental Indenture without the consent of any holders to:

- evidence its successor under the Indenture;
- add covenants of the Company or surrender any right or power of the Company for the benefit of holders;
- add events of default;
- provide for unregistered securities to become registered securities under the Indenture and make other such changes to unregistered securities that in each case do not materially and adversely affect the interests of holders of outstanding Debt Securities;
- establish the forms of the Debt Securities;
- appoint a successor trustee under the Indenture;
- add provisions to permit or facilitate the defeasance and discharge of the Debt Securities as long as there is no material adverse effect on the holders;
- cure any ambiguity, correct or supplement any defective or inconsistent provision or make any other provisions in each case that would not materially and adversely affect the interests of holders of outstanding Debt Securities, if any; or
- change or eliminate any provisions of the Indenture where such change takes effect when there are no Debt Securities outstanding which are entitled to the benefit of those provisions under the Indenture.

### ***The Trustee***

The Trustee under the Indenture or its affiliates may provide banking and other services to the Company in the ordinary course of their business.

The Indenture will contain certain limitations on the rights of the Trustee, as long as it or any of its affiliates remains the Company's creditor, to obtain payment of claims in certain cases or to realize on certain property received on any claim as security or otherwise. The Trustee and its affiliates will be permitted to engage in other transactions with the Company. If the Trustee or any affiliate acquires any conflicting interest and a default occurs with respect to the Debt Securities, the Trustee must eliminate the conflict or resign.

### ***Resignation and Removal of Trustee***

A trustee may resign or be removed with respect to one or more series of the Debt Securities and a successor trustee may be appointed to act with respect to such series.

### **Units**

The Company may issue Units comprised of one or more of the other Securities described in the Prospectus in any combination. Each Unit will be issued so that the holder of the Unit is also the holder of each of the Securities included in the Unit. Thus, the holder of a Unit will have the rights and obligations of a holder of each included Security. The unit agreement, if any, under which a Unit is issued may provide that the Securities included in the Unit may not be held or transferred separately, at any time or at any time before a specified date.

The particular terms and provisions of Units offered by any Prospectus Supplement, and the extent to which the general terms and provisions described below may apply thereto, will be described in the Prospectus Supplement filed in respect of such Units. This description will include, where applicable: (i) the number of Units offered; (ii) the price or prices, if any, at which the Units will be issued; (iii) the currency at which the Units will be offered; (iv) the Securities comprising the Units; (v) whether the Units will be issued with any other Securities and, if so, the

amount and terms of these Securities; (vi) any minimum or maximum subscription amount; (vii) whether the Units and the Securities comprising the Units are to be issued in registered form, “book-entry only” form, non-certificated inventory system form, bearer form or in the form of temporary or permanent global securities and the basis of exchange, transfer and ownership thereof; (viii) any material risk factors relating to such Units or the Securities comprising the Units; (ix) any other rights, privileges, restrictions and conditions attaching to the Units or the Securities comprising the Units; and (x) any other material terms or conditions of the Units or the Securities comprising the Units, including whether and under what circumstances the Securities comprising the Units may be held or transferred separately.

The terms and provisions of any Units offered under a Prospectus Supplement may differ from the terms described above and may not be subject to or contain any or all of the terms described above.

### PRIOR SALES

The following tables set forth details regarding issuances of Common Shares and issuances of securities convertible into or exchangeable, redeemable or exercisable for Common Shares during the 12-month period before the date of this Prospectus:

