Harvest One Cannabis Inc.

Management's Discussion and Analysis

For the three and nine months ended March 31, 2020

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed consolidated interim financial statements ("consolidated interim 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 three and nine months ended March 31, 2020 and the audited annual consolidated financial statements 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 June 26, 2020 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

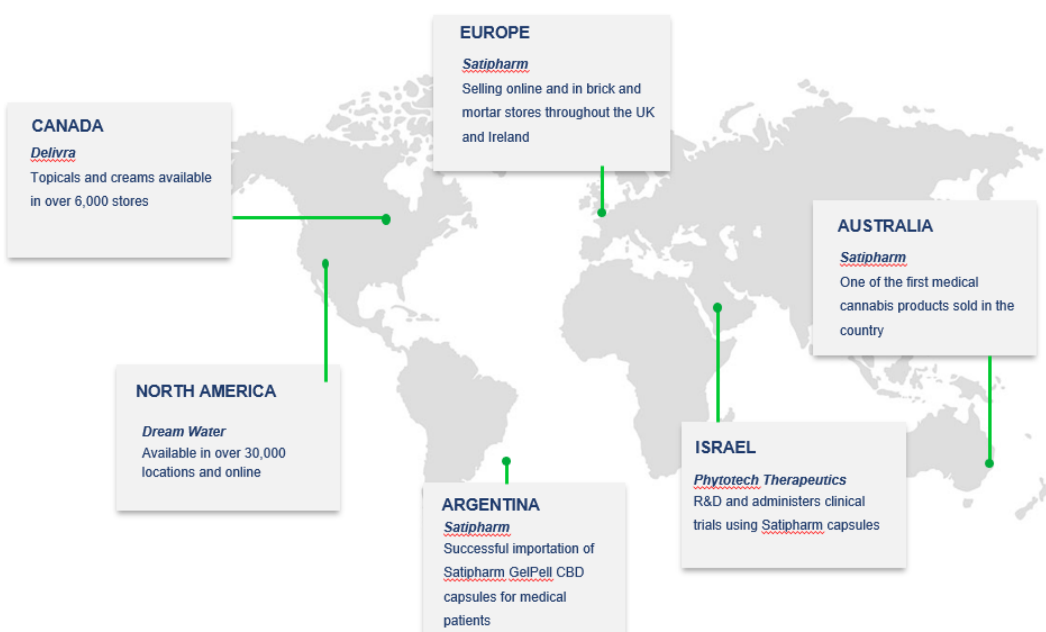
Certain statements contained in this MD&A constitute forward-looking statements and forward-looking information (collectively, "Forward-Looking Statements") and the Company cautions investors about important factors that could cause the Company's actual results to differ materially from those expressed, 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 recreational and medical 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 recreational and medical 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.

OUR GLOBAL FOOTPRINT



BUSINESS OVERVIEW

Harvest One is a global company that develops and distributes premium health, wellness, and self-care products with a market focus on sleep, pain, and anxiety. 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 is a uniquely positioned company in the cannabis space with a focus on infused and non-infused consumer packaged goods ("CPG"). Harvest One recently announced it is divesting from cultivation as part of its broader strategy to focus on the higher margin segments of the cannabis value chain and its CPG brands. By outsourcing the cultivation, manufacturing, and packaging processes, the Company will be able to better streamline its operating model by focusing on its core strengths and capabilities, significantly reduce operating costs, and strengthening its balance sheet.

Consumer Products

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.

Medical and Nutraceutical

Satipharm is an international medical and nutraceutical cannabis company focused on the delivery of cannabinoids through oral delivery technologies, currently servicing markets in the United Kingdom, Ireland, Australia and Argentina, and expanding distribution into New Zealand, further into Europe, 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. In November 2019, Health Canada granted United Greeneries permission to import CBD Gelpell® capsules into Canada for research and development purposes.

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").

Cultivation

United Greeneries is licensed to produce and sell cannabis under the Cannabis Act (the "Act") in the recreational and medical 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").

In June 2020, the Company entered into a definitive agreement (the "Acquisition Agreement") to sell its United Greeneries' licensed cannabis cultivation and processing businesses (the "Transaction") located in Duncan, British Columbia to Costa Canna Production Limited Liability Partnership ("Costa LLP") and 626875 B.C. Ltd. (together with Costa LLP, the "Purchasers") for total cash consideration of $8,200. Upon closing of the Transaction, the Company will also effect a licence agreement with the Purchasers, which will provide Costa LLP, through its licensed subsidiary, with the right to use certain licensed intellectual property of the Company to produce and distribute Cannabis 2.0 products in Canada in exchange for a royalty to be paid to the Company and, in turn, provide the Company with distribution for Cannabis 2.0 products in Canada. The Transaction is subject to a number of conditions, including the receipt of certain regulatory clearances and consents and the satisfaction or waiver of all conditions of closing under the Acquisition Agreement. The Transaction is anticipated to close on or around July 30, 2020.

Greenbelt Ltd. ("Greenbelt") owns a 152,000 square foot greenhouse facility (the "Greenbelt Facility"). The Company's 50.1% interest in Greenbelt has been identified as a non-core asset and, as such, the Company currently intends to divest its interest in Greenbelt.

Our Brands

Dream Water is a leading natural sleep aid. There are currently 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 throughout the United States ("US") and Canada. The Dream Water formula is adaptive and can be formulated into a number of delivery formats beyond liquids. Dream Water has received the NSF International Certified for Sport® designation which allows the Company to sell products to professional sport teams and athletes who undertake drug testing.

Delivra is a market leader in natural pain relief topicals. 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. In April 2020, LivRelief™ launched CBD- and THC-infused topical formulations under the new Cannabis 2.0 regulations.

Satipharm specializes in the development of cannabinoid wellness products. Its 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 and manufactured in Luxembourg and Switzerland-based GMP-certified production facilities, respectively. Satipharm's CBD oil products are similarly GMP-certified and are sourced from the US. Satipharm currently sells its products in the United Kingdom, Ireland, Australia and Argentina. In April 2020, Satipharm introduced two new variants of its CBD Gelpell® capsules, which are infused with vitamins to support physical and mental wellbeing.

Global Distribution

KEY FINANCIAL RESULTS

Select Financial Information	For the three months ended March 31 2020 $	2019 $	For the nine months ended March 31 2020 $	2019 $
Net revenue	**3,328**	3,023	**9,160**	8,444
Gross (loss) profit	**(1,030)**	207	**301**	1,912
Expenses	**5,671**	5,308	**18,275**	15,711
Loss from operations	**(6,701)**	(5,101)	**(17,974)**	(13,799)
Net loss attributable to common shareholders	**(35,364)**	(5,131)	**(56,616)**	(14,258)
Net loss per share – basic and diluted	**(0.16)**	(0.03)	**(0.26)**	(0.08)
Weighted average number of Common Shares	**214,753,073**	182,215,534	**214,497,526**	177,789,938
Adjusted EBITDA[(1)]	**(2,441)**	(1,591)	**(10,854)**	(8,866)

(1) Defined as loss from operations before interest, taxes, depreciation and amortization and adjusted for share-based compensation, common shares issued for services, fair value effects of accounting for biological assets and inventories, asset impairment and write-downs, and other non-cash items, and is a non-GAAP measure discussed in the "Adjusted EBITDA" section.

