Harvest One Cannabis Inc.

Management Discussion and Analysis

For the three and six months ended December 31, 2017

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed combined consolidated interim financial statements and related notes thereto of Harvest One Cannabis Inc. ("Harvest One" or "us" or "we" or "our" or the "Company") for the three and six months ended December 31, 2017 and the audited combined consolidated financial statements for the year ended June 30, 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are expressed in Canadian dollars unless otherwise stated. This MD&A has been prepared as of February 28, 2018 and includes certain statements that may be deemed "forward-looking statements". Investors are directed to the section "Risks and Uncertainties" and to page 16 for a statement on forward-looking information included within this MD&A.

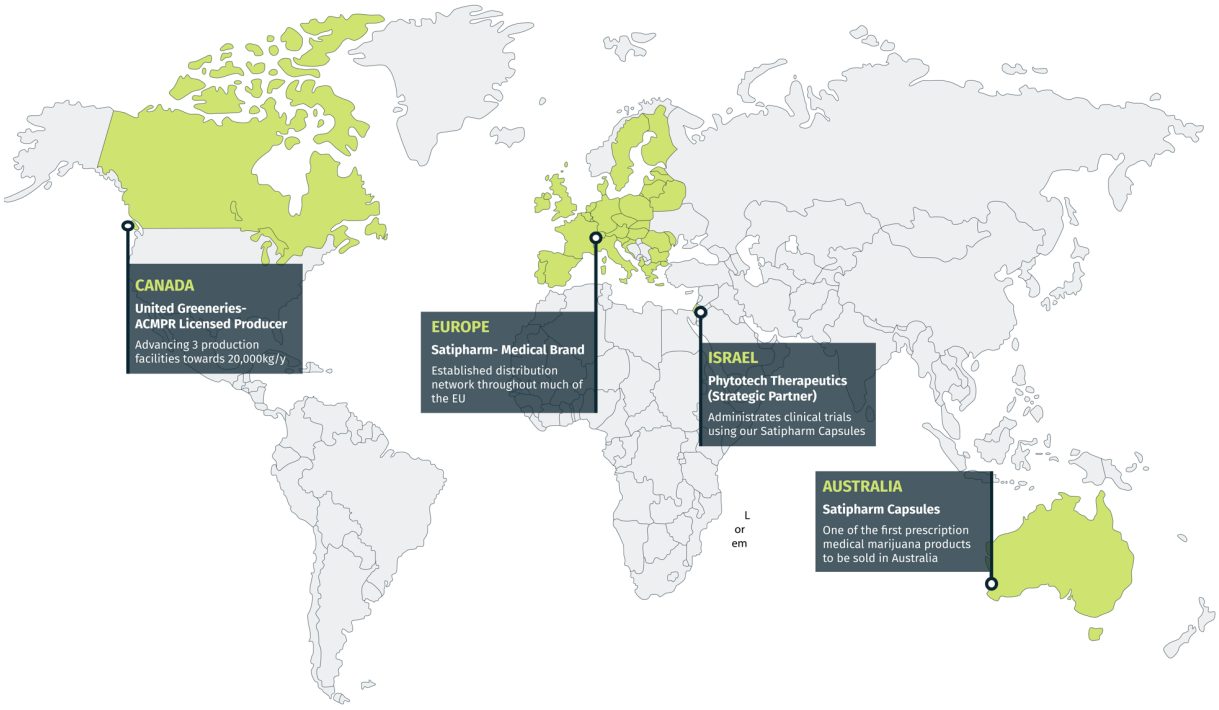
BUSINESS OVERVIEW

Harvest One is an early-entry global cannabis company servicing the medical market and preparing, subject to regulatory approval, to serve the new Canadian recreational cannabis markets. The Company is based in British Columbia, Canada and the common shares are listed on the TSX Venture Exchange ("TSX-V"), originally under the symbol "HVST" which the Company changed to "HVT" on February 2, 2018. Harvest One serves as the umbrella holding company over its two principal, wholly owned operating subsidiaries, United Greeneries Holdings Ltd. ("United Greeneries") and Satipharm AG ("Satipharm").

United Greeneries is licensed to produce and sell medical cannabis under the *Access to Cannabis for Medical Purposes Regulations* ("ACMPR"). United Greeneries received its license (the "License") to cultivate cannabis on June 28, 2016, and on October 13, 2017 received an amendment to its license to allow for the sale of medical cannabis products to the public. United Greeneries' primary operations are based in Duncan, British Columbia (the "Duncan Facility").

Satipharm is an international medical cannabis brand with focus on oral delivery technologies currently servicing the European and Australian markets. Satipharm has also received an initial import license to Canada. Satipharm holds the exclusive global marketing and distribution rights to a Gelpell® Microgel technology for all cannabis related products.

The Company, directly or through its subsidiaries, does not, and does not intend to, sell cannabis or cannabis related products to companies or customers in the United States.



HIGHLIGHTS

- Satipharm's Gelpell® CBD capsules were used in Phase 2 Clinical Trials with favorable results in treating refractory epilepsy in children (*See Description of Business and Recent Developments – Satipharm; Satipharm's Medical Testing*).
- The Company completed two bought deal financings in December 2017 and January 2018, raising aggregate gross proceeds of $60,375,000 (*See Liquidity and Capital Resources*). Total gross proceeds raised by the Company since the RTO on April 27, 2017, including conversion of warrants, is $104 million.
- The Company received gross proceeds of $18,148,471 on exercise of 18,125,138 warrants at $1.00 per warrant (*See Liquidity and Capital Resources*).
- The Company converted $15,841,000, or 76.4%, of its convertible debentures, and announced it has exercised its option to convert the remaining convertible debentures into common shares (*See Liquidity and Capital Resources*).
- An initial import license was received for the importation of its Gelpell-CBD™ capsules into Canada (*See Description of Business and Recent Developments – Satipharm; Marketing and Distribution*).
- The Company's subsidiary, United Greeneries purchased 398 acres of agricultural land in British Columbia in anticipation of regulatory changes that could potentially allow outdoor growing of cannabis (*See Description of Business and Recent Developments – United Greeneries; Acquisition of Outdoor Growing Property*).

DESCRIPTION OF BUSINESS AND RECENT DEVELOPMENTS

Harvest One

Financings

The Company completed two bought deal financings, a convertible debenture issue in December 2017 and an equity issue in January 2018, to raise aggregate gross proceeds of $60,375,000 (*See Liquidity and Capital Resources*). The Company's plan is to use the net proceeds for the expansion of the Duncan facility, the build out of the Chemainus and Lucky Lake indoor growing facilities, the further development of its Satipharm Gelpell® operations, and for the development of the outdoor growing property upon legalization.

MMJ Phytotech Limited ("MMJ"), which owns 53,333,333 of Harvest One common shares and was the majority shareholder of the Company, as a result of the financings, the conversion of the majority of the convertible debentures and the exercise of warrants, has had its position diluted to approximately 36% of Harvest One as of the date of this MD&A.

Change in COO

On January 16, 2018, the Company announced the appointment of Nick Maltchev, as interim Chief Operation Officer of Harvest One, replacing Mr. Graham Whitmarsh.

Collaboration Agreement

The Company has entered into a strategic collaboration agreement with eSense-Lab Limited ("eSense), a life sciences company specializing in the commercialization of the phytochemical profiling of plants. Harvest One will provide eSense with industry and technical expertise and access to its global networks.

United Greeneries

United Greeneries is licensed to produce and sell medical cannabis under the provisions of the ACMPR. United Greeneries has two main facilities, the Duncan Facility and the Lucky Lake Facility (the "Lucky Lake Facility"). The Duncan Facility is licensed to cultivate and sell medical cannabis by Health Canada pursuant to its ACMPR License. The Lucky Lake Facility is currently advancing through final states of licensing with Health Canada. United Greeneries entered into a LOI on November 20, 2017 to lease a third facility in Chemainus, British Columbia.

The Company is focused on producing and selling medical cannabis and its derivatives through its medical retail platform and intends to facilitate the upcoming recreational market.

Duncan Facility

The Duncan Facility is situated on a 1.2 acre property that was previously the cold storage building for a large commercial greenhouse growing operation located directly adjacent to a 40 acre land package located on Vancouver Island, British Columbia. The Duncan Facility has approximately 10,000 square feet of cultivation area and high compliance items such as a Level 8 Narcotics Vault and an in-house biochemical and analytical laboratory. In December 2017, United Greeneries completed the construction and licensing of three separate mezzanine rooms with a total square footage of 2,423 sq ft. These rooms will be used to house the mother plants and clones to preserve genetics and generate starting material for cultivation. The completion of these rooms allows for the three existing rooms to be used purely for cultivation adding an extra 33% cultivation space, ensuring the Duncan facility now operates at maximum capacity of approximately 1,000 kg of cannabis per annum.

