Management's Discussion and Analysis

For the Three and Six-Month Periods Ended June 30, 2022

This Management's Discussion and Analysis ("MD&A") is prepared as of August 29, 2022 and is to assist the reader in understanding the nature and importance of changes and trends as well as the risks and uncertainties that may affect the operating results and financial position of Flower One Holdings Inc. (the "Company" or "Flower One") for the three and six-month periods ended June 30, 2022. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and six-month periods ended June 30, 2022, together with the related notes thereto (collectively, the "financial statements"). All dollar amounts included in the financial statements and in this MD&A are expressed in United States dollars ("$") or Canadian dollars ("CAD$").

This MD&A has been prepared in accordance with the MD&A disclosure requirements established under National Instrument 51-102 – Continuous Disclosure Obligations. Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures, and internal controls. Management is also responsible for ensuring that information disclosed externally, including the information within the financial statements and this MD&A, is complete and reliable. Additional information regarding the Company, including its Annual Information Form for the year ended December 31, 2020, as well as other information filed with the Canadian securities regulatory authorities is available under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This MD&A may contain "forward-looking statements" about the Company. In addition, the Company may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of the Company that are not statements of historical fact and may also constitute forward-looking statements. All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded *by, followed by or that include words such as "may", "will", "would", "could", "should", "believes", "estimates", "projects", "potential", "expects", "plans", "intends", "anticipates", "targeted", "continues", "forecasts", "designed", "goal", or the negative of those words or other similar or comparable words and includes, among others, relating to the business and future activities of, and developments related to, the Company after the date of this MD&A; future business strategy, competitive strengths, goals, expansion and growth of the Company's business; projections of revenue performance in 2022, effectiveness of new management, the ability of the Company to close revenues 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 United States federal law; expectations of market size and growth in the United States and the State of Nevada; expectations for other economic, business, political, regulatory and/or competitive factors related to the Company or the cannabis industry generally; and other events or conditions that may occur in the future.*

These statements speak only as at the date they are made and are based on information currently available and on the then current expectations of the party making the statement and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to risks and uncertainties related to: (1) marijuana is illegal under United States federal law, (2) marijuana is strictly regulated in those states which have legalized it for medical or recreational use, (3) newly established legal regime, (4) restricted access to banking, (5) heightened scrutiny by Canadian and United States regulatory authorities, (6) COVID-19 pandemic, (7) foreign investors in Flower One and its directors, officers, and employees may be subject to entry bans into the United States, (8) constraints on developing and marketing products, (9) unfavorable tax treatment of cannabis businesses, (10) risk of civil asset forfeiture, proceeds of crime statutes, (12) limited intellectual property protection, (13) lack of access to United States bankruptcy protections, (14) potential FDA regulation, (15) legality of contracts, (16) limited operating history, (17) actual results of operations may differ materially from the expectations of the Company's management, (18) significant ongoing costs and obligations related to its investment in infrastructure, growth, regulatory compliance, and operations, (19) voting control, (20) Flower One being a holding company, (21) Flower One's products, (22) unfavorable publicity or consumer perception, (23) potential default in the Company's obligations to pay its indebtedness, (24) strategic alliances, (25) risks inherent in an agricultural business, (26) energy costs, (27) reliance on key personnel, (28) reliance on a single jurisdiction, (29) environmental and employee health and safety regulations, (30) unknown environmental risks, (31) security risks, (32) information technology risks, (33) product recalls, (34) results of future clinical research, (35) competition, (36) failure to retain existing clients or acquire new clients, (37) liquidity, financial resources, and access to capital, (38) licenses, (39) future acquisitions or dispositions, (40) insurance and uninsured risks, (41) dependence on key inputs, suppliers , and skilled labor, (42) difficulty to forecast, (43) management of growth, (44) internal controls, (45) failure to comply with anti-bribery laws, (46) conflict of interest, (47) litigation, (48) product liability, (49) general economic and political risks, (50) Flower One being a Canadian company and shareholder protections differ from shareholder protections in the United States and elsewhere, (51) volatile market price for Flower One's securities, (52) Flower One may not pay dividends, (53) future revenues or issuances of securities could decrease the value of the securities, dilute investors' voting power and reduce earnings per share, (54) the regulated nature of Flower One's business may impede or discourage a takeover, which could reduce the market price of Flower One's securities, (55) there is no assurance Flower One will continue to meet the listing or quotation standards of the CSE, the OTCQB, or the FSE (56) and currency fluctuations.

Readers are cautioned that the foregoing list is not exhaustive of all factors and assumptions which may have been used. Although the Company has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such forward-looking information and statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such information and statements.

Accordingly, readers should not place undue reliance on forward-looking information and statements as statements containing forward-looking information involve significant risks and uncertainties and should not be read as guarantees of future results, performance, achievements, prospects, and opportunities. The forward-looking information and statements contained herein are presented for the purposes of assisting readers in understanding the Company's expected financial and operating performance and the Company's plans and objectives and may not be appropriate for other purposes.

The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that the Company and/or persons acting on its behalf may issue. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required under securities legislation.

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OVERVIEW OF THE COMPANY

Flower One is Nevada's largest cannabis cultivation, production, licensing, and wholesale company; and, through its subsidiaries, holds a variety of strategic investments including: Nevada's largest commercial-scale cannabis greenhouse (the "NLV Greenhouse") and Nevada's largest cannabis production facility (the "NLV Production", and collectively the NLV Greenhouse and NLV Production facilities are referred to herein as the "Bruce Street Facility"). Bruce Street Facility includes the NLV Greenhouse; a 400,000 square foot, fully canopied, high-tech greenhouse modified for cannabis cultivation attached to a 55,000 square foot, state-of-the-art cannabis production facility dedicated to the extraction, production, manufacturing, and packaging of a wide range of cannabis-derived products including, but not limited to: flower, oils, concentrates, pre-rolls, edibles and other infused products. The Bruce Street Facility is strategically positioned less than eight miles from the Las Vegas Strip and Clark County, Nevada - where a majority of that state's cannabis sales occur. The Bruce Street Facility is considered to be one of the most technologically advanced and highest yielding cannabis facilities in North America*.

> *There are a number of different methods used to identify and report cannabis cultivation capacity and yield around the world, and further, to quantify a facility such as the NLV Greenhouse as a top producing facility. The NLV Greenhouse houses approximately 110,000 plants at any given time, of which 70,000 are in flower zones, and is capable of approximately six harvest cycles per annum. Currently, the NLV Greenhouse has a capacity of 60,000 to 85,000 pounds of sellable cannabis flower per year assuming a yield that ranges from 70 to 130 grams per plant. The Company is reporting its capacity based on flower that is actually sellable as flower and has chosen to exclude its excess trim and green waste to give the most accurate number of the true value of each plant. If the Company included trim and green waste, its capacity would reflect upwards of 100,000 to 120,000 pounds per annum.

Additional investments include the Company's indoor cultivation facility and commercial kitchen space, known as the "Neeham Facility". The Neeham Facility is 25,000 square feet with approximately 14,000 square feet of indoor canopy space capable of producing up to 10,000 pounds of premium craft indoor cannabis annually at full capacity. The Neeham Facility also contains a fully licensed commercial kitchen used to produce some of Nevada's leading edible brands. The Neeham Facility is utilized to produce top quality indoor cannabis for several of the Company's premium brands and brand partners. The Company's ability to offer premium indoor cannabis is a critical component to the Company's value proposition for both its brand partners and retail customers. The Neeham Facility also satisfies the Company's research and development needs, allowing the Company to test new genetics, technology, and cultivation techniques on a smaller scale, prior to implementing them at the NLV Greenhouse.

The Company and its subsidiaries own or operate eight Nevada state-issued marijuana licenses and certain real property. The company owns one of Nevada's top selling cannabis brands, NLVO and also holds more than 12 brand licenses with world-class cannabis brands such as: Cookies, Old Pal, Kiva, Heavy Hitters, 22Red, Lift Tickets, Huxton, Miss Grass, ALTWELL, Palms and Natures Lab Extracts.

The Company is a Canadian company incorporated on January 9, 2007 under the Business Corporations Act (British Columbia). The Company is listed on the Canadian Securities Exchange ("CSE") under the symbol "FONE", the OTCQB Market in the United States ("OTCQB") under the symbol "FLOOF", and under the Frankfurt Stock Exchange ("FSE") under the symbol "F11". The records and registered office of the Company is located at 1055 West Hastings Street, Suite 1700, The Guinness Tower, Vancouver, BC V6E 2E9.

STRATEGY AND OPERATIONS

The Company began its comprehensive restructuring in Q1-21, which included: (1) the closing of its convertible debenture offering raising gross proceeds of over $19,000,000, (2) updating its board of directors, (3) the appointment of Kellen O'Keefe as the Company's President, Chief Executive Officer and Board Director, as well as the promotion of Salpy Boyajian to Executive Vice President and Board Chairman. With the new board and management in place, the Company was able to successfully restructure a significant amount of its debt, reduce total operating expenses, achieve two consecutive quarters of record revenue through Q1-21 and Q2-21 and year-over-year quarterly revenue growth in Q3-21.

Following the completion of Q2-21, the Company entered its most difficult season, Summer, and faced many challenges directly related to its need for capital improvements in several key areas of the facility. As indicated since the beginning of the restructuring, several aspects of the facility have required improvements, in particular its water systems, cutting cells, and dry, cure, and mother rooms. The NLV Greenhouse experienced several challenges during the summer months directly related to each of those critical improvements resulting in the loss or reduction in both the quality and volume of our flower production over the third quarter. These production issues resulted in a significant loss of potential revenue and reinforced the critical nature of addressing these issues as quickly as possible. A number of these capital improvements are necessary to assure that the Company is able to produce at the quality and consistency levels required to achieve its objectives. All of these improvements will bring the NLV Greenhouse closer to optimization and ultimately full capacity.