SIGNIFICANT AND RECENT DEVELOPMENTS

Corporate

a) Review of Strategic Alternatives

In February 2020, the Company's Board of Directors initiated a process to evaluate a range of strategic alternatives available to the Company (the "Strategic Review"). AltaCorp Capital Inc. and Mackie Research Capital Corporation were appointed to act as exclusive financial advisors to the Company with respect to the Strategic Review. The Board of Directors appointed a special committee of independent directors (the "Special Committee") to oversee the Strategic Review. The Company has not established a definitive timeline to complete the Strategic Review. During the three months ended March 31, 2020, the Company completed the following transactions:

- In February 2020, Harvest One successfully divested its 19.99% interest in Burb Cannabis Corp. ("Burb"), a private cannabis retailer based in British Columbia for cash proceeds of $1,513, as well as the forgiveness of a shareholder loan to Burb with a face value of $250. In addition, Burb and Harvest One of concurrently agreed to terminate warrants in the capital of Burb held by Harvest One and Harvest One's option to purchase a majority equity interest in Burb.
- In March 2020, Harvest One completed the sale of the 398-acre site in Lillooet, British Columbia (the "Lillooet Property") for cash consideration of $770.

Subsequent to March 31, 2020, the Company announced the following transactions:

- In June 2020, the Company entered into a definitive agreement (the "Acquisition Agreement") to sell its United Greeneries' licensed cannabis cultivation and processing businesses (the "Transaction") located in Duncan, British Columbia to Costa Canna Production Limited Liability Partnership ("Costa LLP") and 626875 B.C. Ltd. (together with Costa LLP, the "Purchasers") for total cash consideration of $8,200. Upon closing of the Transaction, the Company will also effect a licence agreement with the Purchasers, which will provide Costa LLP, through its licensed subsidiary, with the right to use certain licensed intellectual property of the Company to produce and distribute Cannabis 2.0 products in Canada in exchange for a royalty to be paid to the Company and, in turn, provide the Company with distribution for Cannabis 2.0 products in Canada. The Transaction is subject to a number of conditions, including the receipt of certain regulatory clearances and consents and the satisfaction or waiver of all conditions of closing under the Acquisition Agreement. The Transaction is anticipated to close on or around July 30, 2020.
- In conjunction with the Acquisition Agreement, the Company secured a $1,500 bridge financing facility ("Bridge Facility") from Costa LLP. It is the intention of the parties that the Bridge Facility will mature and be repaid in full upon the closing of the Transaction. The Bridge Facility is secured by general security agreements over the Company's and its United Greeneries subsidiaries' assets (the "Assets"), as well as guarantees provided by the United Greeneries subsidiaries. In order to facilitate the availability of the Bridge Facility, MMJ Group Holdings Limited ("MMJ") has agreed to subordinate its security interest in certain of the Assets, to Costa LLP. The Bridge Facility carries a commitment fee of $25 and, if not repaid in full upon closing of the Transaction, shall bear interest at a rate of 10% per annum.

As the commoditization of cannabis cultivation accelerates, the Company continues to review its non-core assets in order to reduce its overall exposure to pure cultivation and redirect its efforts and resources on brand development, production and distribution. To this end, the Company intends to divest its 50.1% interest in Greenbelt and has suspended active development of its Lucky Lake Facility. The divestiture of Greenbelt will provide additional cash proceeds to support the expansion of the Company's core business lines and continuing operations.

The Company will continue to explore other strategic alternatives for its operations that are currently deemed not critical to the Company's brand development, production and distribution strategy. There is no assurance that any further strategic transaction or transactions will result from the Strategic Review.

b) Leadership Changes

In March 2020, the Company appointed Andy Bayfield, formerly the Company's Chief Commercial Officer, to the position of Interim Chief Executive Officer. In addition, Mr. Bayfield was appointed to the Company's Board of Directors. Concurrent with the appointment of Mr. Bayfield, the Board also appointed Frank Holler to the position of Executive Chairman, from Chairman of the Board of Directors. Mr. Holler has also served as Chair of the Special Committee overseeing the Strategic Review. The Company also accepted the resignation of Grant Froese from the position of Chief Executive Officer, and from the Board of Directors.

c) Postponement of Filing the Consolidated Interim Financial Statements and Management's Discussion and Analysis

In May 2020, the Company announced the postponement of the filing of its interim financial statements, management's discussion and analysis and updated CEO and CFO certifications for the three and nine months ended March 31, 2020, due to logistical delays and circumstances caused by the novel coronavirus ("COVID-19") pandemic. The Company relied on the exemptions found under British Columbia Securities Commissions BC Instrument 51-515 – *Temporary Exemption from Certain Corporate Finance Requirements.*

Financing

a) *Loan Agreement and Amendments to Loan Agreement with MMJ Group Holdings Limited*

In January 2020, Harvest One entered into a secured loan agreement with MMJ for a loan in the principal amount of $2,000 (the “Loan”), issued on January 10, 2020 (the “Issue Date”). The Loan carries an interest rate of 15% per annum, with the principal and accrued interest on the Loan payable in arrears within 60 days of the Issue Date, subject to certain exceptions. Harvest One granted MMJ a security interest in all current and subsequently acquired property of the Company and certain property of its subsidiaries. Proceeds from the Loan were used for general corporate purposes including the development and rollout of the Company’s Cannabis 2.0 product line.

In March 2020, MMJ extended the maturity date of the Loan. The Loan, as amended, continues to be secured by a general security agreement over all of the present and future assets of the Company, including intangibles, and continues to bear interest at a rate of 15% per annum on the principal amount outstanding. Pursuant to an amending agreement between the Company and MMJ dated March 10, 2020, the new maturity date of the Loan was extended to June 8, 2020, subject to earlier repayment in certain circumstances. As consideration for extending the maturity date, in April 2020, the Company issued 17,083,333 Common Share purchase warrants (the “MMJ Warrants”) to MMJ. Each MMJ Warrant will entitle the holder to purchase one Common Share at a price of $0.06 at any time until the earlier of: (i) the date of the further extension or renewal of the Loan; and (ii) April 3, 2022. The Common Shares issuable upon the exercise of the MMJ Warrants will be subject to a four month and a day hold period expiring on August 4, 2020, in accordance with applicable Canadian securities law.

In June 2020, Harvest One entered into an agreement with MMJ, pursuant to which MMJ agreed to defer the repayment of the Loan until July 17, 2020, in continued support of the Strategic Review.

MMJ is the largest shareholder of the Company, owning approximately 25.8% of the Company’s issued and outstanding common shares.

Product Development and Licensing

a) *Expansion of Satipharm Proprietary Gelpell Product Offerings*

In April 2020, Satipharm expanded its product offerings to include two new variants of its unique proprietary CBD Gelpell® product, further enhancing its product portfolio currently on sale in major retailers and pharmacy chains throughout the United Kingdom and Ireland. The new Satipharm CBD Advanced range products combine CBD with specifically selected vitamins in the Company’s proprietary Gelpell® capsules. The Satipharm CBD Advanced range uses the Company’s patented Gelpell® technology to deliver CBD in seamless microbeads that are clinically proven to increase bioavailability. The new Advanced range offers two variants, Focus and Active, designed to address specific consumer's needs.

Impact of the COVID-19 Pandemic

At the time of this MD&A, the World Health Organization (the “WHO”) has declared a pandemic stemming from COVID-19. The pandemic has had far-reaching impacts on every business and every individual globally. For the time being and until economies stabilize, Harvest One has shifted its strategic approach in the manner in which it operates its business, provides affordable and high quality products to its customers, and ensures that its workplaces have appropriate measures put in place to limit social interactions and enforce social distancing measures. At the same time, the Company has also taken steps to alter its marketing methods, conserve cash, and maintain an overall strategic direction to improve the quality of life of its consumers.

