Harvest One Cannabis Inc.

Management's Discussion and Analysis

For the three months ended September 30, 2019

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed consolidated interim financial statements and related notes thereto of Harvest One Cannabis Inc. ("Harvest One" or "us" or "we" or "our" or the "Group" or the "Company") for the three months ended September 30, 2019 and the audited annual consolidated financial statements for the year ended June 30, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are expressed in thousands of Canadian dollars, except for share and per share amounts, unless otherwise stated. This MD&A has been prepared as of November 26, 2019 and includes certain statements that may be deemed "forward-looking statements". Additional information relating to the Company, including the Company's Annual Information Form dated April 17, 2019, is available under the Company's profile at www.sedar.com.

FORWARD LOOKING STATEMENTS

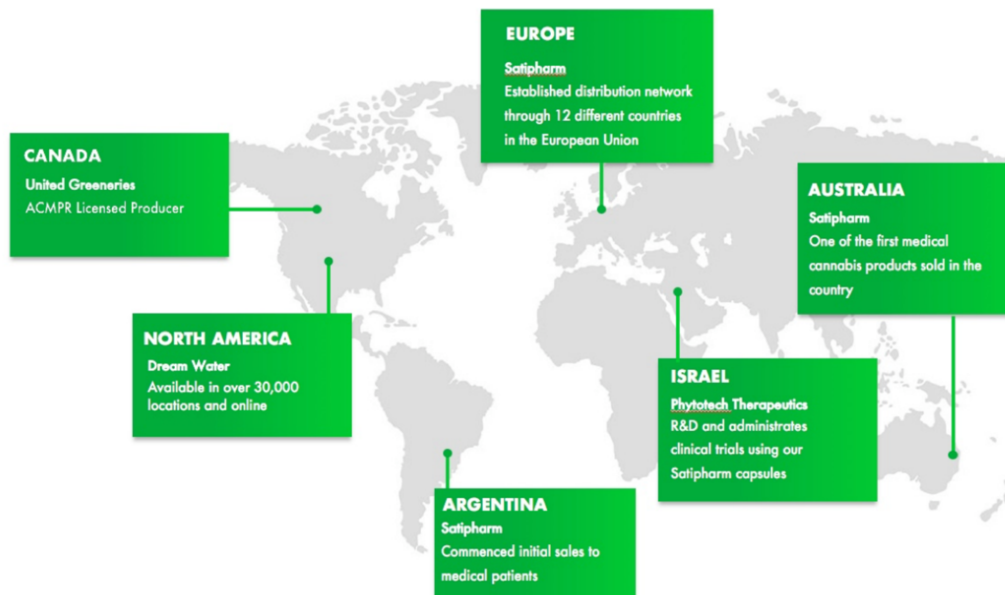
Certain statements contained in this MD&A constitute forward-looking statements and forward-looking information (collectively, "Forward-Looking Statements") and the Company cautions investors about important factors that could cause the Company's actual results to differ materially from those expressed,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

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

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

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

BUSINESS OVERVIEW



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

Harvest One operates a global house of brands through its wholly-owned subsidiaries: United Greeneries Ltd. ("United Greeneries"), a Canadian Licensed Producer of cannabis and cannabis derivative products; Satipharm Limited ("Satipharm") and PhytoTech Therapeutics Ltd. ("PhytoTech"), both under the Group's medical and nutraceutical arm; and Dream Water Global ("Dream Water"), the Group's consumer arm. The Company also has exposure to the retail vertical through its investment in Burb Cannabis Corp. ("Burb") and additional exposure in the cultivation segment through its 50.1% interest in Greenbelt Greenhouse Ltd. ("Greenbelt"). The Company's consumer arm was enhanced with the acquisition of Delivra Corp. ("Delivra"), a Canadian-based manufacturer of natural topical pain relief creams (the "Delivra Acquisition") in July 2019.

Cultivation

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

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

Medical and Nutraceutical

Satipharm is an international medical and nutraceutical cannabis company focused on the delivery of cannabinoids through oral delivery technologies, currently servicing markets in the United Kingdom, Ireland, Australia, and Argentina, and expanding distribution into New Zealand, further into Europe, and elsewhere around the globe when and where legal. Satipharm holds the exclusive global marketing and distribution rights to the Gelpell® Microgel technology for all cannabinoids. In November 2019, Health Canada granted permission to import CBD Gelpell® capsules into Canada for research and development purposes.

