Harvest One Cannabis Inc.

Management's Discussion and Analysis

For the year ended June 30, 2019

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and related notes thereto of Harvest One Cannabis Inc. ("Harvest One" or "us" or "we" or "our" or the "Group" or the "Company") for the year ended June 30, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are expressed in thousands of Canadian dollars, except for share and per share amounts, unless otherwise stated. This MD&A has been prepared as of October 28, 2019 and includes certain statements that may be deemed "forward-looking statements". Additional information relating to the Company, including the Company's Annual Information Form dated April 17, 2019, is available under the Company's profile at www.sedar.com.

FORWARD LOOKING STATEMENTS

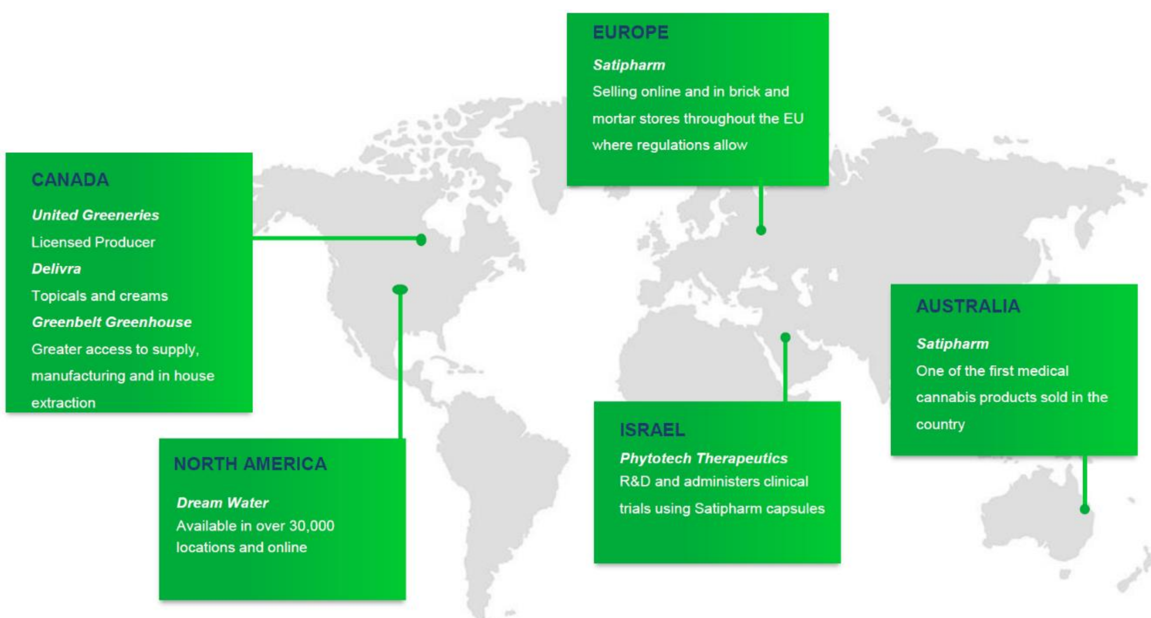
Certain statements contained in this MD&A constitute forward-looking statements and forward-looking information (collectively, "Forward-Looking Statements") and the Company cautions investors about important factors that could cause the Company's actual results to differ materially from those expressed, implied or projected in any Forward-Looking Statements included in this MD&A. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result", "are expected to", "expects", "will continue", "is anticipated", "anticipates", "may", "could", "believes", "estimates", "intends", "plans", "forecast", "projection" and "outlook") are not historical facts and may be Forward-Looking Statements that involve projections, estimates, assumptions, known and unknown risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such Forward-Looking Statements or otherwise be materially inaccurate. No assurance can be given that these expectations or assumptions will prove to be correct and such Forward-Looking Statements included in this MD&A should not be unduly relied upon. These Forward-Looking Statements speak only to management's beliefs and expectations as of the date of this MD&A and will be updated only as required by applicable securities laws. Accordingly, any such statements are qualified in their entirety by reference to the information discussed throughout this MD&A.

Certain of the Forward-Looking Statements relating to the medical and recreational cannabis industry contained within this MD&A are based on third-party information from publicly available government sources, market research and industry analysis. While the Company is not aware of any misstatement regarding any industry or government data presented herein, we have not independently verified any such third-party information.

The medical and recreational cannabis industry involves risks and uncertainties that may change based on various factors. The Company's Forward-Looking Statements are expressly qualified in their entirety by this cautionary statement. In particular, but without limiting the foregoing, disclosure in this MD&A under the heading "Business Overview" as well as statements regarding the Company's objectives, plans, goals, future operating results, economic performance and patient acquisition efforts may make reference to or involve Forward-Looking Statements. See the discussion under the heading "Risks and Uncertainties" for further details.

The Company cautions that the list and description of the Forward-Looking Statements, risks, assumptions and uncertainties set out above is not exhaustive.

BUSINESS OVERVIEW



Harvest One is a global consumer packaged goods company that develops and distributes premium heath, wellness, and self-care products to patients and consumers in regulated markets around the world with a specific focus on sleep, anxiety and pain. The Company is based in British Columbia ("BC"), Canada and its common shares (the "Common Shares") are listed on the TSX Venture Exchange ("TSX-V") under the symbol "HVT" and on the OTCQX® Best Market operated by OTC Market Group ("OTCQX") under the symbol "HRVOF".

Harvest One operates a global house of brands through its wholly-owned subsidiaries: United Greeneries Ltd. ("United Greeneries"), a Canadian Licensed Producer of cannabis and cannabis derivative products; Satipharm Limited ("Satipharm") and PhytoTech Therapeutics Ltd. ("PhytoTech"), both under the Group's medical and nutraceutical arm; and Dream Water Global ("Dream Water"), the Group's consumer arm. The Company also has exposure to the retail vertical through its investment in Burb Cannabis Corp. ("Burb").

The Company's cultivation segment was enhanced with the 50.1% acquisition of Greenbelt Greenhouse Ltd. ("Greenbelt" and the "Greenbelt Acquisition", respectively) in March 2019 and the Company's consumer arm was enhanced with the acquisition of Delivra Corp. ("Delivra"), a Canadian-based manufacturer of natural topical pain relief creams (the "Delivra Acquisition") in July 2019.

Cultivation

United Greeneries is licensed to produce and sell cannabis under the Cannabis Act (the "Act") in the medical and recreational markets. United Greeneries originally received its licence to cultivate medical cannabis under the *Access to Cannabis for Medical Purposes Regulations* (the "ACMPR") on June 28, 2016, and on October 13, 2017 received an amendment to its licence to allow for the sale of medical cannabis products to the public (the "UG Licence"). The UG Licence has been migrated to a valid, equivalent licence under the Act to allow for the sale of cannabis in the recreational market in addition to medical cannabis products. The UG License was further amended in September 2019 to allow for the sale of cannabis oil products. The UG Licence is registered to United Greeneries' Duncan Facility located at 5250 Mission Road, Duncan, BC (the "Duncan Facility"). In October 2019, United Greeneries received a cultivation licence from Health Canada for Phase 1 of its new modular expansion facility located adjacent to the Duncan Facility (the "Mission Road Facility").

Greenbelt owns a 152,000 square foot greenhouse facility (the "Greenbelt Facility") intended to be dedicated to production that will support the Company's expanding cannabis-infused health, wellness, and self-care products. Greenbelt has an application pending with Health Canada for a standard cultivation licence and a standard processor licence under the Act.

Medical and Nutraceutical

Satipharm is an international medical and nutraceutical cannabis company focused on the delivery of cannabinoids through oral delivery technologies, currently servicing the United Kingdom, Ireland and Australian markets, and expanding distribution into Europe, New Zealand and elsewhere around the globe when and where legal. Satipharm holds the exclusive global marketing and distribution rights to the Gelpell® Microgel technology for all cannabinoids.

PhytoTech develops cannabinoid-based drug products for a variety of clinical trials to service the medical market. PhytoTech was also responsible for administrating the successful clinical trials using Satipharm's proprietary CBD Gelpell® microsphere capsules ("CBD Gelpell® capsules").

Consumer

Dream Water focuses on sleep aids in a variety of formats and formulations. Dream Water manufactures and sells a 74 ml, 0-calorie, liquid sleep shot and a 3 gram sleep powder sachet to promote relaxation and support restful sleep.

Delivra manufactures and sells a range of natural topical creams for joint and muscle pain, nerve pain, varicose veins, and wound healing under the LivRelief™ brand name.

Retail

Burb is a BC-based cannabis retail and apparel brand that sells cannabis, accessories and fashion in its licensed brick and mortar stores as well as online at shopburb.com. Burb opened its flagship store and a second store in Port Coquitlam, BC in April and August 2019, respectively, and obtained its first two retail cannabis licences in September 2019.

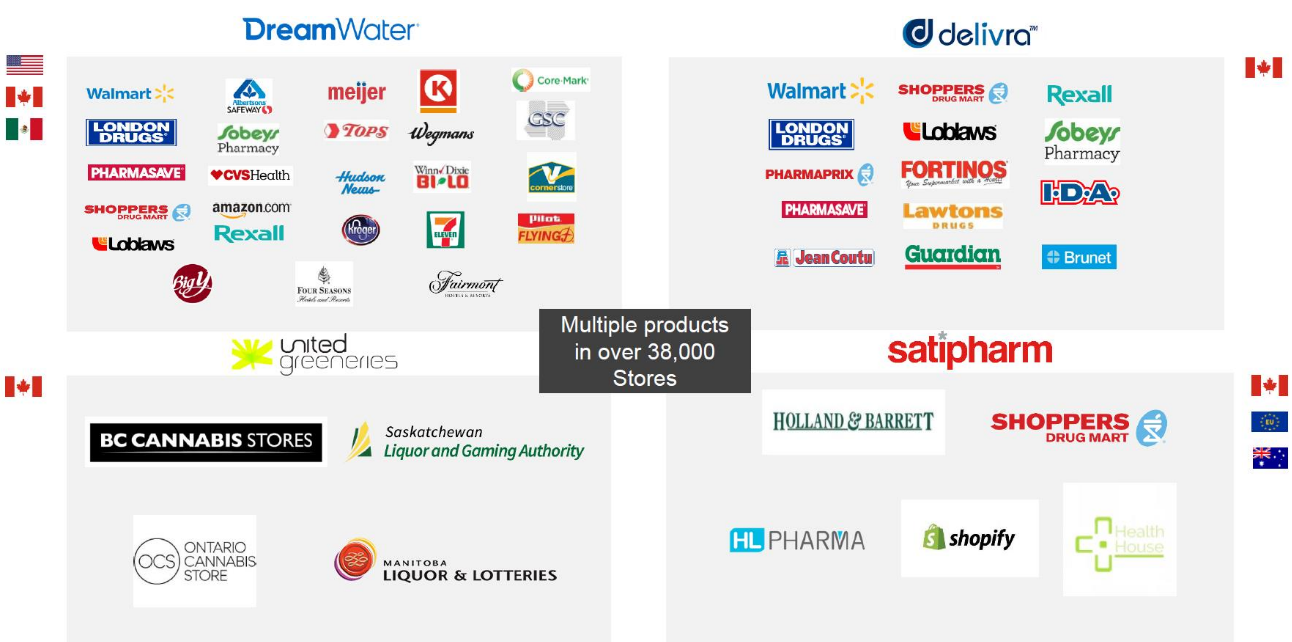
Our Brands and Distribution

United Greeneries currently offers multiple SKUs through two consumer brands: (1) Royal High™, a premium cannabis brand featuring a full bud product, grown, harvested, and hand selected by our team of cannabis experts; and (2) Captain's Choice™, a unique milled and blended product crafted to give the best possible experience for value. United Greeneries has supply agreements in place with four provinces: British Columbia, Saskatchewan, Manitoba and Ontario. Royal High™ and Captain's Choice™ are currently available for purchase through retail outlets across BC, with Royal High™ also being available to purchase through retail outlets across Saskatchewan, Manitoba and Ontario. The Company continues to focus on establishing its brand within the ever-expanding recreational cannabis market.

Satipharm's current products are CBD only products, sold as CBD Gelpell® capsules and CBD oil. The CBD Gelpell® capsules products utilize cannabis extracts sourced from Europe and processed an manufactured in Luxembourg and Switzerland-based GMP-certified production facilities, respectively. Satipharm's CBD oil products are similarly GMP-certified and is sourced from the United States (the "US"). Satipharm currently sells its products in Europe and Australia, with Satipharm-branded medical cannabis products also sold in Canada.

Dream Water currently has two distinct product lines: sleep and beauty. Each of the lines is carefully designed to offer a different experience for the consumer based on their lifestyle. Dream Water products are available in over 30,000 stores across the US and Canada. The Dream Water formula is flexible and can be formulated into a variety of delivery methods beyond liquids. Dream Water was recently NSF-certified for sport programs which allows the Company to sell products to professional sport teams and athletes who undertake drug testing.