The Company has defined its strategic approach with its business continuity plan during this global crisis as follows:

- prioritizing the physical and mental health of its employees;
- prudent cash management by limiting expansion and altering marketing efforts to focus on the already established markets of the Company;
- ensuring the safety and cleanliness of all of its products and workplaces;
- ensuring continuity of health services and treatment for consumers, following appropriate safety guidelines;
- maintaining continuity of production operations and the ensuing supply chain; and
- building a strong strategic position and ensuring sales growth in the Cannabis 2.0 market.

Harvest One is closely monitoring the ongoing COVID-19 pandemic as it continues to evolve. Although the Company's financial performance and financial condition were not materially impacted during the three and nine months ended March 31, 2020 from the pandemic, the Company expects to experience some short to medium term negative impacts from the COVID-19 outbreak. The production and sale of cannabis and cannabis-related products were deemed an essential service in Canada and Europe, allowing for the continued operations of the cultivation and medical and nutraceutical segments, respectively. Furthermore, pharmacies, grocery stores, and convenience stores where Dream Water and LivRelief™ products are sold are considered essential retail in North America. The Company implemented a strategic plan to refocus on the Company's core strengths of product development, brands and distribution, while also committing to significant cost reductions prior to the pandemic in the second quarter of fiscal 2020. This strategic plan remained in place during the current quarter and the Company was successful in reducing operating expenses during the quarter ended March 31, 2020.

The Company has taken precautionary measures to safeguard the health of its employees during this unprecedented time. This includes, but is not limited to, the following:

- movement to work-from-home programs, where possible,
- suspension of all business-related travel,
- health screening measures for employees returning from travel,
- requirement for full personal protective equipment in the Duncan Facility, and
- enhanced sanitation measures in the Duncan Facility.

Ensuring that consumers continue to have safe and uninterrupted access to the Company's products, as well as maintaining high quality growth, cultivation, production, manufacturing and distribution capabilities, will be critical to the Company's success. Cost reductions in salaries, marketing and other administrative functions have been implemented. Capital expenditure programs have been postponed, where possible.

Although there have not been any significant impacts to the Company's operations to date, the Company cannot provide assurance that there will not be disruptions to its operations in the future. The COVID-19 pandemic presents several unpredictable variables on the economy and the markets within which the Company operates, making it difficult to accurately forecast upcoming results. In spite of this, the Company's core focus will be on implementing the Strategic Review and closely monitoring the development of COVID-19 to focus its resources on navigating and adapting to the situation as it unfolds. The Company remains optimistic regarding its Strategic Review to refocus on its core strengths as described above. Refer to the "Risks and Uncertainties" section below for further discussion on the potential impacts of COVID-19.

OUTLOOK

Management anticipates sales volumes, net revenues, and adjusted EBITDA to improve throughout the remainder of fiscal 2020 and into fiscal 2021 due to a full year of new cannabis 2.0 derivative products sold to the Canadian market, improvements in gross margin, and a continued focus on reducing overhead costs.

Cannabis 2.0

Harvest One's initial Cannabis 2.0 product offerings include a selection of pain relief topical creams, oils, and vape pen cartridges. In April 2020, initial load-ins of the LivRelief™ cannabis-infused topical creams were shipped to Shoppers Drug Mart, making the Company one of the first to market with infused topicals in Canada. As well, Cannabis 2.0 offerings were listed in British Columbia, Alberta, Saskatchewan, Manitoba and Ontario, with the first shipments occurring in April 2020. The cannabis-infused topical creams utilize Delivra's transdermal technology designed to penetrate the skin, enabling effective, fast absorption, and controlled release of active ingredients directly to the target area. The topical creams are available in two 50mg SKUs: (1) a CBD formulation containing 250mg of CBD and (2) a balanced 1:1 formulation containing 125mg of CBD and 125mg of THC. The Company plans on selling its LivRelief™ cannabis-infused topical creams in the US marketplace when regulations permit.

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, including lines of products with multiple delivery formats for both categories. Formulation of CBD-infused Dream Water continues to advance and will enter the market when regulations allow in the US. The Company continues to build out a pipeline of innovation that addresses consumers' growing demand for effective sleep aids, in both OTC and cannabinoid-infused formats.

Delivra intends to commence sales of two OTC LivRelief™ products in the US marketplace in the second half of calendar 2020.

Medical and Nutraceutical

Satipharm continues to ramp up sales of its 10 mg full spectrum CBD Gelpell® capsules and CBD oil online and through brick-and-mortar distribution channels. In April 2020, Satipharm expanded its product offerings to include two new CBD Gelpell® co-formulations: Active and Focus. These new ranges combine CBD with select vitamins designed to address specific consumer needs, using the Company's patented Gelpell® technology to deliver CBD in seamless microbeads that are clinically proven to increase bioavailability. The Active line includes vitamins A, D, E, and K to support general body health and movement, whereas the Focus formulation includes vitamin B to support mental wellbeing.

FINANCIAL REVIEW

During the three and nine months ended March 31, 2020, the Company operated in three reportable segments: cultivation (United Greeneries), 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 three and nine months ended March 31, 2020, and 2019, respectively:

	For the three months ended March 31, 2020				For the three months ended March 31, 2019			
	Cultivation $	Medical and Nutraceutical $	Consumer $	Total $	Cultivation $	Medical and Nutraceutical $	Consumer $	Total $
Net revenue	**1,325**	**123**	**1,880**	**3,328**	1,929	11	1,083	3,023
Cost of sales:								
Production costs	**663**	**—**	**—**	**663**	660	—	—	660
Inventory expensed to cost of sales	**171**	**98**	**1,429**	**1,698**	673	49	600	1,322
Inventory write-down	**1,532**	**—**	**—**	**1,532**	—	—	—	—
Gross (loss) profit before fair value adjustment	**(1,041)**	**25**	**451**	**(565)**	596	(38)	483	1,041
Realized fair value amounts included in inventory sold	**1,730**	**—**	**—**	**1,730**	1,519	—	—	1,519
Unrealized change in fair value of biological assets	**(1,265)**	**—**	**—**	**(1,265)**	(685)	—	—	(685)
Gross (loss) profit	**(1,506)**	**25**	**451**	**(1,030)**	(238)	(38)	483	207

	For the nine months ended March 31, 2020				For the nine months ended March 31, 2019			
	Cultivation $	Medical and Nutraceutical $	Consumer $	Total $	Cultivation $	Medical and Nutraceutical $	Consumer $	Total $
Net revenue	**3,112**	**529**	**5,519**	**9,160**	4,576	25	3,843	8,444
Cost of sales:								
Production costs	**1,869**	**—**	**—**	**1,869**	2,102	—	—	2,102
Inventory expensed to cost of sales	**1,243**	**428**	**4,393**	**6,064**	866	53	2,755	3,674
Inventory write-down	**1,532**	**—**	**—**	**1,532**	—	—	—	—
Gross (loss) profit before fair value adjustment	**(1,532)**	**101**	**1,126**	**(305)**	1,608	(28)	1,088	2,668
Realized fair value amounts included in inventory sold	**2,661**	**—**	**—**	**2,661**	3,793	—	—	3,793
Unrealized change in fair value of biological assets	**(3,267)**	**—**	**—**	**(3,267)**	(3,037)	—	—	(3,037)
Gross (loss) profit	**(926)**	**101**	**1,126**	**301**	852	(28)	1,088	1,912