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

Consumer

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

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

Retail

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

Our Brands and Distribution

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

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

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

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

DISTRIBUTION / SUPPLY AGREEMENTS Multiple products in over 38,000 stores

united greeneries	satipharm	DreamWater	delivra
BC CANNABIS STORES	shopify	Walmart, CVS Health	Walmart, Guardian
Saskatchewan Liquor and Gaming Authority	HL PHARMA	London Drugs, Pharmasave	London Drugs, Fortinos
Ontario Cannabis Store	Shoppers Drug Mart	amazon.com, Core-Mark	Pharmasave, Loblaws
Manitoba Liquor & Lotteries	Health House, Boots	Shoppers Drug Mart, Wegmans	Pharmaprix, I.D.A.
	Holland & Barrett	Loblaws, Rexall	Sobeys Pharmacy, Lawtons Drugs
	Chemist Direct	meijer, Hudson News, Sobeys Pharmacy	Shoppers Drug Mart, Brunet
	Lloyds Pharmacy	GSC, cornerstore, 7-Eleven	Jean Coutu, Rexall
		Kroger, Circle K, Albertsons Safeway	

KEY FINANCIAL RESULTS

Select Financial Information	For the three months ended September 30 2019 $	2018 $
Net revenue	**4,064**	1,679
Gross profit	**1,265**	578
Expenses	**6,456**	6,395
Loss from operations	**(5,191)**	(5,817)
Net loss attributable to common shareholders	**(5,261)**	(5,795)
Net loss per share – basic and diluted	**(0.02)**	(0.03)
Weighted average number of Common Shares	**213,666,344**	173,621,452
Adjusted EBITDA[1]	**(3,420)**	(4,005)

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

Select Statements of Financial Position Information	September 30 2019 $	June 30 2019 $
Cash and cash equivalents	**7,272**	20,301
Cannabis inventories and biological assets	**8,875**	6,419
Non-cannabis inventories	**6,841**	3,521
Non-current assets	**99,271**	66,907
Equity	**110,501**	93,135

SIGNIFICANT AND RECENT DEVELOPMENTS

Expanded Distribution and Supply Agreements

a) *FederalMed Distribution Agreement*

In November 2019, Satipharm entered into a distribution agreement with FederalMed to manage the importation and distribution of Satipharm's CBD Gelpell® capsules in Argentina for medical purposes. Argentine law authorises the import of cannabis products for sufferers of refractory epilepsy for patients with a doctor's prescription. The Company's initial shipment has also been received by the first patient, which marks the Company's first entry into South America and adds to Satipharm's growing distribution network.

b) *GenCanna Supply Agreement*

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

c) *Stevens Green Supply Agreement*

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

Acquisitions

a) *Acquisition of Delivra*

On July 3, 2019, the Company completed its previously announced Arrangement Agreement with Delivra pursuant to which the Company acquired all of the issued and outstanding shares of Delivra (the "Delivra Acquisition"). In accordance with the terms of the Delivra Acquisition, each Delivra shareholder received 0.595 of a Common Share of Harvest One for each Delivra common share. Based on the closing trading price of Harvest One's Common Shares on the TSX-V on July 3, 2019, the implied value equates to approximately $0.43 per Delivra common share and represents equity consideration of $20,639. Total consideration of $21,894 consisted of $20,639 in shares, $920 in options, and $335 in warrants.

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

Product Development and Licensing

a) *Canadian R&D Licence for Satipharm CBD Gelpell®*

In November 2019, United Greeneries received permission from Health Canada to import Satipharm's CBD Gelpell® capsules into Canada for research and development purposes. This allows the Company to begin compliance testing and analysis for the Canadian market in anticipation of full-scale production of the CBD Gelpell® capsules in Canada in calendar 2020.

b) *Mission Road Cultivation Licence*

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

c) *Retail Cannabis Licences*

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

d) *Canadian Cannabis Oil Licence*

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

e) *Launch of Satipharm CBD Oil*

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

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

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

Corporate

a) *Enhanced Strategic Plan*

In November 2019, management of the Company announced an enhanced strategic plan (the "Plan"). Key elements of the Plan include: (i) repurposing the Lucky Lake Facility to focus on our core strengths of brand development and distribution, including the development and manufacturing of infused products and strengthening our consumer packaged goods division; (ii) reducing overhead expenses by initiating a reduction in workforce by approximately 20% across all divisions, along with other operating cost reduction initiatives, resulting in cost savings of approximately 30% on an annualized basis; and (iii) reviewing non-core assets in order to reduce our overall exposure to pure cultivation and redirect our efforts and resources on brand development, production, and distribution.

b) *Appointment of Chief Commercial Officer*

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

c) Appointment of Chief Financial Officer

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

Facilities and Expansions

a) Duncan and Mission Road

Expansion is underway at the Mission Road Facility and is approximately 70% complete. When fully constructed and licensed, the Mission Road Facility (collectively, with the Company's existing licensed Duncan Facility, the "Duncan Campus") is expected to triple the current output of the Duncan Campus from its current 1,200 kg to approximately 3,500 kg annually.

The design and build of the Mission Road Facility expansion project is comprised of three phases incorporating four modules of state-of-the-art cultivation space. Phase 1 construction is now fully complete and a cultivation licence for Phase 1 was received from Health Canada in October 2019. The licensing of Phase 1 adds an additional 600 kg of annualized cultivation capacity to the Duncan Campus commencing in second quarter of fiscal 2020, bringing the current annualized capacity to approximately 1,800 kg. Completion of Phase 2 and Phase 3 of the Mission Road Facility expansion and licensing thereof is expected in early calendar 2020 and will add a further 1,700 kg annually, bringing the aggregate annualized production capacity of the Duncan Campus to approximately 3.500 kg. A further 13 acres of surrounding land at the Mission Road Facility is available for additional expansion.

b) Lucky Lake

The Company's facility located in Lucky Lake, Saskatchewan is a 68,000 square foot concrete agricultural facility situated on 23 acres of land (the "Lucky Lake Facility").