Delivra manufactures and sells an expanding line of natural topical pain relief creams with a proprietary transdermal delivery system platform under the LivRelief™ brand, for conditions such as joint and muscle pain, nerve pain, varicose veins, wound healing, and sports performance. LivRelief™ products are currently available in approximately 6,000 retail locations across Canada.



KEY FINANCIAL RESULTS

Select Financial Information	For the year ended 2019 $	2018 $
Net revenue	**11,465**	726
Gross profit	**3,008**	924
Expenses	**31,144**	11,522
Loss from operations	**(28,136)**	(10,598)
Net loss attributable to common shareholders	**(27,852)**	(12,607)
Net loss per share – basic and diluted	**(0.15)**	(0.11)
Weighted average number of Common Shares	**179,774,376**	120,056,383
Adjusted EBITDA(1)	**(14,939)**	(10,686)

(1) Defined as loss from operations before interest, taxes, depreciation and amortization adjusted for additional fair value items and other non-cash items, which is a non-GAAP measure discussed in the "Adjusted EBITDA" section.

Select Statements of Financial Position Information	June 30 2019 $	June 30 2018 $
Cash and cash equivalents	**20,301**	56,846
Cannabis inventories and biological assets	**6,419**	4,242
Non-cannabis inventories	**3,521**	1,246
Non-current assets	**66,907**	44,016
Equity	**93,135**	104,911

SIGNIFICANT AND RECENT DEVELOPMENTS

Expanded Distribution and Supply Agreements

a) *GenCanna Supply Agreement*

In July 2019, Satipharm entered into a supply agreement with GenCanna Global USA ("GenCanna"). Under the terms of the agreement, GenCanna will supply the Company with GMP-certified CBD oil and finished products for distribution in regulated markets in the US, Europe, and around the globe, currently under the Dream Water, Satipharm, and LivRelief™ brands for an initial term of two years. In addition, GenCanna will support the Company in the research, development, and formulation of both existing and new CBD-infused products through a production platform that uses inactive, proprietary harvesting and crop-processing technology.

b) *Stevens Green Supply Agreement*

In July 2019, United Greeneries entered into a supply agreement with 9869247 Canada Limited ("Stevens Green"), pursuant to which Stevens Green will cultivate and harvest United Greeneries' premium cannabis genetics at their indoor facility in Stenvensville, Ontario for distribution under United Greeneries' established Royal High and Captain's Choice brands in the recreational market. Stevens Green will cultivate, harvest and supply a minimum of 2,000 kgs of premium craft flower per year for an initial term of three years. The agreement contains an option for renewal with an increase in the minimum quantity of cannabis to be supplied, of up to 5,000 kgs per year. In turn, United Greeneries supplies clones of its premium strains from its licensed facility in Duncan, British Columbia along with proprietary nutrients and irrigation techniques, and cultivation expertise, in order to ensure the production of consistent, premium craft cannabis that its brands are recognized for.

c) *Holland & Barrett Supply Agreement*

In June 2019, Satipharm entered into an agreement to distribute their proprietary 10mg CBD Gelpell® capsules through Holland & Barrett, Europe's largest retailer of nutritional supplements and wellness products with over 145 years of experience in the health and wellness industry. Under the terms of the agreement, Satipharm will supply 10mg CBD Gelpell® capsules to 841 Holland Barrett stores and online via the Holland & Barret website. This agreement provides Satipharm with a European platform for growth, with CBD Gelpell® capsules now available in most cities across the UK and Ireland.

Acquisitions

a) *Acquisition of Delivra*

On July 3, 2019, the Company completed its previously announced Arrangement Agreement with Delivra (the "Arrangement Agreement") pursuant to which the Company acquired all of the issued and outstanding shares of Delivra (the "Delivra Acquisition"). In accordance with the terms of the Delivra Acquisition, each Delivra shareholder received 0.595 of a Common Share of Harvest One for each Delivra common share. Based on the closing trading price of Harvest One's Common Shares on the TSX-V on July 3, 2019, the implied value equates to approximately $0.43 per Delivra common share and represents equity consideration of $20,639. Total consideration of $21,822 consisted of $20,639 in shares, $769 in options, and $414 in warrants.

Concurrently with the execution of the Arrangement Agreement, (i) Harvest One provided Delivra with a loan in the amount of $250 bearing interest at a rate of 6% per annum and having a one-year term, and (ii) Harvest One and Delivra entered into a services agreement with a value of $250, pursuant to which Delivra provided Harvest One with certain product formulations.

Product Development and Licensing

a) *Mission Road Cultivation Licence*

In October 2019, United Greeneries received a cultivation licence from Health Canada for Phase 1 of its new Mission Road Facility. The licence allows United Greeneries to immediately begin to cultivate cannabis in the new Mission Road Facility located adjacent to its existing Duncan Facility. Once fully completed, the Mission Road Facility is expected to triple the production capacity at Duncan and increase operational efficiency.

b) *Retail Cannabis Licences*

In September 2019, Burb obtained its first two retail cannabis licences and is currently selling cannabis, including premium craft indoor grown flower from Harvest One under the Royal High brand, in Port Coquitlam, BC. In addition to future offering of premium cannabis products, Burb is currently offering Canadian–made street wear and cannabis accessories. These two licences are expected to be the first of many, as Burb intends to expand throughout British Columbia and across Canada.

c) *Canadian Cannabis Oil Licence*

In September 2019, United Greeneries obtained an amendment to its licence from Health Canada which allows for the sale of cannabis oil products. The licence enables the Company to commence initial sales of cannabis oil products to provincial and private retailers in British Columbia, Ontario, Saskatchewan and Manitoba. The licence also serves as a significant milestone for the Company as formulations for the next wave of cannabis products, being edibles, extracts, and topicals, are being prepared following the recent legislation changes in Canada.

d) *Launch of Satipharm CBD Oil*

In August 2019, Satipharm launched its new European oils program by adding a lemon & lime flavoured CBD oil to its product portfolio. Sales of the new product have begun online, with brick and mortar distribution to follow with major retailers throughout Europe. The lemon & lime CBD oil was specifically formulated to address three major concerns from consumers, which are taste, GMP certification and reliable dosage.

e) *Phase 2 Clinical Trials on Satipharm CBD Gelpell®*

In August 2019, Satipharm announced that positive results from its Phase 2 clinical trial of its CBD Gelpell® capsules in the management of Treatment Resistant Epilepsy (TRE) were published in Epilepsy & Behaviour, a bimonthly peer-reviewed medical journal covering behavioral aspects of epilepsy. Among other results, a mean 73.4% reduction from baseline monthly seizure frequencies was observed and the median reduction of monthly seizures was -82% in the 12-week treatment period in treatment-resistant children when added to current medications.

Management Team

a) *Appointment of Chief Commercial Officer*

On September 3, 2019, the Company appointed Andy Bayfield as Chief Commercial Officer ("CCO") to manage the Company's sales, marketing, and distribution channels globally. Mr. Bayfield has a proven track record of leading sales transformation, accelerating product innovation, and defining routes to market internationally. His career has focused on consumer-packaged goods with internationally recognized companies such as Cadbury, Coca-Cola, and Canada Dry Mott's, a division of Keurig Dr Pepper.

b) *Appointment of Chief Financial Officer*

On August 27, 2019, the Company appointed Aaron Wong as Chief Financial Officer ("CFO") to lead the Company's finance strategy and oversee the Company's financial operations. Mr. Wong has served as the Company's Corporate Controller since December 2017 and is a Chartered Professional Accountant with over 15 years of financial leadership experience in public and private organizations including Seaspan Corporation, Teekay Corporation, and CHC Helicopter.

c) *Appointment of Chief Administrative Officer and Chief People Officer*

On May 2, 2019, the Company appointed Deb Milimaka Miles as Chief Administrative Officer ("CAO") and Chief People Officer ("CPO") to assist with developing, communicating, executing, and sustaining strategic initiatives. Ms. Milimaka Miles brings 30 years of experience to the Company's management team and previously held senior HR executive positions at Loblaw and SMART Technologies.

Facilities and Expansions

a) Duncan and Mission Road

Expansion is underway at the Mission Road Facility and when completed it is expected to triple the current output of the Duncan Facility to 3,500 kg annually. Initial expansion is set for 4 modules which adds an additional 2,500 square feet of cultivation area per unit and equates to an additional 600 kg per module annually. A further 13 acres is available for additional expansion. Phase 1 construction is complete, and a cultivation licence was received from Health Canada in October 2019. Following this, the completion of Phase 2 construction is expected in the fourth quarter of calendar 2019 and Phase 3 construction in the first quarter of calendar 2020. Licensing for Phase 2 and 3 is anticipated to occur in early calendar 2020.

b) Lucky Lake

The Company's facility located in Lucky Lake, Saskatchewan is a 68,000 square foot concrete agricultural facility situated on 23 acres of land (the "Lucky Lake Facility"). Once licensed and operational it will add an estimated 11,000 kg of production annually. Construction is underway, with completion and licensing expected in the first quarter of calendar 2020, and the first harvest expected in the first half of calendar 2020. Ideally located in a historically large hemp growing region of Canada, the site offers further potential for outdoor cultivation.

c) Greenbelt

Retrofit planning has begun at the Greenbelt Facility. Retrofit plans include work on the 152,000 square foot greenhouse facility and the 42,000 square foot headhouse which is intended to house Phase 1 of our extraction and processing capabilities. Greenbelt has an application pending with Health Canada for a standard cultivation licence and a standard processor licence under the Act.

OUTLOOK

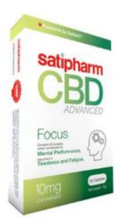
Cultivation

United Greeneries continues to expand its indoor growing capacity to the previously announced 20,000 kg annually in order to satisfy provincial and private retailer demand for its premium-quality craft indoor grown flower. United Greeneries has earmarked 20,000 kg of premium flower as an optimal production capacity while maintaining the flexibility to expand or contract cultivation capacity in accordance with market demand. A significant component to achieving 20,000 kg capacity annually is the completion of: (1) the Lucky Lake Facility which adds an additional 11,000 kg of capacity, (2) the Mission Road Facility modular expansion which adds an additional 2,500 kg of capacity, and (3) offtake agreements with Stevens Green for the remaining capacity.

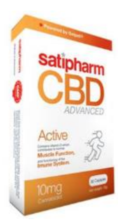
United Greeneries is poised to be one of the first to market in Canada with derivative products under new legislation, initially with both vape products and infused topicals. United Greeneries is in advanced stages of product development through third party partners with its vape strategy and already has both THC and CBD formulations in place with the LivRelief™ brand in Canada.

Medical and Nutraceutical

Satipharm launched its reformulated 10 mg full spectrum CBD Gelpell® capsules and CBD oil during the year and will continue to ramp up sales online and through brick and mortar distribution. In fiscal 2020 and future years, Satipharm intends to expand its product offering and is currently developing new cannabis-based medical and nutraceutical products. Examples of potential new products are depicted below:



Satipharm CBD Gelpell® Capsules Focus



Satipharm CBD Gelpell® Capsules Active

Satipharm CBD Oil Cinnamon

Consumer

Dream Water continues to be forward-thinking with respect to international compliant formulas and line extensions in both the sleep-aids and CBD markets with focused lines of products with multiple delivery mechanisms for both categories. Formulations of CBD-infused Dream Water continue to advance and are currently undergoing stability testing. The Company expects to launch this line extension throughout its significant distribution channels in Canada and the United States when regulations permit. Dream Water is also formulating international compliant SKUs for global markets. Examples of potential new products are depicted below:

Dream Water Non-Melatonin | **Dream Water Defense** | **Dream Water Vitality** | **Dream Water Sport** | **Dream Water +CBD**

The acquisition of Delivra immediately adds revenue to the Company though its existing distribution of LivRelief™ products through major retailers across Canada. The Company intends to commence sales of two LivRelief™ products in the US marketplace in Q1 of calendar 2020 and will expand its product offering in calendar 2020 with CBD- and THC-infused formulations in regulated markets in Canada and the US, subject to applicable regulatory approvals. An example of this new product is depicted below:

LivRelief™ CBD | **LivRelief™ THC:CBD**

Retail

Following the opening of its flagship and second stores in Port Coquitlam, BC, during April and August 2019, respectively, Burb has received two retail cannabis licences and is currently selling cannabis, accessories and apparel. An additional eight stores are planned in BC by the end of the 2021 calendar year with subsequent expansion across Canada.