Date	Type of Security	Number of Securities	Issuance/Exercise Price per Security
September 20, 2018	Common Shares	1,475	N/A
September 20, 2018	Common Shares	9,451,687	US\$1.50
September 20, 2018	Common Shares	280,012	N/A
September 21, 2018	Common Shares	6,550,867	US\$1.50
October 9, 2018 <sup>(1)</sup>	Stock Options	4,375,000	\$2.60
November 2, 2018 <sup>(2)</sup>	Common Shares	437,500	\$0.20
November 9, 2018 <sup>(3)</sup>	Common Shares	4,000,000	\$2.60
March 28, 2019 <sup>(1)</sup>	Stock Options	630,000	\$2.62
March 28, 2019	Warrants	10,599,936	\$2.60
April 1, 2019	Warrants	1,591,200	\$2.60
April 23, 2019 <sup>(4)</sup>	Common Shares	100	\$2.60
June 27, 2019	Warrants	1,139,757	\$3.46
June 27, 2019	Warrants	1,139,757	\$4.03
July 4, 2019 <sup>(5)</sup>	Common Shares	17,621	\$0.85
July 8, 2019	Stock Options	100,000	\$2.88
July 15, 2019	Stock Options	1,275,000	\$2.85
July 26, 2019	Common Shares	17,244	\$0.85
July 29, 2019	Stock Options	50,000	\$2.70
July 30, 2019	Warrants	589,964	\$3.35
July 30, 2019	Warrants	589,964	\$3.91
August 6, 2019	Stock Options	25,000	\$2.55
August 7, 2019	Common Shares	345,184	\$2.84
September 4, 2019	Stock Options	50,000	\$2.14
September 24, 2019	Stock Options	25,000	\$1.80
April 12, 2019 through September 27, 2019 <sup>(6)</sup>	Common Shares	4,484,595	\$2.60

**Notes:**

- (1) Granted by the Company.  
(2) Issued upon exercise of certain stock options granted on March 7, 2018.

- (3) Issued in connection with the NLVO Transaction.
- (4) Issued upon exercise of warrants granted on March 28, 2019.
- (5) Issued upon exercise of certain stock options granted on June 1, 2018.
- (6) Issued upon conversion of convertible debentures from the period of April 12, 2019 to September 27, 2019.

## TRADING PRICE AND VOLUME

### *Canadian Marketplace*

Prior to July 2018, the Common Shares of the Company were listed on the TSXV under the symbol “THH”. The Common Shares of the Company were halted from trading between June 29, 2018 and the Company’s delisting from the TSXV. On October 10, 2018, the Common Shares of the Company commenced trading with the CSE under the symbol “FONE”.

The following table sets forth information relating to the trading of the Common Shares of the Company on the TSXV from September 1, 2018 until October 9, 2018 and on the CSE from October 10, 2018 until September 26, 2019:

Month	High (\$)	Low (\$)	Volume
<b>2018</b>			
September	-	-	-
October <sup>(1)</sup>	2.00	1.07	20,756,470
November	1.83	1.36	3,669,790
December	1.55	1.25	2,256,195
<b>2019</b>			
January	1.57	1.35	3,149,169
February	2.47	1.48	8,662,339
March	2.98	2.44	1,162,570
April	3.75	2.61	7,836,068
May	3.19	2.50	14,058,962
June	3.03	2.68	2,608,929
July	2.95	2.41	1,201,094
August	2.71	1.76	2,382,643
September	2.20	1.68	2,275,498

**Notes:**

- (1) For the period from October 10, 2018, the date on which the Common Shares commenced trading on the CSE.

### *Foreign Marketplace*

On November 6, 2018, the Company’s Common Shares commenced trading in the United States on the OTCQB under the symbol “FLOOF”. On May 22, 2019, the Company’s Common Shares upgraded to the OTCQX under the same symbol.

The following table sets out trading information for the Common Shares on the OTCQB from November 6, 2018 up to May 22, 2019, and from such date up to the date of this Prospectus:

Month	High (US\$)	Low (US \$)	Volume
<b>2018</b>			
November	1.45	1.02	998,531
December	1.20	0.91	427,636
<b>2019</b>			
January	1.17	1.01	856,346
February	1.87	1.14	3,662,314
March	2.18	1.84	394,550
April	2.81	1.97	2,563,081

Month	High (US\$)	Low (US \$)	Volume
May <sup>(1)</sup>	2.40	2.17	1,017,308
May <sup>(2)</sup>	2.35	1.83	701,240
June	2.34	1.99	1,971,164
July	2.34	1.83	1,247,158
August	2.06	1.33	1,738,464
September	1.66	1.27	1,418,269

**Notes:**

- (1) For the period until May 21, 2019, the date on which the Common Shares ceased trading on the OTCQB.  
(2) For the period commencing on May 22, 2019, the date on which the Common Shares commenced trading on the OTCQX.