In light of the accelerating and extreme oversupply of cannabis flower in the Canadian marketplace, the Company has recently undergone a redesign and repurposing of the Lucky Lake facility to focus on the Company's core strengths: namely, the development, production and distribution of the Company's value-added infused products, including the manufacture of its Satipharm CBD Gelpell® capsules in Canada. Specifically, the repurposing of the Lucky Lake facility will allow the Company to produce cannabis-infused Dream Water and LivRelief™ products, vape and other derivative offerings, as well as offer expanded product development as derivative cannabis products gain traction in the Canadian consumer marketplace. The repurposing of the Lucky Lake Facility will also result in sequential cost savings and reduced capital expenditures on the facility. Construction to complete the repurposing, and submission of the initial evidence package to Health Canada, is anticipated to be completed in early 2020. Depending on future demand for dried flower, the Company can easily add further cultivation rooms when and if necessary.

c) Greenbelt and Lillooet

As the commoditization of cannabis cultivation accelerates, the Company is currently undergoing a review of its non-core assets in order to reduce its overall exposure to pure cultivation and redirect its efforts and resources on brand development, production and distribution. To this end, the Company is currently in discussions to divest its 50.1% interest in the Greenbelt Facility and its outdoor growing site located in Lillooet, British Columbia. The sale of these non-core assets will provide cash proceeds to support the expansion of the Company's core business lines and operational strengths. The Company will continue to explore other strategic alternatives for its operations that are currently deemed not critical to the Company's brand development, production and distribution efforts.

OUTLOOK

Management anticipates sales volumes, net revenues, and adjusted EBITDA to improve in fiscal 2020 due to increased capacity, the introduction of new cannabis derivative products to the Canadian market, improvements in gross margin, and disciplined spending across all segments, including implementation of the Plan which is expected to result in cash cost savings of approximately 30% on an annualized basis.

Cultivation

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

Medical and Nutraceutical

Satipharm launched its reformulated 10 mg full spectrum CBD Gelpell® capsules and CBD oil during calendar 2019 and will continue to ramp up sales online and through brick and mortar distribution. In fiscal 2020 and future years, Satipharm intends to expand its product offering and is currently developing new cannabis-based medical and nutraceutical products. Examples of potential new products are depicted below:

Satipharm CBD Gelpell® Capsules Focus	Satipharm CBD Gelpell® Capsules Active	Satipharm CBD Oil Cinnamon

Consumer

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

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

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

LivRelief™ CBD	LivRelief™ THC:CBD

Retail

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

FINANCIAL REVIEW

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

	For the three months ended September 30, 2019				For the three months ended September 30, 2018			
	Cultivation	Medical and Nutraceutical	Consumer	Total	Cultivation	Medical and Nutraceutical	Consumer	Total
	$	$	$	$	$	$	$	$
Net revenue	**2,037**	**299**	**1,728**	**4,064**	608	—	1,071	1,679
Cost of sales:								
Production costs	**622**	**—**	**—**	**622**	648	—	—	648
Inventory expensed to cost of sales	**982**	**247**	**1,391**	**2,620**	33	—	1,126	1,159
Gross profit (loss) before fair value adjustment	**433**	**52**	**337**	**822**	(73)	—	(55)	(128)
Realized fair value amounts included in inventory sold	**705**	**—**	**—**	**705**	504	—	—	504
Unrealized change in fair value of biological assets	**(1,148)**	**—**	**—**	**(1,148)**	(1,210)	—	—	(1,210)
Gross profit (loss)	**876**	**52**	**337**	**1,265**	633	—	(55)	578

Net revenue

Revenue is comprised of sales of: (1) harvested cannabis to both the medical and recreational markets in Canada; (2) CBD Gelpell® capsules in Europe and Australia; (3) Dream Water liquid sleep shots and sleep powder packets in Canada and the US, and (4) Delivra natural topical pain relief creams in Canada. Net revenue is determined by deducting excise taxes that are included in gross revenue from cannabis sales in Canada and remitted to the provincial governments, effective October 17, 2018, when the Act went into effect.

For the three months ended September 30, 2019, net revenue was $4,064, compared to $1,679 in the same period in the prior year. The $2,385 increase in net revenue was due to: (1) $1,429 increase in the cultivation segment from the legalization of recreational cannabis in October 2018, (2) $299 increase in the medical and nutraceutical segment from the launch of reformulated CBD Gelpell® capsules in calendar 2019, and (3) $657 increase in the consumer segment from the growth of Dream Water sales and the Delivra Acquisition during the three months ended September 30, 2019.

The total quantity of cannabis sold, excluding bulk cannabis sales to other licensed producers, during the three months ended September 30, 2019 was 123 kg (three months ended September 30, 2018 – 16 kg) at an overall average price of $7.71 per gram (three months ended September 30, 2018 – $7.90).