FINANCIAL REVIEW

The Company operates in three reportable segments: cultivation (United Greeneries and Greenbelt), medical and nutraceutical (Satipharm and PhytoTech), and consumer (Dream Water and Delivra). The following is a break-down of the gross profit (loss) by segment for the years ended June 30, 2019 and 2018, respectively:

	For the year ended June 30, 2019				For the year ended June 30, 2018			
	Cultivation	Medical and Nutraceutical	Consumer	Total	Cultivation	Medical and Nutraceutical	Consumer	Total
	$	$	$	$	$	$	$	$
Net revenue	**5,483**	**235**	**5,747**	**11,465**	177	107	442	726
Cost of sales:								
Production costs	**2,721**	**—**	**—**	**2,721**	2,021	—	—	2,021
Inventory expensed to cost of sales	**1,082**	**281**	**3,685**	**5,048**	—	157	409	566
Inventory write-down	**181**	**—**	**—**	**181**	210	464	—	674
Gross profit (loss) before fair value adjustment	**1,499**	**(46)**	**2,062**	**3,515**	(2,054)	(514)	33	(2,535)
Realized fair value amounts included in inventory sold	**4,499**	**—**	**—**	**4,499**	137	—	—	137
Unrealized change in fair value of biological assets	**(3,992)**	**—**	**—**	**(3,992)**	(3,596)	—	—	(3,596)
Gross profit (loss)	**992**	**(46)**	**2,062**	**3,008**	1,405	(514)	33	924

Net revenue

Revenue is comprised of sales of: (1) harvested cannabis to both the medical and recreational markets in Canada; (2) CBD Gelpell® capsules in Europe and Australia; and (3) Dream Water liquid sleep shots and sleep powder packets in Canada and the US. Net revenue is determined by deducting excise taxes that are included in gross revenue from cannabis sales in Canada and remitted to the provincial governments, effective October 17, 2018, when the Act went into effect.

For the year ended June 30, 2019, net revenue increased to $11,465, compared to $726 in 2018. This 1,479% increase is due to an increase in: Dream Water sales of $5,305, recreational and medical cannabis sales to the provinces and retailers noted above of $4,632 net of excise taxes, bulk cannabis sales to other licensed producers of $674, and sales of CBD Gelpell® capsules of $128.

The total quantity of cannabis sold, excluding bulk cannabis sales to other licensed producers, during the year ended June 30, 2019 was 603 kg (2018 – nil kg), respectively, at an overall average price of $8.03 per gram. As noted, the increases in kilograms sold were due to the launch of the recreational market in Canada.

Cost of sales

Cost of sales is comprised of: (1) production costs; and (2) inventory expensed to cost of sales.

For the cultivation segment, production costs represent the costs of growing cannabis plants including labour related costs, grow consumables, materials, utilities, facility costs, quality and testing costs, production related depreciation, and overheads. Inventory expensed to cost of sales represents packaging and other post-harvest costs.

For the medical and nutraceutical and consumer segments, costs of sales relate to the deemed cost of inventory that is expensed when sold. The cost per unit is expected to decrease as economies of scale are achieved.

Cost of sales were $7,769 during the year ended June 30, 2019, comprised of production costs of $2,721 related to growing and harvesting cannabis plants. The remaining $5,048 for the year ended June 30, 2019, relates to: (1) packaging and shipping costs of cannabis products sold, (2) the cost of inventory for Dream Water liquid shots and sleep powder packets sold and (3) the cost of inventory for Satipharm CBD Gelpell® capsules sold.

Inventory expensed to cost of sales for the year ended June 30, 2019 contains a non-cash adjustment of approximately $73 in the cultivation segment for packaging materials that no longer meet labelling standards of cannabis products under current Cannabis Regulations. In addition, included in the consumer segment under inventory expensed to cost of sales for the year ended June 30, 2019, is a non-cash adjustment of approximately $468 related to the inventory acquired from the acquisition of Dream Water which was subsequently sold in the year ended June 30, 2019.

Inventory write-down

Inventory write-down was $181 for the year ended June 30, 2019 and is comprised of harvested cannabis inventory that did not meet the quality standards for dried flower sale and revalued as extraction grade cannabis. Comparatively, for the year ended June 30, 2018, inventory write-down was comprised of a $210 write-down of harvested cannabis and a $464 write-down of CBD Gelpell® capsules due to a limited remaining shelf life.

Gross margin before fair value adjustments (non-GAAP measure)

The table below outlines gross profit (loss) and gross margin before fair value adjustments for the years ended June 30, 2019 and 2018, respectively.

	Year ended June 30	
	2019	**2018**
	$	**$(1)**
Net revenue	**11,465**	726
Cost of sales	**7,769**	2,587
Inventory write-down	**181**	674
Gross profit (loss) before fair value adjustments	**3,515**	(2,535)
Gross margin before fair value adjustments(1)	**31%**	(349)%

(1) Gross margin before fair value adjustments is a non-GAAP measure, which is calculated by excluding non-cash fair value changes as required by IFRS. We believe that this measure provides more useful information to assess our performance operating results.

Gross margin before fair value adjustments for the year ended June 30, 2019 was 31%, compared to (349)% in the same period in 2018. The significant increase was due to a $10,739 increase in revenue primarily from cannabis sales in the recreational cannabis market in Canada following legalization and Dream Water sales across North America, which was partially offset by a $5,182 increase in cost of sales from the cost of inventory expensed when inventory is sold and production costs of growing cannabis plants.

Fair value adjustments and gross profit (loss)

Included in gross profit (loss) are two fair value adjustments which are excluded from cost of sales: (1) realized fair value amounts included in inventory sold, which relate to the fair value less cost to sell estimate per gram of cannabis sold; and (2) unrealized change in fair value of biological assets, which relates to a non-cash gain recognized based on plant growth through the pre-harvest stages.

Plants in pre-harvest stage are considered biological assets and are capitalized as inventory on the balance sheet at fair value less cost to sell at their point of harvest. Fair value estimates are based directly on the Company's selling prices for specific cannabis strains and estimated or expected selling prices to provincial crown corporations in a regulated domestic market. Costs to sell include post-harvest, trimming, fulfillment, and shipping costs.

At harvest, the biological assets are transferred to inventory at their fair value, which becomes the deemed cost for inventory. Inventory is later expensed to realized fair value amounts included in inventory sold when sold.

Gross profit (loss) increased by $2,084 during the year ended June 30, 2019, compared to the prior year. The change was due to the factors noted above in net revenue and cost of sales, as well as the unrealized change in fair value of biological assets and the realized fair value of amounts included in inventory sold discussed below.

Realized fair value amounts included in inventory sold increased by $4,362 for the year ended June 30, 2019, compared to the prior year. This amount is comprised of the fair value less costs to sell between $6.30 to $6.45 per gram determined based on the assumptions discussed in note 6 of the audited consolidated financial statements.

Unrealized change in fair value of biological assets increased by $396 for the year ended June 30, 2019, compared to the prior year, based on changes in the fair value less costs to sell assumptions, the number of harvests in process and the stage of plant growth through the pre-harvest stages.

Expenses

	Year ended June 30	
	2019	**2018**
	$	**$**
General and administration	**13,987**	7,308
Sales and marketing	**2,911**	390
Acquisition costs	**673**	1,509
Research and development	**100**	—
Depreciation and amortization	**497**	75
Share-based compensation	**4,245**	2,240
Asset impairment and write-downs	**7,385**	—
Severance and reorganization costs	**1,346**	—
	31,144	11,522

Total expenses increased by $19,622 for the year ended June 30, 2019 compared to the prior year, primarily due to expanding operations leading to an increase in headcount across the Company, the issuance of stock options, and an emphasis on sales and marketing for the Company's cannabis, Satipharm and Dream Water products. The main fluctuations in expenses are as follows:

General and administration

General and administration expenses increased by $6,679 for the year ended June 30, 2019, compared to the prior year, primarily due to the Company's growth and expansion both domestically and internationally. The Company added members to the management team and employees at the Vancouver head office, United Greeneries, Satipharm and Dream Water operations. In addition, professional and consulting services, insurance, and rent also increased due to the Company's expanded operations.

Sales and marketing

Sales and marketing increased by $2,521 for the year ended June 30, 2019, compared to the prior year, primarily due to the Company continuing to create brand awareness of its cannabis, Satipharm, and Dream Water products. United Greeneries commenced recreational sales, Satipharm relaunched European sales of its recently reformulated CBD Gelpell® capsules in Europe and Australia, and Dream Water launched new packaging during the year ended June 30, 2019.

Share-based compensation

Share-based compensation increased by $2,005 for the year ended June 30, 2019, compared to the prior year, as a result of the vesting of stock options issued. Additionally, the increase in share-based compensation expense included $741, representing the fair value of the performance appreciation rights ("PAR") issued in July 2018.

Asset impairment and write-downs

Asset impairment and write-downs increased by $7,385 for the year ended June 30, 2019, compared to the prior year, due to goodwill impairment of $6,100 in the consumer segment attributable to Dream Water as well as the write-down of capitalized costs in construction in progress and prepaid expenses and deposits related to: (1) the Company not proceeding with the Aldergrove site; and (2) the previously planned project on the vacant land adjacent to the Duncan Facility prior to the commencement of modular expansion on the land. Furthermore, the Company underwent a security upgrade at its Duncan Facility to replace its existing security equipment and as a result, recognized an impairment loss to reduce the carrying amount of the existing equipment to its net realizable value.

Severance and reorganization costs

Severance and reorganization costs increased by $1,346 for the year ended June 30, 2019, compared to the prior year, due to a reorganization of the senior leadership team which resulted in severance payments of $870 to the former CEO and former CFO of the Company. The remaining increase related to other management changes within the Company during the year.

Adjusted EBITDA (non-GAAP measure)

Adjusted EBITDA is a non-GAAP measure used by management that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management defines Adjusted EBITDA as loss from operations, as reported, before interest, taxes, depreciation and amortization and adjusted for share-based compensation, the fair value effects of accounting for biological assets and inventories, and non-cash write-downs of inventory, goodwill, and other assets. Management believes Adjusted EBITDA is a useful financial metric to assess its operating performance on an adjusted basis as described above.

	June 30 2019 $	June 30 2018 $
Loss from operations	**(28,136)**	(10,598)
Inventory write-down	**181**	674
IFRS fair value accounting related to biological assets and inventory		
Realized fair value amounts included in inventory sold	**4,499**	137
Unrealized change in fair value of biological assets	**(3,992)**	(3,596)
	(27,448)	(13,383)
Depreciation and amortization (per statement of cash flows)	**879**	457
Share-based compensation	**4,245**	2,240
Asset impairment and write-downs	**7,385**	—
	12,509	2,697
Adjusted EBITDA	**(14,939)**	(10,686)

For the year ended June 30, 2019, Adjusted EBITDA decreased $4,253, compared to the prior year, primarily due to the increase in expenses and partially offset by the increase in net revenue as discussed above.

LIQUIDITY AND CAPITAL RESOURCES

Management of the Company is consistently working to monitor and manage the Company's capital resources to assess if it has access to adequate liquidity to fund its operations and planned expansions. Management's objectives with respect to liquidity and capital structure are to generate sufficient cash to fund the Company's existing operations and growth strategy.

As at June 30, 2019, the Company had cash and cash equivalents of $20,301 and working capital of $27,014 compared with cash and cash equivalents of $56,846 and working capital of $60,895 at June 30, 2018. The decreases were mainly from cash used in operations of $19,964 and cash used in investing activities of $17,326.

Cash used in investing activities was $17,326 during the year ended June 30, 2019, compared with $19,521 in the prior year. For the year ended June 30, 2019, the Company spent $11,114 in property, plant and equipment purchases for the continued construction of the Lucky Lake Facility and modular expansion at Mission Road, $4,023 to acquire a majority interest in Greenbelt and to acquire PhytoTech, and $1,791 to invest in Burb. For the year ended June 30, 2018, the Company spent $2,673 in property, plant and equipment and $16,822 to acquire Dream Water.

The nature of the Company's current business and the source of revenue from operations is the cultivation and sale of cannabis, as well as the production and sale of Dream Water's sleep aid products and Delivra's pain relief consumer packaged goods, and Satipharm's CBD Gelpell® capsules. However, the Company's ability to continue in the normal course of operations is dependent on actions by management achieving profitable operations and raising additional capital. Management believes it will be able to raise equity capital as required in the long-term, but recognizes the risks attached thereto including without limitation, risks due to changing market conditions. Historically the capital requirements of the Company have been met by equity and debt subscriptions for securities of the Company. Although the Company has been successful in the past in obtaining financing, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing may be favourable to the Company. If the Company is unable to achieve profitable operations or raise any additional funds it may require, it could have a material adverse effect on the Company's financial condition.

The Company had a consolidated net loss of $27,965 and negative operating cash flows of $19,964 for the year ended June 30, 2019 and an accumulated deficit of $54,450 as at June 30, 2019. These conditions indicate the existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. If for any reason the Company is unable to continue as a going concern, then this could have an impact on the Company's ability to realize assets at their recognized values, in particular goodwill and other intangible assets, and to extinguish liabilities in the normal course of business at the amounts stated in the audited consolidated financial statements. Management acknowledges that in the absence of securing additional capital there is uncertainty over the Company's ability to meet its funding requirements as they fall due.

