Court File No.: •

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c.C-36 AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF THE FLOWR CORPORATION, THE FLOWR CANADA HOLDINGS ULC, THE FLOWR GROUP (OKANAGAN) INC., AND TERRACE GLOBAL INC. (collectively, the "**Applicants**")

APPLICATION RECORD

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Lawyers for the Applicants

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	Certificates in respect of The Flowr Corporation dated October 11, 2022
Q.	Exhibit Q – British Columbia Personal Property Security Registration System Enquiry Response Certificates in respect of The Flowr Canada Holdings ULC dated October 7, 2022
R.	Exhibit R – British Columbia Personal Property Security Registration System Enquiry Response Certificates in respect of The Flowr Group (Okanagan) Inc. dated October 7, 2022
S.	Exhibit S – Cash Flow Forecast
T.	Exhibit T – DIP Term Sheet
3.	Consent to Act as Receiver of Ernst & Young Inc. executed October 18, 2022
4.	Draft Initial Order
5.	Blackline to Model Order

TAB 1

Court File No.:

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c.C-36 AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF THE FLOWR CORPORATION, THE FLOWR CANADA HOLDINGS ULC, THE FLOWR GROUP (OKANAGAN) INC., AND TERRACE GLOBAL INC. (collectively, the "**Applicants**")

NOTICE OF APPLICATION

TO THE RESPONDENT:

A LEGAL PROCEEDING HAS BEEN COMMENCED by the applicant. The claim made by the applicant appears on the following page.

THIS APPLICATION will come on for a hearing on October 20, 2022 at 2:00 p.m. by Zoom video conference.

IF YOU WISH TO OPPOSE THIS APPLICATION, to receive notice of any step in the application or to be served with any documents in the application, you or an Ontario lawyer acting for you must forthwith prepare a notice of appearance in Form 38A prescribed by the *Rules of Civil Procedure*, serve it on the applicant's lawyer or, where the applicant does not have a lawyer, serve it on the applicant, and file it, with proof of service, in this court office, and you or your lawyer must appear at the hearing.

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you or your lawyer must, in addition to serving your notice of appearance, serve a copy of the evidence on the applicant's lawyer or, where the applicant does not have a lawyer, serve it on the applicant, and file it, with proof of service, in the court office where the application is to be heard as soon as possible, but at least four days before the hearing.

IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO OPPOSE THIS APPLICATION BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

Date:	October 20, 2022	Issued by	______________________________ Local registrar
		Address of court office	330 University Avenue 7th Floor Toronto, Ontario M5G 1R7

TO: **THE SERVICE LIST ATTACHED AS SCHEDULE "A"**

SCHEDULE "A"

SERVICE LIST

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AND TO:	**THORNTON GROUT FINNIGAN LLP** 100 Wellington St W #3200 Toronto, ON M5K 1K7 **Rebecca Kennedy** rkennedy@tgf.ca Tel: 416.304.0603 **Rachel Nicholson** rnicholson@tgf.ca Tel : 416.304.1153 **Marco Gaspar** mgaspar@tgf.ca Tel: 416.306.5825. Fax: 416.304.1313 Counsel for the Proposed Monitor
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AND TO:	**COMPUTERSHARE TRUST COMPANY** 100 University Ave Toronto, ON M5J 2Y1 **Neil Scott** neil.scott@computershare.com **Josette Koffyberg** josette.koffyberg@computershare.com The Indenture Trustee
AND TO:	**MINISTRY OF FINANCE** Ministry of the Attorney General (Ontario) Collections Branch – Bankruptcy and Insolvency Unit 6-33 King St West Oshawa, Ontario, L1H 8H5 insolvency.unit@ontario.ca Tel.: 1 866 668-8297
AND TO:	**MINISTER OF FINANCE (BC)** PO Box 9048 Stn Prov Govt Victoria BC V8W 9E2 fin.minister@gov.bc.ca
AND TO:	**DEPARTMENT OF JUSTICE** 3400-130 King Street West Tax Section, PO Box 36, Exchange Tower Toronto, Ontario M5X 1K6 **Diane H. A. Winters** diane.winters@justice.gc.ca Tel: 416.973.3172 Fax: 416.973.0810

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APPLICATION

1. The Applicants, The Flowr Corporation, The Flowr Canada Holdings ULC, The Flowr Group (Okanagan) Inc. and Terrace Global Inc. (collectively the "**Flowr Group**" or "**Applicants**") makes an Application for an Initial Order substantially in the form attached at Tab 4 of the Application Record (the "**Initial Order**"), among other things:

   (a) Abridging the time for service of the Notice of Application and dispensing with service on any other person other than those served;

   (b) Declaring that the Applicants are parties to which the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") applies;

   (c) Appointing Ernst & Young Inc. ("**EY**") as Monitor of the Applicants in these proceedings (the "**Proposed Monitor**" and, if appointed, the "**Monitor**");

   (d) Granting an administration charge in the amount of $350,000 (the "**Administration Charge**") in favour of counsel for the Applicants, the Monitor and its counsel and counsel, if any, for the board of directors of Flowr;

   (e) Approving the DIP Commitment Letter dated October 18, 2022 between the Applicants and 1000343100 Ontario Inc. (the "**DIP Lender**") for committed terms for DIP financing (the "**DIP Loan**"), authorizing borrowings under the DIP Loan in an amount up to$500,000 (plus interest, fees and expenses), and granting a charge in favour of the DIP Lender (the "**DIP Lender's Charge**");

   (f) Granting a directors' charge in favour of the directors and officers of the Applicants in the amount of $600,000 ("**Directors' Charge**" and together with the DIP Lender's Charge and the Administration Charge, the "**Priority Charges**"); and

(g) Granting an initial stay of proceedings ("**Stay of Proceedings**") to October 30, 2022 (the "**Stay Period**"); and

(h) Authorizing Flowr to incur no further expenses in relation to the Securities Filings (as defined below) and declare that none of the directors, officers, employees, and other representatives of the Applicants, or the Monitor (and its directors, officers, employees and representatives) shall have any personal liability for any failure by the Applicants to make Securities Filings.

THE GROUNDS FOR THE APPLICATION ARE:

A. Background

2. The Flowr Group is a licenced producer and distributor of cannabis with its head office being located in Toronto, Ontario and its operations being located in Kelowna, British Columbia and.

3. The Flowr Group, through Flowr Okanagan, is licensed by Health Canada to sell cannabis products.

4. The Flowr Group focuses on producing premium cannabis products for recreational consumers throughout Canada, utilizing its purpose-built twenty indoor grow room cultivation and processing facilities located at the property known municipally as 9590 McCarthy Road, Kelowna, British Columbia, in the Okanagan Valley (the "**K1 Facility**").

5. As a result of its restructuring efforts to date, Flowr has one remaining core asset being its K1 Facility, which it leases in Kelowna, British Columbia. Flowr Okanagan entered into a 25 year lease for the premises on December 1, 2016.

6. The principal activities of the Flowr Group are the production, distribution and sale of cannabis products through diverse sales channels:

   (i) Provincial Sales – the Flowr Group engages in sales of adult-use (i.e. recreational) dried flower to authorized distributors and retailers throughout British Columbia, Alberta, Ontario, and Quebec;

   (ii) Wholesale – the Flowr Group engages in wholesale sales of its cannabis flower and trim to other cannabis licence holders across Canada; and

   (iii) International Supply – the Flowr Group sold its European operations to Akanda Corp. ("**Akanda**") and Cannahealth Limited ("**Cannahealth**"). The Flowr group has recently entered into two supply agreements: one for Israel and one for the EU.

B. The Business

7. Over the past 9 months, Flowr has undertaken a complete transformation of its business operations aimed at right sizing the organization with a view to reaching profitability, which has included the divestiture of non-core assets, repaying it bank debt in full (which once stood at $23.77 million) and implementing certain cost savings measures including a significant headcount reduction.

8. Flowr Okanagan holds the following licenses: (i) standard cultivation and standard processing; and (ii) sales licence issued under the *Cannabis Act* (Canada) and the related

Cannabis Regulations (collectively, the "**Cannabis Licence**"). The current Cannabis License is effective as of August 10, 2022 and expires on December 1, 2023.