### CERTAIN INCOME TAX CONSIDERATIONS

The applicable Prospectus Supplement will describe certain Canadian federal income tax consequences to investors described therein of acquiring Securities.

The applicable Prospectus Supplement will also describe certain United States federal income tax consequences of the acquisition, ownership and disposition of Securities by an initial investor who is a “U.S. person” (within the meaning of the United States Internal Revenue Code), if applicable, including, to the extent applicable, any such consequences relating to Securities payable in a currency other than the United States dollar, issued at an original issue discount for United States federal income tax purposes or other special terms.

### INTERESTS OF EXPERTS

Certain legal matters relating to the Securities offered by this Prospectus will be passed upon for the Company by: (i) Fasken Martineau DuMoulin LLP, Vancouver, B.C., with respect to matters of Canadian law; and (ii) Dorsey & Whitney LLP with respect to matters of United States law. As of the date hereof, the partners and associates of Fasken Martineau DuMoulin LLP, as a group, each beneficially own less than 1% of the outstanding Common Shares of the Company. The partners and associates of Dorsey & Whitney do not beneficially own any Common Shares of the Company.

### RISK FACTORS

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. Prospective investors 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 States. 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.<sup>1</sup> The MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS Clearing and Depository Services Inc. ("CDS") as it relates to issuers with cannabis-related activities in the United States. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, Common Shares would become highly illiquid until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares through the facilities of the applicable stock exchange.

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

It is a federal crime to engage in interstate or foreign travel or commerce with the intent to distribute the proceeds of or promote a SUA. News media have reported that United States immigration authorities have increased scrutiny of people who are crossing the United States-Canada border with respect to persons involved in cannabis businesses in the United States.

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

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<sup>1</sup> 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 employee not being permitted to enter the United States for a specified period of time. If this happens to the Company's directors, officers or employees, then this may reduce the Company's ability to manage its business effectively in the United States.

#### ***Constraints on developing and marketing products***

The development of Flower One's business and operating results may be hindered by applicable restrictions on development, sales and marketing activities imposed by government regulatory bodies. The legal and regulatory environment in the United States limits the Company's ability to compete for market share in a manner similar to other industries. Flower One cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by government authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on Flower One's business, results of operation and financial condition.

If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and operating results could be adversely affected.

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

Under Section 280E of the United States Internal Revenue Code of 1986 as amended ("**Section 280E**"), "no deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any state in which such trade or business is conducted." This provision has been applied by the U.S. Internal Revenue Service to cannabis operations, prohibiting them from deducting expenses directly associated with the sale of cannabis. Although the U.S. Internal Revenue Service issued a clarification allowing the deduction of certain expenses that can be categorized as cost of goods sold, the scope of such items is interpreted very narrowly and include the cost of seeds, plants, and labor related to cultivation, while the bulk of operating costs and general administrative costs are not permitted to be deducted. Section 280E therefore has a significant impact on the retail side of cannabis, but a lesser impact on cultivation, processing, production and packaging operations. A result of Section 280E is that an otherwise profitable business may, in fact, operate at a loss, after taking into account its U.S. income tax expenses.

#### ***Risk of civil asset forfeiture***

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

#### ***Proceeds of crime statutes***

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

In the event that any of Flower One's license agreements in the United States are found to be illegal, proceeds of those licensing transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could be materially adverse to the Company and, among other things, could

restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada.

### ***Limited intellectual property protection***

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

1. Flower One will not be able to register any United States federal trademarks for its cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a crime under the CSA, the United States Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, the Company likely will be unable to protect its cannabis product trademarks beyond the geographic areas in which it conducts business. The use of its trademarks outside the states in which it operates by one or more other persons could have a material adverse effect on the value of such trademarks.
2. Patents in the cannabis industry involve complex legal and scientific questions and patent protection may not be available for some or any products and as a result the Company may have to rely on goodwill associated with its trademarks, trade names and proprietary cannabis strains.
3. Flower One may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to Flower One, could subject Flower One to significant liabilities and other costs.