SUMMARY OF QUARTERLY RESULTS

Quarter ended	Net revenue $	Gross profit (loss) $	Net loss $	Basic and diluted loss per share $
June 30, 2019	3,021	1,096	(13,707)	(0.07)
March 31, 2019	3,023	207	(5,131)	(0.03)
December 31, 2018	3,742	1,127	(3,332)	(0.02)
September 30, 2018	1,679	578	(5,795)	(0.03)
June 30, 2018	513	100	(4,952)	(0.03)
March 31, 2018	33	1,089	(2,425)	(0.02)
December 31, 2017	5	(259)	(3,342)	(0.04)
September 30, 2017	175	(6)	(1,888)	(0.02)

Net revenue for the fourth quarter of fiscal 2019 remained consistent with the third quarter of fiscal 2019. Net loss for the fourth quarter of fiscal 2019 increased compared to the third quarter of fiscal 2019 due largely to asset impairments and write-downs, and to increased expenditures for sales and marketing, and general and administrative expenses.

SHARE CAPITAL

The Company has an unlimited number of Common Shares authorized and the following securities outstanding:

	June 30 2019	As at the date of this MD&A
Common stock	185,819,851	214,673,675
RTO warrants	3,226,468	3,226,468
Brokers' warrants	600,032	600,032
Secondary warrants	600,002	600,002
Convertible debentures warrants	5,901,182	5,901,182
Units Offering warrants	22,115,385	22,115,385
Brokers' compensation units warrants	663,461	663,461
Dream Water warrants	517,000	517,000
Delivra warrants	—	2,191,502
Stock options	17,785,000	20,374,371
Performance appreciation rights	2,500,000	2,500,000

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

The following expenses were paid to key management personnel of the Company:

	June 30 2019 $	June 30 2018 $
Salaries and benefits	**1,448**	745
Severance costs	**947**	—
Consulting fees	**80**	265
Directors' fees	**124**	126
Share-based compensation	**3,555**	1,499
Total	**6,154**	2,635

a) *Payments to related parties*

As at June 30, 2019, there was $33 in directors' fees owing (2018 – $27) included in accounts payable and accrued liabilities.

During the year ended June 30, 2019, the Company paid $22 (2018 – $41) in legal fees to a law firm owned by a director of the Company.

During the year ended June 30, 2018, the Company assumed a $400 shareholder loan as part of the acquisition of Dream Water Canada. The former shareholder of Dream Water Canada was subsequently appointed as an officer of the Company and the Company repaid the shareholder loan in full.

b) *Severance payments*

The Company paid $750 to the former Chief Executive Officer and $120 to the former Chief Financial Officer of the Company in accordance with the terms of their mutual separation agreements, which is included in severance and reorganization costs for the year ended June 30, 2019.

c) *Payments to MMJ Group Holdings Limited ("MMJ")*

During the year ended June 30, 2019, the Company acquired all of the outstanding shares of PhytoTech from MMJ for a total consideration of $4,580, which was measured at the exchange value being the amounts agreed to by the parties (the "PhytoTech Acquisition"). MMJ beneficially owns, controls and directs more than 10% of the issued and outstanding Common Shares of the Company and is considered a related party and control person of the Company.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company and its subsidiaries enter into contractual agreements from time to time relating to on-going business activities. As at June 30, 2019, the Company has the following total commitments:

	Less than 1 year $	Between 2 to 5 years $	Over 5 years $	Total $
Operating lease commitments	449	1,226	84	1,759
Finance lease commitments	112	139	—	251
Purchase commitments	—	2,284	—	2,284
Extract services commitments	302	603	—	905
Capital commitments	3,173	—	—	3,173
	4,036	**4,252**	**84**	**8,372**

a) *Operating lease commitments*

On April 23, 2019, the Company entered into a new five-year lease agreement for office space in Vancouver, BC with monthly rent at a rate of $21 which commenced on May 1, 2019.

The Company entered into two lease agreements for the Company's Dream Water operations on September 12, 2018 and February 22, 2019, respectively: (1) a three-year lease agreement in Miami, Florida with monthly rent at a rate of US$4 which commenced on October 1, 2018 and (2) a two-year lease agreement in Toronto, Ontario with monthly rent at a rate of $3 which commenced on April 1, 2019.

b) *Finance lease commitments*

On March 29, 2019, the Company acquired a 52% ownership interest in Greenbelt, which was subsequently reduced to a 50.1% ownership interest. In connection with this acquisition, the Company assumed two existing finance equipment leases with remaining terms of approximately 2.5 years.

c) *Purchase commitments*

On May 31, 2017, the Company entered into a five-year agreement with Gelpell AG for the exclusive marketing, distribution and sale of the CBD Gelpell® capsules worldwide. As part of this agreement, the Company has annual minimum purchase commitments.

d) *Extraction services commitments*

On November 11, 2018, the Company entered into a multi-year Extraction Services Agreement with Valens GroWorks Corp ("Valens") for cannabis extraction and value-added services. As part of this agreement, the Company will ship to or purchase from Valens bulk quantities of dried cannabis over an initial three-year term. Valens will process the cannabis on a fee-for-service basis into bulk resin or other cannabis oil derivative products.

e) *Capital commitments*

On October 17, 2018, the Company entered into an agreement to purchase four custom designed modular buildings to be placed on the land adjacent to the Duncan Facility. The modular buildings are expected to be completed during the 2019 calendar year and are expected to increase the annual production capacity of harvested cannabis to 3,500kg. In addition, capital commitments include amounts committed for the construction of the Lucky Lake Facility.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company thoroughly examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include foreign exchange risk, credit risk, interest rate risk, and liquidity risk. Where material, these risks are reviewed and monitored by the Board of Directors.

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. As at June 30, 2019, the Company is exposed to foreign currency risk through its bank accounts denominated in United States Dollars ("USD"), Euros ("Euros"), British Pounds ("GBP"), Swiss Francs ('CHF"), Australian Dollars ("AUD"), and Israeli New Shekel ("ILS"). A 10% appreciation (depreciation) of USD, Euros, GBP, CHF, AUD, or ILS against the CAD, with all other variables held constant, would result in an immaterial change in the Company's loss and comprehensive loss for the year.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's trade accounts receivable. The Company's cash and accounts receivable are exposed to credit risk. The risk for cash is mitigated by holding these instruments with highly rated financial institutions. The Company provides credit to its customers in the normal course of business and has mitigated this risk by managing and monitoring the underlying business relationships. As at June 30, 2019, the Company is not exposed to any significant credit risk.

As at June 30, 2019, the Company's aging of receivables was approximately as follows:

	June 30 2019	June 30 2018
	$	$
0 – 60 days	**2,240**	389
61 – 120 days	**337**	71
	2,577	460

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. As at June 30, 2019, the Company is not exposed to any significant interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities have maturities of 30 days or less or are due on demand and are subject to normal trade terms. The Company has current assets of $35,416 and current liabilities of $8,402. The Company addresses its liquidity through debt or equity financing obtained through the sale of convertible debentures and common shares. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. Further, the Company's ability to fund operations, to make planned capital expenditures, to execute its growth strategy and to meet scheduled financial commitments depends on the Company's future operating performance and cash flows as well as capital raising, all of which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond the Company's control. See also "Liquidity and Capital Resources".

Fair value hierarchy

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

During the year ended June 30, 2019, there were no transfers of amounts between fair value levels.

Cash and cash equivalents are classified as Level 1 financial instruments.

The Company's other financial instruments, including accounts receivable, promissory note and accounts payable and accrued liabilities are carried at cost which approximates fair value due to the relatively short maturity of those instruments.

NON-GAAP MEASURES

Adjusted EBITDA is the loss from operations, as reported, before interest, taxes, depreciation and amortization and adjusted for share-based compensation, the fair value effects of accounting for biological assets and inventories, and non-cash write-downs of goodwill, inventory and other assets. Gross margin before fair value adjustments is a percentage of gross profit (loss) before fair value adjustments of accounting for biological assets and inventory over net revenue. Both measures are useful financial metrics for management to assess the Company's operating performance on a cash basis before the impact of non-cash items.

RISKS AND UNCERTAINTIES

This section discusses factors relating to the business of Harvest One that should be considered by both existing and potential investors. The information in this section is intended to serve as an overview and should not be considered comprehensive and Harvest One may face additional risks and uncertainties not discussed in this section, or not currently known to us, or that we deem to be immaterial. All risks to Harvest One's business have the potential to influence its operations in a materially adverse manner.

Risks Relating to Harvest One's Business

Access to Capital

In executing its business plan, the Company makes, and will continue to make, substantial investments and other expenditures related to acquisitions, capital expenditure allocations, research and development and marketing initiatives. Since its incorporation, the Company has financed these expenditures through offerings of its equity securities and debt financing. The Company will have further capital requirements and other expenditures as it proceeds to expand its business or take advantage of opportunities for acquisitions or other business opportunities that may be presented to it. The Company may incur major unanticipated liabilities or expenses. The Company can provide no assurance that it will be able to generate sufficient free cash flow or obtain financing to meet its growth needs.

History of Net Losses

Harvest One has incurred operating losses in recent periods. Harvest One may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, Harvest One expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If Harvest One's revenues do not increase to offset these expected increases in costs and operating expenses, Harvest One will not be profitable. There is no assurance that Harvest One will be successful in achieving a return on shareholders' investments and the likelihood of success must be considered in light of its early stage of operations.

Credit, Liquidity, Interest, Currency and Commodity Price Risk

The Board has overall responsibility for the establishment and oversight of Harvest One's risk management framework. As at June 30, 2019, Harvest One's financial instruments consist of cash and cash equivalents, accounts receivable, promissory note, warrants, accounts payable and accrued liabilities, finance leases. Cash and cash equivalents are reported at fair value. The Company's other financial instruments, including accounts receivable, promissory note, and accounts payable and accrued liabilities, reflected in the balance sheet approximate their fair values due to their short-term nature.

Harvest One does not use derivative instruments or hedges to manage risks because Harvest One's exposure to credit risk, interest rate risk and currency risk is small.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Harvest One is exposed to credit risk through its cash and accounts receivable. The risk for cash is mitigated by holding these instruments with highly rated financial institutions. The Company provides credit to its customers in the normal course of business and has mitigated this risk by managing and monitoring the underlying business relationships. The Company believes it is not exposed to any significant credit 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. Harvest One is exposed to short-term interest rates through the interest earned on cash balances and deposits; however, management does not believe this exposure is significant.

Liquidity risk is the risk that Harvest One will encounter difficulty in meeting obligations associated with financial liabilities. Harvest One manages liquidity risk through the management of its capital structure. In order to meet its financial obligations, Harvest One will need to generate cash flow from its operations, from the sale or other disposition of property, or from raising additional capital. Further, the Company's ability to fund operations, to make planned capital expenditures, to execute its growth strategy and to meet scheduled financial commitments depends on the Company's future operating performance and cash flows as well as capital raising, all of which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond the Company's control. See also "Liquidity and Capital Resources".

Harvest One – through its subsidiaries – operates in a number of foreign jurisdictions. As a result, Harvest One is exposed to foreign currency risk related to cash, accounts receivable, and accounts payable and accrued liabilities that are denominated in a foreign currency.

General Business Risk and Liability

Given the nature of Harvest One's business, it may from time to time be subject to claims or complaints from investors or others in the ordinary course of business. The legal risks facing Harvest One, its directors, officers, employees or agents in this respect include potential liability for violations of securities law, breach of fiduciary duty or misuse of investors' funds. Some violations of securities laws and breach of fiduciary duty could result in civil liability, fines, sanctions, or the suspension or revocation of Harvest One's right to carry on its existing business. Harvest One may incur significant costs in connection with such potential liabilities.

Reliance on its Licences

The continuation of Harvest One's business of growing, storing and distributing medical and recreational cannabis is dependent on the good standing of all licences required to engage in such activities and upon adhering to all regulatory requirements related to such activities in Canada and around the globe.

United Greeneries, a wholly-owned subsidiary of Harvest One, was granted the UG Licence to cultivate and sell cannabis by Health Canada on June 28, 2016 designating United Greeneries as a "Licensed Producer," as such term was defined under the ACMPR. With the coming-into-force of the Act on October 17, 2018, United Greeneries migrated the UG Licence pursuant to the provisions of the regulations promulgated under the Act (the "Cannabis Regulations"). The UG Licence was further amended in September 2019 to allow for the sale of cannabis oil products. The UG Licence is valid until June 26, 2020, at which point United Greeneries must apply to Health Canada for a renewal.

In September 2019, Burb obtained its first two retail cannabis licences pursuant to the Act and the Cannabis Regulations (the "Burb Licences").

In October 2019, United Greeneries received a cultivation licence from Health Canada for Phase 1 of its new Mission Road Facility (the "Cultivation Licence"). The Cultivation Licence allows United Greeneries to cultivate cannabis in the Mission Road Facility located adjacent to the existing Duncan Facility.

Failure to comply with the requirements of the UG Licence, the Burb Licences, the Cultivation Licence (collectively the "Licences") or any failure to maintain the Licences could have a material adverse impact on the business, financial condition and operating results of Harvest One. Although Harvest One believes it will meet the requirements of the Cannabis Regulations for future extensions or renewals of the UG Licence and the Cultivation Licence, there can be no guarantee that Health Canada will extend or renew such Licences or that, if extended or renewed, such Licences will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew any one of the Licences or should it renew any of the Licences on different terms, the business, financial condition and results of operations of Harvest One could be materially and adversely affected.