9. In August 2021, Flowr Okanagan was granted a research license by Health Canada (the "**Research Licence**"). The Research License allows the Flowr Group to distribute and administer its cannabis for research purposes and to test and review its products based on taste, sight, smell and touch. The current Research License is effective as of September 2, 2022 and expires on June 30, 2026.

C. Cash Flow Forecast

10. The Flowr Group, with the assistance of the Proposed Monitor, has prepared a projected 13-week cash flow forecast (the "**Cash Flow Forecast**") for the period ending January 15, 2023 that is premised on, among other things, the assumption that the Applicants will be granted CCAA protection.

11. Notwithstanding all of the efforts to undertake phase 1 of its transformation plan, currently, the Applicants' ordinary course monthly cash expenditures exceed its cash receipts. Based on the Cash Flow Forecast, the Applicants will have sufficient cash to sustain operations for approximately one week, including payroll, but will have insufficient funds thereafter to get to the end of the Stay Period without interim financing under the DIP Loan.

12. The Cash Flow Forecast contemplates the potential need for the Flowr Group to fund the Excise Tax arrears at the conclusion of the anticipated SISP in order to meet the conditions placed on it by Health Canada in order to obtain the necessary approvals to conclude a transaction.

13. The Flowr Group is insolvent and faces a liquidity crisis absent interim financing being obtained and, therefore, is in urgent need of relief under the CCAA.

D. CCAA Proceedings

14. The Flowr Group has made significant efforts over the past year to restructure its business in order to address its financial challenges. In particular, the Flowr Group has sold surplus and underperforming assets, and has used the proceeds to repay or otherwise retire its secured indebtedness owing to two institutional lenders, Caixa [Geral De Depositos] ("**Caixa**") and ATB.

15. The Flowr Group has debt in excess of $5 million, is insolvent and is facing a liquidity crisis. Absent obtaining DIP Financing, it will run out of cash in approximately one week.

16. As at the date hereof, the aggregate amount of the Applicants' liabilities are estimated to be approximately $12 million.

17. The Applicants have commenced these CCAA proceedings with the ultimate goal of protecting the interests of creditors and other stakeholders, with a view to having the business emerge from CCAA protection in a stronger form that preserves its enterprise value and employment for as many of its employees as is reasonably possible.

18. If CCAA protection is granted to the Applicants, they intend to use the CCAA proceeding and Court protection to conduct a sale and investment solicitation process (the "**SISP**"), with a view toward either: (i) selling the Flowr Group's business and property as a going concern; or (ii) securing sufficient investment financing to restructure the business, in order to maximize stakeholders' recoveries.

19. To achieve its objectives, the Applicants require, among other things, immediate protection from creditor enforcement and other proceedings, as well as the necessary "breathing room" to implement and complete the SISP with a view to implementing a going concern transaction.

E. Proposed Monitor

20. The Applicants propose that EY be appointed Monitor in these CCAA proceedings. EY has consented to act as Monitor, subject to Court approval, and its written consent is included at Tab 3 of the Application Record.

21. EY has reviewed, and assisted in the preparation of, the Cash Flow Forecast, and has provided guidance and assistance in the commencement of these CCAA proceedings.

22. EY is not subject to any of the restrictions on who may be appointed as Monitor set out in section 11.7(2) of the CCAA.

F. Administration Charge

23. The Applicants seek a super-priority charge over the Applicants' Property (as defined in the Initial Order) in favour of the Monitor, counsel to the Monitor, counsel to the Applicants and counsel to the Board, if any, (the "**Professionals Group**"), to secure payment of their professional fees and disbursements, whether incurred before or after the date of the Initial Order (the "**Administration Charge**").

24. The proposed Administration Charge being sought at the initial CCAA Application is for a maximum amount of $350,000 in order to secure the payment of fees and expenses incurred in connection with moving for the within relief sought and for the initial ten (10)

day protection period leading up to the first Comeback Hearing. The Administration Charge is proposed to rank as a first-priority charge on the Property.

G. DIP Loan and DIP Lender's Charge

25. The DIP Lender and the Applicants entered into the DIP Commitment Letter dated October 20, 2022 (the "**DIP Commitment Letter**"). Based on discussions between the Applicants' counsel and the Proposed Monitor, the terms agreed to with the DIP Lender are reasonable and competitive.

26. The material terms of the DIP Term Sheet are as follows:

(i) The DIP Loan is in the amount of $2,000,000;

(ii) The purpose of the DIP Loan is to fund:

(1) the Flowr Group's working capital needs in accordance with the cash flow projections approved by the Monitor and the DIP Lender;

(2) the DIP Lender's fees and expenses;

(3) professional fees and expenses incurred by the Flowr Group and the Monitor in respect of the CCAA proceeding; and

(4) such other costs and expenses of the Flowr Group as may be agreed to by the DIP Lender;

(iii) The DIP Loan shall be available in two advances, as follows:

(1) upon the issuance of the Initial Order, $500,000, or such lesser amount as may be approved by the Initial Order, shall be advanced

to the Flowr Group to finance working capital requirements for the 10-day period immediately following the date of the Initial Order; and

(2) upon the issuance of an amended and restated Initial Order at the comeback hearing, the balance of the DIP Loan, being $1,500,000, shall be advanced to the Flowr Group in monthly draws.

H. Director's Charge

27. The Applicants seek a charge on the Applicants' Property in favour of the Applicants' current officers and directors in priority to all other charges other than the Administration Charge, the DIP Lender Charge up to a maximum amount of $600,000 ("**Directors' Charge**").

28. The Flowr Group's ordinary course operations give rise to potential director or officer liability, including for employee source deductions and sales tax. To address legitimate concerns expressed with respect to their potential exposure if they continue to act (rather than resign), the directors and officers have requested reasonable protection against personal liability that might arise during the post-filing period. The Directors' Charge is intended to address potential claims that may be brought against directors and officers.

29. Flowr carries the following insurance for its directors and officers:

(i) A directors and officers insurance policy from SiriusPoint Bermuda Insurance Company (the "**D&O Policy**") with a policy limit of $5 million; and

(ii) An excess directors and officers liability insurance policy from a syndicate of insurers (the "**Excess D&O Policy**" and collectively with the D&O Policy, the "**D&O Policies**") with a policy limit of $5 million;

30. The quantum of the Directors' Charge was developed with the assistance and support of the proposed Monitor based on analysis of risk to the Directors in the initial Stay Period.

I. Stay of Proceedings

31. Given the challenges faced by the Applicants described herein, the Flowr Group requires a stay of proceedings to maintain the *status quo* and to give the Applicants the breathing space they require to develop a restructuring plan in consultation with their advisors and the Monitor including undertaking a SISP.

32. The Initial Order contemplates a stay of all proceedings against the Applicants and their Property for an initial Stay Period of ten (10) days, in accordance with the CCAA

J. Comeback Hearing

33. If the Initial Order is granted, the Applicants intend to return to Court no later than October 28, 2022 (the "**Comeback Hearing**") to seek the issuance of an order (the "**Amended and Restated Initial Order**") that would, among other things:

(a) Extend the Stay Period;

(b) Increase the amount of the Priority Charges as follows:

(i) the Administration Charge to $500,000;

(ii) increase the authorized borrowings under the DIP Loan to $2,000,000; and

(iii) the Directors' Charge to $800,000;

(c) Authorize the Applicants to make payment to certain critical suppliers for pre-filing expenses or to honour cheques issued to providers of goods and services prior to the Initial Order, with consent of the Monitor, which are necessary to facilitate the Applicants' ongoing operations and preserve value during the CCAA proceedings;

(d) Approve a sale and investment solicitation process ("**SISP**") including approval of a stalking horse purchase agreement (a "**Stalking Horse Agreement**") to act as the stalking horse bid in the SISP; and

(e) Approve a key employee retention program ("**KERP**") and grant a charge over the Property of the Applicants in favour of the proposed KERP beneficiaries (the "**KERP Charge**").