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

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

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

### ***Potential FDA regulation***

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

### ***Legality of contracts***

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

### **Risks Related to the Company**

#### ***Limited operating history***

As the Company just begun to generate revenue and it has recently completed its first commercial cannabis crop at the NLV Greenhouse, it is extremely difficult to make accurate predictions and forecasts of its finances. This is compounded by the fact that the Company intends to operate in the cannabis industry, which is rapidly transforming. There is no guarantee that the Company's products will be attractive to potential consumers or that the revenues generated from such products will meet the Company's projections.

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

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

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

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

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

#### ***Voting control***

The Southlands Family Trust and the Yaletown Family Trust, each own approximately 20% of the Common Shares, and therefore exercise a significant portion of the voting power in respect of the outstanding Common Shares. As a result, they are expected to have the ability to influence the outcome of all matters submitted to Flower One's

shareholders for approval, including the election and removal of directors and any arrangement or sale of all or substantially all of the assets of Flower One.

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

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

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

### ***Flower One's products***

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

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

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

### ***Unfavourable publicity or consumer perception***

Management of Flower One believes the recreational cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the recreational cannabis produced. Cannabis is a controversial topic, and consumer perception of Flower One's proposed products may be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of recreational cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the recreational cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the

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

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

### ***Strategic alliances***

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

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

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

### ***Energy costs***

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

### ***Reliance on key personnel***

The Company's success has depended and continues to depend upon its ability to attract and retain key management and consultants. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company currently receives the benefit of consultants who provide services to the Company under 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, prospective purchasers of Common Shares should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those stated in this Prospectus or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis, which could have a material adverse effect on the demand for Flower One's products with the potential to lead to a material adverse effect on Flower One's business, financial condition, results of operations or prospects.

### ***Competition***

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

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

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

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

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

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

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

There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be available on favorable terms. If Flower One is unable to raise sufficient capital in the future, Flower One may not be able to have the resources to continue its normal operations.

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

#### ***Licenses***

The Company's cannabis licenses are subject to ongoing compliance and reporting requirements. Failure by the Company to comply with the requirements of licenses or any failure to maintain licenses would have a material adverse impact on the business, financial condition and operating results of the Company. The Company expects to be the transferee of an additional four, and an application for a possible fifth, Nevada state marijuana licenses upon approval of the transfer by the NDOT. Should the NDOT or any other licensing authority not grant, extend, transfer or renew any license or should it transfer or renew such license on different terms, or should it decide to grant more than the anticipated number of licenses, the business, financial condition and results of the operation of the Company could be materially adversely affected.

#### ***Future acquisitions or dispositions***

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

One may issue additional Common Shares in connection with such transactions, which would dilute a shareholder's holdings in Flower One.

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

### ***Insurance and uninsured risks***

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

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

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

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

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

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

### ***Difficulty to forecast***

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

### ***Management of growth***

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

### ***Internal controls***

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

### ***Failure to comply with anti-bribery laws***

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

### ***Conflict of interest***

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

### ***Litigation***

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

### ***Product liability***

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

### ***General economic and political risks***

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

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

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

### **Risks Related to Securities**

#### ***Volatile market price for Flower One's securities***

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

volatility may affect the price at which you could sell any of the securities of Flower One, and the sale of substantial amounts of securities could adversely affect the price of Common Shares.

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

***Flower One may not pay dividends***

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

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

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

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

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

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

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

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

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

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

### ***Currency Fluctuations***

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

### **Risks Related to Future Offerings**

#### ***There is no existing trading market for the Warrants, Options, Subscription Receipts, Debt Securities or Units***

There is no existing trading market for the Warrants, Options, Subscription Receipts, Debt Securities or Units. As a result, there can be no assurance that a liquid market will develop or be maintained for those Securities, or that a purchaser will be able to sell any of those Securities at a particular time (if at all). Flower One may not list the Warrants, Options, Subscription Receipts, Debt Securities or Units on any Canadian or U.S. securities exchange or trading platform.