Health Canada approved United Greeneries as an authorized Licensed Producer at the Duncan Facility in June 2016 and during October 2017, issued the amendment for United Greeneries to sell dried marijuana to registered patients under the ACMPR.

United Greeneries plans to construct a 15,000 square foot expansion at the Duncan Facility. The new building will accommodate a sophisticated propagation system, designed to rapidly produce large quantities of rooted cuttings and pre-grown starter plants for all of United Greeneries' facilities. As the expansion of the Duncan Facility constitutes an amendment to United Greeneries' existing ACMPR license, United Greeneries expects licensing of the new building addition by Health Canada upon completion of the proposed infrastructure in the fourth quarter of fiscal 2017/2018.

The Duncan Facility will also be home to a processing, extraction and distribution center capable of handling the production volume from all of United Greeneries' facilities as well as an advanced R&D laboratory, designed to develop and test new and innovative products in anticipation of regulatory changes.

On February 28, 2018, United Greeneries launched a new online retail platform for medical clients. The United Greeneries sales platform will allow registered medical users to log in under their own unique profile to browse and shop our full product offerings. Initially the product offering will include two main brands, labeled as Royal High and Captain's Choice; each brand will offer the consumer multiple different strains for purchase. The platform will offer a customer focused experience while providing the Company with essential customer feedback information to enhance our customer and product offering ahead of the full introduction of the recreational market.

Lucky Lake Facility

The Lucky Lake Facility, located in Lucky Lake, Saskatchewan, is a 62,000 square foot concrete agricultural facility located on over 18 acres of land which is wholly-owned by United Greeneries. The Lucky Lake Facility's application to become a Licensed Producer is now advancing through the final stages of approval with Health Canada and expects initial licensing under the ACMPR to occur in the third quarter of the 2018 calendar year.

United Greeneries is deploying a specialized modular building system to construct two levels of internal growing rooms within the facility, creating over 80,000 square feet of actual growing space with an estimated total capacity of 12,000 kg of dried cannabis flowers per annum. United Greeneries has taken immediate steps to prepare the site for a staged modular build out and expects to reach maximum capacity by the end of the 2018 calendar year, subject to regulatory approval.

Chemainus Facility

On November 20, 2017, the Company announced that United Greeneries entered into an LOI with a third party to lease the Chemainus Facility and to accelerate and expand production capacity. The Chemainus Facility was previously an industrial lumber kiln drying plant and, due to its existing useable building envelope, is well suited for a retrofit into an indoor cannabis cultivation facility. Detailed design work on the facility has already commenced along with the necessary licensing integration activities. The initial facility design is for high quality indoor production of dried cannabis buds with a total annual capacity of approximately 8,000 kg. The Company has decided to use a modular design for the Chemainus Facility rather than traditional construction. The units are custom build, plug and play, modular units that come equipped with all electrical, mechanical, lighting, HVAC, and equipment. The benefit of the modular units is the decreased construction timeframe.

In its development of the Chemainus Facility, the Company intends to use similar operating procedures to those in use at the Duncan Facility which is just a short drive away from the Chemainus Facility. Given the close proximity of the two facilities, and the similarities in terms of operations (the Duncan Facility is also focused on indoor production) the Company expects to benefit from synergies in respect of personnel, shared infrastructure and operating procedures developed at the Duncan Facility.

The LOI sets out that, subject to United Greeneries completing due diligence to its reasonable satisfaction, the parties to the LOI will work to settle a definitive lease agreement setting out the terms of the proposed transaction within 120 days (the "Definitive Agreement"). Upon entering into the Definitive Agreement, United Greeneries intends to complete construction on the Chemainus Facility and commence operations at the facility within 12-15 months, subject to receipt of a license and other applicable approvals. United Greeneries intends to commence the licensing process under the ACMPR for the Chemainus Facility, as a third site application, immediately upon signing the Definitive Agreement.

The current square footage of the existing Chemainus Facility is estimated to be approximately 27,000 square feet. Subject to applicable regulatory approvals, the Company intends to double that square footage as part of its development plans. The total area of the leased property, including the Chemainus Facility is approximately 65,000 square feet (the "Leased Property"). Under the LOI, United Greeneries has also been granted a right of first refusal to: (a) occupy other buildings on the leasee's property (including the Leased Property, together the "Property") for a similar purpose; (b) lease the Property for a similar purpose; and (c) purchase the Property in the event it is offered for sale. The LOI also provides United Greeneries a lease option on a further eight acres on the site, which can be used for further development in the future.

Acquisition of Outdoor Growing Property

On December 18, 2017, United Greeneries entered into a binding purchase agreement for 398 acres of agricultural land (the “Property”) in British Columbia. With the announcement of consultations in November 2017 by the federal government of Canada, on potential regulations that may permit outdoor growing for the recreational cannabis market in Canada, the Company is advancing a comprehensive cannabis outdoor growing strategy.

Subject to the passage of applicable legislation or regulations permitting outdoor growing and regulatory approvals, the Company expects that the initial growing area on the Property will consist of approximately 140 acres of row-style, individual plant settings with irrigation and feeding lines.

The acquisition of the Property completed in February 2018. The purchase price for the Property was $949,000.

United Greeneries' plans through the 2018 and 2019 calendar years is to continue to ramp up its cultivation operations to achieve maximum production in the Duncan Facility, to advance its aggressive expansion plans at the Chemainus and Lucky Lake Facilities, and to prepare for the approval of outdoor growing in order to significantly increase production capacity to serve both the medical and anticipated recreational markets in Canada.

Satipharm

Satipharm is based in Cham, Switzerland and specializes in the development and manufacturing of cannabis-based medical products and is Harvest One's medical and health brand. Satipharm is an international medical cannabis brand with focus on oral delivery technologies for strategic entry in emerging medical cannabis markets and the existing medical cannabis market in Canada and Australia.

Satipharm's goal is to develop cutting-edge technology and pharmaceutical-grade cannabis products for the medical and health-based cannabis markets. Satipharm holds the exclusive global marketing and distribution rights to the Gelpell® Microgel technology for all cannabis related products.

Gelpell® Microgel Process

The Gelpell® Microgel process produces gelatin beads which are approximately 2 mm in length and contain a payload of concentrated cannabinoids. The cannabinoids are bound and protected by a three-dimensional natural gelatin matrix. When ingested, the gelatin beads create a micro-emulsion which substantially enhances the oral bioavailability of the cannabinoids and helps ensure accurate and consistent doses. These beads are encapsulated and packaged under Good Manufacturing Practices ("GMP") protocols into 10 mg, 50 mg and 100 mg presentations.

Satipharm's first product is a CBD only product, sold as CBD Gelpell® Microgel Capsules ("CBD Capsules"). Satipharm's CBD Capsules utilize cannabis extract acquired from a pharmaceutical compound manufacturer based in St. Gallen, Switzerland that is a GMP-certified company that specializes in the production, breeding, cultivation, harvesting and processing of cannabis plants for food and medicine.

The capsules are contract manufactured by GelPell AG ("GelPell"), located in Gähwil, Switzerland. GelPell is a contract manufacturer of food supplements and is licensed by SwissMedic and GMP (Good Manufacturing Process) approved, the applicable Swiss regulatory authority, to perform pharmaceutical packaging.

In August 2017 the patent cooperation treaty application submitted by Satipharm in February 2017 was published. Once and if granted, the patent will be owned equally by Satipharm and GelPell, and will cover Satipharm's CBD Capsule.

Development of Products

Through an agreement between the two companies, Satipharm has licensed from GelPell the exclusive worldwide right, subject to minimum purchase requirements, for the delivery of CBD, THC and/or other cannabis and hemp derived ingredients using the Gelpell® formulation and manufacturing know-how that is owned by GelPell.

Satipharm and GelPell cooperated to design the Satipharm's CBD Capsules in a formulation that seeks to best suit delivery of cannabinoid molecules for human use. Leveraging the GelPell formulation expertise, Satipharm's CBD Capsules were developed for sale as a food supplement in regulated markets within the European Union.

Satipharm began production of its CBD Capsules in May 2015 and is committed to increasing the sales of its flagship product throughout regulated markets globally.

Satipharm's Medical Testing

Satipharm has sublicensed the pharmaceutical application of Gelpell® Microgel process to PhytoTech Therapeutics Ltd. ("PTL"), MMJ's Israel-based subsidiary responsible for Satipharm's clinical development activities. In March 2016, PTL completed a phase 1 clinical study which highlighted the safety and performance of Satipharm's CBD Capsules in delivering CBD compounds to trial subjects.