Net revenue

Revenue is comprised of sales of: (1) harvested cannabis to both the recreational and medical markets in Canada; (2) CBD Gelpell® capsules in the United Kingdom, Ireland, Australia and Argentina; (3) Dream Water liquid sleep shots and sleep powder packets in Canada and the US, and (4) Delivra natural topical pain relief creams in Canada. 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 three and nine months ended March 31, 2020, net revenue was $3,328 and $9,160, compared to $3,023 and $8,444 in the same periods in the prior year. The $305 and $716 increase in net revenue was due to: (1) $797 and $1,676 increase in the consumer segment from organic growth in Dream Water and the acquisition of Delivra in July 2019 and (2) $112 and $504 increase in the medical and nutraceutical segment from the launch of reformulated CBD Gelpell® capsules as well as CBD oils in calendar 2019; partially offset by (3) $604 and $1,464 decrease in the cultivation segment from lower volumes of recreational cannabis sold in fiscal 2020 compared to sales from the initial provincial load-ins upon legalization in fiscal 2019, as well as returns and pricing adjustments recognized throughout the cannabis industry in the second and third quarters of fiscal 2020.

The total quantity of cannabis sold, excluding bulk cannabis sales to other licensed producers, during the three and nine months ended March 31, 2020 was 219 kg and 387 kg (March 31, 2019 – 241 kg and 490 kg) at an average price of $5.04 and $7.49 per gram (March 31, 2019 – $8.01 and $7.97 per gram).

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.

For the three and nine months ended March 31, 2020, cost of sales was $2,361 and $7,933, compared to $1,982 and $5,776 in the same periods in the prior year. The $379 and $2,157 increase in cost of sales was due to: (1) $829 and $1,638 increase in the consumer segment primarily from the acquisition of Delivra in July 2019; (2) $49 and $375 increase in the medical and nutraceutical segment from the launch of reformulated CBD Gelpell® capsules, as well as CBD oils in calendar 2019; and (3) $499 decrease and $144 increase in the cultivation segment from a lower price per gram for recreational cannabis sold during the three months ended March 31, 2020, as well as lower volumes of recreational cannabis sold during the nine months ended March 31, 2020.

Inventory write-down

Inventory write-down was $1,532 for the three and nine months ended March 31, 2020 and is comprised of 481 kg of harvested cannabis inventory that did not meet the Company's quality standards for dried flower sale and was revalued as extraction grade cannabis or destroyed.

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 periods ended March 31, 2020 and 2019, respectively.

	For the three months ended March 31		For the nine months ended March 31	
	2020 $	2019 $	2020 $	2019 $
Net revenue	**3,328**	3,023	**9,160**	8,444
Cost of sales	**2,361**	1,982	**7,933**	5,776
Inventory write-down	**1,532**	—	**1,532**	—
Gross profit (loss) before fair value adjustments	**(565)**	1,041	**(305)**	2,668
Gross margin before fair value adjustments(1)	**(17)%**	34%	**(3)%**	32%
Gross (loss) profit	**(1,030)**	207	**301**	1,912
Gross margin	**(31)%**	7%	**3%**	23%

(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.

Gross margin before fair value adjustments for the three and nine months ended March 31, 2020 was (17)% and (3)%, respectively, compared to 34% and 32% in the same period in the prior year. The decrease was due primarily to the write-down of cannabis inventory as well as returns and pricing adjustments recognized throughout the cannabis industry during the three and nine months ended March 31, 2020.

Also included in cost of sales for the three and nine months ended March 31, 2020 is a $407 and $1,176 non-recurring non-cash fair value charge on inventory related to the acquisition of Delivra (March 31, 2019 – $nil and $468 related to the acquisition of Dream Water).

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.

For the three and nine months ended March 31, 2020, gross (loss) profit was ($1,030) and $301, compared to $207 and $1,912 from the same periods in the prior year. The $1,237 and $1,611 decrease is 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 $211 and decreased by $1,132 for the three and nine months ended March 31, 2020, compared to same period in the prior year, due to: (1) a decrease in the amount of recreational cannabis sold and (2) a decrease in the fair value less costs to sell from $6.45 to $5.40 per gram during the nine months ended March 31, 2020, determined based on the assumptions discussed in note 6 of the consolidated interim financial statements.

Unrealized change in fair value of biological assets increased by $580 and $230 for the three and nine months ended March 31, 2020, compared to the same period in the prior year, based on the number of harvests in process and the stage of plant growth through the pre-harvest stages, partially offset by changes in the fair value less costs to sell assumptions.

Expenses

	For the three months ended March 31		For the nine months ended March 31	
	2020 $	2019 $	2020 $	2019 $
General and administration	**3,200**	3,341	**11,142**	8,980
Sales and marketing	**657**	745	**2,230**	1,679
Acquisition costs	**—**	223	**33**	267
Research and development	**48**	—	**246**	—
Depreciation and amortization	**544**	84	**1,847**	269
Share-based compensation	**1,222**	761	**2,428**	3,170
Severance and reorganization costs	**—**	154	**349**	1,346
	5,671	5,308	**18,275**	15,711

Total expenses increased by $363 and $2,564 for the three and nine months ended March 31, 2020 compared to the same periods in the prior year. The increase for the three months ended March 31, 2020 is primarily due to an increase in: (1) depreciation and amortization from the acquisition of Delivra; and (2) share-based compensation due to accelerated vesting of the former CEO's stock options and performance appreciation rights ("PARs").

The increase for the nine months ended March 31, 2020 is primarily due to an increase in: (1) general and administration expenses from expanded operations through acquisitions, leading to an increase in headcount and overall expenses across the Company; (2) depreciation and amortization from the acquisitions of Delivra and Greenbelt; and (3) sales and marketing expenses from ongoing efforts to create brand awareness. This increase is offset by lower share-based compensation expense due to the vesting of certain tranches of options and PARs that fully vested in July 2019 and lower severance and reorganization costs incurred in the nine months ended March 31, 2020. The changes in expenses are detailed below:

General and administration

General and administration expenses decreased by $141 and increased by $2,062 for the three and nine months ended March 31, 2020, compared to the same period in the prior year. The decrease for the three months ended March 31, 2020 is due to the Company's focus on committing to cost reductions. The increase for the nine months ended March 31, 2020 relates to additional general and administration expenses as a result of the Greenbelt and Delivra acquisitions in the third quarter of fiscal 2019 and the first quarter of fiscal 2020, respectively.

Sales and marketing

Sales and marketing expenses decreased by $88 and increased by $551 for the three and nine months ended March 31, 2020, compared to the same period in the prior year, primarily due to efforts to create brand awareness of the Company's cannabis, Satipharm, Dream Water, and Delivra products with more of the marketing expenses incurred in the first half of the the current fiscal year.

Acquisition costs

Acquisition costs decreased by $223 and $234 for the three and nine months ended March 31, 2020, compared to the same periods in the prior year, due to the acquisitions of Greenbelt and Phytotech in the prior year.

Research and development

Research and development expenses increased by $48 and $246 for the three and nine months ended March 31, 2020, compared to the same periods in the prior year, due to the research and development of new cannabis-infused products for Cannabis 2.0, including cannabis infused topical creams.