To begin to address these concerns, in Q3-21 the Company announced the closing of an above-market priced non-brokered private placement raising aggregate gross proceeds of $5,000,000. With the closing, the Company immediately began to implement improvements and introduce automation, all with the goals of increasing productivity and profitability. The improvements being implemented at the NLV Greenhouse involve its: (1) cutting cells, which include introducing new state of the art lighting and improved airflow, both resulting in immediately recognizable quality and yield improvements in the plants early stages, (2) upgrading the water systems, which will allow improved quality of water for plants as well as reduce overall water usage, driving both production and quality increases, cost savings, and perhaps most importantly environmental and sustainability benefits to the planet, (3) improving the dry and cure rooms, which will provide the ability to process more cannabis and increase yield and capacity, and (4) a new mother room space that will significantly improve the quality of cuttings and help with repopulating the facility faster, and with healthier plants.

In Q4-21, the Company hired its new Chief Financial Officer, Araxie Grant. With the addition of Ms. Grant, along with her revamped financial team, and the implementation of ongoing improvements, the Company is seeing the positive impact of its financial processes and operational changes in terms of product allocation, pricing, product yield, and cost of cultivation. Management continues to focus on these areas and expects further incremental improvements over the coming quarters.

As the Company entered 2022, it continued its restructuring efforts through the first half of the year, which included: (1) completed a term loan financing for $10,100,000 in aggregate gross proceeds through the participation from an existing shareholder, (2) the receipt of a $5,000,000 loan from the Company's term lender, and (3) significant debt modifications and maturity extensions with its term and equipment financing debt. These significant restructuring efforts and financial proceeds will allow the Company to preserve capital, while completing the critical improvements to the facility. Once complete, these critical improvements will allow the Company to increase capacity and will further improve the quality and consistency of its product. To complement the Company's operational improvements to the facility, it has also hired Tim Shoemake as its Chief Operating Officer, bringing over 25 years of experience in global agriculture, and food and beverage manufacturing for some of the world's largest brands and retail to Flower One.

COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

The Company's revenue is derived from wholesale cannabis sales in the State of Nevada. The Company is licensed to grow, cultivate and distribute cannabis products, which it sells directly to dispensaries and processors.

Cost of Sales

Cost of sales consists of costs related to the growing, cultivation and production of cannabis products, directly attributable to the production of inventory and costs incurred in the manufacturing of finished goods such as flower, pre-rolls, distillate, concentrates, and edibles. Costs, both direct and indirect, associated with cultivation include, but are not limited to, materials, labor, supplies, depreciation expense on equipment and utilities.

Change in Fair Value of Biological Assets

Actively growing plants are considered biological assets. In accordance with IAS 41 – Agriculture, biological assets are to be recorded at fair value, less costs to sell. When the plants are harvested, their accumulated costs are recorded as inventory. This amount becomes the carrying value of the inventory on a go-forward basis. Once sold, the inventory is reduced by the asset's fair value and is charged to cost of sales.

Gross profit (loss) is total revenue less cost of sales (inclusive of the net impact on fair value of biological assets). The Company is expecting the ongoing capital improvements to lead to an increase in gross profit, as these improvements will result in higher quality cannabis, thus allowing for the sale of inventory at a higher average selling price.

Total Operating Expenses

Cannabis taxes and selling costs primarily consist of wholesale marijuana taxes paid to the State of Nevada. Additionally, license fees paid to the Company's various brand partners and costs associated with the distribution and transportation of product sold are included in this category.

Wages & salaries include general, administrative, and other corporate operations; along with labor and benefit expenses not related to the grow, cultivation, and production of cannabis goods.

Professional fees include accounting, legal, consulting and security expenses.

Advertising and promotion include selling costs to promote the Company's brands and further product development.

In addition to insurance, office, utility and travel expenses, there are additional general and administrative costs which include non-cannabis specific taxes and licenses, bad debt expenses, board of director fees and banking expenses.

Total Other Income (Expense)

Other income (expense) consists primarily of finance expenses, fair value gain on derivatives, loss on disposal of property plant and equipment, and loss on debt extinguishment.

SELECTED FINANCIAL INFORMATION

The following table sets forth selected financial information for the periods indicated, derived from the Company's condensed consolidated interim statements and the respective accompanying notes prepared in accordance with IFRS.

The Company previously announced that, on the recommendation of the Audit Committee of the Company's Board of Directors and after consultation with MNP LLP, the Company's independent registered public accounting firm, that Flower One's previously issued unaudited interim financial statements for each of the first, second, and third quarters of 2021 as filed on SEDAR would be restated and should no longer be relied upon.

As a result, the Company has made both material and immaterial restatements to (1) cash and cash equivalents, (2) current and long term prepaids and deposits, (3) the carrying value of cannabis and oil-based cannabis inventory, and related cost of sales, (4) the valuation of biological assets and related fair value adjustments, (5) property, plant and equipment, loss on disposal of assets and related depreciation, (6) trade payables, accrued liabilities and construction payables, (7) valuation methodology for convertible debentures and warrants, and related derivative liability and fair value loss on derivatives, (8) the classification of current and non-current equipment financing and term debt balances, (9) general and administrative expenses, (10) stock based compensation expense for Restricted Share Units ("RSUs") granted in 2021, (11) loss on debt modification or extinguishment related to debt modifications, (12) related party transaction disclosures; and (13) finance expenses, including interest, accretion and transaction costs.

Adjustments have been retrospectively made to the comparative period as at and for the six-months ended June 30, 2021, and the three-month periods ended March 2021, June 2021, September 2021 and December 2021. Subsequent to the filing of the condensed consolidated interim financial statements for the three-month period ended March 31, 2022, finance management discovered an error in the restated derivative liabilities balance as at March 31, 2021, and the related fair value gain/loss on derivatives for the three-month period ended March 31, 2021. The adjustment for this error has been made retrospectively to the comparative periods as at and ended March 31, 2021 and June 30, 2021. Refer to the heading "Restatement" below for more information.

The selected financial information set out below may not be indicative of the Company's future performance:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
		(As Restated)		*(As Restated)*
Revenue	$ 7,898,306	$ 18,253,624	$ 16,847,556	$ 32,131,477
Cost of sales	6,855,411	11,034,373	11,886,834	16,003,692
Gross profit before fair value adjustments	1,042,895	7,219,251	4,960,722	16,127,785
Net change in fair value of biological assets	(416,772)	3,861,704	1,969,849	603,659
Gross profit	1,459,667	3,357,547	2,990,873	15,524,126
Operating expenses	6,372,375	9,186,887	13,207,627	19,306,866
Other income (expense), net	(456,239)	4,834,981	(5,326,468)	(15,358,731)
Net loss and comprehensive loss	$ (5,368,947)	$ (994,359)	$ (15,543,222)	$ (19,141,471)
Basic loss per share	$ (0.01)	$ 0.00	$ (0.03)	$ (0.05)
Diluted loss per share	$ (0.01)	$ 0.00	$ (0.03)	$ (0.05)

	June 30, 2022	December 31, 2021
	Unaudited	*Audited*
Total assets	$ 114,917,343	$ 117,812,761
Total current liabilities	29,308,555	36,138,223
Total non-current financial liabilities	99,492,627	80,817,860

RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIODS ENDED JUNE 30, 2022 AND 2021

The following tables summarize the Company's results of operations for the three-month periods ended June 30, 2022 and 2021:

	Three months ended June 30,			
	2022	2021	$ Change	% Change
		(As Restated)		
Revenue	$ 7,898,306	$ 18,253,624	$ (10,355,318)	(57)%
Cost of sales	6,855,411	11,034,373	(4,178,962)	(38)%
Gross profit before fair value adjustments	1,042,895	7,219,251	(6,176,356)	(86)%
Realized fair value adjustments on sale and disposal of inventory	464,727	5,912,888	(5,448,161)	(92)%
Unrealized gain on fair value adjustment on growth of biological assets	(635,221)	(3,847,524)	3,212,303	(83)%
Write-down and provision for inventory and biological assets	(246,278)	1,796,340	(2,042,618)	(114)%
Gross profit	1,459,667	3,357,547	(1,897,880)	(57)%
Operating expenses	6,372,375	9,186,887	(2,814,512)	(31)%
Loss from operations	(4,912,708)	(5,829,340)	916,632	(16)%
Other income (expense), net	(456,239)	4,834,981	(5,291,220)	(109)%
Net loss before income taxes	(5,368,947)	(994,359)	(4,374,588)	440%
Income tax recovery (expense)	-	-	-	0 %
Net loss and comprehensive loss for the year	$ (5,368,947)	$ (994,359)	$ (4,374,588)	440%

	Three months ended June 30,			
	2022	2021	$ Change	% Change
		(As Restated)		
Revenue	$ 7,898,306	$ 18,253,624	$ (10,355,318)	(57)%
Cost of sales	6,855,411	11,034,373	(4,178,962)	(38)%
Gross profit before fair value adjustments	1,042,895	7,219,251	(6,176,356)	(86)%
Net change in fair value of biological assets	(416,772)	3,861,704	(4,278,476)	(111)%
Gross profit	$ 1,459,667	$ 3,357,547	$ (1,897,880)	(57)%
Gross margin	18%	18%		
Gross margin before impact of biological assets	13%	40%		

Comparison of the Three-Month Period Ended June 30, 2022 and 2021

Revenue

Revenue for the three-month period ended June 30, 2022 was $7,898,306, a decrease of $10,355,318 or 57% compared to revenues for the three-month period ended June 30, 2021. The Company's revenue continues to represent approximately 10-15% of the state's wholesale market. Nevada's cannabis market continues to be harshly affected by the ongoing impact of the pandemic, and a thriving black market, which has resulted in price compression and decreased statewide cannabis sales. While tourism has continued to slowly rebound to pre-pandemic levels, visitor counts still remain far below expectations as a direct result of the reduction in conferences, corporate, and international travel. Nevada's second quarter 2022 retail cannabis sales decreased by over 29%, as compared to the same period from 2021.