The results of this Trial were recently published in an international medical journal. The article "Single-Dose Pharmacokinetics of Oral Cannabidiol Following Administration of PTL101: A New Formulation Based on Gelatin Matrix Pellets Technology" has been published in Clinical Pharmacology in Drug Development ("CPDD"). Established in 2012, CPDD is an international, peer-reviewed publication and the official journal of the American College of Clinical Pharmacology, providing a forum for the presentation of first-time-in-man study results. CPDD publishes clinical pharmacology studies in drug development which are primarily (but not exclusively) performed in early development phases in healthy subjects.

PTL has commenced a phase 2 clinical study into the efficacy of Satipharm's CBD Capsules in treating intractable epilepsy in children at a leading Israeli healthcare facility. The initial results received to date indicate that Satipharm's CBD Capsules significantly reduce monthly seizure frequency when added to current medications, with strong evidence of efficacy reported. PTL's near-term focus is on recruiting the final patients required for the Phase 2 trial, with the study expected to be completed by mid-2018. The full results for the entire patient cohort would then be published shortly thereafter.

PTL is also in the final stages of preparing for the commencement of a phase 2 clinical study into the ability of the next generation of Satipharm's CBD Capsules in treating spasticity-related symptoms associated with multiple sclerosis patients.

Marketing and Distribution

For the year ending June 30, 2018, Satipharm plans to continue to expand its distribution network and increase sales across the European Union. Satipharm has obtained a "Free Sale Certificate" by local German authorities, which reduces constraints for international exports and removes final regulatory trading impediments with other EU jurisdictions. The Free Sales Certificate officially establishes Satipharm's CBD capsules as a food supplement rather than a "Novel Food", and therefore clarifies certain legal concerns that have previously obstructed Satipharm's capsule marketing in some jurisdictions. The Company understands that Satipharm is the only company in Europe with a GMP grade nutraceutical CBD products. As a result, Satipharm's distribution network expanded in 2017/2018 with a focus on large European consumer markets: Denmark, United Kingdom, Netherlands, Spain and Austria. In these countries, Satipharm's CBD Capsules are now available in several online shops, on Amazon, mail order pharmacies and in conventional brick and mortar pharmacies.

In the second quarter of fiscal 2017, the Swiss Food Safety Organization requested approval from Germany, the UK and Ireland for exportation of Satipharm's CBD Capsule into their respective countries. Swiss law only allows for exportation of food which does not comply with Swiss Food law if the receiving country accepts the importation of the goods. Although Satipharm has the Free Sale Certificate outlining that the product is a food supplement, not a Novel Food, the German and Irish authorities have taken the stance at this time that the product is a Novel Food and therefore disallowed exports of the product to those countries. The UK recognized the product as a food supplement and the Company continues to export its product there. The Company is currently communicating with German and Irish authorities to have the product designated as a food supplement, citing the UK's position on the matter, in order to reestablish exportation to those countries. Further, as the Company's distribution hub for the EU is located in Germany, Satipharm has been unable to distribute its product in the EU in the majority of the second quarter resulting in significantly reduced sales. The Company is in the process of moving its distribution hub to the UK from Germany which will enable the Company to be in compliance with Swiss Food law while continuing to serve the EU market.

Earlier this calendar year, Satipharm successfully exported its capsules to Australia making the capsules one of the first medicinal cannabis products available to approved prescribers in the country and in November 2017, Satipharm's Australian distribution partner had commenced distribution of Satipharm's Gelpell® CBD capsules to approved patients, establishing the Company as a market leader in Australia. Advancing sales in Australia will continue to be a major priority for management to ensure the Company capitalizes on its first-mover advantage in this market.

United Greeneries has also applied to become a licensed dealer under the Canadian Narcotics Control Act to allow for the importation of the capsules into Canada to be sold as a medical product. In December 2017, an initial import license to Canada for its Gelpell® CBD capsules was received to undergo quality assurance testing by Health Canada and the Company is anticipating a second import license to be issued in March 2018. The Company believes this will be one of the biggest catalysts for revenue growth in the near term.

INDUSTRY OVERVIEW

Medical Marijuana Regulatory Framework in Canada

In 2001, Canada became the second country in the world to recognize the medicinal benefits of cannabis and to implement a government-run program for medical cannabis access. Health Canada replaced the prior regulatory framework and issued the Marihuana for Medical Purposes Regulations ("MMPR") in June 2013 to replace government supply and home-grown medical cannabis with highly secure and regulated commercial operations capable of producing consistent, quality medicine. The MMPR regulations issued in June 2013 covered the production and sale of dried cannabis flowers only. A court injunction in early 2013 preserved the production and access methods of the prior legislation for those granted access prior to the injunction.

On July 8, 2015, Health Canada issued certain exemptions under the Controlled Drugs and Substances Act (Canada) ("CDSA"), which includes a Section 56 Class Exemption for Licensed Producers under the MMPR to conduct activities with cannabis, which permits Licensed Producers to apply for a supplemental license to produce and sell cannabis oil and fresh cannabis buds and leaves, in addition to dried cannabis (this does not permit Licensed Producers to sell plant material that can be used to propagate cannabis).

On August 24, 2016, the Government of Canada introduced new regulations governing the use of cannabis for medical purposes. These new regulations, known as the ACMPR, were introduced in response to the February 24, 2016 decision rendered by the Federal Court of Canada in the Allard et al v the Federal Government of Canada case (the "Allard case"). The plaintiffs in the Allard case argued that the MMPR violates their Charter of Rights and the court, in a lengthy and detailed judgment, agreed with the plaintiffs. The court gave the Government of Canada until August 24, 2016 to determine how existing regulations should be amended to ensure that patients have the access to medical cannabis that they need.

The ACMPR, remained largely consistent with the former MMPR, but restores the ability of patients to grow their own cannabis at home, including the ability to designate a third-party grower through regulations akin to the former Marihuana Medical Access Regulations ("MMAR"). Under the ACMPR, patients who choose to grow at home, subject to a maximum number of plants, will be required to register their production sites and provide copies of their medical authorization to Health Canada in order to allow for monitoring and auditing of their activities.

Under ACMPR, patients are required to obtain medical approval from their healthcare practitioner and provide a medical document to the licensed producer from which they wish to purchase cannabis. Since the requirements under the new regulations are both simpler and involve fewer obstacles to access than the previous regulatory regime, it is anticipated that the growth in the number of approved patients will accelerate. Moreover, the new system allows for competition among licensed producers on a host of factors including product quality, customer service, price, variety and brand awareness, allowing for well-positioned and capitalized producers to leverage their position in the marketplace.

If recreational cannabis use is legalized it is expected that the ACMPR will be replaced by a new regulatory framework that will cover both the medical and recreational markets.

Legalization and Regulation of Non-Medical Use of Cannabis in Canada

The federal government of Canada is moving forward on its plan to legalize and regulate cannabis for recreational use. Key indications / milestones of progress on legalization include the following:

- In its December 2015 Speech From the Throne, the Liberal Government of Canada reaffirmed its intent to "legalize, regulate, and restrict access to marihuana".
- On April 20, 2016, the Canadian federal government announced its intention to introduce, by the spring of 2017, legislation to legalize the recreational use of marihuana in Canada.
- On June 30, 2016, Health Canada announced the creation of a Task Force on marihuana legalization and regulation. The Task Force consists of high-level experts in the fields of law enforcement, medicine, policy creation and health care administration. The Task Force's objectives are to consult with governments, industry, the public and all other relevant stakeholders in order to provide advice on the design of a new legislative and regulatory framework to the ministers.