Cost of sales

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

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

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

For the three months ended September 30, 2019, cost of sales was $3,242, compared to $1,807 in the same period in the prior year. The $1,435 increase in cost of sales was due to: (1) $923 increase in the cultivation segment primarily from the sale of recreational cannabis and bulk cannabis to other licensed producers, (2) $247 increase in the medical and nutraceutical segment from the launch of reformulated CBD Gelpell® capsules in calendar 2019, and (3) $265 increase in the consumer segment primarily from the acquisition of Delivra in July 2019.

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

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

	For the three months ended September 30	
	2019	2018
	$	$
Net revenue	**4,064**	1,679
Cost of sales	**3,242**	1,807
Gross profit (loss) before fair value adjustments	**822**	(128)
Gross margin before fair value adjustments[1]	**20%**	(8)%

(1) Gross margin before fair value adjustments is a non-GAAP measure, which is calculated by excluding non-cash fair value changes as required by IFRS.

Gross margin before fair value adjustments for the three months ended September 30, 2019 was 20%, compared to (8)% in the same period in the prior year. The increase was due to gross margin improvements across all of the Company's segments, particularly from the increase in sale of recreational and bulk cannabis during the three months ended September 30, 2019. Included in cost of sales for the three months ended September 30, 2019 is a $357 non-cash fair value charge on inventory related to the Delivra Acquisition (three months ended September 30, 2018 – $450 related to the acquisition of Dream Water).

Fair value adjustments and gross profit (loss)

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

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

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

For the three months ended September 30, 2019, gross profit (loss) was $822, compared to ($128) in the same period in the prior year. The $950 increase was due to the factors noted above in net revenue and cost of sales, as well as the unrealized change in fair value of biological assets and the realized fair value of amounts included in inventory sold discussed below.

Realized fair value amounts included in inventory sold increased by $201 for the three months ended September 30, 2019, compared to same period in the prior year, due to an increase in amount of cannabis sold and offset by a decrease in the fair value less costs to sell from $6.45 to $6.00 per gram determined based on the assumptions discussed in note 6 of the interim consolidated financial statements.

Unrealized change in fair value of biological assets decreased by $62 for the three months ended September 30, 2019, compared to the same period in the prior year, based on changes in the fair value less costs to sell assumptions, the number of harvests in process and the stage of plant growth through the pre-harvest stages.

Expenses

	For the three months ended September 30	
	2019	2018
	$	$
General and administration	**4,145**	2,671
Sales and marketing	**827**	594
Acquisition costs	**—**	30
Research and development	**112**	—
Depreciation and amortization	**675**	78
Share-based compensation	**697**	1,575
Asset impairment and write-downs	**—**	332
Severance and reorganization costs	**—**	1,115
	6,456	6,395

Total expenses increased by $44 for the three months ended September 30, 2019 compared to the same period in the prior year, primarily due to an increase in (1) general and administration from expanding operations leading to an increase in headcount across the Company and (2) depreciation and amortization from the acquisitions of Delivra and Greenbelt. This increase is offset by non-recurring severance and reorganization costs incurred in the prior period as well as lower share-based compensation expense due to vesting of certain options and performance appreciation rights ("PARs"). The changes in expenses are detailed below as follows:

General and administration

General and administration expenses increased by $1,474 for the three months ended September 30, 2019, compared to the same period in the prior year, due to the Company's growth and expansion both domestically and internationally. The Company added members to the management team and employees at the Vancouver head office, United Greeneries, Satipharm and Dream Water operations. In addition, the Company incurred additional general and administration expenses during the three months ended September 30, 2019 as a result of the Delivra Acquisition. With the implementation of the Plan, general and administration expenses are expected to decrease in future periods.

Sales and marketing

Sales and marketing increased by $233 for the three months ended September 30, 2019, compared to the same period in the prior year, primarily to the Company continuing to create brand awareness of its cannabis, Satipharm, Dream Water, and Delivra products. In particular, Satipharm relaunched sales of its reformulated CBD Gelpell® capsules in Europe and Australia and Dream Water launched redesigned packaging subsequent to the three months ended September 30, 2018.

Depreciation and amortization

Depreciation and amortization increased by $597 for the three months ended September 30, 2019, compared to the same period in the prior year, due to the Company's acquisition of Delivra and Greenbelt on July 3, 2019 and March 29, 2019, respectively, and the Company's transition to IFRS 16 – Leases on July 1, 2019. These transactions resulted in an increase of $9,824 in property, plant and equipment, $15,670 in intangible assets, and $927 in right-of-use assets and thus an increase in depreciation and amortization.

Share-based compensation

Share-based compensation decreased by $878 for the three months ended September 30, 2019, compared to the same period in the prior year, due to certain tranches of options and PARs that fully vested in July 2019, resulting in a lower share-based compensation expense during the period ended September 30, 2019.