Depreciation and amortization

Depreciation and amortization increased by $460 and $1,578 for the three and nine months ended March 31, 2020, compared to the same period in the prior year, due to the acquisitions of Delivra and Greenbelt as well as the Company's transition to IFRS 16 – Leases on July 1, 2019. These transactions resulted in an increase of $9,824 in property, plant and equipment, $15,670 in intangible assets, and $882 in right-of-use assets, and thus an increase in depreciation and amortization.

Share-based compensation

Share-based compensation increased by $461 and decreased by $742 for the three and nine months ended March 31, 2020, compared to the same period in the prior year. The increase for the three months ended March 31, 2020 is due to the accelerated vesting of the former CEO's options and PARs, which expired unexercised on May 15, 2020. The decrease for the nine months ended March 31, 2020 is attributable to certain tranches of options and PARs that fully vested in July 2019, resulting in a lower overall share-based compensation expense during the nine months ended March 31, 2020.

Severance and reorganization costs

Severance and reorganization costs decreased by $154 and $997 for the three and nine months ended March 31, 2020, compared to the same period in the prior year primarily due to severance payments of $870 made to the former Chief Executive Officer and former Chief Financial Officer of the Company.

Other (expense) income

	For the three months ended March 31		For the nine months ended March 31	
	2020	2019	2020	2019
	$	$	$	$
Asset impairment and write-downs	**(27,465)**	—	**(37,331)**	(347)
Loss on disposal of assets	**(975)**	—	**(1,088)**	—
Interest and finance costs	**(274)**	(21)	**(385)**	(36)
Earnings (loss) on investment in associate	**28**	(66)	**(195)**	(115)
Foreign exchange (loss) gain	**(23)**	57	**(22)**	39
	(28,709)	(30)	**(39,021)**	(459)

Other (expense) income increased by $28,679 and $38,562 for the three and nine months ended March 31, 2020 compared to the same periods in the prior year. The increase for the three and nine months ended March 31, 2020 is primarily due to an increase in: (1) asset impairment and write-downs from goodwill impairment charges recognized in the consumer and cultivation segments; and (2) loss on disposal of assets from sales of the Lillooet property and the Company's investment in Burb.

Asset impairment and write-downs

Asset impairment and write-downs increased by $27,465 and $36,984 for the three and nine months ended March 31, 2020, compared to the same period in the prior year, due to goodwill impairment of $35,365 in the consumer segment and $1,966 in the cultivation segment, offset by the write-off of capitalized costs in construction in progress and prepaid expenses and deposits in the prior year related to: (1) the Company terminating the lease for 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.

At the end of each reporting period, the Company assesses whether there were events or changes in circumstances that would indicate that an asset may be impaired. As part of this assessment, the Company considers both external and internal sources of information, including the overall financial performance and relevant entity-specific factors. During the periods ended March 31, 2020 and December 31, 2019, the Company identified the following impairment indicators: (1) a decline in stock price resulting in the carrying amount of the Company's net assets exceeding the Company's market capitalization and (2) a delay in expected sales and profitability compared to management's initial forecasts primarily driven by slower than expected development of the cannabis market in Canada. Furthermore, the assumptions used by management to value goodwill arising from previous acquisitions have been revised due to rapidly evolving market conditions. As a result of these indicators, management performed impairment tests as at March 31, 2020 and December 31, 2019. For the purpose of the impairment tests, management assessed the consumer segment and the cultivation segment to be the lowest level at which management monitored goodwill.

Loss on disposal of assets

Loss on disposal of assets increased by $975 and $1,008 for the three and nine months ended March 31, 2020, compared to the same period in the prior year, primarily due to: (1) the sale of the Lillooet property for $770, resulting in a loss of $587; and (2) the sale of the Company's investment in Burb for $1,513, resulting in a loss of $413.

Adjusted EBITDA (non-GAAP measure)

	For the three months ended March 31		For the nine months ended March 31	
	2020	2019	2020	2019
	$	$	$	$
Loss from operations	**(6,701)**	(5,101)	**(17,974)**	(13,799)
Inventory write-down	**1,532**	—	**1,532**	—
IFRS fair value accounting related to biological assets and inventory				
Realized fair value included in inventory sold	**1,730**	1,519	**2,661**	3,793
Unrealized change in fair value of biological assets	**(1,265)**	(685)	**(3,267)**	(3,037)
	(4,704)	(4,267)	**(17,048)**	(13,043)
Fair value adjustment in cost of sales	**407**	—	**1,176**	468
Depreciation and amortization (statement of cash flows)	**634**	204	**2,119**	539
Share-based compensation	**1,222**	761	**2,428**	3,170
Common shares issued for services	**—**	—	**471**	—
	2,263	965	**6,194**	4,177
Adjusted EBITDA	**(2,441)**	(3,302)	**(10,854)**	(8,866)

For the three and nine months ended March 31, 2020, adjusted EBITDA increased by $861 and decreased by $1,988 compared to the same period in the prior year. The increase for the three months ended March 31, 2020 is attributable to an increase in revenues and lower cash expenses as described above. The decrease for the nine months ended March 31, 2020 is due to an overall increase in year-to-date cash expenses, partially offset by an increase in revenues as described 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. 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.

	For the three months ended March 31		For the nine months ended March 31	
	2020	2019	2020	2019
	$	$	$	$
Cash used in operating activities	**(3,658)**	(4,148)	**(18,266)**	(13,348)
Cash provided by (used in) investing activities	**2,070**	(7,223)	**(2,579)**	(13,970)
Cash provided by financing activities	**1,907**	—	**1,706**	150
Effect of foreign exchange on cash	**(118)**	(63)	**(181)**	(130)
Increase (decrease) in cash during the period	**201**	(11,434)	**(19,320)**	(27,298)

Cash used in operating activities was $3,658 and $18,266 for the three and nine months ended March 31, 2020, compared to $4,148 and $13,348 for the same period in the prior year. The $490 decrease for the three months ended March 31, 2020 is due to a decrease in operational spending from the implementation of the Company's strategic plan in the second quarter of fiscal 2020. The $4,918 increase for the nine months ended March 31, 2020 and 2019 is attributable to an overall increase in operational expenditures resulting the acquisitions of Delivra and Greenbelt.

Cash provided by investing activities was $2,070 and cash used in investing activities was $2,579 for the three and nine months ended March 31, 2020, compared to cash used of $7,223 and $13,970 for the same period in the prior year. The $9,293 and $11,391 decrease in cash used is mainly attributable to: (1) lower purchases of property, plant and equipment for the construction of the Lucky Lake Facility and modular expansion at Mission Road as both projects were suspended in the current year; (2) proceeds from the sale of property, plant and equipment and the sale of the Company's investment in Burb in the current year; and (3) the acquisitions of Phytotech and Greenbelt in the prior year.

Cash provided by in financing activities was $1,907 and $1,706 for the three and nine months ended March 31, 2020, compared to cash provided by financing activities of $nil and $150 for the same period in the prior year. The $1,907 and $1,556 increase in cash provided pertains to loan proceeds received from MMJ, partially offset by the repayment of loans assumed from the acquisition of Delivra and the payment of lease liabilities upon the Company's transition to IFRS 16. The Company intends to repay the maturing MMJ Loan with proceeds from the sale of the Duncan Facility and the Mission Road Facility.