- On August 24, 2016, the MMPR was repealed and the ACMPR came into force. Health Canada stated in the August 2016 publication titled Understanding the New Access to Cannabis for Medical Purposes Regulations that the ACMPR is designed to provide an immediate solution required to address the Federal Court of Canada's judgement. Moving forward, Health Canada will evaluate how a system of medical access to cannabis should function alongside the Government's commitment to legalize, strictly regulate and restrict access to marijuana.
- On November 30, 2016, the Task Force published its final report titled: A Framework for the Legalization and Regulation of Cannabis in Canada. In the final report, the Task Force recommended that the federal government of Canada regulate the production of cannabis and its derivatives (e.g. edibles and concentrates) at the federal level, drawing on the good production practices of the current cannabis for medical purposes system. Also, the Task Force recommended that the wholesale distribution of cannabis be regulated by provinces and territories and that retail sales be regulated by the provinces and territories in close collaboration with municipalities. Further, the Task Force recommended allowing personal cultivation of cannabis for non-medical purposes with the following conditions: (i) a limit of four plants per residence; (ii) a maximum height limit of 100 cm on the plants; (iii) a prohibition on dangerous manufacturing processes; (iv) reasonable security measures to prevent theft and youth access; and (v) oversight and approval by local authorities.
- On April 13, 2017, the Canadian government introduced Bill C-45. The purpose of Bill C-45 is to provide legal access to cannabis and to control and regulate its production, distribution and sale. The passage of Bill C-45 would allow adults to legally possess and use cannabis for recreational purposes. Currently, it is illegal to buy, sell, produce, import or export cannabis unless it is authorized under the CDSA and its regulations, such as the ACMPR. The current program for access to cannabis for medical purposes would continue following the passage of Bill C-45. Cannabis will remain illegal as Bill C-45 moves through the legislative process. There can be no assurance that Bill C-45 will be passed into law, or passed into law substantially in the form in which it was introduced.
- Since the introduction of Bill C-45, provincial governments have started to formalize their own regulations and policy around the significant issues of distribution and sale of recreational cannabis within each Province.
- As of the date of this MD&A, the provinces of Ontario, Quebec, New Brunswick, and Prince Edward Island have announced that their provincial liquor control agencies will oversee the retail and distribution of non-medicinal cannabis. The provinces of British Columbia, Alberta, Manitoba and Saskatchewan have announced that their provincial liquor control agency will be responsible for distribution and oversee the private retail of non-medicinal cannabis.

International Legislation related to Harvest One Operations

European Union

Although all member countries of the EU must abide by United Nations 1961 Single Convention on Narcotic Drugs, each country is free to set their own nation rules and policy in relation to medical cannabis. Recently, there have been significant legislative changes in EU countries, including the Netherlands, Italy, Ireland and Germany.

In particular, on January 19, 2017, the German Bundestag voted to legalize cannabis for medical consumption, which came into effect in March 2017.The new legislation limits the sale and use of medical cannabis to patients suffering from multiple sclerosis, epilepsy, chronic pain, and lack of appetite or nausea related to cancer treatments. Through its national health insurance system, Germany will also become the first country in the world to cover the cost of medical cannabis for any therapeutic application approved by a physician. With a population of approximately 80 million people, Germany is expected to become the largest market for medical cannabis in the EU.

Australia

Legislation came into effect on October 30, 2016 to allow legal cultivation, production and manufacturing of medicinal cannabis products in Australia. This scheme is administered by the Commonwealth Department of Health through the Therapeutic Goods Administration (the "TGA") and the Office of Drug Control. This legislation is designed to work together with the therapeutic goods legislation, and state and territory legislation, to make medicinal cannabis products available to certain patients. The term 'medicinal cannabis products' covers a range of cannabis preparations intended for therapeutic use, including pharmaceutical cannabis preparations, such as oils, tinctures and other extracts. Medicinal cannabis products are regulated as medicines in Australia. Generally, medicines imported into, supplied in, and exported from Australia must be entered in the Australian Register of Therapeutic Goods (ARTG), which is administered by the TGA. However, there are other mechanisms for access to medicines that are not registered on the ARTG ("unapproved therapeutic goods"). Medicinal cannabis products supplied in Australia will use these alternative supply pathways while evidence to support registration is gathered through clinical trials. The Therapeutic Goods Act 1989 establishes the regulatory framework for all medicines in Australia. This legislation provides a number of mechanisms to enable access to unapproved therapeutic goods. These mechanisms maintain the same standards for medicinal cannabis products that apply to any other experimental or emerging medicine.

CBD

CBD is one of the non-psychotropic cannabinoids in cannabis industrial hemp. In 2016, 30,000 hectares of cannabis were cultivated in the European Union. There has been growing interest in CBD in recent years. CBD not only has a plethora of beneficial health effects, but it also has no relevant side-effects, even when it is administered at high doses. CBD is increasingly used as a food supplement and in food supplement compositions, and as an ingredient in cosmetics, thereby generating new investments and creating employment in the cultivation and processing of hemp and hemp-derived products. Pharmaceutical products with CBD as an active ingredient have also been developed.

In the EU, CBD is legal and is not considered a medication. CBD is considered a nutritional supplement and thus is freely available on the open market. However, if CBD is used for medical purposes, it can only be obtained by prescription and must be prescribed by a doctor if it meets certain requirements. The EU market is currently Satipharm's main focus, where the market potential for CBD is estimated be around €2 billion, according to a 2016 report by the nova-Institute and HempConsult.

RESULTS OF OPERATIONS

Net Loss and comprehensive loss

Net loss for the three and six months ended December 31, 2017 was $3,342,347 and $5,230,531 or $0.04 and $0.06 per basic and diluted share. Comprehensive loss was $3,334,437 and $5,225,611 which is comprised of the net loss and a foreign currency translation gain of $7,910 and $4,920.

Net loss for the three and six months ended December 31, 2016 was $521,578 and $1,292,391 or $0.01 and $0.03 per basic and diluted share. Comprehensive loss was $495,499 and $1,284,904 which is comprised of the net loss and a foreign currency translation gain of $26,079 and $7,487.

The main fluctuations in the net loss and comprehensive loss between the three and six months ended December 31, 2017 and 2016 is as follows:

	Three months ended December 31, 2017			Three months ended December 31, 2016			**Six months ended December 31, 2017**			Six months ended December 31, 2016		
	Cultivation	**Processing and distribution**	**Total**	Cultivation	Processing and distribution	Total	**Cultivation**	**Processing and distribution**	**Total**	Cultivation	Processing and distribution	Total
	$	**$**	**$**	$	$	$	**$**	**$**	**$**	$	$	$
Revenues	**-**	**4,740**	**4,740**	-	-	-	**-**	**179,284**	**179,284**	-	-	-
Cost of goods sold	**396,172**	**(8,325)**	**387,847**	-	-	-	**753,584**	**(160,641)**	**592,943**	-	-	-
Gross profit (loss)	**396,172**	**(3,585)**	**392,587**	-	-	-	**753,584**	**18,643**	**772,227**	-	-	-

Revenue and cost of goods sold

Revenue

Revenue for the three and six months ended December 31, 2017 increased to $4,740 and $179,284 compared with $Nil and $Nil in the same periods in 2016. The Company's revenue was solely from the sales of cannabis-based pharmaceutical products throughout Europe and Australia. During the three and six months ended December 31, 2017, the Company made sales primarily in Australia, Germany, Italy and the United Kingdom. Revenues in the three months ended December 31, 2017 were significantly impacted by the Company's inability to export to Germany where it's distribution hub for the EU was located (*See Description of Business and Recent Developments – Satipharm; Marketing and Distribution*).

Cost of goods sold

Plants that are in pre-harvest are considered biological assets and are capitalized on the balance sheet at fair market value less costs to sell at their point of harvest. Costs to sell include trimming, fulfilment, testing and shipping costs. As they continue to grow through the pre-harvest stages, a corresponding non-cash gain is recognized in income through cost of goods sold, reflecting the changes in fair value of the biological assets. 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 cost of sales when sold and offsets against the gain on biological assets. In addition, the cost of production is expensed through cost of goods sold and represents overheads and other production costs of growing and selling the plants. Together, the gain from changes in fair value of biological assets, inventory expensed and the cost of production comprise the cost of goods sold. Cost of goods sold is expected to vary from quarter to quarter based on the number or pre-harvest plants, the strains being grown, and where the pre-harvest plants are in the grow cycle at the end of the period.

The recovery to cost of goods sold during the three and six months ended December 31, 2017 was comprised of a non-cash gain on changes in fair value of biological assets of $396,172 and $753,584, respectively, which was partially offset by inventory expensed of $8,325 and $160,641 from the sale of CBD capsules. The processing and distribution segment incurred a gross loss for the three months ended December 31, 2017 due to a prior period foreign exchange translation adjustment that was recorded in the current period.