Asset impairment and write-downs

Asset impairment and write-downs decreased by $332 for the three months ended September 30, 2019, compared to the same period in the prior year, due to the write-off of capitalized costs in construction in progress and prepaid expenses and deposits in the prior year related to: (1) the Company not proceeding with the Aldergrove site; and (2) the previously planned project on the vacant land adjacent to the Duncan Facility prior to the commencement of modular expansion on the land.

Severance and reorganization costs

Severance and reorganization costs decreased by $1,115 for the three months ended September 30, 2019, compared to the same period in the prior year, due to a reorganization of the senior leadership team in the prior year which included a severance payment of $750 to the former CEO of the Company.

Adjusted EBITDA (non-GAAP measure)

	For the three months ended September 30	
	2019	**2018**
	$	**$**
Loss from operations	**(5,191)**	(5,817)
IFRS fair value accounting related to biological assets and inventory		
Realized fair value amounts included in inventory sold	**705**	504
Unrealized change in fair value of biological assets	**(1,148)**	(1,210)
	(5,634)	(6,523)
Fair value adjustment in inventory expensed to cost of sales	**357**	451
Depreciation and amortization (per statement of cash flows)	**764**	160
Share-based compensation	**697**	1,575
Common shares issued for services	**396**	—
Asset impairment and write-downs	**—**	332
	2,214	2,518
Adjusted EBITDA	**(3,420)**	(4,005)

For the three months ended September 30, 2019, adjusted EBITDA increased by $585 compared to the same period in the prior year, primarily due to the increase in net revenues and gross profit and partially offset by increased general and administration expenses as discussed above.

LIQUIDITY AND CAPITAL RESOURCES

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

	For the three months ended September 30	
	2019	**2018**
	$	**$**
Cash used in operating activities	**(10,205)**	(6,077)
Cash used in investing activities	**(2,578)**	(2,422)
Cash used in financing activities	**(95)**	(6)
Effect of foreign exchange on cash	**(151)**	(25)
Decrease in cash during the period	**(13,029)**	(8,530)

Cash used in operating activities was $10,205 for the three months ended September 30, 2019, compared to $6,077 for the same period in the prior year. This $4,128 increase is primarily due to an increase in operational spending to support the growth and expansion of the Company.

Cash used in investing activities was $2,578 for the three months ended September 30, 2019, compared to $2,422 for the same period in the prior year. This $156 increase is mainly attributable to a $1,764 increase for the purchase of property, plant and equipment for the continued construction of the Lucky Lake Facility and modular expansion at Mission Road, offset by a $1,515 decrease from cash used towards the Company's investment in Burb.

Cash used in financing activities was $95 for the three months ended September 30, 2019, compared to $6 for the same period in the prior year. This $89 increase pertains to the payment of loans and borrows assumed from the Delivra Acquisition and the payment of lease liabilities upon the Company's transition to IFRS 16.

The nature of the Company's current business and the source of revenue from operations is the cultivation and sale of cannabis, as well as the production and sale of Dream Water's sleep aid products, Delivra's pain relief consumer packaged goods, and Satipharm's CBD Gelpell® capsules. However, the Company's ability to continue in the normal course of operations is dependent on actions by management achieving profitable operations and raising additional capital. Management believes it will be able to raise capital as required in the long-term, but recognizes the risks attached thereto including without limitation, risks due to changing market conditions. Historically the capital requirements of the Company have been met by equity and debt subscriptions for securities of the Company. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in the dilution to the value of such interests. Although the Company has been successful in the past in obtaining financing, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing may be favourable to the Company. If adequate financing is not available when required, the Company may be required to delay, sale back, or eliminate various programs and may be unable to continue in operation. If the Company is unable to achieve profitable operations or raise any additional funds it may require, it could have a material adverse effect on the Company's financial condition and future profitability.

The Company had a consolidated net loss of $5,430 and negative operating cash flows of $10,205 for the three months ended September 30, 2019 and an accumulated deficit of $59,711 as at September 30, 2019. These conditions indicate the existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. If for any reason the Company is unable to continue as a going concern, then this could have an impact on the Company's ability to realize assets at their recognized values, in particular goodwill and other intangible assets, and to extinguish liabilities in the normal course of business at the amounts stated in the unaudited condensed consolidated interim financial statements. Management acknowledges that in the absence of securing additional capital there is uncertainty over the Company's ability to meet its funding requirements as they fall due.

SUMMARY OF QUARTERLY RESULTS

Quarter ended	Net revenue $	Gross profit (loss) $	Net loss $	Basic and diluted loss per share $
September 30, 2019	4,064	1,265	(5,430)	(0.02)
June 30, 2019	3,021	1,096	(13,707)	(0.07)
March 31, 2019	3,023	207	(5,131)	(0.03)
December 31, 2018	3,742	1,127	(3,332)	(0.02)
September 30, 2018	1,679	578	(5,795)	(0.03)
June 30, 2018	513	100	(4,952)	(0.03)
March 31, 2018	33	1,089	(2,425)	(0.02)
December 31, 2017	5	(259)	(3,342)	(0.04)

Net revenue and gross profit for first quarter of fiscal 2020 increased compared to the fourth quarter of fiscal 2019, primarily due to the sale of cannabis and the Delivra Acquisition during the three months ended September 30, 2019. Net loss for the first quarter of fiscal 2020 decreased compared to the fourth quarter of fiscal 2019 mainly due to asset impairments and acquisition costs in the fourth quarter of fiscal 2019 which did not recur in the first quarter of fiscal 2020, as well as reduced sales and marketing and share-based compensation expenses.