K. Authorization to Incur no Further Costs in Connection with Securities Filings

34. The Applicants seek authorization to dispense with certain securities filing requirements. In particular, the Applicants seek authorization for Flowr to incur no further expenses in relation to any filings (including financial statements), disclosures, core or non-core documents, restatements, amendments to existing filings, press releases or any other actions (collectively, the "**Securities Filings**") that may be required by any federal, provincial, or other law respecting securities or capital markets in Canada, or by the rules and regulations of a stock exchange, including without limitation, the *Securities Act (Ontario)*, RSO 1990 c S. 5 and comparable statutes enacted by other provinces of Canada, the CSE Policies 1-10 and other rules, regulations and policies of the CSE.

35. Therefore, incurring the time and costs associated with preparing the Security Filings will detract from the Applicants successful restructuring. Further, there is no prejudice to stakeholders given that detailed financial information and other information regarding the Applicants will continue to be made publically available through the materials filed in these CCAA proceedings.

GENERAL

36. The provisions of the CCAA including sections 2, 3, 11, 11.02, 11.2 and 11.7;

37. Rules 2.03, 3.02, 14.05, 16.04, and 38 of the *Rules of Civil Procedure*, R.R.O. 1990, Reg 194, as amended; and

38. Such further and other grounds as counsel may advise and this Honourable Court may deem just.

THE FOLLOWING DOCUMENTARY EVIDENCE WILL BE USED AT THE HEARING OF THE APPLICATION:

1. The Affidavit of Darren Karasiuk, sworn October 20, 2022 and the exhibits annexed thereto;

2. The Consent of EY to act as Monitor;

3. The Pre-Filing Report of EY as proposed Monitor, to be filed; and

4. Such further and other evidence as counsel may advise and as this Honourable Court may admit.

October 20, 2022

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Lawyers for the Applicants

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c.C-36 AS AMENDED

THE FLOWR CORPORATION, THE FLOWR CANADA HOLDINGS ULC, THE FLOWR GROUP (OKANAGAN) INC., AND TERRACE GLOBAL INC. (the "Applicants")

Court File No.:

ONTARIO
SUPERIOR COURT OF JUSTICE - COMMERCIAL LIST

Proceeding commenced at Toronto

NOTICE OF APPLICATION
(RETURNABLE OCTOBER 20, 2022)

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Lawyers for the Applicants

TAB 2

Court File No.: •

ONTARIO
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AFFIDAVIT OF DARREN KARASIUK
(sworn October 20, 2022)

October 20, 2022

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AFFIDAVIT OF DARREN KARASIUK
(sworn October 20, 2022)

I, Darren Karasiuk, of the City of Mississauga, in the Province of Ontario, **MAKE OATH AND SAY AS FOLLOWS**:

1. I am the Chief Executive Officer and a Director of The Flowr Corporation ("**Flowr**") and am the sole Director of The Flowr Canada Holdings ULC ("**Flowr Holdings**"), and The Flowr Group (Okanagan) Inc. ("**Flowr Okanagan**" and collectively with Flowr, Flowr Holdings, and Terrace Global Inc. ("**Terrace**") the "**Applicants**" herein or the "**Flowr Group**"). I have held these positions since my appointment on or about August 10, 2022.

2. As CEO of Flowr, my primary responsibilities include managing the Flowr Group's overall operations and resources, making strategic corporate decision as acting as the main point of contact between Flowr's board of directors and the senior management team.

3. As such, I have personal knowledge of the matters to which I herein depose. Where I have obtained information from others, I have stated the source of my information and, in all such cases, believe such information to be true. All references to currency in this Affidavit are references to Canadian dollars, unless otherwise indicated.

I. INTRODUCTION

A. Relief Sought

4. I swear this affidavit in support of, among other things, an application by the Flowr Group for protection from its creditors pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**").

5. The Applicants are seeking an order (the "**Initial Order**") substantially in the form attached at Tab 4 of the Application Record herein, granting the Applicants protection from their creditors and certain ancillary relief including, among other things:

(a) Declaring that the Applicants are parties to which the CCAA applies;

(b) Appointing Ernst & Young Inc. ("**EY**") as Monitor of the Applicants in these proceedings (the "**Proposed Monitor**" and, if appointed, the "**Monitor**");

(c) Granting an administration charge in the amount of $350,000 (the "**Administration Charge**") in favour of counsel for the Applicants, the Monitor and its counsel and counsel, if any, for the board of directors of Flowr;

(d) Approving the DIP Commitment Letter (as defined below) between the Applicants and 1000343100 Ontario Inc. (the "**DIP Lender**"), authorizing borrowings under the DIP Loan (as defined below) in an amount up to $500,000 (plus interest, fees and expenses), and granting a charge in favour of the DIP Lender (the "**DIP Lender's Charge**");

(e) Granting a directors' charge in favour of the directors and officers of the Applicants in the amount of $600,000 ("**Directors' Charge**" and together with the DIP Lender's Charge and the Administration Charge, the "**Priority Charges**");

(f) Granting an initial stay of proceedings to October 30, 2022 (the "**Stay Period**"); and

(g) authorizing Flowr to incur no further expenses in relation to the Securities Filings (as defined in the Initial Order) and declare that none of the directors, officers, employees, and other representatives of the Applicants, or the Monitor (and its directors, officers, employees and representatives) shall have any personal liability for any failure by the Applicants to make Securities Filings

6. If the Initial Order is granted, the Applicants intend to return to Court no later than October 28, 2022 (the "**Comeback Hearing**") to seek the issuance of an order (the "**Amended and Restated Initial Order**") that would, among other things:

(a) Extend the Stay Period;

(b) Increase the amount of the Priority Charges as follows:

(i) the Administration Charge to $500,000;

(ii) increase the authorized borrowings under the DIP Loan to $2,000,000; and

(iii) the Directors' Charge to $800,000;

(c) Authorize the Applicants to make payment to certain critical suppliers for pre-filing expenses or to honour cheques issued to providers of goods and services prior to the Initial Order, with consent of the Monitor, which are necessary to facilitate the Applicants' ongoing operations and preserve value during the CCAA proceedings;

(d) Approve a sale and investment solicitation process ("**SISP**") including approval of a stalking horse purchase agreement (a "**Stalking Horse Agreement**") to act as the stalking horse bid in the SISP; and

(e) Approve a key employee retention program ("**KERP**") and grant a charge over the Property of the Applicants in favour of the proposed KERP beneficiaries (the "**KERP Charge**") ranking behind the Directors' Charge.

B. Overview of Applicants' Business and Restructuring Efforts to Date

7. The Flowr Group is a licenced producer and distributor of cannabis with its operations being located in Kelowna, British Columbia and its head office being located in Toronto, Ontario. The Flowr Group, through Flowr Okanagan, is licensed by Health Canada to sell the following cannabis: cannabis plants; cannabis plant seeds; dried cannabis; fresh cannabis; cannabis topicals; cannabis extracts; and edible cannabis.

8. As more particularly described below, over the past nine months, Flowr has undertaken a complete transformation of its business operations aimed at right sizing the organization

with a view to reaching profitability, which has included the divestiture of non-core assets, repaying its bank debt in full (which once stood at $23.77 million) and implementing certain cost savings measures including a significant headcount reduction.

9. However, notwithstanding all of the efforts to undertake phase 1 of its transformation plan, currently, the Applicants' ordinary course monthly cash expenditures exceed its cash receipts. Based on the Cash Flow Forecast (as defined below), the Applicants will have sufficient cash to sustain operations for about a week, including payroll, but will have insufficient funds to get through the 10 day initial Stay Period without a draw under the DIP Loan.

10. As a result, the Flowr Group is insolvent, faces a liquidity crisis absent interim financing being obtained and, therefore, is in urgent need of relief under the CCAA.

C. Purpose of CCAA Proceeding

11. The Applicants have commenced these CCAA proceedings with the ultimate goal of protecting the interests of creditors and other stakeholders, with a view to having the business emerge from CCAA protection in a stronger form that preserves its enterprise value and employment for as many of its employees as is reasonably possible.