Operating expenses

	Three months ended December 31		**Six months ended December 31**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Depreciation and amortization	**259,739**	(578)	**510,025**	15,020
General and administration	**409,654**	7,558	**661,778**	139,928
Insurance	**23,475**	8,529	**49,839**	16,809
Marketing and investor relations	**200,933**	68,096	**313,644**	124,870
Professional and consulting services	**368,823**	4,790	**482,416**	4,790
Rent	**45,375**	36,341	**91,190**	73,131
Salaries, bonus and benefits	**500,768**	38,453	**1,068,289**	230,400
Share-based payments	**676,684**	130,941	**1,395,670**	255,675
Regulatory	**154,364**	213,200	**198,881**	308,202
Travel	**112,646**	7,550	**172,279**	9,022
Inventory impairment	**210,000**	-	**210,000**	-
	2,962,461	514,880	**5,154,011**	1,177,847

Total operating expenses increased to $2,962,461 and $5,154,011 for the three and six months ended December 31, 2017 compared to $514,880 and $1,177,847 in the same periods in 2016. The Company continued ramped up operations during the three and six months ended December 31, 2017 with the commencement of cultivation operations on December 21, 2016. The main fluctuations in operating expenses are as follows:

Depreciation and amortization

Depreciation increased to $259,739 and $510,025 in the three and six months ended December 31, 2017 from $(578) and $15,020 in the previous comparative periods due to the renovations being complete on the Company's Duncan Facility and the assets being put into use with the commencement of cultivation operations on December 21, 2016.

General and administration

For the three and six months ended December 31, 2017, the Company incurred $409,654 and $661,778 in general and administration costs compared with $7,558 and $139,928 for the previous comparative periods. The increase is primarily due to the commencement of cultivation activities and public company costs.

Insurance

Insurance expense increased in the three and six months ended December 31, 2017 compared with the same periods in the previous year due to increased coverage as a result of the Company now being listed on the TSX-V and the Company's expanding operations.

Marketing and investor relations

For the three and six months ended December 31, 2017, marketing and investor relations activities increased to $200,933 and $313,644 from $68,096 and $124,870 in the previous comparative periods as the Company stepped up its investor relations activities due to it becoming a public company in 2017.

Professional and consulting services

Professional and consulting services increased to $368,823 and $482,416 in the three and six months ended December 31, 2017 from $4,790 and $4,790 in the comparative periods. The increase is due to increased legal fees and consultants fees for the Company's expansion plans.

Rent

Rent expense in the three and six months ended December 31, 2016 relates to the operating lease on the Company's Duncan Facility. The Company purchased this facility on May 18, 2017. Rent expense for the three and six months ended December 31, 2017 relates mainly to the Company establishing a head office in downtown Vancouver.

Salaries, bonus and benefits

Salaries, bonus and benefits increased in the three and six months ended December 31, 2017 compared with the same periods in 2016 as the Company rounded out its executive team with the addition of a COO, CTO and a new CFO as well as a Director of Investor Relations, a Director of Communications and additional staff at the Vancouver office and the Duncan Facility.

Share-based payments

For the three and six months ended December 31, 2017, the Company incurred $676,684 and $1,395,670 in share-based compensation expenses compared with $130,941 and $255,675 in the previous comparative periods as a result of vesting of stock options issued in the previous year.

Regulatory

Regulatory expenses decreased in the three and six months ended December 31, 2017 compared with the same periods in 2016 primarily due to business fees and licenses incurred by Satipharm in Europe for CBD capsules in 2016.

Travel

Travel expenses increased to $112,646 and $172,279 in the three and six months ended December 31, 2017 compared with $7,550 and $9,022 in the same periods in 2016 due to the Company's increased operations, investor relations activities and increased marketing efforts in Europe for CBD capsules.

Inventory impairment

The Company regularly reviews its cannabis inventory for quality and freshness. During the three months ended December 31, 2017, 69.27 kg of cannabis inventory did not meet the quality standards for dry bud sale and therefore will be sold as extraction grade cannabis. As a result, the Company impaired $210,000 of dry cannabis finished goods to reduce the carrying amount to its net recoverable value.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2017, the Company had cash and cash equivalents of $29,066,685 and working capital of $30,610,689 compared with cash and cash equivalents of $14,246,320 and working capital of $14,865,072 at June 30, 2017.

Cash used in investing activities during the three and six months ended December 31, 2017 was $205,204 and $632,727, compared with $27,978 and $87,446 in the comparative periods. The increases were primarily related to purchases of property, plant and equipment for the Duncan facility, leasehold improvements for the mezzanine expansion at the Duncan facility, construction in process for the Company's expansion plans and office equipment for the new office in Vancouver, British Columbia.

Cash from financing activities during the three and six months ended December 31, 2017 was $19,434,470 and $19,428,578 compared with $1,178,311 and $1,231,006 in the comparative periods. The increases were primarily due to net proceeds from the issuance of convertible debenture units issued on December 14, 2017. The Company completed a "bought deal" offering of unsecured convertible debenture units of the Company (the "Debenture Units") in an aggregate principal amount of $20,125,000 (the "Debenture Offering"). Each Debenture Unit consisted of $1,000 principal amount of 8.0% unsecured convertible debentures of the Company (a "Debenture") and 458 common share purchase warrants of the Company (each a "Debenture Warrant").

Each Debenture issued under the Debenture Offering is convertible at the option of the holder of the Debenture into Common Shares (the "Debenture Shares") at any time prior to the close of business on the earlier of: (i) the business day immediately preceding December 14, 2022; and (ii) the business day immediately preceding the date fixed for redemption of the Debentures, at a conversion price of $0.84 per Debenture Share, subject to adjustment in certain events (the "Conversion Price").

The Company may force the conversion of the principal amount of the then outstanding Debentures (the "Mandatory Conversion") at the Conversion Price on not more than 60 days' and not less than 30 days' notice should the daily volume weighted average trading price ("VWAP") of the Common Shares on the TSX-V be greater than $1.40 for the consecutive 30 trading days preceding the notice, subject to the Mandatory Conversion being permitted under the policies of the principal exchange for any trading of the Debentures at that time.

Each Debenture Warrant shall entitle the holder thereof to purchase one Common Share at an exercise price equal to $1.09 at any time until December 14, 2020 (the "Debenture Warrant Expiry Date") (subject to adjustment in certain events). If, at any time prior to the Debenture Warrant Expiry Date, the closing price of the Common Shares on the TSXV equals or exceeds $1.64 for 10 consecutive trading days, the Company may, within 15 days of the occurrence of such event, provide notice to the holders of the Debenture Warrants by way of a news release accelerating the expiry date of the Warrants from the Debenture Warrant Expiry Date to the date that is 30 days following the date of such notice (the "Accelerated Exercise Period") subject to the Accelerated Exercise Period being permitted under the policies of the principal exchange for any trading of the Debenture Warrants at that time. Any unexercised Warrants will automatically expire at the end of the Accelerated Exercise Period.

On February 23, 2018, the Company announced it will be exercising its option to convert the remaining principal amount of Convertible Debentures outstanding into common shares of the Company at a price of $0.84 as the VWAP of the Company's common shares exceeded $1.40 per share for 30 consecutive trading days. The Mandatory Conversion is expected to be completed on or about March 28, 2018.

Additionally, the Company received $663,166 on the exercise of 663,166 warrants at $1.00 during the three and six months ended December 31, 2017. The Company received a further $17,485,305 subsequent to December 31, 2017 on the exercise of 17,461,972 warrants at $1.00 per warrant.

Further, on January 31, 2018, the Company closed a bought-deal financing for 22,115,385 units of the Company at a price of $1.82 per unit for aggregate proceeds of $40,250,000 (the "Units Offering"). Each unit consists of one common share and one common share purchase warrant. Each warrant shall entitle the holder thereof to purchase one common share at an exercise price of $2.30 per warrant share at any time up to 24 months following the closing of the Units Offering.

As in many development stage companies, actual future funding requirements may vary from those planned due to a number of factors, including the progress of development activity and foreign exchange fluctuations. The nature of the Company's business is the cultivation and sale of cannabis and the production and sale of CBD capsules. However, future inflows of cash are dependent on actions by management achieving profitable operations and raising additional capital. Management believes, should it be necessary, it will be able to raise equity capital as required in the long term, but recognizes the risks attached thereto. Historically the capital requirements of the Company have been met by equity and debt subscriptions and loans from related parties. 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. If the Company is unable to achieve profitable operations or raise any additional funds it may require, it could have a material adverse effect on its financial condition.