Cost of Sales & Change in Fair Value of Biological Assets

Cost of sales, excluding any adjustments to the fair value of biological assets, for the three-month period ended June 30, 2022 was $6,855,411, representing a decrease of $4,178,962 or 38% compared to cost of sales for the three-month period ended June 30, 2021. Gross margin before the impact of biological assets was 13% for the three-month period ended June 30, 2022, compared to 40% for the three-month period ended June 30, 2021.

The decrease in gross margin is a direct result of wholesale price compression driven by topline market softening and increased supply.

Biological asset transformation for the three-month period ended June 30, 2022 was ($416,772), representing an increase of $4,278,476 or 111% compared to $3,861,704 for the three-month period ended June 30, 2021. This was primarily the result of a decrease in the realized fair value adjustment on sale and disposal of inventory, as well as a decrease in the write-down and provision for cannabis and oil-based cannabis inventory.

Gross Profit

Gross profit for the three-month period ended June 30, 2022 was $1,459,667, or 18% of revenue, compared to a gross profit of $3,357,547, or 18% of revenue for the three-month period ended June 30, 2022. The decrease in gross profit is directly attributable to wholesale price compression, as well as an increase in consumer incentives, such as pricing discounts and other promotions, in order to maintain market position for both in-house and brand partner products.

Total Operating Expenses

	Three months ended June 30,		
	2022	**2021**	**$ Change**
		(As Restated)	
Cannabis taxes and selling costs	$ 2,194,262	$ 3,832,958	$ (1,638,696)
Wages and salaries	1,249,193	1,087,093	162,100
Accounting and legal	634,066	1,006,474	(372,408)
Insurance	794,308	575,574	218,734
Consulting	341,524	568,441	(226,917)
Security	-	301,625	(301,625)
Office, admin, and utilities	147,374	265,557	(118,183)
Advertising and promotion	65,966	218,803	(152,837)
Travel and related	92,644	192,064	(99,420)
Bad debt expense	384,825	68,775	316,050
Other	133,887	207,767	(73,880)
Total general and administrative	6,038,049	8,325,131	(2,287,082)
Share-based compensation	208,234	724,822	(516,588)
Depreciation and amortization	126,092	136,934	(10,842)
Total operating expenses	$ 6,372,375	$ 9,186,887	$ (2,814,512)

Total operating expenses for the three-month period ended June 30, 2022 was $6,372,375, a decrease of $2,814,512 or 31% compared to the three-month period ended June 30, 2021. The decrease in total operating expenses was attributable to a reduction in year-over-year general and administrative expense, as well as shared-based compensation expense.

Total general and administrative expenses for the three-month period ended June 30, 2022 decreased by 27% as compared to the three-month period ended June 30, 2021. There was a year-over-year decrease in all categories of general and administrative expenses, with the exception of wages and salaries and insurance. The increase in wages and salaries was driven by the Company bringing security services in-house, saving a net $139,525 in overall expense when offsetting the increase in wages and salaries expenses with the decrease in security expenses.

Total Other Income (Expense), Net

	Three months ended June 30,		
	2022	2021	$ Change
		(As Restated)	
Other income	$ 74,703	$ -	$ 74,703
Finance expenses	(5,068,257)	(5,048,780)	(19,477)
Fair value gain on derivatives	1,955,858	12,107,182	(10,151,324)
Gain on note payable modification	-	14	(14)
Loss on disposal of property, plant and equipment	(13,520)	(3,073,791)	3,060,271
Gain on debt modification or extinguishment	1,838,595	1,272,092	566,503
Foreign exchange gain (loss)	756,382	(421,736)	1,178,118
Total other income (expense), net	$ (456,239)	$ 4,834,981	$ (5,291,220)

Total net other income (expense) for the three-month period ended June 30, 2022 was $(456,239), a decrease of $5,291,220 or 109%, compared to $4,834,981 for the three-month period ended June 30, 2021. The decrease is primarily the result of (1) a decrease of $10,151,324 in the fair value gain on derivatives driven by the valuation of the Company's convertible debentures and warrants; offset by (2) a non-recurring $3,073,791 loss on disposal of property plant and equipment recognized in the second quarter of 2021 as a result of the sale of certain assets no longer utilized by the company.

Net Income (Loss)

The Company recorded a net loss of $5,368,947 for the three-month period ended June 30, 2022, compared to a net loss of $994,359 for the three-month period ended June 30, 2021, an increase of $4,374,588, or 440%. The increase in net loss was primarily driven by the decrease in topline revenue, offset by cost savings in operating expenses for the three-month period ended June 30, 2022.

RESULTS OF OPERATIONS FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2022 AND 2021

The following tables summarize the Company's results of operations for the six-month periods ended June 30, 2022 and 2021:

	Six months ended June 30,			
	2022	2021	$ Change	% Change
		(As Restated)		
Revenue	$ 16,847,556	$ 32,131,477	$ (15,283,921)	(48)%
Cost of sales	11,886,834	16,003,692	(4,116,858)	(26)%
Gross profit before fair value adjustments	4,960,722	16,127,785	(11,167,063)	(69)%
Realized fair value adjustments on sale and disposal of inventory	3,733,320	8,455,390	(4,722,070)	(56)%
Unrealized gain on fair value adjustment on growth of biological assets	(2,258,931)	(10,656,769)	8,397,838	(79)%
Write-down and provision for inventory and biological assets	495,460	2,805,038	(2,309,578)	(82)%
Gross profit	2,990,873	15,524,126	(12,533,253)	(81)%
Operating expenses	13,207,627	19,306,866	(6,099,239)	(32)%
Loss from operations	(10,216,754)	(3,782,740)	(6,434,014)	170 %
Other income (expense), net	(5,326,468)	(15,358,731)	10,032,263	(65)%
Net loss before income taxes	(15,543,222)	(19,141,471)	(3,598,249)	(19)%
Income tax recovery (expense)	-	-	-	0 %
Net loss and comprehensive loss for the year	$ (15,543,222)	$ (19,141,471)	$ (3,598,249)	(19)%

	Six months ended June 30,			
	2022	2021	$ Change	% Change
		(As Restated)		
Revenue	$ 16,847,556	$ 32,131,477	$ (15,283,921)	(48)%
Cost of sales	11,886,834	16,003,692	(4,116,858)	(26)%
Gross profit before fair value adjustments	4,960,722	16,127,785	(11,167,063)	(69)%

Net change in fair value of biological assets	1,969,849	603,659	1,366,190	226 %
Gross profit	$ 2,990,873	$ 15,524,126	$ (12,533,253)	(81)%
Gross margin	18%	48%		
Gross margin before impact of biological assets	29%	50%		

Revenue

Revenue for the six-month period ended June 30, 2022 was $16,847,556, a decrease of $15,283,921 or 48% compared to revenues for the six-month period ended June 30, 2021. The Company's revenue continues to represent approximately 10-15% of the state's wholesale market. Nevada's cannabis market continues to be harshly affected by the ongoing impact of the pandemic, and a thriving black market, which has resulted in price compression and decreased statewide cannabis sales. While tourism has continued to slowly rebound to pre-pandemic levels, visitor counts still remain far below expectations as a direct result of the reduction in conferences, corporate, and international travel. Nevada's six-month period ended June 30, 2022 retail cannabis sales decreased by over 23%, as compared to the same period from 2021.

Cost of Sales & Change in Fair Value of Biological Assets

Cost of sales, excluding any adjustments to the fair value of biological assets, for the six-month period ended June 30, 2022 was $11,886,834, representing a decrease of $4,116,858, or 26% compared to cost of sales for the six-month period ended June 30, 2021. Gross margin before the impact of biological assets was 29% for the six-month period ended June 30, 2022, compared to 50% for the six-month period ended June 30, 2021. The decrease in gross margin is a direct result of wholesale price compression driven by topline market softening and increased supply.

Biological asset transformation for the six-month period ended June 30, 2022 was $1,969,849, representing a decrease of $1,366,190, or 226% compared to $603,659 for the six-month period ended June 30, 2021. This was the result of a decrease in the realized fair value adjustment on sale and disposal of inventory, a decrease in the unrealized fair value adjustment on growth of biological assets, and a decrease in the write-down and provision for cannabis and oil-based cannabis inventory

Gross Profit

Gross profit for the six-month period ended June 30, 2022 was $2,990,873, or 18% of revenue, compared to a gross profit of $15,524,126, or 48% of revenue for the six-month period ended June 30, 2022. The decrease in gross profit is directly attributable to wholesale price compression, as well as an increase in consumer incentives, such as pricing discounts and other promotions, in order to maintain market position for both in-house and brand partner products.