Share Price Volatility

The market price for Harvest One's Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond Harvest One's control, including the following:

- actual or anticipated fluctuations in Harvest One's quarterly results of operations;
- recommendations by securities research analysts;
- changes in the economic performance or market valuations of companies in the industry in which Harvest One operates;
- addition or departure of the Company's executive officers and other key personnel;
- release or expiration of transfer restrictions on outstanding Common Shares;
- sales or perceived sales of additional Common Shares;
- operating and financial performance that vary from the expectations of management, securities analysts and investors;
- regulatory changes affecting the Company's industry generally and its business and operations;
- announcements of developments and other material events by Harvest One or its competitors;
- fluctuations in the costs of vital production materials and services;
- changes in global financial markets and global economies and general market conditions, such as interest rates, access to capital, and pharmaceutical product price volatility;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving Harvest One or its competitors;
- operating and share price performance of other companies that investors deem comparable to Harvest One or from a lack of market comparable companies; and
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in Harvest One's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities and have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Such volatility has been particularly evident with regard to the share prices of medical and recreational cannabis companies that are public issuers in Canada. Accordingly, the market price of the Common Shares may decline even if Harvest 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 lasting and not temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in share price and volume will not occur. If such increased levels of volatility and market turmoil continue, Harvest One's operations could be adversely impacted and the trading price of the Common Shares may be materially adversely affected.

Reliance on the Facilities

Harvest One currently operates one facility: the Duncan Facility. Presently, only the Duncan Facility and Phase 1 of the Mission Road Facility, are licensed by Health Canada to cultivate and sell cannabis. The Company's revenue is dependent on the uninterrupted operation of its production at the Duncan Facility, which will eventually be supplemented by production at the Mission Road Facility. The Company's production is subject to operational risks beyond its control including fire, breakdown, failure or substandard performance of its equipment and machinery, power shortage, labour disruption, natural disasters and any interruption in its operations as a result of any failure to comply with all applicable laws and regulations in the jurisdictions where our production facilities are located. Frequent or prolonged occurrence of any of the aforesaid events may have a material adverse effect on the Company's business, financial condition and results of operation. If there is any damage to the Company's production facilities, it may not be able to alleviate the impact of such damage in a timely and proper manner or at all. Any breakdown or malfunction of any of the Company's information technology systems and equipment could cause a material disruption of its operations. Adverse changes or developments affecting this facility could have a material and adverse effect on the Company's business, financial condition and prospects.

Lucky Lake Facility is not Licensed under the Cannabis Regulations

The Lucky Lake Facility is currently not licensed by Health Canada under the Cannabis Regulations as a facility where the cultivation of cannabis is permitted. Harvest One, through United Greeneries, applied to Health Canada to become a licensed producer under the ACMPR for the Lucky Lake Facility prior to the Cannabis Regulations coming into force. The application review will continue under the new Cannabis Regulations and United Greeneries is presently completing preparation for evidence package submission. United Greeneries' ability to cultivate, store and sell cannabis at the Lucky Lake Facility is dependent on obtaining a licence from Health Canada and there can be no assurance that United Greeneries will obtain such a licence for the Lucky Lake Facility.

Lillooet Site is not Licensed under the Cannabis Regulations

In February 2018 United Greeneries acquired 398 acres of agricultural land just outside of Lillooet, British Columbia (the "Lillooet Site"), for the potential for outdoor cultivation of cannabis. The Lillooet Site is not licensed by Health Canada under the Cannabis Regulations as a facility where the cultivation of cannabis is permitted. United Greeneries' ability to cultivate, store and sell cannabis produced on the Lillooet Site is dependent on obtaining a licence from Health Canada under the Cannabis Regulations and there can be no assurance that United Greeneries will obtain such a licence for the Lillooet Site.

Greenbelt Facility is not Licensed under the Cannabis Regulations

The Greenbelt Facility is not licensed by Health Canada under the Cannabis Regulations as a facility where the cultivation and processing of cannabis is permitted. Greenbelt has applied to Health Canada to become a licensed producer under the Cannabis Regulations. The application review is continuing and Greenbelt is presently completing preparation for evidence package submission. Greenbelt's ability to cultivate, process, store and sell cannabis and cannabis-derived products produced from the Greenbelt Facility is dependent on obtaining a licence from Health Canada under the Cannabis Regulations and there can be no assurance that Greenbelt will obtain such a licence for the Greenbelt Facility.

Facility Construction and Expansion

The construction of the Lucky Lake Facility, the expansion of the Duncan Facility to include the Mission Road Facility and the retrofit of the Greenbelt Facility are subject to various potential problems and uncertainties and such construction and expansion may be delayed or adversely affected by a number of factors beyond Harvest One's control. These uncertainties include the failure to obtain regulatory approvals, permits, delays in the delivery or installation of equipment by suppliers, difficulties in integrating new equipment with existing facilities, shortages in materials or labor, defects in design or construction, diversion of management resources, and insufficient funding or other resource constraints. Additionally, sufficient power will be required to expand and operate the Mission Road Facility, and to operate the Lucky Lake and Greenbelt facilities, respectively, which the Company may not be able to secure, or secure at economically viable rates. In addition, the actual cost of construction may exceed the amount budgeted for expansion. As the result of construction delays, cost overruns, changes in market circumstances or other factors, Harvest One may not be able to achieve the intended economic benefits from the construction and expansion of operations at these facilities, which in turn may affect Harvest One's business, prospects, financial condition and results of operations. In particular, the expansion of the Lucky Lake Facility and the Mission Road Facility, and the retrofit of the Greenbelt Facility, are all subject to Health Canada regulatory approvals. The delay or denial of such approvals may have a material adverse impact on the business of Harvest One and may result in Harvest One not meeting anticipated or future demand when it arises.

Holding Company Status

Harvest One is a holding company and essentially all of its operating assets are the capital stock of its subsidiaries. Harvest One conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues, and its investors are therefore subject to the risks attributable to its subsidiaries. Harvest One's cash flow and its ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to Harvest One. The ability of Harvest One's subsidiaries to pay dividends and other distributions will depend on each subsidiary's operating results, applicable laws and regulations regarding the payment of dividends and distributions, and any contractual restrictions on distributions in debt instruments, among other things. In the event of a bankruptcy, liquidation or reorganization of any of Harvest One's subsidiaries, debtholders and trade creditors will generally be entitled to the payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to Harvest One.

Limited Operating History

Harvest One, through its wholly-owned indirect subsidiary United Greeneries, entered the medical cannabis business in 2012 and the recreational cannabis market in October 2018. Harvest One is therefore subject to many of the risks common to entering a new area of investment, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources, and a lack of revenue. There is no assurance that Harvest One will be successful in achieving a return on its shareholders' investments and the likelihood of success must be considered in light of its early stage of operations.

Unfavourable Publicity or Consumer Perception

The success of the medical and recreational cannabis industries may be significantly influenced by the public's perception of cannabis' medicinal and recreational applications. Medicinal and recreational cannabis is a controversial topic, and there is no guarantee that future scientific research, publicity, regulations, medical opinion and public opinion relating to cannabis will be favourable. The medical and recreational cannabis industries are early-stage businesses that are constantly evolving with no guarantee of viability. The markets for medical and recreational cannabis are uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion relating to the consumption of medical and recreational cannabis may have a material adverse effect on Harvest One's (and Harvest One's subsidiaries') operational results, consumer base and financial results.

Third-Party Transportation

Harvest One relies on third party transportation services to deliver its products to its customers. Harvest One is exposed to the inherent risks associated with relying on third party transportation service-providers, including logistical problems, delays, loss or theft of product and increased shipping and insurance costs. Any delay in transporting the product, breach of security or loss of product, could have a material adverse effect on Harvest One's business, financial performance and results of operations. Further, any breach of security and loss of product during transport could affect Harvest One's status as a licensed producer.

Management of Growth

Harvest One may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Harvest One to manage growth effectively will require continued implementation and improvement of its operational and financial systems and for each to expand, train and manage their respective employee bases. The inability of Harvest One to deal with growth may have a material adverse effect on Harvest One's respective businesses, financial conditions, results of operations and prospects.

Integration Risk

With the completion of the Delivra Acquisition, the acquisition of Dream Water (the "Dream Water Acquisition"), the PhytoTech Acquisition, and the Greenbelt Acquisition, the Company may have or has the following integration risks: the challenge of implementing uniform standards, controls procedures and policies; the challenge of upholding consistent systems and procedures; the inability to integrate, train, retain and motivate key personnel; the inability to maintain operating efficiency; disruption of Harvest One's ongoing business and the distraction of management from its day-to-day operations; and the potential impairment of relationships with the employees of Delivra, Dream Water, PhytoTech and Greenbelt, customers and strategic partners. Such risks, if they materialize, could have a material adverse effect on the Company's business, financial condition, liquidity and results of operations and will depend upon the Company's ability to manage those operations and to eliminate redundant and excess costs. As a result of difficulties associated with combining operations, the Company may not be able to achieve the cost savings and other benefits that it would hope to achieve with the Delivra Acquisition, Dream Water Acquisition, the PhytoTech Acquisition and the Greenbelt Acquisition. Any difficulties in this process could disrupt the ongoing business, distract its management, result in the loss of key personnel, increase its expenses and otherwise materially adversely affect its business, financial condition, liquidity and operating results.

Acquisition Strategy Risks

The Company has made and may continue to pursue acquisition opportunities to advance its strategic plan. The successful integration of an acquired business typically requires the management of the pre-transaction business strategy, including the retention and addition of customers, realization of identified synergies, retention of key staff and the development of a common corporate culture. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner, as well as the ability to realize on anticipated growth opportunities and synergies from newly formed partnerships. Any failure to integrate an acquired business or realize the anticipated benefits of new partnerships may have a material adverse effect on the Company's business, financial condition and results of operations, as well as its future prospect for acquisitions or partnerships. There is no assurance that the Company will be able to successfully integrate an acquired business in order to maximize or realize the benefits associated with an acquisition.

Reliance on Management

The success of Harvest One is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management and key employees. While employment agreements and incentive programs are customarily used as primary methods of retaining the services of key employees, these agreements and incentive programs cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on Harvest One's business, operating results or financial condition. Competition for qualified technical, sales and marketing staff, as well as officers and directors can be intense and no assurance can be provided that Harvest One will be able to attract or retain key personnel in the future, which may adversely impact Harvest One's operations.

Conflicts of Interest

Certain of Harvest One's directors and officers are also directors and operators 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 the Company's interests. In accordance with the British Columbia Business Corporations Act, 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.

In addition, Harvest One's directors and officers are required to act honestly and in good faith with a view to its best interests. However, in conflict of interest situations, Harvest One's directors and officers may owe the same duty to another company and will need to balance their competing interests with their duties to Harvest One. Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavourable to Harvest One.

Principal Security Holder

MMJ is Harvest One's largest shareholder – directly and indirectly owning a total of 55,557,994 Common Shares. MMJ will have a significant influence on determining the outcome of any corporate transaction or other matter submitted to shareholders for approval, including mergers, consolidations and the sale of all or substantially all of Harvest One's assets, the election of directors and other significant corporate actions. In addition, due to MMJ's significant holdings, there can be no guarantee of a ready liquid market for the Common Shares.

Dividends

Harvest One has not paid dividends in the past and does not anticipate paying dividends in the near future. Harvest One expects to retain earnings to finance the development and enhancement of its products and to otherwise reinvest in Harvest One's businesses. Any decision to declare and pay dividends in the future will be made at the discretion of the Board and will depend on, among other things, financial results, cash requirements, contractual restrictions and other factors that the Board may deem relevant. As a result, investors may not receive any return on investment in Common Shares unless they sell them for a share price that is greater than that at which such investors purchased them.

Limited Market for Securities

There can be no assurance that an active and liquid market for Common Shares will be maintained and an investor may find it difficult to resell any securities of Harvest One.

Litigation

Harvest One may become party to litigation, mediation and/or arbitration 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 Harvest One to incur significant expenses. In addition, legal fees and costs incurred in connection with such activities may be significant and we could, in the future, be subject to judgments or enter into settlements of claims for significant monetary damages.

While Harvest One has insurance that may cover the costs and awards of certain types of litigation, the amount of insurance may not be sufficient to cover any costs or awards. Substantial litigation costs or an adverse result in any litigation may adversely impact Harvest One's business, operating results or financial condition.

Perceived Reputational Risk for Third Parties

The parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's lawful cannabis business activities. Failure to establish or maintain business relationships due to reputational risk arising in connection with the nature of the Company's business could have a material adverse effect on the Company's business, financial condition and results of operations.

Intellectual Property

The ownership and protection of trademarks, patents, trade secrets and intellectual property rights are significant aspects of the Company's future success. Unauthorized parties may attempt to replicate or otherwise obtain and use the Company's products and technology. Policing the unauthorized use of the Company's current or future trademarks, patents, trade secrets or intellectual property rights could be difficult, expensive, time-consuming and unpredictable, as may be enforcing these rights against unauthorized use by others.