SUMMARY OF QUARTERLY RESULTS

Quarter ended	Revenue	Gross profit	Net loss	Basic and diluted loss per share
	$	$	$	$
December 31, 2017	4,740	392,587	(3,342,347)	(0.04)
September 30, 2017	174,544	379,640	(1,888,184)	(0.02)
June 30, 2017	63,316	246,22	(5,509,837)	(0.10)
March 31, 2017	9,634	6,150	(1,635,997)	(0.03)
December 31, 2017	-	-	(521,578)	(0.01)
September 30, 2016	-	-	(770,813)	(0.02)
June 30, 2016	-	-	(1,839,913)	(0.04)
March 31, 2016	-	-	(570,906)	(0.01)

SHARE CAPITAL

The Company had the following securities outstanding at December 31, 2017:

	Authorized	Outstanding	Exercisale	Fully diluted
Common stock	**Unlimited**	99,923,954		99,923,954
Warrants		16,003,834	16,003,834	16,003,834
Brokers' warrants		2,000,040	2,000,040	2,000,040
Convertible debentures warrants		9,493,882	9,493,882	9,493,882
Stock options		8,050,000	1,830,000	8,050,000
Convertible debentures (1)		12,259	14,594,048	14,594,048
				150,065,758

(1) Exercisable into common shares at $0.84 per share

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:

	Three months ended December 31		Six months ended December 31	
	2017	2016	**2017**	2016
	$	$	**$**	$
Salaries and benefits	**163,292**	23,066	**353,100**	46,481
Consulting fees	**69,562**	-	**139,124**	-
Directors' fees	**36,000**	3,000	**72,000**	6,000
Share-based compensation	**501,856**	-	**1,003,712**	-
Total	**770,710**	26,066	**1,567,936**	52,481

At December 31, 2017, there was $33,000 in directors' fees (June 30, 2017 - $22,000) included in accounts payable and accrued liabilities.

During the three and six months ended December 31, 2017, the Company paid $10,557 and $24,535 (December 31, 2016 - $Nil and $Nil) in legal fees to a company owned by a director of the Company and consulting fees of $6,555 (December 31, 2016 - $Nil) to an individual related to a director of the Company.

CONTINGENCY AND CONTRACTUAL OBLIGATIONS

The Company and its subsidiaries enter into contractual agreements from time to time relating to the on-going business activities. As at December 31, 2017, the Company has the following total commitments:

	Within 1 year	2 – 4 Years	Over 4 years	**Total**
Operating lease commitments	115,875	555,250	279,475	**950,600**
Purchase commitments	543,830	2,089,473	776,084	**3,409,387**
Total	659,705	2,644,723	1,055,559	**4,359,987**

The Company entered into a 10-year lease agreement for a ground lease on the property adjacent to the Company's current operations in Duncan, British Columbia. Commencing March 1, 2017, the Company will pay monthly rent at a rate of $2,275 for the first five years and $2,616 for the remaining five years.

The Company entered into an agreement with GelPell AG for the exclusive marketing, distribution and sale of the GelPell capsules worldwide. As part of this agreement, the Company has yearly minimum purchase commitments.

The Company entered into a lease five-year lease agreement for office space in Vancouver, British Columbia, commencing on February 28, 2017. The Company pays monthly rent at a rate of $11,408 under this agreement.

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 December 31, 2017, the Company is exposed to foreign currency risk through its bank accounts denominated in Swiss Francs ('CHF"). A 10% appreciation (depreciation) of the CHF 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 interim periods presented.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash and accounts receivable are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with financial institutions of high credit worthiness. The Company's accounts receivable are primarily receivable from government agencies. As at December 31, 2017, the Company is not 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. Included in the loss for the period in the financial statements is interest expense on loans payable and interest income on Canadian dollar cash. As at December 31, 2017, the Company is not exposed to any significant interest rate risk. The Company's convertible debentures have a fixed rate of interest and therefore expose the Company to a limited interest rate fair value risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities have maturities of 30 days or less or are due on demand and are subject to normal trade terms. As at December 31, 2017 the Company has working capital of $30,610,689. The Company addresses its liquidity through capital market financings. 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.

Fair value

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, due to related party and convertible debentures approximate their fair value.

Fair value hierarchy

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

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

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

Level 3 – Inputs that are not based on observable market data.

During the year, there were no transfers of amounts between levels.

Cash and convertible debentures are classified as Level 1 financial instruments. Due to related party is classified as Level 2 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.

RISKS & UNCERTAINTIES

This section discusses factors relating to the business of Harvest One that should be considered by both existing and potential investors. The information in this section is intended to serve as an overview and should not be considered comprehensive and Harvest One may face risks and uncertainties not discussed in this section, or not currently known to us, or that we deem to be immaterial. All risks to Harvest One's business have the potential to influence its operations in a materially adverse manner. In addition, the reader should consult the short form prospectus of the Company filed in respect of certain risks associated with the Units Offering.

Risk's Relating to Harvest One's Business

General Business Risk and Liability

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

Reliance on License

The continuation of Harvest One's business of growing, storing and distributing medical cannabis is dependent on the good standing of all licenses required to engage in such activities and upon adhering to all regulatory requirements related to such activities. United Greeneries, a wholly owned subsidiary of Harvest One, was granted the License by Health Canada on July 28, 2016 designating United Greeneries as a "Licensed Producer," as such term is defined in the ACMPR. The License is valid until June 26, 2020, at which point, United Greeneries must apply to Health Canada for a renewal.

Failure to comply with the requirements of the License or any failure to maintain the License would have a material adverse impact on the business, financial condition and operating results of Harvest One. Although Harvest One believes it will meet the requirements of the ACMPR for future extensions or renewal of the License, there can be no guarantee that Health Canada will extend or renew the License or that, if extended or renewed, the License will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the License or should it renew the License on different terms, the business, financial condition and results of operations of Harvest One would be materially and adversely affected.

Share Price Volatility

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

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

- operating and share price performance of other companies that investors deem comparable to Harvest One or from a lack of market comparable companies; and
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in Harvest One's industry or target markets.

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

Reliance on the Facilities

Harvest One currently operates two facilities: the Duncan Facility and the Lucky Lake Facility. Presently, only the Duncan Facility is licensed by Health Canada to cultivate cannabis. Harvest One expects to focus primarily on the Duncan Facility in the near-term future. Harvest One's operations and the conditions of its facilities are, and will be, subject to hazards inherent in the medical cannabis industry, including equipment defects, equipment malfunctions, natural disasters, fire, explosions, or other accidents that may cause damage to the facilities. Any adverse change or event affecting these facilities, especially the Duncan Facility, may have a material and adverse effect on Harvest One's business, results of operations and financial condition.

Holding Company Status

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

Limited Operating History

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

History of Net Losses

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

Unfavourable Publicity or Consumer Perception

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

Third Party Transportation

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

Management of Growth

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

Reliance on Management

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

Conflicts of Interest

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

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

Principal Security Holder

MMJ is Harvest One's largest shareholder – directly and indirectly owning a total of 53,333,333 Harvest One common shares. MMJ will have a significant influence on determining the outcome of any corporate transaction or other matter submitted to shareholders for approval, including mergers, consolidations and the sale of all or substantially all of Harvest One's assets, election of directors and other significant corporate actions. MMJ's controlling interest could also have the effect of delaying or preventing a change of control of Harvest One or entrenching Harvest One's board of directors or Harvest One's management, which could conflict with the interests of the other shareholders and, consequently, could adversely affect the market price of Harvest One's securities. Finally, due to MMJ's significant holdings, there can be no guarantee of a ready liquid market for Harvest One common shares.

Dividends

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

Limited Market for Securities

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

Market for the Securities

There is currently no market through which Warrants to be issued under the Units Offering may be sold. Even though the Company has agreed to use its commercially reasonable best efforts to file an application to list the Warrants on the TSX-V, there can be no assurance that such listing application will be accepted by the TSX-V, or that a secondary market for trading in the Warrants will develop or that any secondary market which does develop will continue. Also, there can be no assurances that any such secondary market will be active or liquid. To the extent that an active trading market for the Warrants does not develop, the liquidity and the trading price for the Warrants may be adversely affected.

Volatility of Market Price of the Common Shares, Warrants and Debentures

The market price of the Common Shares, Warrants and Debentures may be volatile and subject to wide fluctuations and will be based on a number of factors, including: (i) the prevailing interest rates being paid by companies similar to the Company; (ii) the overall condition of the financial and credit markets; (iii) interest rate volatility; (iv) the markets for similar securities; (v) the financial condition, results of operation and prospects of the Company; (vi) the publication of earnings estimates for the Company or other research reports and speculation regarding the Company in the press or investment community; (vii) changes in the industry in which the Company operates and competition affecting the Company; and (viii) general market and economic conditions. The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Fluctuations in these factors could have an adverse effect on the market price of the Common Shares, Warrants and Debentures.

Outdoor Property is not Licensed under the ACMPR

The Outdoor Property is not licensed by Health Canada under the ACMPR as a facility where the cultivation of cannabis is permitted. United Greeneries' ability to cultivate, store and sell medical cannabis produced on the Outdoor Property is dependent on obtaining a license from Health Canada and there can be no assurance that United Greeneries will obtain such a license for the Outdoor Property.