The nature of the Company's current business and the source of revenue from operations is the sale of cannabis infused products, as well as the production and sale of Dream Water's sleep aid products, Delivra's pain relief creams, 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 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. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in the dilution to the value of such interests. 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 adequate financing is not available when required, the Company may be required to delay, scale back, or eliminate various projects and programs, and may be unable to continue in operation. If the Company is unable to achieve profitable operations or raise additional funds it may require, it could have a material adverse effect on the Company's financial condition and future profitability.

The Company incurred a consolidated net loss of $35,410 and $56,995 and negative operating cash flows of $3,658 and $18,266 for the three and nine months ended March 31, 2020 and had an accumulated deficit of $111,066 as at March 31, 2020. 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 consolidated interim 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 $	Net loss $	Basic and diluted loss per share $
March 31, 2020	3,328	(1,030)	(35,410)	(0.16)
December 31, 2019	1,768	66	(16,155)	(0.07)
September 30, 2019	4,064	1,265	(5,430)	(0.02)
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)

Net revenue for the third quarter of fiscal 2020 increased compared to the second quarter of fiscal 2020 due to higher volumes of recreational and bulk cannabis sold. Gross profit for the third quarter of fiscal 2020 decreased compared to the second quarter of fiscal 2020 due to write-downs of cannabis inventory during the third quarter of fiscal 2020. Net loss for the third quarter of fiscal 2020 increased compared to the second quarter of fiscal 2020 due to additional asset impairments, offset by lower severance and reorganization costs.

SHARE CAPITAL

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

	March 31 2020	As at the date of this MD&A
Common stock	215,079,486	215,079,486
RTO warrants	3,226,468	—
Brokers' warrants	600,032	—
Secondary warrants	600,002	600,002
Convertible debentures warrants	5,901,182	5,901,182
Dream Water warrants	517,000	517,000
Delivra warrants	2,191,502	—
MMJ warrants	—	17,083,333
Stock options	18,224,146	12,294,146
Performance appreciation rights	2,500,000	710,000

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:

	For the three months ended March 31		For the nine months ended March 31	
	2020	2019	2020	2019
	$	$	$	$
Salaries and benefits	**477**	349	**1,397**	829
Severance costs	**—**	77	**73**	864
Directors' fees	**33**	34	**99**	58
Share-based compensation	**1,067**	651	**1,914**	2,138
Total	**1,577**	1,111	**3,483**	3,889

a) *Payments to related parties*

As at March 31, 2020, there was $66 directors' fees owing (June 30, 2019 – $33) included in accounts payable and accrued liabilities.

b) *Severance payments*

During the nine months ended March 31, 2019, the Company paid $750 to the former Chief Executive Officer and $120 to the former Chief Financial Officer in accordance with the terms of their mutual separation agreements, which is included in severance and reorganization costs.

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 March 31, 2020, the Company has the following total commitments:

	Less than 1 year	Between 2 to 5 years	Total
	$	$	$
Purchase commitments	5,467	13,715	19,182
Capital commitments	1,049	—	1,049
	6,516	**13,715**	**20,231**

a) *Purchase commitments*

On July 1, 2019, the Company entered into a premium cannabis supply agreement with 9869247 Canada Limited ("Stevens Green"), pursuant to which Stevens Green will cultivate and harvest United Greeneries' premium cannabis genetics at their facility in Ontario. As part of this agreement, the Company has annual minimum purchase commitments. In addition, purchase commitments include amounts committed for the purchase of CBD Gelpell® capsules.

b) *Capital commitments*

On October 17, 2018, the Company entered into an agreement to purchase four custom designed modular buildings to be installed on the land adjacent to the Duncan facility. Phase one of the project has been completed, with completion of phases two and three currently on hold. In addition, capital commitments include amounts committed for the construction of the Lucky Lake Facility and for Gelpell® production equipment. In June 2020, the Company announced a transaction to divest its Duncan Facility and Mission Road Facility.

c) *Litigation*

During the nine months ended March 31, 2020, United Greeneries Operations Ltd. ("United Greeneries Operations"), a subsidiary of the Company, was named as the defendant in a civil claim (the "Claim") filed in the Supreme Court of British Columbia in respect of the termination of the lease agreement for land and property in Aldergrove, British Columbia in August 2018. The plaintiff filed a summary trial motion in March 2020 in which it seeks an order for damages for breach of the lease agreement plus court costs and statutory pre-judgment interest. In June 2020, United Greeneries Operations filed a response in defense of the Claim and filed its own summary trial motion. A court date to hear the motions has not been set. Management's assessment, based on its interpretation of the agreement and independent legal advice, is that the plaintiff may be partly successful with the Claim, subject to a set-off claim by United Greeneries Operations and it is possible that there will be a future cash outflow made by United Greeneries Operations.

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 March 31, 2020, 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 Shekels ("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. Collection terms on average, are between 15 to 60 days. As at March 31, 2020, the Company does not believe it is exposed to any significant credit risk.

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 March 31, 2020, 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. Accounts payable and accrued liabilities are due within one year and on average 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 $22,742 and current liabilities of $16,840. The Company addresses its liquidity through debt or equity financing obtained through the sale of convertible debentures and common shares or the sale of non-core assets. 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 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 three and nine months ended March 31, 2020, 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, 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 and gross margin before fair value adjustments are non-GAAP measures used by management that do 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 the loss from operations, as reported, before interest, taxes, depreciation and amortization and adjusted for share-based compensation, common shares issued for services, the fair value effects of accounting for biological assets and inventories, asset impairment and write-downs and other non-cash items. Management defines gross margin before fair value adjustments as a percentage of gross profit (loss) before fair value adjustments of accounting for biological assets and inventory over net revenue. Management believes both measures are useful financial metrics to assess the Company's operating performance on a cash basis before the impact of non-cash items, and on an adjusted basis as described above.

RISKS AND UNCERTAINTIES

This section discusses factors relating to the business of Harvest One that should be considered by both existing and prospective 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 the Company, or that the Company deems to be immaterial. All risks to Harvest One's business have the potential to influence its operations in a materially adverse manner.

Additional Financing

There is no guarantee that the Company will be able to execute on its planned strategy. The continued development of the Company requires additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business strategy or the Company ceasing to carry on business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to the Company. If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. Debt financings may contain provisions, which, if breached, may entitle lenders to accelerate repayment of loans and there is no assurance that the Company would be able to repay such loans in such an event or prevent the enforcement of security granted pursuant to such debt financing. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Negative cash flow may restrict the Company's ability to pursue its business objectives.

New well-capitalized entrants may develop large-scale operations

Currently, the cannabis industry generally is comprised of individuals and small to medium-sized entities, however, the risk exists that large conglomerates and companies who also recognize the potential for financial success through investment in this industry could strategically purchase or assume control of larger or a larger number of dispensaries and cultivation and production facilities, which trend is now being observed by the Company. These potential competitors may have longer operating histories, significantly greater financial, technological, engineering, manufacturing, marketing and distribution resources, and be larger and better capitalized. Larger competitors could establish price setting and cost controls which would effectively "price out" many of the individuals and small to medium-sized entities who currently make up the bulk of the participants in the varied businesses operating within and in support of the medical and adult-use cannabis industry. While the approach of most laws and regulations seemingly deters this type of takeover, this industry remains nascent and as indicated above this trend is being observed, so what the landscape will be in the future remains largely unknown.