12. If CCAA protection is granted to the Applicants, they intend to use the CCAA proceeding and Court protection to conduct a sale and investment solicitation process (the "**SISP**"), with a view toward either: (i) selling the Flowr Group's business and property (collectively, the "**Property**") as a going concern; or (ii) securing sufficient investment financing to restructure the business, in order to maximize stakeholders' recoveries.

13. Given the challenges of the domestic market and the fact that the K1 Facility (as defined below) is capable of growing high quality cannabis in keeping with requested specification of international buyers, the Applicants believe that their go forward strategy should focus primarily on bulk international sales and contract growing. However, until such time as 100% of production capacity is allocated to these channels, Flowr will continue to sell into the domestic recreational market with its focus being on limited time offers of exemplary genetics.

14. To achieve its objectives, the Applicants require, among other things, immediate protection from creditor enforcement and other proceedings, as well as the necessary "breathing room" to implement and complete the SISP with a view to implementing a going concern transaction.

II. OVERVIEW OF THE APPLICANTS

A. Flowr Group Background and Corporate Structure

15. Flowr is a publicly traded company. It is listed for trading on the TSX Venture Exchange (the "**Exchange**") under the symbol "FLWR". Flowr's authorized capital consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series. As of August 15, 2022, Flowr had 433,490,072 common shares issued and outstanding. Flowr is a reporting issuer in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador.

16. Flowr's head office is located in Toronto, Ontario at 60 Adelaide Street East, Suite 1000. Flowr Group's management are all located in Ontario.

17. Flowr was incorporated under the *Business Corporations Act* (Alberta) on June 1, 2016 and continued under the *Business Corporations Act* (Ontario) on September 25, 2018. Attached as **Exhibit "A"** hereto is a copy of a Profile Report from the Ontario Ministry of Government and Consumer Affairs (the "**Ontario Ministry**") dated October 7, 2022 in respect of Flowr.

18. Flowr is a holding company. Attached as **Exhibit "B"** hereto is a corporate chart in respect of the Flowr Group.

19. The Flowr Group's operations are conducted substantially through Flowr's indirect subsidiary, Flowr Okanagan, which holds the necessary licenses and certifications to operate as further described below and leases the premises in Kelowna, British Columbia where the Flowr Group's operations are located.

20. Flowr has the following direct subsidiaries: (a) Flowr Holdings, (b) Holigen Holdings Limited ("**Holigen**"), and (c) Terrace (collectively, the "**Direct Subsidiaries**"), which are summarized below:

    (a) Flowr Holdings was incorporated under the laws of the Province of British Columbia on November 24, 2017. Flowr owns 76.6% and Core Flow Canada Holdings Inc. ("**Core Flow**"), which was set up as a vehicle for Core Flow to purchase shares of Flowr, owns the remaining 23.4% of Flowr Holdings. Flowr Holdings is an Applicant in these proceedings. Attached as **Exhibit "C"** hereto is a copy of a BC Company Summary from BC Registry Services dated October 7, 2022 in respect of Flowr Holdings;

(b) Holigen was incorporated in Malta on June 28, 2018 and is wholly owned by Flowr and was incorporated in Malta. Holigen was the owner of Holigen Limited ("**HL**"), which was sold as part of the phase 1 transformation undertaken by the Flowr Group and described herein under restructuring efforts to date. Holigen is a holding company with no significant remaining assets or liabilities and is therefore not an Applicant in these proceeding; and

(c) Terrace was incorporated under the laws of the Province of Ontario on December 31, 2019 and is wholly owned by Flowr. Terrace is a dormant corporation with *de minimis* assets and about $700,000 in liabilities. Terrace is an Applicant in these proceedings since it is an Ontario incorporated member of the Flowr Group. Attached as **Exhibit "D"** hereto is a copy of a Profile Report from the Ontario Ministry dated October 7, 2022 in respect of Terrace.

21. Flowr has the following indirect subsidiaries (collectively, the "**Indirect Subsidiaries**"):

(a) Flowr Okanagan was incorporated under the name "Cannatech Plant Systems Inc." on June 28, 2013 under the laws of the Province of British Columbia and is wholly owned by Flowr Holdings. Flowr Okanagan's name was changed to its current name on January 8, 2018. Flowr Okanagan is the main operating entity and is an Applicant in these proceedings. Attached hereto as **Exhibits "E"**, **"F"** and **"G"**, respectively, are copies of a Certificate of Incorporation issued June

28, 2013, a Certificate of Change of Name dated January 8, 2018 and a BC Company Summary from BC Registry Services dated October 7, 2022 in respect of Flowr Okanagan;

(b) GreyCan Pty Ltd ("**GreyCan**") was incorporated in New South Wales, Australia on July 21, 2017 and is wholly owned by Holigen. GreyCan is a holding company and has no substantial assets or liabilities. As a result, GreyCan is not an Applicant in these proceedings; and

(c) Pharma Binoide S.L. Unipersonal ("**Pharma Binoide**") was incorporated in Spain and is wholly owned by Terrace. Pharma Binoide is a holding company with no substantial assets or liabilities. As a result, Pharma Binoide is not an Applicant in these proceedings.

B. The Business

22. The Flowr Group focuses on producing premium cannabis products for recreational consumers throughout Canada, utilizing its purpose-built twenty indoor grow room cultivation and processing facilities located at the property known municipally as 9590 McCarthy Road, Kelowna, British Columbia, in the Okanagan Valley (the "**K1 Facility**").

23. Flowr is currently focused on producing, marketing and distributing premium dried cannabis flower products (*i.e*. packaged dried cannabis flower and pre-rolls). Flowr aims to support improving outcomes through responsible cannabis use and, as an established expert in cannabis cultivation, strives to be the brand of choice for consumers seeking the

highest-quality craftsmanship and product consistency across a portfolio of differentiated cannabis products.

24. The principal activities of the Flowr Group are the production, distribution and sale of cannabis products through diverse sales channels:

(a) Provincial Sales – the Flowr Group engages in sales of adult-use (i.e. recreational) dried flower to authorized distributors and retailers throughout British Columbia, Alberta, Ontario, and Quebec;

(b) Wholesale – the Flowr Group engages in wholesale sales of its cannabis flower and trim to other cannabis licence holders across Canada; and

(c) International Supply – the Flowr Group sold its European operations to Akanda Corp. ("**Akanda**") and Cannahealth Limited ("**Cannahealth**"). The Flowr Group has recently entered into two supply agreements: one for Israel and one for the EU.

25. Flowr sells its products under its principal brand, Flowr, which is a premium brand targeted at Canadian recreational consumers willing to pay a premium for quality and consistency.

26. Flowr has increased their product offerings significantly with the launch and success of Strawnana, Sour Sis, BC Dog Walkers, and this year adding several additional new strains including BC Clementine Crush, BC Lemon Ice, BC Spiced Grape and BC Mango Melon OG.

C. The K1 Facility

27. As a result of its restructuring efforts to date, Flowr has one remaining core asset being its K1 Facility, which it leases in Kelowna, British Columbia. Flowr Okanagan entered into a 25 year lease for the premises on December 1, 2016.

28. The K1 Facility is an 85,000 square foot cultivation facility designed to meet the International Council for Harmonisation's good manufacturing practices standards. It has been fully operational since the second half of 2021. It is a fairly unique facility. Specifically, the K1 Facility is one of the few facilities in Canada that is classified as an indoor cultivation facility; distinct from outdoor, greenhouse or hybrid-greenhouse, the last of which is similar to an indoor facility but with a roof design that allows for the use of supplemental sunlight.

29. The primary benefit of an indoor facility is it provides an environment for greatest possible control of all growing variables inclusive of light, temperature, humidity, etc.

30. The K1 Facility produces recreational and medicinal cannabis from a purpose-built indoor cultivation facility. The K1 facility has a total of 20 separate and distinct grow rooms (as opposed to a single room), a purpose-built irrigation system, and an automated packaging line that was commissioned in 2020.

31. Multiple growing rooms provide a variety of benefits including:

    (a) De-risking the grow as separate rooms provide a greater ability to contain any potential pest or contaminant that may get into a facility; and

(b) Providing 20 unique growing environments to suit different cultivars.