#### ***Management will have substantial discretion concerning the use of proceeds***

Flower One’s management will have substantial discretion concerning the use of proceeds of an offering under any Prospectus Supplement as well as the timing of the expenditure of the proceeds thereof. As a result, investors will be relying on the judgment of management as to the specific application of the proceeds of any offering of Securities under any Prospectus Supplement. Management may use the net proceeds of any offering of Securities under any Prospectus Supplement in ways that an investor may not consider desirable. The results and effectiveness of the application of the net proceeds are uncertain.

## **MATERIAL CONTRACTS**

The following are the only material contracts, other than those entered into in the ordinary course of business, which the Company and its subsidiaries have entered into since the beginning of the last financial year before the date of this Prospectus, but which contract is still in effect:

1. Amalgamation Agreement dated June 29, 2018 among the Company (named Theia Resources Ltd. at the time), CNX and Flower One Subco, pursuant to which CNX completed the reverse take-over of the Company;
2. Subscription Receipt Agreement dated September 20, 2018 among CNX, Eight Capital, as agent, and Odyssey Trust Company, as subscription receipt escrow agent, with respect to the September 2018 Agency Agreement (as defined below);
3. Industrial Lease and Purchase Option Agreement dated March 13, 2018 between Cana Nevada Corp. and North Las Vegas Properties Inc., as assigned by Cana Nevada Corp. to CN Licenseco I, Inc. pursuant to an Assignment of Lease Agreement dated April 23, 2018, as amended by the First Amendment dated June 1, 2018, Second Amendment dated June 15, 2018 and Third Amendment dated June 27, 2019;
4. Consulting Services and Intellectual Property Agreement dated August 17, 2018 between Cana Nevada Corp., and North American Consulting Services, Inc.;
5. Design/Build Contract dated June 29, 2018 between CN Licenseco I, Inc. and The Dennis Group, as design-builder, with respect to the conversion of the NLV Greenhouse;
6. Agency Agreement dated September 20, 2018 among the Company, Eight Capital and Industrial Alliance Securities Inc., pursuant to which CNX completed a brokered private placement of subscription receipts (the “**September 2018 Agency Agreement**”);
7. NLVO Agreement;
8. License & Plant Purchase Agreement dated October 5, 2018 between CN Licenseco I, Inc. and NLV Organics, Inc.;
9. State of Nevada Medical Marijuana Cultivation License issued by NDOT;
10. State of Nevada Medical Marijuana Production License issued by NDOT;
11. Municipal Medical Marijuana Cultivation License issued by the City of North Las Vegas;
12. Municipal Medical Marijuana Production License issued by the City of North Las Vegas;
13. Municipal Recreational Marijuana Cultivation License issued by the City of North Las Vegas;
14. Municipal Recreational Marijuana Production License issued by the City of North Las Vegas;
15. Marijuana Product Manufacturing License issued by NDOT;
16. Marijuana Cultivation Facility License issued by NDOT;
17. Permit/License 10982097214978528659 (Facility ID RC090) issued by State of Nevada, Department of Taxation;
18. Permit/License 22741245849235539745 (Facility ID RP065) issued by State of Nevada, Department of Taxation;
19. Permit/License 25747995029047849072 (Facility ID P065) issued by State of Nevada, Department of Taxation;
20. Permit/License 42117353798137771623 (Facility ID C090) issued by State of Nevada, Department of Taxation;