SHARE CAPITAL

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

	September 30 2019	As at the date of this MD&A
Common stock	214,673,675	214,673,675
RTO warrants	3,226,468	3,226,468
Brokers' warrants	600,032	600,032
Secondary warrants	600,002	600,002
Convertible debentures warrants	5,901,182	5,901,182
Units Offering warrants	22,115,385	22,115,385
Brokers' compensation units warrants	663,461	663,461
Dream Water warrants	517,000	517,000
Delivra warrants	2,191,502	2,191,502
Stock options	20,374,371	20,187,705
Performance appreciation rights	2,500,000	2,500,000

OFF BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

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

	September 30 2019 $	September 30 2018 $
Salaries and benefits	**551**	480
Severance costs	**—**	787
Directors' fees	**33**	24
Share-based compensation	**431**	1,487
Total	**1,015**	2,778

a) *Payments to related parties*

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

b) *Severance payments*

During the three months ended September 30, 2018, the Company paid $750 to the former Chief Executive Officer in accordance with the terms of a mutual separation agreement, which is included in severance and reorganization costs.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

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

	Less than 1 year $	Between 2 to 5 years $	Over 5 years $	Total $
Purchase commitments	6,713	13,548	—	20,261
Operating lease commitments	666	1,276	76	2,018
Extract services commitments	302	603	—	905
Capital commitments	720	—	—	720
	8,401	**15,427**	**76**	**23,904**

a) *Purchase commitments*

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

b) *Lease commitments*

The Company has various lease commitments related to office space, land and equipment expiring between March 2020 and February 2027. Included in lease commitments are the undiscounted contractual balances of lease liabilities recognized on adoption of IFRS 16.

c) *Extraction services commitments*

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

d) *Capital commitments*

On October 17, 2018, the Company entered into an agreement to purchase four custom designed modular buildings to be placed on the land adjacent to the Duncan Facility. Phase one of the project has been completed, with phases two and three completion expected in early calendar 2020. The modular buildings are expected to increase the annual production capacity of harvested cannabis. In addition, capital commitments include amounts committed for the construction of the Lucky Lake Facility.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

Foreign exchange risk

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's trade accounts receivable. The Company's cash and accounts receivable are exposed to credit risk. The risk for cash is mitigated by holding these instruments with highly rated financial institutions. The Company provides credit to its customers in the normal course of business and has mitigated this risk by managing and monitoring the underlying business relationships. Collection terms on average, are between 30 to 60 days. As at September 30, 2019, 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. As at September 30, 2019, the Company is not exposed to any significant interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities have maturities of 30 days or less or are due on demand and are subject to normal trade terms. The Company has current assets of $29,828 and current liabilities of $15,441. The Company addresses its liquidity through debt or equity financing obtained through the sale of convertible debentures and common shares. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. Further, the Company's ability to fund operations, to make planned capital expenditures, to execute its growth strategy and to meet scheduled financial commitments depends on the Company's future operating performance and cash flows as well as capital raising, all of which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond the Company's control. See also "Liquidity and Capital Resources".

Fair value hierarchy

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

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

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

Cash and cash equivalents are classified as Level 1 financial instruments. The Company's other financial instruments, including accounts receivable, promissory note and accounts payable and accrued liabilities are carried at cost which approximates fair value due to the relatively short maturity of those instruments.

NON-GAAP MEASURES

Adjusted EBITDA and gross margin before fair value adjustments are non-GAAP measures used by management that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management defines adjusted EBITDA as the loss from operations, as reported, before interest, taxes, depreciation and amortization and adjusted for share-based compensation, common shares issued for services, the fair value effects of accounting for biological assets and inventories, and non-cash write-downs of inventory and other non-cash items. Management defines gross margin before fair value adjustments is a percentage of gross profit (loss) before fair value adjustments of accounting for biological assets and inventory over net revenue. Management believes both measures are useful financial metrics to assess the Company's operating performance on a cash basis before the impact of non-cash items, and on an adjusted basis as described above.

RISKS AND UNCERTAINTIES

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

Additional Financing

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

New well-capitalized entrants may develop large-scale operations

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

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

Impact of the Illicit Supply of Cannabis

In addition to competition from licenced producers and those able to produce cannabis legally without a licence, we also face competition from unlicenced and unregulated market participants, including illegal dispensaries and black market suppliers selling cannabis and cannabis-based products in Canada.