32. The K1 Facility is also configured to handle multiple post-harvest processes to meet different specifications of different customers in different markets.

33. The downside to the K1 Facility is that indoor facilities are, generally speaking, more expensive to build and operate than outdoor, greenhouse or hybrid facilities translating into generally higher costs of goods sold than product grown in the aforementioned environments.

D. Licensing

34. In December 2017, through its subsidiary, Flowr Okanagan, the Flowr Group received its license from Health Canada to operate as a licensed producer, under the provisions of the Access to Cannabis for Medical Purposes Regulations. On August 10, 2018, Flowr Okanagan received its sales license from Health Canada, allowing the Company to sell to the Canadian medical market and to the adult-use recreational market post legalization on October 17, 2018.

35. Flowr Okanagan holds the following licenses: (i) standard cultivation and standard processing; and (ii) sales licence issued under the *Cannabis Act* (Canada) and the related *Cannabis Regulations* (collectively, the "**Cannabis Licence**"). The current Cannabis License is effective as of August 10, 2022 and expires on December 1, 2023. A copy of the Cannabis License is attached hereto as **Exhibit "H"**.

36. In August 2021, Flowr Okanagan was granted a research license by Health Canada (the "**Research Licence**"). The Research License allows the Flowr Group to distribute and administer its cannabis for research purposes and to test and review its products based on taste, sight, smell and touch. The current Research License is effective as of September 2, 2022 and expires on June 30, 2026. A copy of the Research License is attached hereto as **Exhibit "I"**.

37. As of today's date, Health Canada has not expressed any material issues or concerns with respect to Flowr Okanagan's compliance with the *Cannabis Act* (Canada) and the related *Cannabis Regulations* or the conditions under the Cannabis Licence or the Research Licence.

38. In addition to the above licenses, under the excise duty framework, a Canada Revenue Agency ("**CRA**") cannabis license is required in order to produce or package cannabis products. Flowr Okanagan holds a CRA cannabis license.

E. Customer Supply Agreements

39. The Flowr Group sells most of its product in British Columbia, Alberta, Ontario and Quebec. It does so through master supply agreements in respect of its sales into the first three Provinces as set out below.

40. Pursuant to a Master Cannabis Supply Agreement dated June 16, 2021 (the "**OCS Agreement**") between Flowr Okanagan and Ontario Cannabis Retail Corporation d.b.a. Ontario Cannabis Store ("**OCS**"), Flowr Okanagan sells cannabis products to OCS at agreed-upon prices and subject to the terms and conditions contained therein.

41. Pursuant to an agreement dated June 17, 2019 (the "**AGLC Agreement**") between Flowr Okanagan and Alberta Gaming, Liquor and Cannabis ("**AGLC**"), Flowr Okanagan sells cannabis products to AGLC at agreed-upon prices and subject to the terms and conditions contained therein.

42. Pursuant to a Licensed Producer Supply Agreement for Non-Medical Cannabis dated July 31, 2018 (the "**BC Supply Agreement**") between Flowr Okanagan and the Province of British Columbia, Flowr Okanagan sells cannabis products to the Province.

43. In addition to the above, the Flowr Group has executed two supply agreements, one for the Israeli market and one for the EU markets, the latter one having been signed at the beginning of October this year. The two agreements are expected to account for approximately 40% of the Flowr Group's forecasted production capacity going forward.

F. The Flowr Group's Boards of Directors and Officers

44. Flowr's board of directors (the "**Board**") is comprised of Marvin Singer, Tom Flow, Ryan Roebuck and myself. Both Marvin Singer and myself are recent appointments to the Board being appointed on August 10, 2022. Stephen Arbib was appointed to the Board at the same time as Marvin Singer and I, however, he resigned on October 17, 2022 as set out further below.

45. The officers of Flowr are Matthew Husson, General Counsel & Secretary, Mike Willetts, Interim CFO and myself as the CEO.

46. In addition, Mike Willetts and myself are Directors of Flowr Holdings and Flowr Okanagan.

G. Employees and Payroll

47. The Applicants have 83 active employees and 4 contract employees.

48. The Applicants' payroll is administered by a third-party company, Apex Payroll, and processed through ADP Canada. Salaried employees are paid on the 15^{th} and 30^{th} of every month and hourly employees are paid bi-weekly in arrears. Payroll and source deductions are current.

49. The Applicants do not sponsor, administer, or otherwise have any registered or unregistered pension plans for its employees. The Flowr Group does have an employee stock option plan and long-term incentive plan. It also provides a standard group benefit plan to its employees that covers extended health care, dental care, life insurance and accidental death and dismemberment insurance.

H. Banking & Cash Management

50. The Flowr Group maintains 10 bank accounts through which it deals with its cash management, collections, and disbursements. More particularly, the Flowr Group primarily banks with ATB Financial ("**ATB**") having four operating accounts in the name of Flowr and Flowr Okanagan. It also has three accounts with Corpay (USD, EUR and AUD) which are used for clearing cash denominated in non-Canadian funds since ATB does not have

this ability. This allows the Applicants to facilitate cash forecasting and reporting, and monitor collection and disbursement of funds.

51. Flowr Holdings has three accounts at Olympia Trust Company (USD, EUR and AUD), which are primarily dormant and which the Applicants expect to close during these CCAA proceedings. Terrace has no bank accounts.

III. FINANCIAL CIRCUMSTANCES AND CASH FLOW FORECAST

A. Financial Performance

52. The Flowr Group's fiscal year end is December 31. The Flowr Group financial statements are consolidated and include the non-filing direct and indirect subsidiaries of Flowr set out in the corporate chart attached as Exhibit "B" (the "**Non-Filing Subsidiaries**"). Attached hereto as **Exhibit "J"** and **"K"** are the Flowr Group's Consolidated Audited Year End Financial Statements from December 31, 2021 (the "**2021 Financial Statements**") and unaudited consolidated financial statements for the six months ending June 30, 2022 (the "**June Interim Statements**"), respectively.

53. The 2021 Financial Statements indicate that as of December 31, 2021, the Flowr Group including its Non-Filing Subsidiaries had total assets of approximately $87.056 million, total liabilities of approximately $41.347 million and sustained total comprehensive losses of $92.361 million on revenue of $12.348 million.

54. The June Interim Financial Statements indicate that as of June 30, 2022, the Flowr Group including its Non-Filing Subsidiaries had total assets of approximately $50.519 million,

total liabilities of approximately $24.245 million and sustained a total comprehensive losses of $23.436 million on revenue of $2.73 million.

B. Assets

55. According to the June Interim Statements, as at June 30, 2022, the Applicants' assets were composed of the following:

(a) Current assets (*e.g.*, cash and cash equivalents, accounts receivable, prepaid expenses, etc.) in the amount of $28.685 million; and

(b) Non-current assets in the amount of $21.834 million.

56. In particular, such non-current assets include property, plant and equipment ("**PP&E**") in the amount of $18.006 million and intangible assets in the amount of $1.322 million.

57. The amounts in respect of PP&E and intangible assets in the June Interim Statements are substantially reduced from the amounts in the 2021 Financial Statements (*i.e.*, $36.816 million and $17.358 million, respectively) due to the disposition of certain assets including under the Holigen Sale and the Hawthorne Sale (as such terms are defined below) and also due to a write down of goodwill.

58. As of October 6, 2022, the Flowr Group had accounts receivable in the amount of $1,975,688.

C. Liabilities

59. According to the June Interim Statements, as at June 30, 2022, Flowr Group had total liabilities of $34.245 million, composed of the following:

(a) Current liabilities in the amount of $25.353 million, composed of the following amounts:

(i) Accounts payable and accrued liabilities in the amount of $10.501 million;

(ii) Debt related to assets held for sale in the amount of $12.146 million;

(iii) Short-term lease obligations in the amount of $695,000; and

(iv) Current portion of long-term debt in the amount of $2.011 million.

(b) Non-current liabilities in the amount of $8.892 million, including an amount of $4.517 million in respect of the liability component of the Debentures (as defined below) and lease obligations in the amount of $4.375 million.