In addition, other parties may claim that the Company's products infringe on their proprietary and perhaps patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, injunctions, temporary restraining orders and/or require the payment of damages. As well, the Company may need to obtain licences from third parties who allege that the Company has infringed on their lawful rights. Such licences, however, may not be available on terms acceptable to the Company or at all. In addition, the Company may not be able to obtain or utilize on terms that are favorable to it, or at all, licences or other rights with respect to intellectual property that it does not own.

Political and Economic Instability

Harvest 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 and high rates of inflation. Changes in medicine and agriculture development or investment policies or shifts in political attitude in certain countries may adversely affect Harvest One's business. Additionally, as legalization of cannabis occurs in markets outside of Canada, including, but not limited to, the United States, the Company may be subject to enhanced competition from foreign cannabis producers which could adversely impact the Company'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 impact of these factors cannot be accurately predicted.

Ability to Establish and Maintain Bank Accounts

The Company does not anticipate encountering any banking restrictions, however there is a risk that banking institutions in countries where the Company operates or intends to operate in the future will not accept payments related to the cannabis industry. Such risks could increase costs for Harvest One. In the event that financial services providers do not accept accounts or transactions related to the cannabis industry, it is possible that the Company may be required to seek alternative payment solutions, including but not limited to cryptocurrencies. There are risks inherent in cryptocurrencies, most notably its volatility and security issues. If the industry was to move towards alternative payment solutions and accept payments in cryptocurrencies, the Company would have to adopt policies and protocols to manage its volatility and exchange rate risk exposures. The Company's inability to manage such risks may adversely affect its operations and financial performance.

Global Economy Risk

An economic downturn of global capital markets has been shown to make the raising of capital by equity or debt financing more difficult. Harvest One will be dependent upon the capital markets to raise additional financing in the future, while it establishes a user base for its products. As such, Harvest One is subject to liquidity risks in meeting its development and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact Harvest One's ability to raise equity or obtain loans and other credit facilities in the future and on terms favorable to Harvest One and its management. If uncertain market conditions persist, Harvest One's ability to raise capital could be jeopardized, which could have an adverse impact on Harvest One's operations and the trading price of the Common Shares.

Research and Development

Rapidly changing markets, technology, emerging industry and regulatory standards and frequent introduction of new products characterize the Company's business. The introduction of new products embodying new technologies and regulatory developments may render the Company's equipment obsolete and its products and services less competitive or less marketable. The process of developing the Company's products and services is complex and requires significant continuing costs, development efforts and third-party commitments. The Company's failure to develop new products and services could adversely affect the business, financial condition and operating results of the Company. The Company may be unable to anticipate changes in its potential client requirements that could make the Company's existing products and services obsolete. The Company's success will depend, in part, on its ability to continue to enhance its product and service offerings so as to address the increasing sophistication and varied needs of the market, and respond to technological and regulatory changes and emerging industry standards and practices on a timely and cost-effective basis.

Shelf Life of Inventory

The Company holds finished goods in inventory and its inventory has a shelf life. Finished goods in the Company's inventory include cannabis flower, cannabis oil products, CBD Gelpell® capsules, liquid sleep shots, and sleep packets. The Company's inventory may reach its expiration and not be sold. Even though on a regular basis, management reviews the amount of inventory on hand, reviews the remaining shelf life, and estimates the time required to manufacture and sell such inventory, write-downs of inventory may still be required. Any such write-down of inventory could have a material adverse effect on the Company's business, financial condition, and results of operations.

Maintenance of Effective Quality Control System

The Company may not be able to maintain an effective quality control system. The Company ascribes its success to its commitment to quality control and its effective quality control system. Quality, in terms of reliability and stability of the Company's equipment, is especially important and the performance failure of any part of one of the Company's production facilities would affect the entire production line of its equipment and lead to severe economic losses. The effectiveness of the Company's quality control system and its ability to obtain or maintain GMP certification with respect to processing facilities depends on a number of factors, including the design of its quality control procedures, training programs, and its ability to ensure that its employees adhere to the Company's quality control policies and guidelines. Any failure or deterioration of the Company's quality control systems may have a material adverse effect on the Company's business, results of operations and financial condition.

Scheduled Maintenance, Unplanned Repairs, Equipment Outages and Logistical Disruptions

The Company's manufacturing processes are dependent upon certain critical pieces of equipment, which, on occasion, will be out of service due to routine scheduled maintenance or as a result of equipment failures. If replacement of certain critical parts is needed to address the equipment maintenance or failure, such critical parts may not be on hand and could take months to order. The Company currently has a plan in place to address certain of these issues, however, no assurance can be given that all critical spare parts will be readily available. Such interruptions in the Company's production capabilities could result in fluctuations in its sales and income. No assurance can be given that other significant shutdowns will not occur in the future or that such a shutdown will not have a material adverse effect on the Company's business, financial condition, or results of operations or cash flows.

It is also possible that operations may be disrupted due to other unforeseen circumstances such as power outages, explosions, fires, floods, accidents and severe weather conditions. To the extent that lost production could not be compensated for at unaffected facilities and depending on the length of the outage, the Company's sales and unit production costs could be adversely affected. The Company is also exposed to similar risks involving major clients and suppliers such as *force majeure* events of raw materials suppliers that have occurred and may occur in the future. Delivery of products to clients could be affected by logistical disruptions, such as shortages of barges, ocean vessels, rail cars or trucks, or unavailability of rail lines, highways or bodies of water.

Client Risks

The Company is subject to credit risk of its clients, and its profitability and cash flow are dependent on receipt of timely payments from clients. Any delay in payment by the Company's clients may have an adverse effect on the Company's profitability, working capital and cash flow. There is no assurance that the Company will be able to collect all or any of its trade receivables in a timely matter. If any of the Company's clients face unexpected situations such as financial difficulties, the Company may not be able to receive full or any payment of the uncollected sums or enforce any judgment debts against such clients, and the Company's business, results of operations and financial condition could be materially and adversely affected.

The Company's success depends in part on its ability to anticipate and offer products and services that appeal to the changing needs and preferences of clients in the various markets the Company serves. Developing new products and services requires high levels of innovation, and the development process is often lengthy and costly. If management is not able to anticipate, identify, develop and market products and services that respond to changes in client preferences, demand for products, and services could decline.

Lack of Long-Term Client Commitment Risk

Sales of the Company's products may be made pursuant to individual purchase orders or contracts and not under long-term commitments. The Company's clients may not provide any assurance of minimum or future sales. The Company's clients may also engage in the practice of purchasing products from more than one provider to avoid dependence on sole-source suppliers for certain of their needs. The existence of these practices may make it more difficult for the Company to increase prices, gain new clients and win repeat business from existing clients.

Risks as a Result of International Expansions

The Company may in the future expand into other geographic areas, which could increase its operational, regulatory, compliance, reputational and foreign exchange rate risks. The failure of its operating infrastructure to support such expansion could result in operational failures and regulatory fines or sanctions. Future international expansion could require the Company to incur a number of up-front expenses, including those associated with obtaining regulatory approvals, as well as additional ongoing expenses, including those associated with infrastructure, staff and regulatory compliance. The Company may not be able to successfully identify suitable acquisition, joint venture and expansion opportunities or integrate such operations successfully with its existing operations.

In addition, the Company may face new or unexpected risks or significantly increase its exposure to one or more existing risk factors, including economic instability, changes in laws and regulations, and the effects of competition. These factors may limit the Company's ability to successfully expand its operations into other jurisdictions and may have a material adverse effect on its business, financial condition and results of operations.

Operations in Foreign Jurisdictions

The Company's operations at various times may be exposed to political, economic and other risks and uncertainties associated with operating in a foreign jurisdiction. These risks and uncertainties include, but are not limited to:

- renegotiation, nullification, termination or rescission of existing concessions, licences, permits and contracts;
- repatriation restrictions;
- changing political conditions;
- currency exchange rate fluctuations;
- taxation policies;
- changing government policies and legislation;
- import and export regulations;
- infrastructure development policy; and
- environmental legislation.

Changes, if any, in policies or shifts in political attitude may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, foreign investment, environmental legislation, and land use. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's operations and profitability.

In addition, in the event of a dispute arising from operations in a foreign jurisdiction, the Company may be subject to the exclusive jurisdiction of foreign courts.

Reliance Upon International Advisors and Consultants

The legal and regulatory requirements and local business culture and practices in the foreign countries in which the Company may expand are different from those in which it currently operates. The Company's officers and directors will be required to rely, to a great extent, on local legal counsel and consultants in order to keep abreast of material legal, regulatory and governmental developments as they pertain to, and affect the Company's business operations, and to assist with governmental relations. The Company must rely, to some extent, on those members of management and the board of directors who have previous experience working and conducting business in these countries, if any, in order to enhance the Company's understanding of, and appreciation for, the local business culture and practices. The Company will be required to also rely on the advice of local experts and professionals in connection with current and new regulations that develop in respect of the cultivation and sale of cannabis as well as in respect of banking, financing, labour, litigation and tax matters in these jurisdictions. Any developments or changes in such legal, regulatory or governmental requirements or in local business practices are beyond the Company's control. The impact of any such changes may adversely affect the Company's business.

Significant Sales of Common Shares

Although Common Shares held by existing shareholders of Common Shares are freely tradable under applicable securities legislation, certain Common Shares held by the Company's directors, executive officers, Control Persons (as such term is defined in the policies of the TSX Venture Exchange) and certain other securityholders of the Company are subject to escrow and seed share resale restrictions pursuant to the policies of the TSX Venture Exchange. Sales of a substantial number of the Common Shares in the public market after the expiry of such restrictions or the perception that these sales could occur, which could adversely affect the market price of the Common Shares and may make it more difficult for investors to sell Common Shares at a favourable time and price.

Analyst Coverage

The trading market for the Common Shares will, to some extent, depend on the research and reports that securities or industry analysts publish about the Company or its business. The Company will not have any control over these analysts. If one or more of the analysts who covers the Company should downgrade the Common Shares or change their opinion of the Company's business prospects, the Company's share price would likely decline. If one or more of these analysts ceases coverage of the Company or fails to regularly publish reports on the Company, the Company could lose visibility in the financial markets, which could cause the Company's share price or trading volume to decline.

Tax Risks

The Company will operate and will be subject to income tax and other forms of taxation (which are not based upon income) in multiple tax jurisdictions. Taxation laws and rates which determine taxation expenses may vary significantly in different jurisdictions, and legislation governing taxation laws and rates is also subject to change. Therefore, the Company's earnings may be impacted by changes in the proportion of earnings taxed in different jurisdictions, changes in taxation rates, changes in estimates of liabilities and changes in the amount of other forms of taxation. The Company may have exposure to greater than anticipated tax liabilities or expenses. The Company will be subject to income taxes and non-income taxes in a variety of jurisdictions and its tax structure is subject to review by both domestic and foreign taxation authorities and the determination of the Company's provision for income taxes and other tax liabilities will require significant judgment which may or may not prove correct.

Tax Issues

There may be income tax consequences in relation to the Common Shares, which will vary according to circumstances of each investor. Prospective investors should seek independent advice from their own tax and legal advisers.

Risks Relating to the Cannabis Industry

Regulatory Risks

Harvest One, and its subsidiaries, operate in a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

The ability of United Greeneries, and its wholly-owned subsidiary United Greeneries Operations Ltd., to grow, process, store and sell cannabis in Canada at the Duncan Facility and Phase 1 of the Mission Road Facility is dependent on the UG Licence from Health Canada and maintaining such UG Licence in good standing. Failure to: (i) comply with the requirements of the UG Licence and (ii) maintain the UG Licence would have a material adverse impact on the business, financial condition and operating results of United Greeneries and Harvest One.

United Greeneries, Dream Water, Delivra and Satipharm will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of our operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to United Greeneries', Dream Water's, Delivra's and Satipharm'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 United Greeneries, Dream Water, Delivra, Satipharm and Harvest One.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond Harvest One's control and which cannot be predicted, including changes to government regulations. Changes in government levies and taxes could reduce Harvest One's earnings and could make future capital investments or Harvest One's operations uneconomic. The medical and recreational cannabis industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

United Greeneries' business will continue to be subject to the Cannabis Act and Cannabis Regulations regime. In addition to being subject to general business risks and to risks inherent in the nature of an early stage business with an agricultural product in a regulated industry, United Greeneries will need to continue to build brand awareness through significant investment in strategy, production capacity and quality assurance. Harvest One's brand and products may not be effectively promoted as intended. The cannabis industry is marked by competitive conditions, consumer tastes, patient requirements and unique circumstances, and spending patterns that differ from existing markets.

Environmental and Employee Health and Safety Regulations

Harvest 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. Harvest One will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to obtain an Environmental Compliance Approval or otherwise comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our 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 Harvest One's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of Harvest One.