Total Operating Expenses

	Six months ended June 30,		
	2022	**2021**	**$ Change**
		(As Restated)	
Cannabis taxes and selling costs	$ 4,318,765	$ 6,833,122	$ (2,514,357)
Wages and salaries	2,538,020	2,434,376	103,644
Accounting and legal	1,359,825	1,817,515	(457,690)
Insurance	1,589,741	1,151,148	438,593
Consulting	704,375	327,245	377,130
Security	14,985	663,194	(648,209)
Office, admin, and utilities	388,411	395,921	(7,510)
Advertising and promotion	222,458	392,446	(169,988)

Travel and related	141,778	268,475	(126,697)
Bad debt expense	763,303	68,775	694,528
Other	436,664	220,693	215,971
Total general and administrative	12,478,325	14,572,910	(2,094,585)
Share-based compensation	477,118	4,460,087	(3,982,969)
Depreciation and amortization	252,184	273,869	(21,685)
Total operating expenses	$ 13,207,627	$ 19,306,866	$ (6,099,239)

Total operating expenses for the six-month period ended June 30, 2022 were $13,207,627, a decrease of $6,099,239 or 32% compared to the six-month period ended June 30, 2021. The decrease in total operating expenses was attributable to a reduction in year-over-year general and administrative, as well as shared-based compensation expense. A majority of the share-based compensation expense incurred in the six-month period ended June 30, 2021 was driven by the equity-based compensation awarded to key management personnel in connection with the comprehensive restructuring that took place during first quarter 2021 (as described in the "Strategy and Operations" section above).

Total general and administrative expenses for the six-month period ended June 30, 2022 decreased by 14% as compared to the six-month period ended June 30, 2021. There was a year-over-year decrease in cannabis taxes and selling costs, accounting and legal expenses, security expenses, advertising and promotion, and travel and related expenses. These decreases were partially offset by an increase in wages and salaries and bad debt expense. The increase in wages and salaries was driven by the Company bringing security services in-house, creating savings in overall expense when offsetting the increase in wages and salaries expenses with the decrease in security expenses. The increase in bad debt expense was driven by the Company's assessment of the current economic environment and the softening of the cannabis markets, recorded in the first quarter and second quarter of 2022.

Total Other Income (Expense), Net

	Six months ended June 30,		
	2022	**2021**	**$ Change**
		(As Restated)	
Other income	$ 1,514,043	$ -	$ 1,514,043
Finance expenses	(10,004,249)	(13,238,781)	3,234,532
Fair value gain on derivatives	940,146	6,771,874	(5,831,728)
Gain on note payable modification	-	14	(14)
Loss on disposal of property, plant and equipment	(13,520)	(3,073,791)	3,060,271
Gain (loss) on debt modification or extinguishment	1,831,029	(4,833,996)	6,665,025
Foreign exchange gain (loss)	406,083	(984,051)	1,390,134
Total other income (expense), net	$ (5,326,468)	$ (15,358,731)	$ 10,032,263

Total net other income (expense) for the six-month period ended June 30, 2022 was $5,326,468, a decrease of $10,032,263 or 65%, compared to $15,358,731 for the six-month period ended June 30, 2021. The decrease is a result of (1) a year-over-year reduction of $3,234,532 in finance expenses driven by the Company's continual restructuring efforts in both 2021 and 2022; (2) a non-recurring $3,073,791 loss on disposal of property plant and equipment recognized in the second quarter of 2021 as a result of the sale of certain assets no longer utilized by the company; (3) a non-recurring $1,831,029 net gain on debt modification or extinguishment recorded in the six-month period ended June 30, 2022, as compared to a $4,833,996 non-recurring net loss on debt modification or extinguishment recorded in the six-month period ended June 30, 2021 as a result of the restructuring of the Company's short-term financings, term debt and equipment financing during both of these periods; and (4) a non-recurring insurance settlement of $1.4 million received in the first quarter of 2022 from wind damage sustained to the NLV Greenhouse in 2021.

Net Income (Loss)

The Company recorded a net loss of $15,543,22 for the six-month period ended June 30, 2022, compared to a net loss of $19,141,471 for the six-month period ended June 30, 2021, a decrease of $3,598,249, or 19%. The decrease in net loss was primarily driven by the decreases in operating expenses and other expenses for the six months ended June 30, 2022.

NON-IFRS MEASURES

References in this MD&A to "EBITDA" are to earnings before finance expenses (interest, accretion, and transaction costs), income taxes, and depreciation and amortization. "Adjusted EBITDA" is referred to as EBITDA adjusted for additional non-cash expenses: realized fair value adjustment on sale and disposal of inventory, unrealized gain on fair value adjustment on growth of biological asset, write-down of biological assets, write-down and provision for inventory and biological assets, share-based compensation, impairment of property plant and equipment, write-down of intangible assets and goodwill, fair value gain on derivatives, gain on note payable and debt modifications, loss on disposal of property, plant and equipment, loss on debt extinguishment and foreign exchange gain.

EBITDA and Adjusted EBITDA are measures that are not recognized under IFRS, and do not have a standardized meaning prescribed by IFRS. Therefore, EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA and Adjusted EBITDA should not be construed as an alternative to net income or loss determined in accordance with IFRS as an indicator of the Company's performance or to cash flows from operating, investing, and financing activities as measures of liquidity and cash flows. Management believes that EBITDA and Adjusted EBITDA are important measures in evaluating the historical performance of the Company.

	Three months ended June 30,		
	2022	2021	$ Change
		(As Restated)	
Net loss and comprehensive loss for the year	$ (5,368,947)	$ (994,359)	$ (4,374,588)
Finance expenses	5,068,257	5,048,780	19,477
Depreciation and amortization of property, plant and equipment and right of use asset	1,152,566	2,251,362	(1,098,796)
Depreciation of property, plant and equipment in cost of sales	126,092	136,934	(10,842)
EBITDA	$ 977,968	$ 6,442,717	$ (5,464,749)
Realized fair value adjustment on sale and disposal of inventory	464,727	5,912,888	(5,448,161)
Unrealized gain on fair value adjustment on growth of biological assets	(635,221)	(3,847,524)	3,212,303
Write-down and provision for inventory and biological assets	(246,278)	1,796,340	(2,042,618)
Share-based compensation	208,234	724,822	(516,588)
Fair value gain on derivatives	(1,955,858)	(12,107,182)	10,151,324
Gain on note payable modification	-	(14)	14
Loss on disposal of property, plant and equipment	13,520	3,073,791	(3,060,271)
Gain on debt modification or extinguishment	(1,838,595)	(1,272,092)	(566,503)
Foreign exchange (gain) loss	(756,382)	421,736	(1,178,118)
Adjusted EBITDA	$ (3,767,885)	$ 1,145,482	$ (4,913,367)

	Six months ended June 30,		
	2022	2021	$ Change
		(As Restated)	
Net loss and comprehensive loss for the year	$ (15,543,222)	$ (19,141,471)	$ 3,598,249
Finance expenses	10,004,249	13,238,781	(3,234,532)
Depreciation and amortization of property, plant and equipment and right of use asset	2,790,467	2,934,572	(144,105)
Depreciation of property, plant and equipment in cost of sales	252,184	273,869	(21,685)
EBITDA	$ (2,496,322)	$ (2,694,249)	$ 197,927
Realized fair value adjustment on sale and disposal of inventory	3,733,320	8,455,390	(4,722,070)
Unrealized gain on fair value adjustment on growth of biological assets	(2,258,931)	(10,656,769)	8,397,838
Write-down and provision for inventory and biological assets	495,460	2,805,038	(2,309,578)
Share-based compensation	477,118	4,460,087	(3,982,969)
Fair value gain on derivatives	(940,146)	(6,771,874)	5,831,728
Gain on note payable modification	-	(14)	14

Loss on disposal of property, plant and equipment	13,520	3,073,791	(3,060,271)
(Gain) loss on debt modification or extinguishment	(1,831,029)	4,833,996	(6,665,025)
Foreign exchange (gain) loss	(406,083)	984,051	(1,390,134)
Adjusted EBITDA	$ (3,213,093)	$ 4,489,447	$ (7,702,540)

Adjusted EBITDA for the three-month period ended June 30, 2022 was $(3,767,885), a decrease of $4,913,367 compared to Adjusted EBITDA of $1,145,482 for the three-month period ended June 30, 2022. Adjusted EBITDA for the six-month period ended June 30, 2022 was $(3,213,093) a decrease of $7,702,540 compared to Adjusted EBITDA of $4,489,447 for the six-month period ended June 30, 2022. These decreases were largely attributable to the decline in wholesale prices, which directly impacted the Company's top-line revenue.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

The Company's primary need for liquidity is to fund working capital requirements of the business, capital expenditures and debt service. To date the Company's primary source of liquidity has been from funds generated by financing activities, including private placements and convertible debenture offerings. The Company's ability to fund the Company's operations, to make planned capital expenditures, to make scheduled debt and lease payments, and to repay or refinance indebtedness depends on our future operating performance and cash flows, which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond the Company's control. See the "Financial and Capital Risk Management" and "Other Risk Factors" sections of this MD&A.

The Company generates revenues out of both its Neeham Property and the Bruce Street Facility. As at June 30, 2022, the Company had $3,638,374 of cash and cash equivalents and a working capital deficit of $9,700,660, compared with $867,981 in cash and cash equivalents and a working capital deficit of $18,232,514 as at December 31, 2021. The decrease in the working capital deficit is the result of (1) a decrease of $2,868,256 in trade accounts payables and accrued liabilities, (2) an increase in cash and cash equivalents of $2,770,393, and (3) a decrease of $3,703,542 in the current portion of equipment financing as a result of the restructuring of this financing in second quarter 2022. The Company will be required to raise additional capital to fund its financial obligations, and future expansion and growth.