(i) Repayment of ATB Loans

60. On November 18, 2019, Flowr entered into a credit agreement (the "**ATB Credit Agreement**") for credit facilities (the "**ATB Credit Facilities**") with a syndicate of lenders led by ATB Financial ("**ATB**"). On the closing date of the ATB Credit Agreement, the credit facility available consisted of a $24.5 million recapitalization term facility and a $500,000 revolving operating credit facility.

61. Pursuant to the conditions of the ATB Credit Facilities, Flowr received a first tranche of funding of $20.05 million on November 18, 2019, the final tranche of funding of $3.2 million on February 27, 2020 and accessed the $500,000 on the revolving operating credit facility on February 27, 2020.

62. As of June 30, 2022, as a result of the restructuring efforts discussed below, the Flowr Group had reduced the indebtedness owing to ATB to $2.011 million. Subsequent to June 30, 2022, the Flowr Group repaid $2.011 million to ATB using a portion of the closing proceeds from the Hawthorne Sale and the Flowr Forest Sale.

(ii) Convertible Debentures

63. As at June 30, 2022, Flowr had $4.966 million in principal amounts of convertible debentures (the "**Debentures**") outstanding. The Debentures are governed by a Subordinated Convertible Debenture Agreement between Flowr and Computershare Trust Company of Canada (the "**Trustee**") dated April 27, 2020 (the "**Trust Indenture**"). Attached hereto as **Exhibit "L"** is a copy of the Trust Indenture.

64. The Debentures bear interest at 10% per annum, calculated semi-annually in arrears on June 30 and December 31 of each year, with the last interest payment to be paid on the fourth anniversary of April 27, 2024 (the "**Maturity Date**"). The interest is paid annually through the issuance of common shares based on the market price of the common shares on the business day immediately prior to the issuance, subject to approval by the Exchange. In the event that the Exchange does not authorize any particular payment of interest in common shares, the Debentures require that interest payment to be paid in cash.

65. The Debentures are convertible into common shares of Flowr at the option of the subscriber at any time prior to the Maturity Date at a fixed price of $0.58 per common share. The Debentures rank subordinate to any and all current secured indebtedness and senior to any and all current and future unsecured indebtedness of Flowr and any and all future secured indebtedness of Flowr.

66. As set out in the section below, Computershare has perfected its security interest in the personal property of Flowr, Flowr Holdings and Flowr Okanagan by registration in Ontario and British Columbia.

67. The Debentures are not listed on any exchange and are held mostly by retail investors. As of October 14, 2022, there were 26 Debenture Holders with the largest single holding being $1,500,000 and the smallest single holding being $3,000.

(iii) Ontario & British Columbian PPSA Registrations

68. Attached hereto as **Exhibits "M", "N"** and **"O"**, respectively, are certified copies of Ontario Personal Property Security Registration System Enquiry Response Certificates in respect of Flowr, Flowr Holdings and Flowr Okanagan, current to October 18, 2022 and October 11, 2022 respectively, which disclose the following registrations:

Entity	Registration Number	Registering Agent	Duration	Collateral
The Flowr Corporation	20191216 1004 1462 1178 File No: 758590272	Vault Credit Corporation	4 years	Equipment and Other
	20200421 1421 1862 2689 File No: 761549625	Computershare Trust Company of Canada	6 years	Consumer Goods

The Flowr Holdings Canada Inc.	20191216 1004 1462 1178 File No: 758590272	Vault Credit Corporation	4 years	Equipment and Other
	20200421 1421 1862 2688 File No: 761549616	Computershare Trust Company of Canada	6 years	Consumer Goods
	20211018 1320 1031 7830 File No: 777391749	Her Majesty in Right Ontario Represented by the Minister of Finance	5 years	Consumer Goods and Vehicle
The Flowr Group (Okanagan) Inc.	20191216 1004 1462 1178 File No: 758590272	Vault Credit Corporation	4 years	Equipment and Other
	20200421 1422 1862 2690 File No: 761549634	Computershare Trust Company of Canada	6 years	Consumer Goods
	20220722 1025 1031 2840 File No: 785141127	Her Majesty in Right Ontario Represented by the Minister of Finance	5 years	Consumer Goods and Vehicle
Terrace Global Inc.	No registrations			

69. The registration above in favour of Her Majesty in Right Ontario Represented by the Minister of Finance was for employee health tax and it has since been paid.

70. Attached hereto as **Exhibits "P", "Q"** and **"R"**, respectively, are copies of BC Personal Property Registry Search Results current to October 7, 2022 in respect of Flowr, Flowr Holdings and Flowr Okanagan, disclosing the following registrations:

Entity	Registration Number	Registering Agent	Duration	Collateral
The Flowr Corporation	177705M	Computershare Trust Company of Canada	Expiring April 21, 2026	All personal present and after-

				acquired property
The Flowr Canada Holdings ULC	177714M	Computershare Trust Company of Canada	Expiring April 21, 2026	All personal present and after-acquired property
The Flowr Group (Okanagan) Inc.	3335454L	Boxx Limited Partnership	Expiring February 25, 2023	Vehicles and Other
	177710M	Computershare Trust Company of Canada	Expiring April 21, 2026	All personal present and after-acquired property
	369639N	Salt Capital Inc. o/a Capital Now Cannabis	Expiring November 15, 2024	All personal present and after-acquired property
Terrace Global Inc.	No registrations			

71. In respect of the base registration number 369639N in favour of CNC, Flowr Okanagan entered into a master factoring agreement in or about third quarter of 2022, to allow Flowr to finance certain of its accounts receivable in order to increase its access to funds to be used as working capital. As at the date of this Affidavit, Flowr has no accounts receivable being factored and no funds owing to CNC.

(iv) Other Liabilities

72. As at August 30, 2022, Flowr has outstanding harmonized sales tax ("**HST**") in the amount of $246,360 and excise tax in the amount of $544,370.

73. As at October 6, 2022, the Flowr Group's accounts payable is in the amount of $1,620,280, included in this amount is approximately $1,342,000 that is great than 30 days past due.

74. Currently, Flowr has contingent liabilities of approximately $200,000 related to employee litigation and potential litigation claims.

D. Cash Flow Forecast

75. The Flowr Group, with the assistance of the Proposed Monitor, has prepared a projected 13-week cash flow forecast (the "**Cash Flow Forecast**") for the period ending January 15, 2023 that is premised on, among other things, the assumption that the Applicants will be granted CCAA protection. I believe that the Cash Flow Forecast is a reasonable forecast of the Applicants' cash flow over the next quarter. Attached hereto as **Exhibit "S"** is a copy of the Cash Flow Forecast.

76. Pursuant to the Cash Flow Forecast, the Applicants will have sufficient liquidity to sustain operations for about a week but will have insufficient funds to get through the 10 day Stay Period absent interim financing under the DIP Commitment Letter being approved and the DIP Lender's Charge being granted by the Court.

77. The Cash Flow Forecast contemplates the potential need for Flowr to fund the Excise Tax arrears at the conclusion of the anticipated SISP in order to meet the conditions placed on it by Health Canada in order to obtain the necessary approvals to conclude a transaction.

The Flowr Group does not at this time necessarily agree that such conditions should be applicable in the circumstances, but are forecasting the payment of these tax amounts to forecast conservatively.

IV. CHALLENGES FACED BY THE APPLICANTS AND PRIOR RESTRUCTURING EFFORTS

A. Overview of Challenges

78. The Canadian cannabis industry is an extremely challenging operating environment. The industry is highly regulated, highly taxed, and is fraught by delays at all levels of government.

79. While the Flowr Group has taken significant steps toward addressing its challenges, as set out below, unfortunately its efforts have fallen short and it now faces a looming liquidity crisis.

80. As more particularly described below, many of the challenges faced by Flowr Group were industry-wide.

B. Timing & Changes to Market Conditions

81. The *Cannabis Act* (Canada) came into effect on October 17, 2018 and made Canada the second country in the world, after Uruguay, to formally legalize the cultivation, possession, acquisition and consumption of cannabis and its by-products.

82. The Canadian cannabis industry has undergone significant changes since legalization. As a newly-legal industry, there was considerable initial over-exuberance in assumptions

related to market conditions including projected demand levels, sales revenue and profit margins.