Change in Laws, Regulations and Guidelines

Harvest One's operations are subject to a variety of laws, regulations and guidelines relating to the cultivation, processing, management, transportation, storage, sale and disposal of medical and recreational cannabis, but also including laws and regulations relating to health and safety, privacy, the conduct of operations and the protection of the environment. While to the knowledge of Harvest One's management, Harvest One is currently in compliance with all such laws, changes to such laws, regulations and guidelines due to matters beyond the control of Harvest One may cause adverse effects to Harvest One's operations and the financial condition of Harvest One.

On June 7, 2018, Bill C-45 passed the third reading in the Senate with a number of amendments to the language of the Cannabis Act. On June 21, 2018, the Government of Canada announced that Bill C-45 received Royal Assent.

On July 11, 2018, the Cannabis Regulations made pursuant to the Cannabis Act were published. The impact of changes in the regulatory enforcement by Health Canada under the Cannabis Act and the Cannabis Regulations, particularly in respect of product packaging, labelling marketing, advertising and promotions and product approvals and its impact on the Company's business are unknown at this time, given that the Cannabis Act and Cannabis Regulations only came into effect on October 17, 2018.

Prior to the Cannabis Act coming into force, only the sale of medical cannabis was legal in Canada. The medical cannabis regime was regulated federally pursuant to the *Controlled Drugs and Substances Act* (the “CDSA”) and the ACMPR. The ACMPR regulated the production, sale and distribution of cannabis and cannabis oil extracts for medical purposes in Canada. The ACMPR provided for three possible options for Canadian residents who were authorized by their health care practitioner to access cannabis for medical purposes:

- access quality-controlled cannabis by registering with a licensed producer;
- register with Health Canada to produce a limited amount of cannabis for their own medical purposes (starting materials including cannabis seeds and plants had to be purchased from a licensed producer); or
- designate someone else who is registered with Health Canada to produce cannabis on their behalf (starting materials such as cannabis seeds and plants had to be purchased from a licensed producer).

The Cannabis Regulations, among other things, set forth the regulatory structure and process for the following:

1. Licences, Permits and Authorizations;
2. Security Clearances;
3. Cannabis Tracking System;
4. Cannabis Products;
5. Packaging and Labelling;
6. Cannabis for Medical Purposes; and
7. Drugs Containing Cannabis.

Licences, Permits and Authorizations

The Cannabis Regulations provide that all licences issued under the Cannabis Act will be valid for a period of no more than five years and that no licensed activities can be conducted in a dwelling-house. The Cannabis Regulations also permit both indoor and outdoor cultivation of cannabis. The implications of the proposal to allow outdoor cultivation are not yet known, but such a development could be significant as it may reduce start-up capital required for new entrants in the cannabis industry. It may also ultimately lower prices as capital expenditure requirements related to growing outside are typically much lower than those associated with indoor growing.

Generally, the Cannabis Act provides that licences issued under the ACMPR that are in force immediately before the Cannabis Act coming into force are deemed to be licences issued under the corresponding provisions of the Cannabis Act and any such licences will continue in force until they may be revoked or they expire. For example, a licence for production and sale of dried cannabis flower, cannabis resin, cannabis seeds, cannabis plants and cannabis oil under the ACMPR are deemed to be licences for cultivation, processing and sale for medical purposes under the Cannabis Act, provided that the licence holder meets certain requirements.

Similarly, the Cannabis Act generally provides that licences pertaining to cannabis or its derivatives issued under the Narcotic Control Regulations (the "NCR") that are in force immediately before the Cannabis Act came into force are deemed to be licences issued under the corresponding provisions of the Cannabis Act and any such licences will continue in force until they are revoked or expire. For example, a licence issued under the NCR authorizing cultivation of cannabis for scientific purposes will be a research licence under the Cannabis Act.

The Security Clearances

The ACMPR required certain individuals to hold security clearances. For a corporation, this included officers and directors of the corporation. The Cannabis Regulations broaden the scope of individuals required to hold security clearances, including all individuals occupying key positions, individuals, such as shareholders, that have direct control over a licence holder, and the officers and directors of any corporation having direct control over a licence holder (e.g., officers and directors of a parent corporation).

The Cannabis Regulations provide a three-month grace period for current licence holders to identify those individuals that require security clearances and to apply for such security clearances (i.e. until January 17, 2019). Security clearances issued under the ACMPR are considered to be security clearances for the purposes of the Cannabis Act and Cannabis Regulations.

Cannabis Tracking System

Under the Cannabis Act, the Minister of Health is authorized to establish and maintain a national cannabis tracking system. The purpose of this system is to track cannabis throughout the supply chain to help prevent diversion of cannabis into, and out of, the illicit market. The Cannabis Regulations provide the Minister of Health with the authority to make a ministerial order that would require certain persons named in such order to report specific information about their authorized activities with cannabis, in the form and manner specified by the Minister. The Minister of Health has introduced the Cannabis Tracking and Licensing System (CTLS). Licence holders are required to use the CTLS to, among other things, submit monthly reports to the Minister of Health, among other things.

Cannabis Products

The Cannabis Regulations permit the sale to the public of dried cannabis, cannabis oil, fresh cannabis, cannabis plants, and cannabis seeds. The sale of edible cannabis products and concentrates (such as hashish, wax and vaping products) became permissible on October 17, 2019, pursuant to amendments made to the Cannabis Regulations.

The Cannabis Regulations acknowledge that a range of product forms should be enabled to help the legal industry displace the illegal market. Additional product forms that are mentioned under the Cannabis Regulations include vaporization cartridges manufactured with dried cannabis. Specific details related to these new products are to be set out in a subsequent regulatory proposal.

Packaging and Labelling

The Cannabis Regulations require plain packaging for cannabis products, including strict requirements for logos, colours and branding. The Cannabis Regulations further require mandatory health warnings, standardized cannabis symbol and specific product information. The Cannabis Regulations provided a six-month transitional period to allow licence holders to sell cannabis products that had been labelled in accordance with the ACMPR.

Advertising

The Cannabis Act introduces restrictions regarding the promotion of cannabis products. Subject to a few exceptions, all promotions of cannabis products are prohibited unless authorized by the Cannabis Act.

Cannabis for Medical Purposes

On October 17, 2018, the medical cannabis regime became subject to the Cannabis Act and the Cannabis Regulations. The medical cannabis regulatory framework under the Cannabis Act and the Cannabis Regulations remains substantively similar to the regime that existed under the CDSA and the ACMPR, with adjustments to create consistency with rules for non-medical use, improve patient access, and reduce the risk of abuse within the medical access system (see Part 14 of the Cannabis Regulations entitled "Access to Cannabis for Medical Purposes"). The sale of medical cannabis remains federally regulated and in each case, sales can only be made by an entity that holds a licence to sell under the Cannabis Regulations to patients that have a medical document and have registered with the licensed entity. Note, a licence to sell is not required to sell between federally licensed entities, such as between licensed cultivators. Just as with the medical cannabis regime under the ACMPR, under the Cannabis Regulations, customers (patients) need to obtain a medical document (i.e., prescription) from their doctor and then register as a client with a cannabis company that has a licence to sell (the registration is only good for up to a year). Then the client can order from the cannabis company online or via telephone and the cannabis will be shipped directly to the client (max. 150 grams per month).

Provincial Regulatory Framework

While the Cannabis Act provides for the regulation of the commercial production of cannabis for recreational purposes and related matters by the federal government, the Cannabis Act proposes that the provinces and territories of Canada will have authority to regulate other aspects of recreational cannabis (similar to what is currently the case for liquor and tobacco products), such as sale and distribution, minimum age requirements, places where cannabis can be consumed, and a range of other matters.

There are essentially three general frameworks that the provinces and territories have proposed: (i) private cannabis retailers licensed by the province; (ii) government run retail stores; or (iii) a combination of both frameworks (e.g., privately licensed bricks and mortar retail stores, while online retail stores are operated by the applicable provincial government). Regardless of the framework, the recreational cannabis market will ultimately be supplied by federally licensed cultivators and processors. In many cases, the provinces that are proposing to have privately licensed retailers will have a government run wholesaler. Such privately licensed retail stores will be required to obtain their cannabis products from the wholesalers, while the wholesalers, in turn, acquire the cannabis products from the federally licensed cultivators and processors.

The impact of changes in the regulatory enforcement by Health Canada under the Cannabis Act and the Cannabis Regulations, particularly in respect of product packaging, labelling, marketing, advertising and promotions and product approvals and its impact on Harvest One's business are currently unknown. Certain provincial governments have announced sales and distribution models that have created government- controlled monopolies over the legal retail sale and distribution of cannabis for adult use, which may have the effect of restricting distribution relative to what it might otherwise have been, which could limit the Company's opportunities in those provinces.

This evolving legal regime presents a risk to Harvest One in that legislators or the court may adopt changes that would have a negative impact on the business, financial condition or results of operations of the Company. While the potential impact of any of such changes is highly uncertain and fact dependent, it is not expected that any such changes would have an effect on Harvest One's operations that is materially different than the effect on similar-sized companies in the same business as Harvest One.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond Harvest One's control and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce Harvest One's earnings and could make future capital investments or Harvest One's operations uneconomic. In addition, despite the legalization of recreational cannabis, the importation, exportation, production, testing, packaging, labelling, sending, delivery, transportation, sale, possession or disposal of cannabis or any class of cannabis will remain subject to extensive regulatory oversight. Such extensive controls and regulations may significantly affect the financial condition of market participants and prevent the realization of such market participants of any benefits from an expanded market for recreational cannabis products.

Restrictions on Sales and Marketing

The cannabis industry is in an early stage of development and restrictions on sales and marketing activities imposed by Health Canada, various medical associations, other governmental, quasi-governmental bodies or voluntary industry associations may adversely affect Harvest One's ability to conduct sales and marketing activities and could have a material adverse effect on Harvest One's respective businesses, operating results and financial conditions.

Breaches of Security

Given the nature of the Company's product and the concentration of inventory in its facilities, despite meeting or exceeding Health Canada's security requirements, there remains a risk of shrinkage as well as theft. A security breach at one of the Company's facilities could expose the Company to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential cannabis consumers from choosing the Company's products.

U.S. Border Considerations

Since cannabis remains illegal under U.S. federal law, those employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry or lifetime bans from the U.S. for their business associations with cannabis businesses. Entry happens at the sole discretion of the U.S. Customs and Border Protection officers on duty, and these officers have wide latitude to ask questions to determine the admissibility of a 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 U.S. In addition, 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, U.S. Customs and Border Protection 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 U.S. Customs and Border Protection 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 U.S. states where it is deemed legal or Canada may affect admissibility to the U.S. As a result, U.S. Customs and Border Protection has affirmed that, a Canadian citizen working in or facilitating the proliferation of the legal marijuana industry in Canada, coming to the U.S. for reasons unrelated to the marijuana industry, will generally be admissible to the U.S. However, if a traveler is found to be coming to the U.S. for reason related to the marijuana industry, they may be deemed inadmissible.

Foreign Jurisdiction Risks

The Company has operations in international markets and may have operations in emerging markets in the future. Such operations expose the Company to the socioeconomic conditions as well as the laws governing the cannabis industry in such countries. Inherent risks with conducting foreign operations include, but are not limited to: high rates of inflation; extreme fluctuations in currency exchange rates, military repression; war or civil war; social and labour unrest; organized crime; hostage taking; terrorism; violent crime; expropriation and nationalization; renegotiation or nullification of existing licences, approvals, permits and contracts; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political norms, banking and currency controls and governmental regulations that favour or require the Company to award contracts in, employ citizens of, or purchase supplies from, the jurisdiction.

Competition

The market for cannabis products appears to be sizable and Health Canada had only issued a limited number of licences under the older ACMPR regime to produce and sell medical cannabis. There are, however, several hundred applicants for licences under the Cannabis Act. The number of licences granted could have an impact on the operations of Harvest One. Because of the early stage of the industry in which Harvest One operates, Harvest One expects to face additional competition from new entrants. On its website, Health Canada indicates that as of October 28, 2019, there are 245 companies on its list of licensed producers of cannabis, including cultivator, processors and sellers. If the number of users of cannabis in Canada increases, the demand for products will increase and Harvest One expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. Harvest One expects significant competition from other companies applying for production licences that may have significantly greater financial, technical, marketing and other resources, may be able to devote greater resources to the development, promotion, sale and support of their products and services, and may have more extensive customer bases and broader customer relationships

To remain competitive, Harvest One will require a continued level of investment in research and development, marketing, sales and client support. Harvest 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 operations of Harvest One. If Harvest One and its subsidiaries are not successful in investing sufficient resources in these areas, its ability to compete in the market may be adversely affected, which in turn could materially and adversely affect Harvest One's business, financial conditions and results of operation.

Additionally, there is potential that the industry will undergo consolidation, creating larger companies that may have increased geographic scope and other economies of scale. Increased competition by larger, better-financed competitors with geographic or other structural advantages could materially and adversely affect the business, financial condition and results of operations of Harvest One.