The financial statements have been prepared on a going concern basis that presumes the realization of assets and discharge of liabilities in the normal course of business. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that could result should the Company be unable to continue as a going concern.

Recent Financing Transactions and Equity Offerings

Cash Flows

The following table summarizes the sources and uses of cash for each of the periods presented:

	Six months ended June 30,	
	2022	**2021**
		(As Restated)
Net cash used in operating activities	$ (9,082,229)	$ (11,443,901)
Net cash used in investing activities	(201,823)	749,704
Net cash provided by financing activities	12,054,445	11,809,516
Net increase in cash and cash equivalents	$ 2,770,393	$ 1,115,319

During the six-month period ended June 30, 2022, the Company used $9,082,229 of cash in its operating activities

(June 30, 2021: $11,443,901), predominantly for: staffing, building inventory of flower and distillate, packaging, marketing, promotional items and corporate-related activities. During the six-month period ended June 30, 2022, the Company invested $201,823 into property, plant, and equipment (2021: $123,957) and received $nil in proceeds from the sale of property, plant and equipment (2021: $873,661). During the six-month period ended June 30, 2022, the Company raised a net amount of $14,982,805 from debt and equity financing activities (June 30, 2021: $18,656,043) and repaid $2,928,360 (June 30, 2021: $4,108,884) in equipment financing, lease payments and other debt obligations.

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

Contractual Obligations and Commitments

As at June 30, 2022, the Company's financial liabilities consist of trade accounts payable and accrued liabilities, construction payables, convertible debentures, convertible notes, equipment financing, lease liability and term debt.

	Total	< 1 year	1-3 years	4-5 years	> 5 years
Trade accounts payable and accrued liabilities	$ 17,277,605	$ 17,277,605	$ -	$ -	$ -
Construction payables	4,359,228	4,359,228	-	-	-
Short-term financing	6,039,452	6,039,542	-	-	-
Convertible debentures, notes and interest	38,249,608	2,968,062	35,281,546	-	-
Leases	74,878,523	3,315,871	6,941,798	7,373,457	57,247,397
Equipment financing	15,673,225	2,995,769	12,677,456	-	-
Term debt	77,407,433	1,411,218	12,841,673	63,154,541	-

SUMMARY OF QUARTERLY RESULTS

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

	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
			(As Restated)	*(As Restated)*	*(As Restated)*	*(As Restated)*		
Revenue	$ 7,898,306	$ 8,949,250	$ 12,157,626	$ 14,068,308	$ 18,253,624	$ 13,877,853	$ 9,661,567	$ 11,903,134
Net income (loss) and comprehensive income (loss)	$(5,368,947)	$(10,174,275)	$ (6,486,997)	$ 1,180,552	$ (994,359)	$(18,147,111)	$(72,606,705)	$(17,192,698)
Basic EPS	$ (0.01)	$ (0.02)	$ (0.01)	$ 0.00	$ 0.00	$ (0.06)	$ (0.27)	$ (0.07)
Diluted EPS	$ (0.01)	$ (0.02)	$ (0.01)	$ 0.00	$ 0.00	$ (0.06)	$ (0.27)	$ (0.07)

As described above in the "Selected Financial Information" section, the Company has determined that the previously issued unaudited condensed consolidated interim financial statements for each of the first, second third and fourth quarters of 2021 as filed on SEDAR would be restated and should no longer be relied upon. Accordingly, adjustments have been retrospectively made to the each of these periods. Refer to the heading "Restatement" below for more information.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as at the date hereof.

RELATED PARTY TRANSACTIONS

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

Key Management Personnel includes the Company's Directors, President and Chief Executive Officer, Executive Vice President, Chief Financial Officer and Corporate Secretary. During the three and six-month periods ended June, 2022, the Company incurred: (i) $377,278 and $744,972, respectively (June 30, 2021: $324,544 and $1,014,997, respectively) in wages, salaries and consulting fees to those considered key management personnel; (ii) $77,500 and $142,500, respectively (June 30, 2021: $81,500 and $161,500, respectively) in Director fees, and (iii) $183,031 and $436,852, respectively (June 30, 2021: $563,934 and $4,125,208, respectively) in share-based compensation to key management personnel. The amounts owing as at June 30, 2022 to key management personnel of $2,407,414 (June 30, 2021: $1,829,789) are included in trade accounts payable and accrued liabilities.

During the three and six-month periods ended June 30, 2022, the Company incurred $28,185 and $161,237, respectively (2021: $19,770 and $24,065, respectively) in legal expenses for arm's-length services received from the law firm at which the Company's Corporate Secretary works. As at June 30, 2022, the Company owed a balance of $10,014 (June 30, 2021: $18,018) for the services received.

	Three months ended June 30,	
	2022	**2021**
		(As Restated)
Salary and/or consulting fees	$ 377,278	$ 324,544
Board fees	77,500	81,500
Stock-based compensation	183,031	563,934
Legal expenses	28,185	19,770
Total	$ 665,994	$ 989,748

	Six months ended June 30,	
	2022	**2021**
		(As Restated)
Salary and/or consulting fees	$ 744,972	$ 1,014,997
Board fees	142,500	161,500
Stock-based compensation	436,852	4,125,208
Legal expenses	161,237	24,065
Total	$ 1,485,561	$ 5,325,770

SUBSEQUENT EVENTS

Subsequent to June 30, 2022:

On July 29, 2022, the Company announced that it had extended the maturity date of its $6,000,000 short-term financing (the "Short-term Loan #1") from July 24, 2022 to December 31, 2022.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements in conformity with IFRS requires management to make judgments that affect the application of accounting policies regarding certain types of assets, liabilities, revenues, expenses, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses recognized during the reporting period. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments.

Going Concern

The Company's assessment of its ability to continue as a going concern requires judgments about the Company's ability to execute its strategy by funding future working capital requirements. The Company's objectives are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

Functional Currency

The determination of an entity's functional currency is a matter of judgment based on an assessment of the specific facts and circumstances relevant to determining the primary economic environment of each individual entity within the group. The Company reconsiders the functional currencies used when there is a change in events or conditions considered in determining the primary economic environment of each entity.

Convertible Debentures

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

Biological Assets and Inventory

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

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

Depreciation of property, plant and equipment and intangible assets is dependent upon estimates of useful lives based on management's judgment.

Impairment on Non-Financial Assets

The assessment of any impairment of non-financial assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions, the useful lives of assets, definition of the cash generating unit ("CGU") and estimates used to measure impairment losses. The recoverable value of these assets is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

Impairment of Goodwill and Indefinite Life Intangible Assets

The Company measures all assets acquired and liabilities assumed at their acquisition-date fair values.

Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred, and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess of (a) the consideration transferred to obtain control and the amount of any non-controlling interest in the acquire over, and (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

Share-based Compensation and Warrants

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

Business Combinations

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

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

Income Taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, if they are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Fair Value of Financial Instruments

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

Leases

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

Impairment of Financial Assets

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

CHANGES IN OR ADOPTION OF ACCOUNTING PRACTICES

The Company has implemented all applicable IFRS standards recently issued by the IASB. The Company has not adopted any new accounting policies in the current year. The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's consolidated financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the International Accounting Standards Board issued Classification of Liabilities as Current or Non-current, which amended IAS 1 Presentation of financial statements. The amendments clarified how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The amendments are not expected to have a material impact on the Company.

IFRS 9 Financial Instruments – Fees in the "10 per cent" test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

IAS 12 Income Taxes (Amendment)

In May 2021, the International Accounting Standards Board issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction, which amended IAS 12 Income Taxes. The amendments require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The amendments are not expected to have a material impact on the Company.

RECLASSIFICATION AND RESTATEMENT OF CERTAIN PRIOR PERIOD ITEMS

Certain reclassifications have been made to the prior year financial statements to conform with the current year basis of presentation.

During the three-month period ended December 31, 2021, the Company had a change-over in finance management and staff. New finance management discovered accounting errors, both of omission and commission, throughout the first and second quarter of 2021. Adjustments were made to correct the errors and as a result it was determined that Flower One's previously issued unaudited, condensed consolidated interim financial statements for each of the first, second and third quarters of 2021 prepared in accordance with International Financial Reporting Standards as filed on SEDAR would be restated and should no longer be relied upon.

Adjustments for these errors have been made retrospectively to the comparative period as at and for the three and six-month periods ended June 30, 2021. The condensed consolidated interim financial statements for the periods as at and ended between March 31, 2021 and September 30, 2021 were not adjusted and refiled at the time of discovery of the errors, rather the comparative period as at and for the three and six-month periods ended June 30, 2021, has been corrected herein. The period as at and ending March 31, 2021 was corrected within the filing of the condensed consolidated interim financial statements as at and for the three-month period ended March 31, 2022. The period as at and ending September 30, 2021 has been corrected and those adjustments will be reflected in the filing of the condensed consolidated interim financial statements as at and for the nine-month period ended September 30, 2022.

Subsequent to the filing of the condensed consolidated interim financial statements for the three-month period ended March 31, 2022, finance management discovered an error in the restated derivative liabilities balance as at March 31, 2021, and the related fair value gain/loss on derivatives for the three-month period ended March 31, 2021. The adjustment for this error has been made retrospectively to the comparative periods as at and ended March 31, 2021 and June 30, 2021.