Despite the legalization of medical and adult-use cannabis in Canada, black market operations remain and are a substantial competitor to our business. In addition, illegal dispensaries and black market participants may be able to (i) offer products with higher concentrations of active ingredients that are either expressly prohibited or impracticable to produce under current Canadian regulations, and (ii) use delivery methods, including edibles, concentrates and extract vaporizers, that we are currently prohibited from offering to individuals in Canada, (iii) use marketing and branding strategies that are restricted under the Cannabis Act and Cannabis Regulations, and (iv) make claims not permissible under the Cannabis Act and other regulatory regimes. As these illicit market participants do not comply with the regulations governing the medical and adult-use cannabis industry in Canada, their operations may also have significantly lower costs.

As a result of the competition presented by the black market for cannabis, any unwillingness by consumers currently utilizing these unlicenced distribution channels to begin purchasing from licenced producers for any reason or any inability or unwillingness of law enforcement authorities to enforce laws prohibiting the unlicenced cultivation and sale of cannabis and cannabis-based products could (i) result in the perpetuation of the black market for cannabis, (ii) adversely affect our market share and (iii) adversely impact the public perception of cannabis use and licenced cannabis producers and dealers, all of which would have a materially adverse effect on our business, operations and financial condition.

Results of Future Clinical Research

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

Product Liability

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

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. Such recalls cause unexpected expenses of the recall and any legal proceedings that might arise in connection with the recall. This can cause loss of a significant amount of sales. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's products were subject to recall, the image of that product and the Company could be harmed. Additionally, product recalls can lead to increased scrutiny of operations by applicable regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Risks related to vaping and vaping products

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

If our vaporizer products become subject to increased taxes it could adversely affect our business

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

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

- The Company can provide no assurance that it will be able to generate sufficient free cash flow or obtain financing to meet its growth needs;
- Harvest One may not be able to achieve or maintain profitability and may continue to incur significant losses in the future;
- Harvest One does not use derivative instruments or hedges to manage risks because Harvest One's exposure to credit risk, interest rate risk and currency risk is small;
- The Company is subject to liquidity risk which are subject to prevailing economic conditions and financial, business and other factors, some of which are beyond the Company's control;
- Harvest One is exposed to foreign currency risk related to cash and accrued liabilities that are denominated in a foreign currency;
- The Company may be subject to claims or complaints from investors in the ordinary course of business;
- The continuation of the Company's business of growing, storing and distributing medical and recreational cannabis is dependent on the good standing of all licences required to engage in such activities and upon adhering to all regulatory requirements related to such activities;
- The market price for Harvest One's Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond Harvest One's control;
- Harvest One currently operates one facility – the Duncan Facility;
- The Lucky Lake Facility is currently not licensed by Health Canada under the Cannabis Regulations as a facility where the cultivation of cannabis is permitted;
- The Lillooet Site is currently not licensed by Health Canada under the Cannabis Regulations as a facility where the cultivation of cannabis is permitted;
- The Greenbelt Facility is currently not licensed by Health Canada under the Cannabis Regulations as a facility where the cultivation and processing of cannabis is permitted;
- The construction of the Lucky Lake Facility, and the expansion of the Duncan Facility are subject to various potential problems and uncertainties and such construction and expansion may be delayed or adversely affected by a number of factors beyond Harvest One's control;
- Harvest One is a holding company and essentially all of its operating assets are the capital stock of its subsidiaries;

- Harvest One, through its wholly-owned indirect subsidiary United Greeneries, entered the medical cannabis business in 2012 and the recreational cannabis market in October 2018, and 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;
- The success of the medical and recreational cannabis industries may be significantly influenced by the public's perception of cannabis' medicinal and recreational applications;
- Harvest One relies on third party transportation services to deliver its products to its customers;
- Harvest One may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls;
- The Company may have or has integration risks associated with all of its acquisitions;
- The anticipated benefits of new partnerships the Company is pursuing may have a material adverse effect on the Company's business, financial condition and results of operations, as well as its future prospect for acquisitions or partnerships;
- The success of Harvest One is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management and key employees;
- Certain of Harvest One directors and officers are also directors and operators of other companies;
- MMJ is Harvest One's largest shareholder and will have a significant influence on determining the outcome of any corporate transaction or other matter submitted to shareholders for approval;
- Harvest One has not paid dividends in the past and does not anticipate paying dividends in the near future;
- There can be no assurance that an active and liquid market for Common Shares will be maintained and an investor may find it difficult to resell any securities of Harvest One;
- Harvest One 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;
- Harvest One is exposed to foreign currency risk related to cash and accrued liabilities that are denominated in a foreign currency;
- Harvest One may become party to litigation, mediation and/or arbitration from time to time in the ordinary course of business which could adversely affect its business;
- The parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's lawful cannabis business activities;
- The ownership and protection of trademarks, patents, trade secrets and intellectual property rights are significant aspects of the Company's future success;
- Harvest One may be affected by possible political or economic instability;
- An economic downturn of global capital markets has been shown to make the raising of capital by equity or debt financing more difficult;
- There is a risk that banking institutions in countries where the Company operates or intends to operate in the future will not accept payments related to the cannabis industry;
- The introduction of new products embodying new technologies and regulatory developments may render the Company's equipment obsolete and its products and services less competitive or less marketable;
- The Company holds finished goods in inventory and its inventory has a shelf life;
- The Company may not be able to maintain an effective quality control system.;
- The Company's manufacturing processes are dependent upon certain critical pieces of equipment, which, on occasion, will be out of service due to routine scheduled maintenance or as a result of equipment failures;
- The Company is subject to credit risk of its clients, and its profitability and cash flow are dependent on receipt of timely payments from clients;
- Sales of the Company's products may be made pursuant to individual purchase orders or contracts and not under long-term commitment;
- The Company may in the future expand into other geographic areas, which could increase its operational, regulatory, compliance, reputational and foreign exchange rate risks;
- The Company's operations at various times may be exposed to political, economic and other risks and uncertainties associated with operating in a foreign jurisdiction;
- The legal and regulatory requirements and local business culture and practices in the foreign countries in which the Company may expand are different from those in which it currently operates;