83. As a consequence, the industry was over-saturated with new entrants. On legalization in October of 2018, Health Canada had licensed relatively few cannabis companies (approximately 100). That number now stands at approximately 800. The result is an approximately eight-fold increase in competition.

84. Over-supply of cannabis products has led to significant price compression and over-saturation of products. All told, Canada's federally licensed marijuana producers destroyed a record 425 million grams – or 468 tons – of unsold, unpackaged dried cannabis last year (2021), according to Health Canada data provided to *MJBizDaily*.

85. Regulation has been an issue for the Canadian cannabis industry from the beginning and I am aware of a number of otherwise well-run cannabis businesses that have failed, or continue to struggle, due to factors such as excessive taxes, complex regulatory requirements, government delays in licensing, and limitations on dosage size, packaging and marketing. In addition, certain government purchasers / retailers have experienced internal purchasing, distribution and delivery issues, among other problems.

86. The confused, chaotic and complicated roll out of the cannabis retail system in Ontario – the largest domestic cannabis market – added uncertainty and complication to the Flowr Group's operations. In September 2017, the Ontario government announced that a Provincial crown corporation would control all brick-and-mortar and online retail sales of cannabis in the Province. By October 2018, the Province instead decided to control only

the online retail sales of cannabis and permit private retail stores. However, only 25 licences were initially granted for private retail stores.

87. In addition, Covid 19 impacted retail store access, which negatively impacted sales.

88. As a result of these delays, onerous regulatory regime and other issues, the illicit cannabis market continues to enjoy substantial competitive advantages and flourish, further adversely impacting legal retailers. In fact, I am aware of estimates from knowledgeable sources in the industry that approximately 40 percent of the market is still served by illicit dealers.

89. I have only been the CEO of the Flowr Group since August 2022. In my view, when external factors started affecting the cannabis sector as a whole (i.e. market cool down) and Flowr Group's business in late 2019, the Flowr Group was slow to respond to market place changes and failed to:

(a) Adjust pricing to reflect marketplace demand resulting in chronic market share loss;

(b) Innovate with introduction of new products on a timely basis;

(c) Develop appropriate commercial strategies and partnerships at the retail level;

(d) Recognize shifts in consumer preferences and want for product variety;

(e) Develop a focused business strategy and align the organization appropriately;

(f) Reduce costs – both Cost of Goods Sold ("**COGS**") and Selling, General and Administrative Expenses ("**SG&A**") - to meet the realities of the marketplace and its place within it; and

(g) Adequately pursue strategic alternatives including considering consolidation and/or M&A opportunities.

90. Notwithstanding the above, in late 2021 the Flowr Group commenced a number of initiatives with a view to making itself profitable, which are detailed below. In addition to the efforts described below, the Flowr Group also retained an investment banker in the first quarter of 2022 to explore opportunities for an acquisition transaction. These efforts will be described in my next Affidavit in support of the ARIO and SISP.

C. Restructuring Efforts to Date

91. The Flowr Group has made significant efforts over the past year to restructure its business in order to address its financial challenges.

92. In particular, as more particularly described below, the Flowr Group has sold surplus and underperforming assets, and has used the proceeds to repay or otherwise retire its secured indebtedness owing to two institutional lenders, Caixa [Geral De Depositos] ("**Caixa**") and ATB.

(i) Holigen Sale & Extinguishment of Caixa Loans

93. RPK Biopharma Unipessoal, LDA ("**RPK**"), incorporated in Portugal, was a wholly-owned subsidiary of HL. HL was a wholly-owned subsidiary of Holigen. RPK owned and

operated an EU GMP facility located in Sintra, Portugal, and an outdoor medical facility located in Aljustrel, Portugal.

94. In February 2019, RPK entered into a term loan (the "**RPK Mortgage Loan**") with Caixa [Geral De Depositos] ("**Caixa**") pursuant to which up to approximately €5.22 million was made available to RPK, which was secured by RPK's land and building assets in Sintra, Portugal.

95. In June 2019, RPK entered into a secured loan (the "**RPK Equipment Loan**") with Caixa pursuant to which an amount up to a certain percentage of new equipment purchased was made available to RPK.

96. On April 29, 2022, Holigen completed a share purchase agreement (the "**Holigen Purchase Agreement**") with Akanda and Cannahealth (collectively, the "**HL Purchaser**"), a wholly-owned subsidiary of Akanda wherein it purchased the HL shares.

97. Pursuant to the Holigen Purchase Agreement, the HL Purchaser acquired from Holigen (the "**Holigen Sale**") all of its interests in HL (including HL's wholly owned subsidiary RPK) for the following consideration:

(a) Cash consideration of USD $3 million; and

(b) 1,900,000 shares of Akanda subject to certain hold restrictions (the "**Akanda Shares**").

Upon closing of the Holigen Sale, the Flowr Group's indebtedness to Caixa was effectively extinguished.

98. Flowr maintains a strategic relationship with Akanda and HL in order to, among other things, facilitate product sales in the European Union. In this regard, RPK and Flowr Okanagan entered into a Cannabis Supply Agreement on October 7, 2022.

(ii) Hawthorne Sale

99. On January 25, 2018, and subsequently amended, Hawthorne Canada Limited ("**Hawthorne**") and Flowr Okanagan entered into an agreement (the "**R&D Agreement**") to construct a research and development facility ("**R&D Facility**") and for Flowr Okanagan to provide certain R&D services upon completion of the R&D Facility.

100. Pursuant to the R&D Agreement, Flowr Okanagan would own the R&D Facility and Hawthorne would finance all construction and development costs through a loan to Flowr Okanagan and in return have access to the R&D Facility over a 20-year period. Flowr Okanagan would provide management and operational services to the R&D Facility and retain ownership of the facility at the end of the 20-year period. In total, Hawthorne loaned Flowr Okanagan $11.5 million in principal amounts for the construction and development of the R&D Facility (the "**Hawthorne Loan**").

101. In February 2022, Flowr Group and Hawthorne entered into a purchase and sale agreement ("**Hawthorne Sale Agreement**") under which Flowr Group agreed to sell the R&D Facility to Hawthorne for gross consideration in the amount of $16 million. Pursuant to the Hawthorne Sale Agreement, the outstanding principal amount under the Hawthorne Loan on closing of the sale would be set off against the gross consideration, resulting in net cash proceeds to the Flowr Group of approximately $4 million. The transaction closed on July 27, 2022.

102. Pursuant to a Transition Services Agreement dated July 25, 2022 (the "**Transition Services Agreement**") between Flowr Okanagan and Hawthorne, Flowr Okanagan agreed to provide certain services to Hawthorne in connection with Hawthorne's purchase of the R& D Facility. The Transition Services Agreement may be terminated 60 days after Hawthorne obtains all necessary licenses to operate the R&D Facility. As a result, the Transition Service Agreement will terminate on November 20, 2022.

(iii) SG&A Reductions

103. Effective on June 23, 2022, the Flowr Group terminated approximately 40% of its workforces, largely in senior and middle management, resulting in annual savings of over $4 million.

104. The Flowr Group has taken additional steps to generate non-human resource-related SG&A expense savings of more than $2 million.

(iv) Sale of Flowr Forest

105. On August 15, 2022, the Flowr Group sold certain real property in Kelowna, British Columbia (the "Flowr Forest") to an arm's length third party for aggregate proceeds of $3.4 million. As set out above, a portion of these proceeds were used to repay ATB in full.

(v) Sale of Akanda Shares

106. The Akanda Shares that the Flowr received as part of the Holigen Sale were subsequently sold pursuant to a Share Purchase Agreement dated September 29, 2022 to an arms' length third party purchaser that was prepared to agree to abide by and maintain the hold restrictions in respect of these shares (the "**Purchaser**") for cash consideration of

approximately US$692,600 (the "**Akanda Share Transaction**"). The purchase price was received by Flowr and the Akanda Share Transaction closed on or about October 1, 2022.