The Company has made both material and immaterial retrospective restatements to in order to properly reflect our financial position and results of operations as at and for the three and six-month periods ended June 30, 2021. The impact of the restatements are summarized below:

Accounts Receivable

Due to accounting errors of omission made during the three and six-month periods ended June 30, 2021, net accounts receivable was understated by $68,723. The understatement was the result of the failure to record a provision for bad debt expense for accounts receivable that were deemed to be uncollectible as at June 30, 2021.

Prepaids and Deposits

Due to accounting errors of commission made during the three and six-month periods ended June 30, 2021, current and non-current prepaids and deposits were understated by a combined $1,043,566 as at June 30, 2021. The understatement was primarily attributable to the improper recording of a deposit in the amount of $1,050,000 related to the RB term debt into the term debt liability line-item rather than the non-current prepaids and deposits line-item.

Inventory and Cost of Sales

Due to accounting errors of commission made during the three and six-month periods ended June 30, 2021, inventory was overstated by $4,233,472 as at June 30, 2021, and cost of sales was overstated by $66,659 and $2,759,033 for the three and six-month periods ended June 30, 2021, respectively. These misstatements were the result of the incorrect valuation of the carrying value of both cannabis and oil-based cannabis inventory.

Biological Assets and Fair Value Adjustments

Due to accounting errors of commission during the three and six-month periods ended June 30, 2021, biological assets were understated by $776,450 as at June 30, 2021. The realized fair value loss on sale and disposal of inventory was understated by $2,392,776, the unrealized gain on fair value adjustment on growth of biological assets was understated by $73,713 and the write-down and provision for inventory was overstated by $200,665 for the three-month period ended June 30, 2021. The realized fair value loss on sale and disposal of inventory was overstated by $4,838,987, the unrealized gain on fair value adjustment on growth of biological assets was overstated by $8,889,938 and the write-down and provision for inventory was understated by $732,972 for the six-month period ended June 30, 2021. These misstatements were the result of the incorrect valuation of biological assets and the related fair value adjustments.

Property Plant and Equipment and Depreciation Expense

Due to accounting errors of commission during the six-month period ended June 30, 2021, property, plant and equipment was understated by $4,310,302 as at June 30, 2021. This was the result of the $1,272,712 over-disposal of equipment and the reversal of related accumulated depreciation $2,294,754, in addition to the over-disposal of equipment classified as building assets and the reversal of related accumulated depreciation auctioned in June 2021. There was also a $112,835 understatement of ROU assets NBV as at June 30, 2021. Depreciation expense was overstated by $43,248 for the three-month period ended March 31, 2021 and an additional overstatement of depreciation expense of $43,248 occurred in the three-month period ended June 30, 2021 for a total overstatement of $86,496 for the six-month period ended June 30, 2021. Loss on the disposal of assets was overstated by $4,327,309 for the three-month period ended June 30, 2021 primarily due to the related over-disposal of assets auctioned in June 2021 which resulted in a change in asset NBV of $4,197,467.

Trade Accounts Payable, Accrued Liabilities and Construction Payables

Due to accounting errors of commission during the three and six-month periods ended June 30, 2021, trade accounts payable and accrued liabilities were understated by $340,331 and construction payables were understated by $242,633 as at June 30, 2021. The primary reason for the understatements is due to cut-off errors as at June 30, 2021.

Convertible Debentures

Due to accounting errors of commission during the six-month period ended June 30, 2021, convertible debentures were overstated by $2,316,000 as at June 30, 2021. This was the result of the fair value of conversion options and associated warrants at time of restructure (April 2021) and at June 30, 2022 of the debenture units being overvalued due to the use of the barrier option pricing model versus the Monte Carlo option pricing model method of valuation.

Convertible Note Units

Due to accounting errors of commission during the six-month period ended June 30, 2021, convertible notes were understated by $2,486,175 as at June 30, 2021. This was the result of the fair value of conversion options at time of issuance (January and March 2021) and as at June 30, 2022 of the note units being undervalued due to the use of the barrier option pricing model versus the Monte Carlo option pricing model method of valuation.

Derivative Liability and Fair Value Loss on Derivatives

Due to accounting errors of commission during the three and six-month periods ended June 30, 2021, the derivative liability was overstated by $4,882,322 as at June 30, 2021, and the fair value gain on derivatives was understated by $1,446,372 and $131,155 for the three and six-month periods ended June 30, 2021, respectively. This was primarily the result of the fair value of conversion options and associated warrants of the convertible note units and private placement warrants being incorrectly valued as at June 30, 2021, due to the use of the barrier option pricing model versus the Monte Carlo option pricing model method of valuation. Subsequent to the filing of the condensed consolidated interim financial statements for the three-month period ended March 31, 2022, finance management discovered an error in the restated derivative liabilities balance as at March 31, 2021, and the related fair value gain/loss on derivatives for the three-month period ended March 31, 2021. The adjustment for this error resulted an increase of $2,766,765 to the derivative liability and related fair value loss on derivatives, and has been made retrospectively to the comparative periods as at and ended March 31, 2021 and June 30, 2021.

Lease Obligations

Due to accounting errors of commission during the six-month period ended June 30, 2021, the lease obligation balance was overstated by $289,406 as at March 31, 2021. This was primarily the result of the under-depreciation of ROU assets for the three-month period ended March 31, 2021. The correction was originally made in the three-month period ended June 30, 2021 and therefore, the lease obligation as at June 30, 2021 was correctly stated.

Equipment Financing

Due to accounting errors of commission during the six-month period ended June 30, 2021, the equipment financing balance was overstated by $1,294,364 and $0, respectively, as at June 30, 2021. As at June 30, 2021 the current portion of the equipment financing was understated by $102,857 and the non-current portion of equipment financing was overstated by the same $102,857 due to a misclassification of current versus non-current payments due.

Term Debt

Due to accounting errors of commission during the six-month period ended June 30, 2021, the term debt balance was overstated by $6,000,002 as at June 30, 2021. The primary reason for the overstatement was that $6,000,000 in short-term financing was misclassified as term debt as at June 30, 2021.

Short-term Financing

Due to accounting errors of commission during the six-month period ended June 30, 2021, the short-term financing liability balance was understated by $6,000,000 as at June 30, 2021. The reason for the understatement was that $6,000,000 in short-term financing was misclassified as term debt as at June 30, 2021.

Share Capital

Due to accounting errors of commission during the six-month period ended June 30, 2021, share capital was overstated by $4,066,748 as at June 30, 2021. The overstatement was primarily the result of the misclassification of the $4,276,744 loss on debt restructure incurred as a result of convertible debentures restructuring in April 2021 recorded in the loss on debt modification/extinguishment line-item versus a reduction in the share capital balance.

Contributed Surplus and Share Based Compensation

Due to accounting errors of omission during the six-month period ended June 30, 2021, contributed surplus was understated by $3,153,846 as at June 30, 2021. Share-based compensation for the three and six-month periods ended June 30, 2021 was understated by $602,796 and $3,691,033, respectively. These misstatements were primarily due to not recording RSUs awarded during the three and six-month periods ended June 30, 2021.

General and administrative expenses

Due to accounting errors of commission, general and administrative expenses were understated by $619,857 for the three-month period ended June 30, 2021 and overstated by $616,548 for the six-month period ended June 30, 2021. These misstatements were the result of the incorrect classification of expenses between the categories of general and administrative expense, as well as cut-off errors as at June 30, 2021.

The net understatements of $619,857 for the three-month period ended June 30, 2021 are comprised of: understatements of cannabis taxes and selling costs ($1,137,905), accounting and legal ($218,318), consulting ($389,362), office, admin, and utilities ($170,407), advertising and promotion ($43,410), bad debt expense ($68,775) and other expenses ($126,722); offset by overstatements of wages and salaries ($128,152), insurance ($793,808), security ($488,082) and travel and related ($125,000).

The net overstatements of $616,548 for the six-month period ended June 30, 2021 are comprised of: overstatements of wages and salaries ($937,387), accounting and legal ($178,862), insurance ($821,135), consulting ($100,103), security ($743,798), travel and related ($125,000) and other expenses ($3,951); offset by understatements of cannabis taxes and selling costs ($2,033,827), office, admin, and utilities ($106,922), advertising and promotion ($84,164) and bad debt expense ($68,775).

Finance Expenses

Due to accounting errors of commission during the three and six-month periods ended June 30, 2021, finance expenses were understated by $2,542,221 and $1,192,854, respectively, for the three and six-month periods ended June 30, 2021. The overstatements were primarily due to transaction costs being recorded as expense versus an offset to the carrying value of the Company's debt balances.

Loss on Debt Extinguishment and Restructure

Due to accounting errors of omission during the three and six-month periods ended June 30, 2021, loss on debt extinguishment was overstated by $15,233,312 and $9,582,370, respectively. These overstatements were due to the incorrect calculations of the gain/loss on debt modification or extinguishment related to the convertible debentures restructure, equipment financing restructure, the term debt restructure, and the short-term financing restructures completed during the six-month period ended June 30, 2021.

Foreign Exchange Loss

Due to accounting errors of commission during the three and six-month periods ended June 30, 2021, foreign exchange loss was overstated by $262,797 and $60,085, respectively. The overstatements were primarily due to cut-off errors as at June 30, 2021.

Related Party Transactions

Due to disclosure errors during the six-month period ended June 30, 2021, related party transactions for the three and six-month periods ended June 30, 2021 were misstated as follows: (1) amounts owing to key management personnel were under-disclosed by $833,099 as at June 30, 2021. (2) wages, salaries and consulting fees incurred were over-disclosed by $70,263 and $174,176, respectively, (3) fees paid to the law firm at which the Company's Corporate Secretary works were over-disclosed by $5,906 and $7,658, respectively, (4) board of director fees were over-disclosed by $nil and $34,417, respectively, and (5) share-based compensation to key management personnel was under-disclosed by $396,641 and $3,415,578, respectively.