- Certain Common Shares held by the Company's directors, executive officers, Control Persons and certain other securityholders of the Company are subject to escrow and seed share resale restrictions pursuant to the policies of the TSX-V;
- The trading market for the Common Shares will, to some extent, depend on the research and reports that securities or industry analysts publish about the Company or its business;
- The Company will operate and will be subject to income tax and other forms of taxation (which are not based upon income) in multiple tax jurisdictions;
- There may be income tax consequences in relation to the Common Shares, which will vary according to circumstances of each investor;
- Harvest One, and its subsidiaries, operate in a new industry which is highly regulated, highly competitive and evolving rapidly, and as such management may not be able to predict all such risks or be able to predict how such risks may result in actual results;
- Harvest One will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters;
- Harvest One's operations are subject to a variety of laws, regulations and guidelines relating to the cultivation, processing, management, transportation, storage, sale and disposal of medical and recreational cannabis, but also including laws and regulations relating to health and safety, privacy, the conduct of operations and the protection of the environment;
- The impact of changes in the regulatory enforcement by Health Canada under the Cannabis Act and the Cannabis Regulations, particularly in respect of product packaging, labelling, marketing, and advertising and promotions and product approvals and its impact on Harvest One's business are currently unknown;
- The evolving legal regime presents a risk to Harvest One in that legislators or the court may adopt changes that would have a negative impact on the business, financial condition or results of operations of the Company;
- Restrictions on sales and marketing activities imposed by Health Canada, various medical associations, other governmental, quasi-governmental bodies or voluntary industry associations may adversely affect Harvest One's ability to conduct sales and marketing activities and could have a material adverse effect on Harvest One's respective businesses, operating results and financial conditions;
- A security breach at one of the Company's facilities could expose the Company to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential cannabis consumers from choosing the Company's products;
- Those employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry or lifetime bans from the U.S. for their business associations with U.S. cannabis businesses;
- The Company has operations in international markets and may have operations in emerging markets in the future, which may expose the Company to the socioeconomic conditions as well as the laws governing the cannabis industry in such countries;
- The number of licences granted under the Act could have an impact on the operations of Harvest One;
- Harvest One's business will revolve mainly around the growth of cannabis, an agricultural product, and the risks inherent in agricultural businesses will apply;
- Harvest One's cannabis growing operations consume considerable energy, making Harvest One vulnerable to rising energy costs;
- The price of cultivation, processing, sale and distribution of cannabis will fluctuate widely due to how young the cannabis industry is and is affected by numerous factors beyond Harvest One's control
- Harvest One faces the inherent risk of product liability claims, regulatory actions and litigation if its products are alleged to have caused loss or injury;
- If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall;
- While Harvest One believes its insurance coverage addresses all material risks to which they are exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for all the risks and hazards to which Harvest One is exposed;
- Although Harvest One believes that the articles, reports and studies support its beliefs regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis;
- The ability of Harvest One to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labor, equipment, parts and components;

- Harvest One may decide to invest with certain strategic investors and/or other third parties through joint ventures or other entities, and these parties may have different interests or superior rights to those of Harvest One;
- Harvest One must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the industry;
- Harvest One's ability to secure long-term profitability and success through the sustainable and profitable operation of its business may be adversely affected by competition from synthetic production and technological advances; and
- The Company is exposed to the risk that its employees, independent contractors, and consultants may engage in fraudulent or other illegal activity.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

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

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

IFRS 16 – Leases (“IFRS 16”)

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

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

Definition of a lease

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

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

Accounting as a lessee

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

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

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

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

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

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

Short-term leases and lease of low-value assets

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

Critical accounting estimates and judgments

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

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

Transition to IFRS 16

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

The Company used the following additional practical expedients:

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

The Company elected to measure the right-of-use assets at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. On transition to IFRS 16, the Company recognized $856 of right-of-use assets, net of accrued lease payments of $26, and $882 of lease liabilities. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at July 1, 2019. The weighted-average rate applied is 14.5%.

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

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

MANAGEMENT'S REPORT ON DISCLOSURE CONTROLS AND PROCEDURES

Management of the Company has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the unaudited condensed consolidated interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements; and (ii) the unaudited condensed 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 September 30, 2019.

LIMITATIONS OF CONTROLS AND PROCEDURES

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