21. State license #NV20141491568 to conduct business in the state of Nevada issued by State of Nevada;
22. Permit/License 2016301702 issued by the City of Henderson, NV;
23. Permit/License M64-00045 issued by the City of Las Vegas;
24. Permit/License M65-00001 issued by the City of Las Vegas;
25. Business License M67-00056 issued by the City of Las Vegas;
26. Business License M67-00057 issued by the City of Las Vegas;
27. Permit/License 111278 issued by the City of North Las Vegas;
28. Permit/License 111277 issued by the City of North Las Vegas;
29. Permit/License 105727 issued by the City of North Las Vegas;
30. Permit/License 105728 issued by the City of North Las Vegas;
31. the Master Lease Agreement, together with all the schedules and riders thereto, including the Amended and Restated Equipment Schedule 1 dated March 11, 2019;
32. the Master Lease Guaranty dated February 1, 2019 granted by Cana Nevada Corp., Canna Nevada LLC, CN Licenseco I, Inc., CN Landco LLC in favour of RB Loan Portfolio I, LP and Restated Master Guarantee dated March 2019;
33. Purchase Agreement and Bill of Sale dated February 1, 2019 entered into between North Las Vegas Equipment Co., Inc., as seller, and RB Loan Portfolio I, LP, as purchaser, with respect to the sale of certain asset on an “as is, where is” and “with all faults” basis for US\$10,000,000;
34. the March 2019 Agency Agreement;
35. Warrant Indenture dated March 28, 2019 between the Company and Odyssey Trust Company, as warrant agent; and
36. Debenture Indenture dated March 28, 2019 between the Company and Odyssey Trust Company, as indenture trustee.

#### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The Company’s auditors are MNP LLP, located at Suite 2200, MNP Tower, 1021 West Hastings St, Vancouver, BC V6E 0C3. MNP LLP is independent of the Company according to the auditor’s rules of professional conduct.

The transfer agent and registrar for the Common Shares is Odyssey Trust Company at its principal offices in Calgary, Alberta and Vancouver, British Columbia.

#### **STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment thereto. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. The purchaser should refer to any applicable

provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

In an offering of convertible, exchangeable or exercisable Securities, investors are cautioned that the statutory right of action for damages for a misrepresentation contained in the prospectus is limited, in certain provincial securities legislation, to the price at which the convertible, exchangeable or exercisable Securities is offered to the public under the prospectus offering. This means that, under the securities legislation of certain provinces, if the purchaser pays additional amounts upon conversion, exchange or exercise of the security, those amounts may not be recoverable under the statutory right of action for damages that applies in those provinces. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of this right of action for damages or consult with a legal adviser.

Original purchasers are further advised that in certain provinces the statutory right of action for damages in connection with a prospectus misrepresentation is limited to the amount paid for the security that was purchased under a prospectus, and therefore a further payment at the time of exercise may not be recoverable in a statutory action for damages. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights, or consult with a legal adviser.

### **CONTRACTUAL RIGHTS OF RESCISSION**

In addition to statutory rights of withdrawal and rescission, original purchasers of Warrants (if offered separately from other Securities), Debt Securities or Subscription Receipts will have a contractual right of rescission against the Company in respect of the exercise of such warrant, debt security or subscription receipt, as the case may be.

The contractual right of rescission will entitle such original purchasers to receive, in addition to the amount paid on original purchase of such warrant, debt security or subscription receipt (or units comprised partly thereof), as the case may be, the amount paid upon exercise upon surrender of the underlying securities gained thereby, in the event that this Prospectus (as supplemented or amended) contains a misrepresentation, provided that: (i) the conversion, exchange or exercise takes place within 180 days of the date of the purchase of such warrant or subscription receipt under this Prospectus; and (ii) the right of rescission is exercised within 180 days of the date of purchase of such warrant or subscription receipt under this Prospectus. This contractual right of rescission will be consistent with the statutory right of rescission described under section 131 of the *Securities Act* (British Columbia), and is in addition to any other right or remedy available to original purchasers under section 131 of the *Securities Act* (British Columbia) or otherwise at law.

**CERTIFICATE OF FLOWER ONE HOLDINGS INC.**

Dated: September 27, 2019

This short form prospectus, together with the documents incorporated in this short form prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus and the supplement(s) as required by the securities legislation of all the provinces of Canada, except Québec.

*“Ken Villazor”*  
Chief Executive Officer

*“Geoff Miachika”*  
Chief Financial Officer

On Behalf of the Board of Directors

*“Amit Varma”*  
Director

*“Warner Fong”*  
Director