Refer to "Note 26 - Reclassification and Restatement of Certain Prior Period Items" in the unaudited condensed interim financial statements of the Company to which this MD&A relates for additional information on the effects of the material and immaterial restatement on the condensed consolidated interim financial statements as at and for the three and six-month periods ended June 30, 2022 and 2021.

OUTSTANDING SHARE DATA

As at of June 30, 2022, there were 473,098,910 common shares outstanding.

As at June 30, 2022, there were 8,455,000 stock options and 51,827,634 RSUs outstanding, each exercisable into one common share of the Company.

As at June 30, 2022 there were 251,344,870 warrants outstanding, each exercisable into one common share of the Company.

As at the date of this MD&A, there was CAD$16,988,400 in principal of the March 2019 convertible debentures outstanding, convertible into 44,118,875 common shares of the Company and CAD$3,710,400 in principal of the November convertible debentures outstanding, convertible into 9,635,909 common shares of the Company.

As at the date of this MD&A, there was CAD$23,779,000 in principal of the three tranches of 2021 convertible notes outstanding, convertible into 92,757,828 common shares of the Company.

FINANCIAL AND CAPITAL RISK MANAGEMENT

Fair Value of Financial Instruments

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

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, and

Level 3 – Inputs for the asset or liability that are not based on observable market data.

When applicable, further information about the assumptions made in determining fair values is disclosed in the

Notes specific to that asset or liability. As at June 30, 2022, the fair values of cash and cash equivalents, accounts receivable, trade accounts payable and accrued liabilities, construction payables and notes payable are not materially different from their carrying values given the short term to maturity. The term debt and equipment financing are classified at amortized cost and accounted for using the effective interest rate method. Their carrying values approximate fair value as the interest rate used to discount the host debt contract and financing liability approximate market rates. The fair value of derivatives is disclosed in the financial statements.

As the restructured March and November 2019 convertible debentures are freely traded on the CSE (symbols "FONE.DB.B" and "FONE.DB.C"), the fair value of the combined debt component and conversion feature is determinable. The fair value of the Conversion Feature was calculated using a set of partial differential equations solved numerically using finite difference methods and was $325,529 as at June 30, 2022. Based on the fair value of outstanding debentures as at June 30, 2022 of $3,885,236, the fair value of the debt component was calculated as the residual being $3,559,707.

As the convertible debenture warrants and public offering warrants are freely traded on the CSE (symbols "FONE.WT", "FONE.WT.A" and "FONE.WT.B"), the fair value of these outstanding warrants as at June 30, 2022 is $305,939.

Capital Management

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

Total managed capital is as follows:

		June 30, 2022		December 31, 2021
		Unaudited		*Audited*
Borrowings[1]	$	84,294,060	$	68,737,691
Share capital		142,000,859		141,675,272
Total	**$**	**226,294,919**	**$**	**210,412,963**

[1]Borrowings consist of convertible debentures, convertible note units, equipment financing, term debt, and short-term financing.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. The Company plans to use funds from the future sale of products to fund operations and expansion activities

Financial Instruments Risk

Market Risk

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash holdings and accounts receivables. The risk exposure is limited to their carrying amounts at the statement of financial position date. The risk for cash and cash equivalents is mitigated by holding these instruments with highly rated Canadian and United States financial institutions. Accounts receivables primarily consist of trade accounts receivable. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. As at June 30, 2022, the expected credit loss on all the Company's accounts receivable were nominal. Most customers are on terms of 30 days or less. As at June 30, 2022, $2,833,385 of the accounts receivable balance was over 30 days. As of the date of these financial statements, approximately 55.16% of the outstanding accounts receivable balance as at June 30, 2022 was collected. As at June 30, 2022, maximum credit exposure to cash is $7,100,148 (December 31, 2021: $5,409,296).

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Prior to the term debt being modified on January 25, 2021, the term debt bore interest at LIBOR plus 8%, and the Company was exposed to interest rate fluctuations in LIBOR. However, subsequent to the modification of that obligation, the interest rate is fixed and, thus, the Company is no longer subject to interest rate risk.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. As at June 30, 2022, the Company had cash and cash equivalents of $549 (CAD$707) and trade accounts payable and accrued liabilities of $714,561 (CAD$920,783) denominated in CAD as the Company incurs expenses in both United States and Canadian dollars. Additionally, the convertible debentures are denominated in CAD. The Company has not hedged its exposure to currency fluctuations at this time. The impact on the Company's condensed consolidated interim statements of loss and comprehensive loss resulting from a 10% increase or decrease in foreign exchange rates for the three and six-month periods ended June 30, 2022 would be approximately $49,509.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet financial obligations as they come due. As at June 30, 2022, the Company's financial liabilities consist of trade accounts payable and accrued liabilities, construction payables, convertible debentures, convertible notes, equipment financing, lease liability and term debt. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis. Liquidity risk is mitigated through management of working capital, cash flows, the issuance of shares and debt.

Other Price Risk

Other price risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to other price risk as at June 30, 2022.

OTHER RISK FACTORS

The Company is pursuing a commercial hydroponic greenhouse for cannabis cultivation and production that encompasses leading technology for agricultural industries, and as such is exposed to a number of risks and uncertainties that are not uncommon to other companies in the same business. The Company continues to have limited capital resources and relies upon the sale of its assets or sale of its common shares for cash required to make new investments, and to fund the future operations of the Company.

An investment in the Company is speculative and involves a high degree of risk due to the nature of the

Company's business. The following risk factors, as well as risks not currently known to the Company, could materially adversely affect the Company's future business, operations and financial condition and could cause them to differ materially from the estimates described in forward-looking statements contained herein. Readers should carefully consider the following risk factors along with the other matters set out herein:

RISKS RELATED TO THE UNITED STATES REGULATORY REGIME

Marijuana is Illegal under United States 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 materially 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 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 are 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 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 manufacturing, 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 United States. Regulatory Authorities

Flower One's existing operations in the United States, and any future operations or investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada and the United Stated. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate or invest in the United States or any other jurisdiction, in addition to those described herein.

On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding (the "MOU") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSXV. 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 affect a trade of the common shares through the facilities of the applicable stock exchange.

COVID-19 Pandemic

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

In late 2019, COVID-19 was first detected in Wuhan, China. Since then, the virus has spread to over 100 countries. The shutdown of the Nevada economy for part of 2020 negatively affected the Company's business last year. While the continued impact of COVID-19 could not only adversely affect our customer's store traffic, but also the Company's ability to adequately staff and supply its facilities. The Company could be adversely affected if governments under which it or its suppliers operate: impose mandatory closures, seek voluntary closures, or impose restrictions on operations. The Company's ability to successfully operate and sell its products may depend on the whether it and its customers and suppliers are able to continue to operate, and the nature of restrictions on such operations and whether it can retain adequate labor to support its operations.

Foreign Investors in Flower One and its Directors, Officers, and Employees may be Subject to Entry Bans into the United States

It is a federal crime to engage in interstate or foreign travel or commerce with the intent to distribute the proceeds of or promote a SUA. News media have reported that United States immigration authorities have increased scrutiny of people who are crossing the United States-Canada border with respect to persons involved in cannabis businesses in the United States. Those employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry or lifetime bans from the United States for their business associations with U.S. cannabis businesses. Entry happens at the sole discretion of CBP officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a non-US citizen or foreign national. The government of Canada has started warning travelers on its website that previous use of cannabis, or any substance prohibited by U.S. federal laws, could mean denial of entry to the United States. Business or financial involvement in the legal cannabis industry in Canada or in the United States could also be reason enough for U.S. border guards to deny entry. On September 21, 2018, CBP released a statement outlining its current position with respect to enforcement of the laws of the United States. It stated that Canada's legalization of cannabis will not change CBP enforcement of United States laws regarding controlled substances and because cannabis continues to be a controlled substance under United States law, working in or facilitating the proliferation of the legal marijuana industry in the United States. States where it is deemed legal, or Canada may affect admissibility to the United States. As a result, CBP has affirmed that, employees, directors, officers, managers and investors of companies involved in business activities related to cannabis in the United States or Canada (such as Flower One), who are not U.S. citizens face the risk of being barred from entry into the United States for life. On October 9, 2018, CBP released an additional statement regarding the admissibility of Canadian citizens working in the legal Canadian cannabis industry. CBP stated that a Canadian citizen working in or facilitating the proliferation of the legal cannabis industry in Canada coming into the United States for reasons unrelated to the cannabis industry will generally be admissible to the United States; however, if such person is found to be coming into the United States for reasons related to the cannabis industry, such person may be deemed inadmissible. Accordingly, the Flower One's directors, officers or employees traveling to the United States for the benefit of the Company may encounter enhanced scrutiny by United States immigration authorities that may result in the employee not being permitted to enter the United States for a specified period of time. If this happens to the Company's directors, officers or employees, then this may reduce the Company's ability to manage its business effectively in the United States.

Constraints on Developing and Marketing Products

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

Unfavorable Tax Treatment of Cannabis Businesses

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

Risk of Civil Asset Forfeiture

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

Proceeds of Crime Statutes

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

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

Limited Intellectual Property Protection

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

1. Flower One will not be able to register any United States federal trademarks for its cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a crime under the CSA, the United States Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, the Company likely will be unable to protect its cannabis product trademarks beyond the geographic areas in which it conducts business. The use of its trademarks outside the states in which it operates by one or more other persons could have a material adverse effect on the value of such trademarks.