Outdoor Growing is not Permitted under the ACMPR

Outdoor growing of cannabis is not currently permitted by Health Canada under the ACMPR. While the federal government of Canada has introduced consultations regarding the proposed implementation of outdoor growing licenses in connection with legislation legalizing recreational cannabis, there can be no assurance that such legislation, if passed, would permit outdoor growing as contemplated herein or at all.

Failure to acquire the Chemainus Facility

There can be no assurance that the Company will complete the Chemainus Acquisition on the basis described herein, or at all. If the closing of the Chemainus Acquisition does not take place as contemplated, the Company could suffer adverse consequences, including the loss of investor confidence.

Chemainus Facility is not Licensed under the ACMPR

The Chemainus Facility is not licensed by Health Canada under the ACMPR as a facility where the cultivation of cannabis is permitted. United Greeneries' ability to cultivate, store and sell medical cannabis at the Chemainus Facility is dependent on obtaining a license from Health Canada and there can be no assurance that United Greeneries will obtain such a license for the Chemainus Facility.

Lucky Lake Facility is not Licensed under the ACMPR

The Lucky Lake Facility is not licensed by Health Canada under the ACMPR as a facility where the cultivation of cannabis is permitted. Harvest One, through United Greeneries, has applied to Health Canada to become a Licensed Producer under the ACMPR for the Lucky Lake Facility, and is presently at the security clearance stage of review. United Greeneries' ability to cultivate, store and sell medical cannabis at the Lucky Lake Facility is dependent on obtaining a license from Health Canada and there can be no assurance that United Greeneries will obtain such a license for the Lucky Lake Facility.

Facility Expansion

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

Failure to Obtain Import License

The ability of Harvest One to import Satipharm's Gelpell® Microgel Capsules into Canada is dependent on an import license. The Company received an initial import license to Canada for Satipharm's Gelpell® Microgel Capsules for the year ended December 31, 2017. While the Company has applied for a new import license for the year ending December 31, 2018 on an expedited basis, and the Company expects to receive a new license by the end of January 2018, no assurance can be given that such an import license will be obtained. The failure to obtain such import license will prevent Harvest One from being able to implement its Canadian business plan with respect to Satipharm's Gelpell® Microgel Capsules.

Operations in Foreign Jurisdictions

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

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

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

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

Credit, Liquidity, Interest, Currency and Commodity Price Risk

The Board of Directors has overall responsibility for the establishment and oversight of Harvest One's risk management framework. As at December 31, 2017, Harvest One's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. Cash is reported at fair value. The other amounts reflected in the balance sheet approximate their fair values due to their short-term nature.

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

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Harvest One is exposed to credit risk through its cash, which is held in with large Canadian financial institutions with issuer credit ratings of A-1 by Standard & Poor's. Harvest One believes this credit risk is insignificant.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Harvest One is exposed to short-term interest rates through the interest earned on cash balances and deposits; however, management does not believe this exposure is significant.

Liquidity risk is the risk that Harvest One will encounter difficulty in meeting obligations associated with financial liabilities. Harvest One manages liquidity risk through the management of its capital structure. In order to meet its financial obligations, Harvest One will need to generate cash flow from the sale or otherwise disposition of property or raise additional funds.

Cash is stated at amounts compatible with those prevailing in the market, are highly liquid, and are maintained with prime financial institutions for high liquidity.

Foreign Currency Risk

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

Litigation

Harvest One may become party to litigation, mediation and/or arbitration from time to time in the ordinary course of business which could adversely affect its business. Monitoring and defending against legal actions, whether or not meritorious, can be time-consuming, divert management's attention and resources and cause Harvest One to incur significant expenses. In addition, legal fees and costs incurred in connection with such activities may be significant and we could, in the future, be subject to judgments or enter into settlements of claims for significant monetary damages.

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

Intellectual Property

The success of Harvest One's business depends in part on its ability to protect its ideas and technology. Harvest One has no patented technology or trademarked business methods at this time nor has it applied to register any patents.

Even if Harvest One moves to protect its technology with trademarks, patents, copyrights or by other means, Harvest One is not assured that competitors will not develop similar technology, business methods or that Harvest One will be able to exercise its legal rights. Other countries may not protect intellectual property rights to the same standards as does Canada. Actions taken to protect or preserve intellectual property rights may require significant financial and other resources such that said actions have a meaningfully impact on our ability to successfully grow our business.

Political and Economic Instability

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

Global Economy Risk

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

Risks Relating to the Medical Cannabis Industry

Regulatory Risks

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

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

United Greeneries and Satipharm will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of our operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to United Greeneries and Satipharm's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of United Greeneries, Satipharm and Harvest One.

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

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

Environmental and Employee Health and Safety Regulations

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

Change in Laws, Regulations and Guidelines

Harvest One's business is subject to particular laws, regulations, and guidelines. The production and distribution of medical marijuana is a highly regulated field, and although Harvest One intends to comply with all laws and regulations, there is no guarantee that the governing laws and regulations will not change which will be outside of Harvest One's control.

On February 24, 2016, the Federal Court released its decision in the case of Allard et al v. Canada. The impact of this decision could potentially decrease the size of the market for Harvest One's business, and potentially materially and adversely affect Harvest One's business, its results of operations and financial condition. However, it is not expected that the changes in ACMPR regulations would have an effect on Harvest One's operations that are materially different than the effect on similar-sized companies in the industry.

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

On March 21, 2014, the Federal Court of Canada issued an interim order affecting the repeal of the MMAR and the application of certain portions of the MMPR which are inconsistent with the MMAR in response to a motion brought by four individuals in the Allard case. As a result, (i) individuals who held a license to possess cannabis under the MMAR on March 21, 2014 can continue to possess cannabis in accordance with the terms of that license except that the maximum quantity of dried cannabis authorized for possession shall be that which is specified by their license or 150 grams, whichever is less; and (ii) individuals who held, as of September 30, 2013, or were issued thereafter a valid license to produce cannabis under the MMAR can continue to produce medical cannabis in accordance with the terms of that license. Individuals covered by the injunction who wish to change the terms of their license, such as a change in address or designated producer, will be able to do so by registering with Health Canada under the new regulations.

On June 11, 2015 the Supreme Court of Canada, in Smith, held that the restriction on the use of non-dried forms of cannabis for medical cannabis users violates the right to liberty and security of individuals in a manner that is arbitrary and not in keeping with the principles of fundamental justice. As a result, the Supreme Court of Canada declared that Sections 4(1) and 5(2) of the CDSA, which prohibits possession and trafficking of non-dried forms of cannabis, are no longer of force and effect to the extent that they prohibit a person with medical authorization from possessing cannabis derivatives for medical purposes. This ruling means that medical cannabis patients authorized to possess and use medical cannabis are no longer limited to using dried forms of cannabis and may now consume cannabis and its derivative forms for medical purposes. The effect of the Supreme Court of Canada decision on Licensed Producers was not as clear since Licensed Producers were governed and licensed under the MMPR. In order to clarify the uncertainty surrounding a legal source of supply of cannabis as a result of the Supreme Court of Canada decision, on July 8, 2015 Health Canada issued certain exemptions under the CDSA, permitting Licensed Producers to produce and sell cannabis oil and fresh cannabis buds and leaves, in addition to dried cannabis (this did not permit Licensed Producers to sell plant material that can be used to propagate cannabis).

The Federal Court decision on Allard was delivered on February 24, 2016. In the decision, the Federal Court declared the MMPR invalid as it unconstitutionally violated patients Charter protected rights to liberty and security. However, the Court suspended the operation of the declaration of invalidity for six months to permit Canada to enact a Charter-compliant regime. The government did not choose to appeal the decision to the Federal Court of Appeal. Instead, the government has introduced Charter-compliant legislation.

On August 24, 2016, the ACMPR replaced the MMPR. The ACMPR is Canada's response to the Federal Court of Canada's February 2016 decision in Allard.

Overall, the ACMPR contains four parts:

- Part 1 is similar to the framework under the MMPR. It sets out a framework for commercial production by Licensed Producers responsible for the production and distribution of quality-controlled fresh or dried cannabis or cannabis oil or starting materials (i.e., cannabis seeds and plants) in secure and sanitary conditions.
- Part 2 is similar to the former MMAR regime. It sets out provisions for individuals to produce a limited amount of cannabis for their own medical purposes or to designate someone to produce it for them.
- Parts 3 and 4 include:
    - Consequential amendments to other regulations that referenced the MMPR (i.e. *Narcotic Control Regulations, New Classes of Practitioners Regulations*) to update definitions and broaden the scope of products beyond dried cannabis; and
    - Provisions repealing the MMPR and setting out the coming into force of the ACMPR on August 24, 2016.