Agricultural Operations

Since Harvest One's business will revolve mainly around the growth of cannabis, an agricultural product, the risks inherent in agricultural businesses will apply. Such risks may include disease and insect pests, among others. Although Harvest One expects to grow its premium quality craft-grown product in climate-controlled, monitored, indoor locations, there is no guarantee that changes in outside weather and climate will not adversely affect production. Should Harvest One ever grow cannabis outdoors the occurrence of severe adverse weather conditions, including droughts, hail, floods or frost will be unpredictable and may have a potentially devastating impact on agricultural production and may adversely affect the supply of cannabis. Such severe weather conditions could adversely affect products and therefore the financial condition and stability of the Company. Further, any rise in energy costs may have a material adverse effect on Harvest One's ability to produce cannabis.

Vulnerability to Rising Energy Costs

Harvest One's cannabis growing operations consume considerable energy, making Harvest One vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of United Greeneries and its ability to operate profitably. The prices for and availability of energy resources may be subject to change or curtailment, respectively, due to, among other things, new laws or regulations, imposition of new taxes or tariffs, interruptions in production by suppliers, imposition of restrictions on energy supply by government, worldwide price levels and market conditions. If energy supply is cut for an extended period of time and Harvest One is unable to find replacement sources at comparable prices, or at all, its business, financial condition and results of operations would be materially and adversely affected.

Fluctuating Prices of Raw Materials

Harvest One's revenues are expected to be in large part derived from the cultivation, processing, sale and distribution of cannabis. The price of cultivation, processing, sale and distribution of cannabis will fluctuate widely due to how young the cannabis industry is and is affected by numerous factors beyond Harvest One's control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new production and distribution developments and improved production and distribution methods. The effect of these factors on the price of product produced by Harvest One and, therefore, the economic viability of any of Harvest One's business, cannot accurately be predicted.

Product Liability

As a manufacturer and distributor of products designed to be ingested, inhaled or applied by humans, Harvest One faces the inherent risk of product liability claims, regulatory actions and litigation if its products are alleged to have caused loss or injury. In addition, the manufacture and sale of products involve the risk of injury or loss to consumers due to tampering by unauthorized third parties, product contamination and unauthorized use by consumers or other third parties. Previously unknown adverse reactions resulting from human consumption of Harvest One's products alone or in combination with other medications or substances could occur. Harvest One may be subject to various product liability claims, including that Harvest One's products caused death, injury, illness, or other loss. A product liability claim or regulatory action against Harvest One could result in increased costs, adversely affect Harvest One's reputation with its respective clients and consumers generally, and adversely affect the results of operations and financial conditions of Harvest One.

There can be no assurance that Harvest 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. An inability to obtain sufficient insurance coverage on reasonable terms could prevent or inhibit the commercialization of Harvest One's products.

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 labelling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company 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 the Company 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 the Company is subject to recall, the image of the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by regulatory agencies, requiring further management attention, potential loss of applicable licences and potential legal fees and other expenses.

Operating Risk and Insurance Coverage

Harvest One maintains insurance to protect its assets, operations and employees. While Harvest One believes its insurance coverage addresses all material risks to which they are exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for all the risks and hazards to which Harvest One is exposed. Harvest One may be also unable to maintain insurance at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Harvest One also might become subject to liability for pollution or other hazards which may not be insured against or which Harvest One may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Harvest One to incur significant costs that could have a material adverse effect upon Harvest One's financial performance and results of operations.

Results of Future Clinical Research

Research regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of CBD and THC. Although Harvest 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, investors should not place undue reliance on such articles, reports and studies. Future research studies and clinical trials may draw opposing or negative conclusions regarding the facts and perceptions related to cannabis, which could have a material adverse effect on the demand for Harvest One's products with the potential to lead to a material adverse effect on Harvest One's business, financial condition, results of operations or prospects.

Dependence on Suppliers and Skilled Labour

The ability of Harvest One to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that Harvest One will be successful in maintaining its required supply of skilled labour, equipment, parts and components. Loss of any skilled labour, equipment, parts and components may have an adverse effect on the business, financial condition, results of operations or prospects of Harvest One.

Co-Investment Risk

Harvest One may decide to invest with certain strategic investors and/or other third parties through joint ventures or other entities. These parties may have different interests or superior rights to those of Harvest One, although it is the general intent of Harvest One to retain control and superior rights associated with its investments, under certain circumstances, it may be possible that Harvest One relinquishes such rights over certain of its investments and, therefore, may have a limited ability to protect its position therein. In those cases where Harvest One does maintain a control position with respect to its investments, Harvest One's investments may be subject to typical risks associated with third-party involvement, including the possibility that a third party may have financial difficulties resulting in a negative impact on such investment, may have economic or business interests or goals that are inconsistent with those of Harvest One, or may be in a position to take (or block) action in a manner contrary to Harvest One's objectives. Harvest One may also, in certain circumstances, be liable for the actions of its third-party partners or co-investors.

Difficulty to Forecast & Reliability of Data

Harvest 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 industry. 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, financial condition or prospects of Harvest One.

In addition, as a result of recent and ongoing regulatory and policy changes in the medical and recreational cannabis industry, the market data available may be limited and unreliable. The research data collected by the Company will be an integral part of its business for the production of research-based reports. Market research and projections by Harvest One of estimated total retail sales, demographics, demand, and similar consumer research, may be based on assumptions from limited and unreliable market data. If there are issues with the data's integrity or security, the data and research based reports could be considered ineffective or unreliable.

Competition from Synthetic Production and Technological Advances

The pharmaceutical industry may attempt to dominate the cannabis industry through the development and distribution of synthetic products which emulate the effects and treatment of organic cannabis. If they are successful, the widespread popularity of such synthetic products could change the demand, volume and profitability of the cannabis industry. This could adversely affect the ability of Harvest One to secure long-term profitability and success through the sustainable and profitable operation of its business. There may be unknown additional regulatory fees and taxes that may be assessed in the future.

Fraudulent or Illegal Activity by Employees, Contractors, and Consultants

The Company is exposed to the risk that its employees, independent contractors, and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates government regulations, manufacturing standards, federal and provincial healthcare fraud and abuse laws and regulations; or laws that require the true, complete, and accurate reporting of financial information or data. The precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against Harvest One, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on Harvest One's business, including the imposition of civil, criminal, and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits, and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition, and results of operations.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reporting amounts of assets and liabilities at the date of the consolidated financial statements and reporting amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue, and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

A detailed summary of all of the Company's significant accounting policies is included in Note 2 to the annual audited consolidated financial statements for the year ended June 30, 2019.

Areas that often require significant management estimates and judgement include biological assets and inventory, the estimated useful lives and depreciation of property, plant and equipment, the estimated useful lives and amortization of intangible assets, goodwill, share-based compensation, warrants, accruals, provisions and the determination of the functional currency. The following is an outline of the estimates that the Company considers as critical in the preparation of its consolidated financial statements:

- The Company fair values its biological assets and inventory which requires estimates and assumptions on the stage of growth of the cannabis plants up to the point of harvest, harvesting costs, selling costs, average selling price, wastage and expected yields for the cannabis plants.
- The Company has recorded depreciation and amortization which requires estimates of the useful lives and when the asset is available for use, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of the assets.
- The Company has recorded stock-based compensation using the Black-Scholes Pricing Model, which includes key estimates such as the rate of forfeiture of options or PARs granted, the expected life of the option or PAR, the volatility of the Company's share price, and the risk-free interest rate.
- The Company has recorded certain warrants using the Black-Scholes Pricing Model, which requires includes key estimates such as the expected life of the warrants, the volatility of the Company's share price, and the risk-free interest rate. With respect to the share purchase warrants acquired from Burb, the only difference in key estimates is the volatility used which is based on the historical volatility of comparable public companies.
- Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. The Company must determine whether it is the acquirer or acquiree in each acquisition. Under IFRS 3 – Business Combinations, the acquirer is the entity that obtains control of the acquiree in the acquisition. If it is not clear which entity is the acquirer, additional information must be considered, such as the combined entity's relative voting rights, existence of a large minority voting interest, composition of the governing body and senior management, and the terms behind the exchange of equity interest.

The Company performs an annual impairment test for goodwill and indefinite life intangible assets in the fourth quarter by comparing the carrying value of each cash-generating unit ("CGU") containing the assets to its recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and value-in-use. Determining whether an impairment has occurred requires valuation of the respective CGU, which management estimates using a discounted cash flow method. The discounted cash flow method uses estimates and assumptions, including actual operating results, future business plans, economic projections and market data.

RECENT ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Pronouncements

The Company has adopted the following new or amended IFRS standards for the period beginning July 1, 2018.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 was issued by the International Accounting Standards Board ("IASB") replacing IAS 18 – *Revenue* ("IAS 18"). The Company adopted IFRS 15 using the modified retrospective approach and determined that there is no impact of adoption in accumulated deficit. The standard contains a five-step model that applies to contracts with customers to determine how and when to recognize revenue.

1. Identifying the contract with a customer;
2. Identifying the performance obligation(s) in the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligation(s) in the contract; and
5. Recognizing revenue when or as the Company satisfies the performance obligation(s).

The Company generates revenue from the following: (1) the sale of cannabis under the Company's cultivation segment; (2) the sale of liquid sleep shots and sleep powder packets under the Company's consumer segment; and (3) the sale of CBD Gelpell® capsules under the Company's medical and nutraceutical segment. Revenue from these segments is recognized when the Company satisfies its performance obligation upon delivery to the customer. The transaction price is typically a fixed amount of customer consideration with an element of variable consideration for sales allowances to account for the potential return of goods. The Company's previous revenue recognition policy under IAS 18 was to recognize revenue at the time the goods were shipped and the adoption of IFRS 15 had no material impact on the revenue previously recognized.

The Company has applied IFRS 15 using the modified retrospective approach. Based on the Company's assessment, the adoption of this new standard had no material impact on the amounts recognized in its consolidated financial statements.

Effective October 17, 2018, Canada Revenue Agency ("CRA") began levying an excise tax on the sale of medical and recreational cannabis products. The Company becomes liable for these excise duties when cannabis products are delivered to the customer. The excise taxes payable is the higher of: (1) a flat-rate duty which is imposed when a cannabis product is packaged; and (2) an *advalorem* duty that is imposed when a cannabis product is delivered to the customer. Where the excise tax has been billed to customers, the Company has reflected the excise tax as part of revenue in accordance with IFRS 15. Net revenue from sale of goods, as presented on the consolidated statements of loss and comprehensive loss, represents revenue from the sale of goods less applicable excise taxes. Given that the excise tax payable/paid to CRA cannot be reclaimed and is not always billed to customers, the Company recognizes that the excise tax is an operating cost that affects gross margin to the extent that it is not recovered from its customers.

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 replaced IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39") and all previous versions of IFRS 9. The Company adopted IFRS 9 using the modified retrospective approach and determined that there is no impact of adoption in the comparative periods or in accumulated deficit.

IFRS 9 introduces new requirements for classification and measurement, impairment, and hedge accounting. The standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. Under IFRS 9, financial assets are initially measured at fair value. In the case of a financial asset not at fair value through profit or loss, financial assets are initially measured at fair value plus transaction costs. Financial assets are subsequently measured at:

- Amortized cost;
- Fair value through other comprehensive income; or
- Fair value through profit or loss ("FVTPL").

The classification is based on whether the contractual cash flow characteristics represent "solely payment of principal and interest" as well as the business model under which the financial assets are managed. Financial assets are required to be reclassified only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

Consistent with IAS 39, all financial liabilities held by the Company under IFRS 9 are initially measured at fair value and subsequently measured at amortized cost.

The following table summarizes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities:

	IAS 39 Classification	IFRS 9 Classification
Cash and cash equivalents	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Promissory note	Loans and receivables	Amortized cost
Warrants in associate	Not applicable	FVTPL
Accounts payable and accrued liabilities	Other liabilities	Other liabilities
Finance leases	Other liabilities	Other liabilities

<u>Impairment of financial assets</u>

Under IFRS 9, the Company is required to apply an expected credit loss ("ECL") model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the balance sheet date. For trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected losses taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions. The Company has assessed the impairment of its accounts receivable using the ECL model and no material difference was noted based on a collectability assessment of the outstanding receivables. As a result, no impairment loss has been recognized upon transition.

New or Amended Standards Issued but not yet Effective

Additional new or amended accounting standards that have been previously issued by the IASB but are not yet effective, and have not been applied by the Company, are as follows:

IFRS 16 Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which will replace IAS 17 – *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The Company intends to adopt IFRS 16 on July 1, 2019 and is currently assessing the impact of this new standard on its consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Information provided in this MD&A, including the consolidated financial statements, is the responsibility of management. In the preparation of these consolidated financial statements, estimates are sometimes necessary to make a determination of future value or certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying consolidated financial statements. Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

MANAGEMENT'S REPORT ON DISCLOSURE CONTROLS AND PROCEDURES

Management of the Company has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements; and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented. There have been no significant changes in the Company's disclosure controls and procedures during the year ended June 30, 2019.

LIMITATIONS OF CONTROLS AND PROCEDURES

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, believe that any system of controls and procedures over financial reporting and disclosure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.