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

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

Flower One's success may likely depend on its ability to use and develop new extraction technologies, recipes, know-how and new strains of cannabis without infringing the intellectual property rights of third parties. The Company cannot assure that third parties will not assert intellectual property claims against it. The Company is subject to additional risks if entities licensing to it intellectual property does 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 United States Bankruptcy Protections

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

Potential FDA Regulation

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

Legality of Contracts

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

RISKS RELATED TO THE COMPANY

Risks Related to COVID-19

At the time this MD&A is prepared, the Company cautions that its business could be materially and adversely affected by the risks, or the public perception of the risks, related to COVID-19 virus and its continued impacts. The risk of a pandemic, or public perception of such a risk, could cause temporary or long-term disruptions in the Company's supply chains and/or delays in the delivery of its products. Further, such risks also could adversely affect the Company's customers' financial condition, resulting in reduced buying of its products. Moreover, an epidemic, pandemic, outbreak or other public health crisis, such as COVID-19, could cause employees to avoid the Company's properties, which could adversely affect its ability to adequately staff and manage its businesses. "Shelter-in-place" or other such orders by governmental entities could also disrupt the Company's operations, if employees who cannot perform their responsibilities from home are not able to report to work. Risks related to an epidemic, pandemic or other health crisis, such as COVID-19, could also lead to the complete or partial closure of one or more of the Company's stores, facilities or operations of its partners. However, in such event the Company's customers dispensaries may be considered essential services and therefore be allowed to remain operational - as was the case during the 2020 shutdowns in Nevada.

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

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

Limited Operating History

As the Company began to generate revenue in late 2019 and then was negatively impacted by COVID-19-related issues in 2020 and 2021, it is extremely difficult to make accurate predictions and forecasts of its finances. This is compounded by the fact that the Company intends to operate in the cannabis industry, which is rapidly transforming. There is no guarantee that the Company's products will be attractive to potential consumers or that the revenues generated from such products will meet the Company's projections.

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

Actual Results of Operations may Differ Materially from the Expectations of the Company's Management

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

Significant Ongoing Costs and Obligations Related to its Investment in Infrastructure, Growth, Regulatory Compliance and Operations

The Company expects to incur significant ongoing costs and obligations related to its ongoing operations, and other infrastructure, as well as for growth and for regulatory compliance. These costs, particularly if they exceed budget amounts, could have a material adverse impact on the Company's results of operations, financial condition and cash flows. In addition, future changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. The Company's efforts to grow its business may be costlier than the Company expects, and the Company may not be able to increase its revenue enough to offset its higher operating expenses. The Company may incur significant losses in the future for a number of reasons, including unforeseen expenses, the delay of the completion of the Bruce Street Facility 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

As at June 30 2022, no individual or related group of shareholders have any ability to control, 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.

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 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 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.

Potential Default in the Company's Obligations to Pay its Indebtedness

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

Strategic Alliances

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

Risks Inherent in an Agricultural Business

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

Energy Costs

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

Reliance on Key Personnel

The Company's success has depended and continues to depend upon its ability to attract and retain key management and consultants. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company currently receives the benefit of consultants who provide services to the Company under the Consulting Agreement. The termination of this agreement or the inability to access key personnel could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition. The loss of any of the Company's senior management or key consultants and employees could materially adversely affect the Company's ability to execute the Company's business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all. The Company does not maintain key person life insurance policies on any of the Company's employees.

Reliance on a Single Jurisdiction

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

Environmental and Employee Health and Safety Regulations

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

Unknown Environmental Risks

There can be no assurance that Flower One will not encounter hazardous conditions at the site of the real estate used to operate its businesses, such as asbestos or lead, in excess of expectations that may delay the development of its businesses. Upon encountering a hazardous condition, work at the facilities of Flower One may be suspended. If Flower One receives notice of a hazardous condition, it may be required to correct the condition prior to continuing construction or operations. The presence of other hazardous conditions will likely delay construction or operations and may require significant expenditure of Flower One's resources to correct the condition. Such conditions could have a material impact on the investment returns of Flower One.

Security Risks

The business premises of Flower One's operating locations are targets for theft. While the Company has implemented security measures at its operating locations and continues to monitor and improve its security measures, its cultivation and processing facilities could be subject to break-ins, robberies and other breaches in security. If there is a breach in security and the Company falls victim to a robbery or theft, the loss of cannabis plants, cannabis oils, cannabis flowers and cultivation and processing equipment could have a material adverse impact on the business, financial condition and results of operation of the Company.

As Flower One's business may involve the movement and transfer of cash which is collected from its locations and deposited into financial institutions, there is a risk of theft or robbery during the transport of cash. The Company may engage a security firm to provide security in the transport and movement of large amounts of cash. While the Company has taken steps to prevent theft or robbery of cash during transport, there can be no assurance that there will not be a security breach during the transport and the movement of cash involving the theft of product or cash.

Information Technology Risks

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

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

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of Flower One's products are recalled due to an alleged product defect or for any other reason, Flower One could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. Flower One may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although Flower One has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of Flower One's significant brands were subject to recall, the image of that brand and Flower One could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for Flower One's products and could have a material adverse effect on the results of operations and financial condition of Flower One. Additionally, product recalls may lead to increased scrutiny of Flower One's operations by the U.S. Food and Drug Administration, or other regulatory agencies, requiring further management attention and potential legal fees and other expenses. Furthermore, any product recall affecting the cannabis industry more broadly could lead consumers to lose confidence in the safety and security of the products sold by Cannabis license holders generally, which could have a material adverse effect on Flower One's business, financial condition and results of operations.

Results of Future Clinical Research

Research in Canada, the United States and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids, such as cannabidiol ("CBD") and tetrahydrocannabinol ("THC"), remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC). Although Flower One believes that the articles, reports and studies support its beliefs regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, readers should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those stated in this MD&A or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis, which could have a material adverse effect on the demand for Flower One's products with the potential to lead to a material adverse effect on Flower One's business, financial condition, results of operations or prospects.

Competition

Flower One may face intense competition from other companies, some of which have longer operating histories and more financial resources, manufacturing and marketing experience than Flower One. Increased competition by larger and established 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 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.

Failure to Retain Existing Clients or Acquire New Clients

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

Liquidity, Financial Resources and Access to Capital

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

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

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

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

Licenses

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

Future Acquisitions or Dispositions

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

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

Insurance and Uninsured Risks

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

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

Dependence on Key Inputs, Suppliers and Skilled Labor

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 labor, equipment, parts and components. No assurances can be given that Flower One will be successful in maintaining its required supply of skilled labor, 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.

On April 5, 2021, Flower One received a demand letter seeking $4,062,973 in connection with a construction agreement with The Dennis Group Inc ("TDG"). Flower One objected to their claim; disputes the amount claimed by TDG and has responded to that letter seeking early mediation. That request for early mediation was initially rejected by TDG. As that time, Flower One engaged the outside law firm of Snell & Wilmer to represent it in the dispute going forward. As of today's, date, outside counsel sent a mediation and arbitration demand to TDG. TDG filed a lawsuit in the Nevada State Court. Flower One filed a motion to enforce an early mediation clause agreed to between the disputing parties. TDG has now obtained new counsel and has filed a motion to seek leave to amend its claims against Flower One. The case is not yet at issue. The current maximum exposure of such claim is the $4,062,973 as set forth in the TDG demand letter, which amount is on the Company's Balance Sheet as of December 31, 2021 and December 31, 2020. In this regard, TDG also filed liens, recorded against certain of the Company's real estate that, in part, compromises the collateral secured by Flower One's senior secured lender. Such lien is a technical default under the terms of the loan. The senior secured lender is advised of the lien(s) and Flower One and the senior secured lender agreed to a temporary forbearance of the default to provide time to Flower One to exercise its rights in law and in equity to dispute the liens and the claims underlying the TDG dispute. Flower One is investigating the claims and believes it has adequate legal defenses to such claims and offsets.

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 claims or regulatory action against Flower One could result in increased costs, could adversely affect Flower One's reputation with its clients and consumers generally, and could have a material adverse effect on the business, results of operations and financial condition of Flower One. There can be no assurances that Flower One will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of Flower One's potential products.

General Economic and Political Risks

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

Flower One is a Canadian Company and Shareholder Protections Differ from Shareholder Protections in the United States and Elsewhere

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

RISKS RELATED TO SECURITIES

Volatile Market Price for Flower One's Securities

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

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

Flower One may not Pay Dividends

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

Future Sales or Issuances of Securities could Decrease the Value of Securities, Dilute Investors' Voting Power and Reduce Earnings per Share

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

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

The Regulated Nature of Flower One's Business may Impede or Discourage a Takeover, which could Reduce the Market Price of Flower One's Securities

Flower One requires and holds various government licenses to operate its business, which would not necessarily continue to apply to an acquiror of Flower One's business following a change of control. These licensing requirements could impede a merger, amalgamation, takeover or other business combination involving Flower

One or discourage a potential acquirer from making a tender offer for common shares, which, under certain circumstances, could reduce the market price of Flower One's securities.

There is No Assurance Flower One will Continue to Meet the Listing or Quotation Standards of the CSE, the OTCQB or the FSE

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

- a limited availability of market quotations for the delisted Listed Securities;
- reduced liquidity for such Listed Securities;
- a determination that such Listed Securities are a "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.