As of August 24, 2016, Health Canada will accept applications from individuals who wish to register to produce a limited amount of cannabis for their own medical purposes or to designate someone to produce cannabis for them. Individuals who were previously authorized to possess and produce cannabis under the MMAR remain authorized to do so by virtue of a Federal Court injunction order.

Under the ACMPR, Health Canada will continue to accept and process applications to become a Licensed Producer that were submitted under the former MMPR. Further, all Licenses and security clearances granted under the MMPR will continue under the ACMPR, which means that Licensed Producers can continue to register and supply clients with cannabis for medical purposes. New applicants can continue to apply for Licenses to produce under the ACMPR.

The risks to the business of Harvest One represented by this or similar actions are that they might lead to court rulings or legislative changes that allow those with existing licenses to possess and/or grow medical cannabis, perhaps allow others to opt out of the regulated supply system implemented through the ACMPR by growing their own medical cannabis, or potentially even legitimize illegal areas surrounding cannabis dispensaries. This could significantly reduce the addressable market for Harvest One's proposed products and could materially and adversely affect the business, financial condition and results of operations for Harvest One.

While the impact of any of such changes are uncertain and are highly dependent on which specific laws, regulations or guidelines are changed and on the outcome of any such court actions, it is not expected that any such changes would have an effect on Harvest One's operations that is materially different than the effect on similar-sized companies in the same business as Harvest One.

In addition, the industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond Harvest One's control and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies that may be imposed. Changes in government levies, including taxes, could reduce Harvest One's earnings and could make future capital investments or Harvest One's operations uneconomic.

Legalization of Recreational Cannabis

On April 13, 2017, the Federal Government of Canada introduced Bill C-45 – *An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and Other Acts* ("Bill C-45"). If passed, Bill C-45 will result in the legalization and regulation of recreational cannabis use.

There can be no assurance that Bill C-45 will be passed into law, or passed into law substantially in the form in which it was introduced. Further, even if Bill C-45 is passed into law, the importation, exportation, production, testing, packaging, labelling, sending, delivery, transportation, sale, possession or disposal of cannabis or any class of cannabis will remain subject to extensive regulatory oversight. Such extensive controls and regulations may significantly affect the financial condition of market participants, and prevent the realization of such market participants of any benefits from an expanded market for recreational cannabis products.

Restrictions on Sales and Marketing

The medical cannabis industry is in its early development stage and restrictions on sales and marketing activities imposed by Health Canada, various medical associations, other governmental or 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.

Competition

The market for the medical cannabis products appears to be sizable and Health Canada has only issued a limited number of licenses under the ACMPR regime to produce and sell medical cannabis. The government of Canada has only issued to date a limited number of licenses under the ACMPR to produce and sell medical cannabis. There are, however, several hundred applicants for licenses. The number of licenses granted could have an impact on the operations of Harvest One. Because of the early stage of the industry in which Harvest One operates, Harvest One expects to face additional competition from new entrants. According to Health Canada there were 76 Licensed Producers as of November 28, 2017. If the number of users of medical cannabis in Canada increases, the demand for products will increase and Harvest One expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. Harvest One expects significant competition from other Licensed Producers. Some companies applying for production licenses may have significantly greater financial, technical, marketing and other resources, may be able to devote greater resources to the development, promotion, sale and support of their products and services, and may have more extensive customer bases and broader customer relationships.

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

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

Agricultural Operations

Since Harvest One's business will revolve mainly around the growth of medical marijuana, an agricultural product, the risks inherent with agricultural businesses will apply. Such risks may include disease and insect pests, among others. Although Harvest One expects to grow its product in a climate controlled, monitored, indoor location, there is not guarantee that changes in outside weather and climate will not adversely affect production. Further, any rise in energy costs may have a material adverse effect on Harvest One's ability to produce medical marijuana.

Vulnerability to Rising Energy Costs

Harvest One's medical cannabis growing operations consume considerable energy, making Harvest One vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of United Greeneries and its ability to operate profitably.

Fluctuating Prices of Raw Materials

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

Product Liability

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

There can be no assurance that Harvest One will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. An inability to obtain sufficient insurance coverage on reasonable terms could prevent or inhibit the commercialization of Harvest One's products.

Product Recalls

Manufacturers and distributors of products may be subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of Harvest One's products are recalled due to an alleged product defect or for any other reason, Harvest One could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. Harvest One may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention and otherwise distract from day to day operations.

Operating Risk and Insurance Coverage

Harvest One maintains insurance to protect its assets, operations and employees. While Harvest One believes its insurance coverage addresses all material risks to which it is 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 the risks and hazards to which Harvest One is exposed. Harvest One may be also unable to maintain insurance at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Harvest One might also

become subject to liability for pollution or other hazards which may not be insured against or which Harvest One may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Harvest One to incur significant costs that could have a material adverse effect upon Harvest One's financial performance and results of operations.

CRITICAL ACCOUNTING JUDGEMENTS & ESTIMATES

The preparation of the combined consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reporting amounts of assets and liabilities at the date of the 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 4 to the audited combined consolidated financial statements for the year ended June 30, 2017.

Areas that often require significant management estimates and judgment include biological assets and inventory, the estimated useful lives and depreciation of property, plant and equipment, share-based compensation, warrants, convertible debenture units, going concern assessment, 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 financial statements:

(a) The Company fair values its biological assets and inventory which requires estimates and assumptions on the stage of growth of the cannabis, harvesting costs, selling costs, sales price, wastage, expected yields, and spoilage.

(b) The Company has recorded depreciation and amortization which requires estimates of the useful lives and when the asset is available for use and any impairment to these assets is dependent on estimates of recoverable amounts, taking into account market conditions and the useful lives of the assets

(c) The Company has recorded stock-based compensation using the *Black-Scholes Pricing Model*, which requires an assumption of the risk-free rate, expected lives of the stock options, forfeiture rates, and their related volatilities.

(d) The Company has recorded Brokers' warrants using the *Black-Scholes Pricing Model,* which requires an assumption of the risk-free rate, expected lives of the warrants, and their related volatilities.

(e) The Company has recorded convertible debenture units which requires an assumption of the interest rate assuming no conversion features existed.

(f) Judgment 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, the acquirer is the entity that obtains control of the acquiree in the acquisition. If it is not clear which company 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.

RECENT ACCOUNTING PRONOUNCEMENTS

The adoption of the new and revised standards, amendments and interpretations issued by the IASB effective for periods beginning on or after July 1, 2017 has not had a material impact on the accounting policies, methods of computation or presentation applied by the Company.

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

IFRS 9, Financial Instruments

IFRS 9 was issued by the IASB in November 2009 and October 2010 and will replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied.

The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. The effective date of IFRS 9 is January 1, 2018. The Company does not anticipate any material impact from the implementation of IFRS 9.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. On April 12, 2016, the IASB published final clarifications to IFRS 15 with respect to identifying performance obligations, principal versus agent considerations, and licensing. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company does not anticipate any material impact from the implementation of IFRS 15.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16 Leases, which will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, but earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16.

The Company is assessing the impact of the new or revised IFRS standards in issue but not yet effective on its financial position and financial performance. The Company is assessing the impact of this standard on its financial position and financial performance.

IFRS 7, Financial Instruments: Disclosure

IFRS 7 was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for the Company for its year ended June 30, 2019. The Company is assessing the impact of this standard.

IFRS 2, Share-based Payment

In June 2016, the IASB issued amendments to IFRS 2, including the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and accounting for modifications to the terms and conditions of a share-based payment that changes the classification of the share-based payment transaction from cash-settled to equity-settled. The IFRS 2 amendments are effective for the Company for its year ended June 30, 2019. The Company is assessing the impact of this standard on its financial position and financial performance.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Information provided in this MD&A, including the unaudited combined consolidated interim financial statements, is the responsibility of management. In the preparation of these unaudited combined 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 unaudited combined 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 unaudited combined 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 unaudited combined consolidated interim financial statements; and (ii) the unaudited combined 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 months ended December 31, 2017.

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.

ADVISORY ON FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking statements, including statements regarding the business and anticipated future financial performance of the Company, which involve risks and uncertainties. These risks and uncertainties may cause the Company's actual results to differ materially from those contemplated by the forward-looking statements. Factors that might cause or contribute to such differences include, among others, market price, continued availability of capital financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and those actual results or developments may differ materially from those projected in the forward-looking statements. Investors are also directed to consider other risks and uncertainties discussed in the Company's required financial statements and filings.