The Company's proposed business plan is subject to all business risks associated with new business enterprises, including the absence of any significant operating history upon which to evaluate an investment. The likelihood of the Company's success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the formation of a new business, the development of new strategy and the competitive environment in which the Company operates. It is possible that the Company will incur losses in the future. There is no guarantee that the Company will be profitable.

Results of Future Clinical Research

Research in Canada, the U.S. and internationally 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 cannabis or isolated cannabinoids (such as CBD and THC) and future research and clinical trials may discredit the medical benefits, viability, safety, efficacy, and social acceptance of cannabis or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, prospective purchasers of the Company's securities should not place undue reliance on such articles and reports. Future research studies may reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions relating to cannabis, which could have a material adverse effect on the demand for the Company's products with the potential to lead to a material adverse effect on the Company's business, financial condition, results of operations or prospects.

Product Liability

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

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. Such recalls cause unexpected expenses of the recall and any legal proceedings that might arise in connection with the recall. This can cause loss of a significant amount of sales. 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 one of the Company's products were subject to recall, the reputations of that product and the Company could be harmed. Additionally, product recalls can lead to increased scrutiny of operations by applicable regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Risks related to vaping and vaping products

On October 4, 2019, the U.S. Food and Drug Administration issued a warning to the public to stop using vaping liquids containing cannabis derivatives and ingredients, such as CBD and THC, in light of a potential but unconfirmed link to lung injuries such as severe pulmonary illness. Such warnings appear to be particularly focused on the use of vaping liquids purchased from unlicensed or unregulated retailers. Lung injuries associated with the use of cannabis derivatives containing vaping liquid have equally been reported in Canada but to a lesser extent. In response, Health Canada has issued an information update advising Canadians who use cannabis derivatives containing vaping liquids to monitor themselves for symptoms of pulmonary illness. There may be further governmental and private sector actions aimed at reducing the sale of cannabis containing vaping liquids and/or seeking to hold manufacturers of cannabis containing vaping liquids responsible for the adverse health effects associated with the use of these vaping products. These actions, combined with potential deterioration in the public’s perception of cannabis containing vaping liquids, may result in a reduced market for vaporizer products. Federal, provincial and local regulations or actions that prohibit or restrict the sale of vaporizer products including cannabis derivative vaping liquids, or that decrease consumer demand for the Company’s products by prohibiting their use, raising the minimum age for their purchase, raising the purchase prices to unattractive levels via taxation, or banning their sale, could adversely impact the financial condition and results of operations of the Company.

If the Company’s vaporizer products become subject to increased taxes it could adversely affect the Company’s business

Supply to the Company’s customers is sensitive to increased sales taxes and economic conditions affecting their disposable income. Discretionary consumer purchases, such as of vaporization products and consumption accessories, may decline during recessionary periods or at other times when disposable income is lower and taxes may be higher. Presently, the sale of vaporization products and certain other consumption accessories is, in certain jurisdictions, subject to federal, provincial and municipal excise taxes like the sale of conventional cigarettes or other tobacco products, all of which generally have high tax rates and have faced significant increases in the amount of taxes collected on their sales. Other jurisdictions are contemplating similar legislation and other restrictions on electronic cigarettes and certain other vaporizer products. Should federal, provincial and municipal governments and/or other taxing authorities begin or continue to impose excise taxes similar to those levied against conventional cigarettes and tobacco products on vaporization products or consumption accessories, it may have a material adverse effect on the demand for those products, as consumers may be unwilling to pay the increased costs, which in turn could have a material adverse effect on the Company’s business, results of operations and financial condition. The Company could also become involved in regulatory or agency proceedings, investigations and audits. The Company’s business, and the business of the suppliers from which the Company acquires the products it sells, requires compliance with many laws and regulations. Failure to comply with these laws and regulations could subject the Company or such suppliers to regulatory or agency proceedings or investigations and could also lead to damage awards, fines and penalties. The Company or such suppliers may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Company’s reputation or the reputations of the brands that it sells, requires it to take, or refrain from taking, actions that could harm the Company’s operations or require the Company to pay substantial amounts of money, harming its financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management’s attention and resources or have a material adverse impact on the Company’s business, financial condition and results of operations.

Risks Related to the COVID-19 Pandemic

Global or national health concerns, including the outbreak of pandemic or contagious diseases, such as COVID-19, may adversely affect the Company. The Company’s business, operations and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics or other health crises. In December 2019, COVID-19 was reported to have surfaced in Wuhan, China. On January 30, 2020, the WHO declared the outbreak a global health emergency. On March 11, 2020, the WHO expanded its classification of COVID-19 to a worldwide pandemic. Federal, state, provincial and municipal governments in North America and Australia have now begun enacting measures to combat the spread of COVID-19. During March and April 2020, many governments ordered all but certain essential businesses closed and imposed significant limitations on the circulation of the populace. Furthermore, certain illnesses may be transmitted through human or surface contact, and the risk of contracting such illnesses could cause employees and customers to avoid gathering in public places, as was the case in many places from February to April 2020 due to concerns about COVID-19.

The Company expects to experience some short to medium term negative impacts from COVID-19; however, the extent of such impacts is currently unquantifiable, but may be significant. Such impacts include, with respect to its operations, its suppliers' operations and its customers' operations, forced closures, mandated social distancing, isolation and/or quarantines, impacts of declared states of emergency, increased government regulation, public health emergency and similar declarations and could include other increased government regulations, reduced sales, and potential supply and staff shortages, all of which are expected to negatively impact the business, financial condition and results of operations of the Company and thus may impact the ability of the Company to comply with financial covenants, satisfy its obligations to its lenders and other parties, which may in turn may adversely impact, among other things, the ability the Company to access debt or equity capital on acceptable terms or at all.

The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in the Company's facilities. Should an employee or visitor in any of the Company's facilities become infected with a serious illness that has the potential to spread rapidly, this could place the Company's workforce at risk. The 2020 outbreak of COVID-19 is one example of such an illness. The Company takes every precaution to strictly follow industrial hygiene and occupational health guidelines and applicable healthy authority recommendations.

Such public health crises can result in volatility and disruptions in supply and demand, global supply chains and financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which could affect commodity prices, interest rates, credit ratings, credit risk, inflation and, as a result, demand for our end customers' products and our operating results.

Disruption of Supply Chain

Conditions or events including, but not limited to, those listed below could disrupt the Company's, and other industry participant's, supply chains, interrupt operations, increase operating expenses, and thereby result in loss of sales, delayed performance of contractual obligations or require additional expenditures to be incurred: (i) extraordinary weather conditions or natural disasters such as hurricanes, tornadoes, floods, fires, extreme heat, earthquakes, etc.; (ii) a local, regional, national or international outbreak of a contagious disease, including the COVID-19 coronavirus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, or any other similar illness could result in a general or acute decline in economic activity (see also, "Risks Related to the COVID-19 Pandemic"); (iii) political instability, social and labour unrest, war or terrorism; or (iv) interruptions in the availability of basic commercial and social services and infrastructure including power and water shortages, and shipping and freight forwarding services including via air, sea, rail and road. The extent to which COVID-19 or any other contagious disease impacts the Company's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of this or any other outbreak and the actions to contain those outbreaks or treat its impact, among others.

Global Economic Conditions

An economic downturn of global capital markets has been shown to make the raising of capital by equity or debt financing more difficult, and in general, negatively impacts overall share prices and market conditions. Global equity markets have experienced significant volatility and weakness as a result of COVID-19. Such volatility and weakness in the global economy and equity markets more specifically may adversely affect the Company's ability to raise necessary capital.

In addition to the above, the Company is also subject to the following risks and uncertainties that can significantly affect its financial condition and future operations. The following risk factors are described in greater detail under the heading "Risks and Uncertainties" in the Company's Management's Discussion and Analysis dated October 28, 2019, for the year ended June 30, 2019, available under the Company's profile at www.sedar.com, and such risk factors are hereby incorporated by reference into this document and should be reviewed in detail by all readers:

- 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;
- Harvest One may not be able to achieve or maintain profitability and may continue to incur significant losses in the future;
- 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;
- The Company is subject to liquidity risks which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond the Company's control;
- 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;
- The Company may be subject to claims or complaints from investors in the ordinary course of business;
- 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;
- 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;
- The Greenbelt Facility is currently not licensed by Health Canada under the *Cannabis Regulations* as a facility where the cultivation and processing of cannabis is permitted;

- The construction of the Lucky Lake Facility is 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;
- Harvest One is a holding company and essentially all of its operating assets are the capital stock of its subsidiaries;
- The success of cannabis 2.0 products may be significantly influenced by the public's perception of cannabis' medicinal and recreational applications;
- Harvest One relies on third party transportation services to deliver its products to its customers;
- Harvest One may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls;
- The Company may have or has integration risks associated with all of its acquisitions;
- The anticipated benefits of new partnerships the Company is pursuing 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;
- The success of Harvest One is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management and key employees;
- Certain of Harvest One’s directors and officers are also directors and operators of other companies;
- MMJ is Harvest One's largest shareholder and will have a significant influence on determining the outcome of any corporate transaction or other matter submitted to shareholders for approval;
- Harvest One has not paid dividends in the past and does not anticipate paying dividends in the near future;
- 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;
- 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;
- 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;
- The ownership and protection of trademarks, patents, trade secrets and intellectual property rights are significant aspects of the Company's future success;
- Harvest One may be affected by possible political or economic instability;
- An economic downturn of global capital markets has been shown to make the raising of capital by equity or debt financing more difficult;
- 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;
- 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 Company holds finished goods in inventory and its inventory has a shelf life;
- The Company may not be able to maintain an effective quality control system;
- The Company’s manufacturing processes are dependent upon third party contract manufacturers who own 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;
- The Company is subject to credit risk of its customers, and its profitability and cash flow are dependent on receipt of timely payments from customers;
- Sales of the Company’s products may be made pursuant to individual purchase orders or contracts and not under long-term commitment;
- 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 Company’s operations at various times may be exposed to political, economic and other risks and uncertainties associated with operating in a foreign jurisdiction;
- 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;
- Certain Common Shares held by the Company’s directors, executive officers, Control Persons and certain other securityholders of the Company are subject to escrow and seed share resale restrictions pursuant to the policies of the TSX-V;

- 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 operate and will be subject to income tax and other forms of taxation (which are not based upon income) in multiple tax jurisdictions;
- There may be income tax consequences in relation to the Common Shares, which will vary according to circumstances of each investor;
- Harvest One, and its subsidiaries, operate in a new industry which is highly regulated, highly competitive and evolving rapidly, and as such management may not be able to predict all such risks or be able to predict how such risks may result in actual results;
- Harvest One will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters;
- Harvest One's operations are subject to a variety of laws, regulations and guidelines relating to the processing, management, transportation, storage, sale and disposal of medical and recreational cannabis infused products, but also including laws and regulations relating to health and safety, privacy, the conduct of operations and the protection of the environment;
- 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, and advertising and promotions and product approvals and its impact on Harvest One’s business are currently unknown;
- The 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;
- 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;
- 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;
- The Company has operations in international markets and may have operations in emerging markets in the future, which may expose the Company to the socioeconomic conditions as well as the laws governing the cannabis industry in such countries;
- The price of processing, sale and distribution of cannabis infused products will fluctuate widely due to how young the cannabis industry is and is affected by numerous factors beyond Harvest One’s control;
- 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;
- 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;
- 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;
- 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;
- 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 labor, equipment, parts and components;
- Harvest One may decide to invest with certain strategic investors and/or other third parties through joint ventures or other entities, and these parties may have different interests or superior rights to those of Harvest One;
- 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; and
- The Company is exposed to the risk that its employees, independent contractors, and consultants may engage in fraudulent or other illegal activity.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated interim 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 interim 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 interim 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 certain warrants using the Black-Scholes Pricing Model, which requires key estimates such as the expected life of the warrants, the volatility of the Company's share price, and the risk-free interest rate.
- 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 of its fiscal year by comparing the carrying value of each cash-generating unit ("CGU") containing the assets to its recoverable amount. At the end of each reporting period, the Company assesses whether there were events or changes in circumstances that would indicate that an asset may be impaired. If any such indication exists, the Company shall estimate the recoverable amount of the asset. 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

The Company has adopted the following new or amended IFRS standards for the period beginning July 1, 2019.

IFRS 16 – Leases ("IFRS 16")

IFRS 16 was issued by the International Accounting Standards Board ("IASB") replacing IAS 17 – Leases ("IAS 17") and related interpretations and is effective for annual periods beginning on or after January 1, 2019. IFRS 16 eliminates the current operating/finance lease dual accounting model for lessees and replaces it with a single, on-balance sheet accounting model, similar to the previous finance lease accounting.

The Company has updated its accounting policy for leasing to reflect the adoption of IFRS 16 as detailed below.

Definition of a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

Accounting as a lessee

For contracts that contain a lease, the Company recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is assessed for impairment losses, should a trigger be identified and adjusted for impairment if required.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability is comprised of fixed lease payments and lease payments in an option renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Company changes its assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The Company presents right-of-use assets in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and lease of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line or other systemic basis over the lease term.

Critical accounting estimates and judgments

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed upon a trigger by a significant event or a significant change in circumstances.

Certain leases contain non-lease components, excluded from the right-of-use asset and lease liability, related to operating charges. Judgment is applied in determination of the stand-alone price of the lease and non-lease components.

Transition to IFRS 16

The Company adopted IFRS 16 using the modified retrospective method which does not require restatement of comparative periods. Therefore, the comparative information has not been restated and continues to be reported under IAS 17.

The Company used the following additional practical expedients:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- applied the exemption not to recognize right-of-use assets and lease liabilities for short-term leases with terms less than 12 months and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line or other systemic basis over the lease term;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term of the contract contains options to extend or terminate the lease.

The Company elected to measure the right-of-use assets at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. On transition to IFRS 16, the Company recognized $882 of right-of-use assets and $882 of lease liabilities. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at July 1, 2019. The weighted-average rate applied is 14.5%.

Operating lease commitments at June 30, 2019	1,759
Discounted using the incremental borrowing rate at July 1, 2019	14.5%
Finance lease liabilities recognized as at June 30, 2019	**1,282**
Recognition exception for short-term leases	(89)
Scope changes due to IFRS 16	(311)
Lease liabilities at July 1, 2019	**882**

For leases that were classified as finance leases under IAS 17, the carrying amounts of the right-of-use asset and the lease liability at July 1, 2019, are determined as the carrying amounts of the lease asset and lease liability under IAS 17 immediately before that date.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Information provided in this MD&A, including the consolidated interim financial statements, is the responsibility of management. In the preparation of these consolidated interim 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 interim 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 interim 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 interim financial statements; and (ii) the consolidated interim 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 three and nine months ended March 31, 2020.

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.