107. Although the Akanda Share Transaction closed, the purchased Akanda Shares have not been received by the Purchaser as Flowr, Akanda and the Purchaser are addressing the transfer terms to ensure the hold restrictions are maintained. As a result, Flowr is holding the right, title and interest in the Akanda Shares in trust for the Purchaser. Given the fact that the Flowr Group is filing these CCAA proceedings, I have requested that, upon its appointment, the Monitor take over holding the Akanda Shares in trust until they can be delivered to the Purchaser and I understand that the Initial Order will reflect this arrangement.

D. Go Forward Plan for the Flowr Group

108. Given both the challenges of the domestic market and the fact that the K1 facility is capable of growing high quality cannabis in keeping with requested specification of international buyers, the Flowr Group believes it is in its best interest to pursue a strategy that focuses primarily on bulk international sales and contract growing.

109. Until such time as 100% of production capacity is allocated to the aforementioned channels, Flowr will continue to sell into the domestic recreational market, however, the focus will be on limited time offers of exemplary genetics.

110. As set out above, the Flowr Group has signed two supply agreements; one each for the EU and Israeli markets. Collectively, both signed agreements are expected to account for approximately 40% of the Flowr's forecasted production capacity.

111. In addition to the above, Flowr is currently in active negotiations for a second supply agreement into the Israeli market, a supply agreement into the Australian market and a contract growing arrangement with an established Canadian cannabis company. Should Flowr Group be successful in landing all of these contract, then approximately 90% of the K1 Facility's capacity will be accounted for.

112. The economics of the above presented go-forward plan for Flowr are compelling with the organization projecting to be EBITDA positive in in the second quarter of 2023. The economics are made more compelling in the event that Flowr emerge from these CCAA proceedings as a private company, with a resultant lower cost structure.

113. The proposed go-forward plan has its highest chance of success if the Applicants successfully navigate these CCAA proceedings and, in particular, the SISP to allow for a further right-sizing of the operations and the receipt of additional capital or an acquisition by a third party with access to additional funding given the current financial constraints on the Applicants.

V. CCAA PROCEEDINGS AND RELIEF SOUGHT

A. Need for CCAA Proceedings and Eligibility

114. As indicated in the Cash Flow Forecast, without interim financing, the Applicants will be unable to operate in the ordinary course and payroll obligations will not be met, to the detriment of their stakeholders.

115. In consultation with their advisors, the Applicants have determined that the CCAA process is the most beneficial plan of action to maximize value for the Flowr Group's stakeholders.

116. The Flowr Group has debt in excess of $5 million, is insolvent and is facing a liquidity crisis. Absent obtaining DIP Financing, it will run out of cash on or about before the expiry of the 10 day Stay Period.

117. As at the date hereof, the aggregate amount of the Applicants' liabilities are estimated to be approximately $12 million.

118. The Applicants' liquidity position is deteriorating and additional funding will be needed by the Applicants in order to allow them sufficient liquidity to operate in the ordinary course of business and undertake their restructuring process including the SISP within the CCAA proceeding.

119. The Applicants are seeking an Initial Order substantially in the form attached as Tab 4 to the Application Record.

B. Appointment of Monitor

120. The Applicants propose that EY be appointed Monitor in these CCAA proceedings. EY has consented to act as Monitor, subject to Court approval, and its written consent is included at Tab 3 of the Application Record.

121. EY is a trustee within the meaning of section 2 of the *Bankruptcy and Insolvency Act* (Canada), and is not subject to any of the restrictions on who may be appointed as monitor set out in section 11.7(2) of the CCAA.

122. EY has reviewed, and assisted in the preparation of, the Cash Flow Forecast, and has provided guidance and assistance in the commencement of these CCAA proceedings.

123. As a result, EY has developed critical knowledge about the Applicants, their business operations, financial challenges, strategic initiatives and restructuring efforts to date.

C. Administration Charge

124. The Applicants seek a super-priority charge over the Applicants' Property (as defined in the Initial Order) in favour of the Monitor, counsel to the Monitor, counsel to the Applicants and counsel to the Board, if any, (collectively, the "**Professionals Group**"), to secure payment of their professional fees and disbursements, whether incurred before or after the date of the Initial Order (the "**Administration Charge**").

125. The proposed Administration Charge being sought at the initial CCAA Application is for a maximum amount of $350,000 in order to secure the payment of fees and expenses incurred in connection with moving for the within relief sought and for the initial ten (10) day protection period leading up to the first Comeback Hearing. The Administration Charge is proposed to rank as a first-priority charge on the Property.

126. It is contemplated that the Professionals Group will have extensive involvement during the CCAA proceedings. The Professionals Group have contributed and will continue to contribute to the Applicants' restructuring efforts, and will ensure that there is no unnecessary duplication of roles among them.

127. In preparation of the Cash Flow Forecast, the Applicants, in consultation with the Proposed Monitor, considered the professional fees forecasted to be incurred on a weekly basis during the cash flow period. The Applicants have forecast to incur significant professional fees in connection with the CCAA proceedings to the end of the week of the Comeback Hearing including, without limitation, preparing for the Comeback Hearing, communicating with employees and stakeholders following the initial filing, and complying with statutory notices, mailings and communications.

128. Accordingly, I believe the quantum of the Administration Charge sought is reasonably necessary at this time to secure the professional fees of the Professionals Group.

D. Approval of DIP Loan and DIP Lender's Charge

129. In the past few weeks, as the Flowr Group realized that it had a looming liquidity crisis, it started considering the need for DIP Financing and more recently entered into discussions with Stephen Arbib, as to whether he would consider providing such financing should it become necessary. As a result of those discussions and the financial situation of the Applicants, Stephen Arbib resigned from the Board effective October 17, 2022.

130. Thereafter the Applicants and their counsel negotiated with the DIP Lender (Stephen Arbib has an ownership interest in the DIP Lender) and its counsel to settle committed terms for DIP financing (the "**DIP Loan**") to support a CCAA filing.

131. The DIP Lender and the Applicants entered into the DIP Commitment Letter dated October 20, 2022 (the "**DIP Commitment Letter**"). Based on my discussions with the Applicants' counsel and the Proposed Monitor, I believe the terms agreed to with the DIP Lender are

reasonable and competitive. A copy of the DIP Term Sheet is attached hereto as **Exhibit "T"**.

132. The material terms of the DIP Term Sheet are as follows:

(a) The DIP Loan is in the amount of $2,000,000;

(b) The purpose of the DIP Loan is to fund:

(1) the Flowr Group's working capital needs in accordance with the cash flow projections approved by the Monitor and the DIP Lender;

(2) the DIP Lender's fees and expenses;

(3) professional fees and expenses incurred by the Flowr Group and the Monitor in respect of the CCAA proceeding; and

(4) such other costs and expenses of the Flowr Group as may be agreed to by the DIP Lender;

(c) The DIP Loan shall be available in advances, as follows:

(1) upon the issuance of the Initial Order, $500,000, or such lesser amount as may be approved by the Initial Order, shall be advanced to the Flowr Group to finance working capital requirements for the 10-day period immediately following the date of the Initial Order; and

(2) upon the issuance of an Amended and Restated Initial Order at the Comeback Hearing and the Order approving the SISP on terms acceptable to the DIP Lender, the balance of the DIP Loan, being up to $1,500,000, shall be advanced to the Flowr Group in monthly draws upon request;

(d) The interest rate is prime rate plus 12% per annum, calculated daily on the outstanding balance owing under the DIP Loan, not in advance, and accruing and paid on the Maturity Date (as defined in the DIP Term Sheet);

(e) The Flowr Group shall pay all of the DIP Lender's fees and expenses incurred in connection with the DIP Loan;

(f) The Flowr Group shall pay a commitment fee of $40,000, representing 2% of the total DIP Loan;

(g) The DIP Loan is to be secured by a court-ordered priority charge over all of the Flowr Group's present and after acquired property, subject only to the Administration Charge; and

(h) The initial advance under the DIP Loan will only be funded upon this Court approving the DIP Term Sheet, the DIP Loan, and granting the Initial Order including the DIP Lender's Charge.

133. Based on, among other things, the Cash Flow Forecast, the Applicants believe that the DIP Loan is both reasonable and necessary for the Flowr Group to continue as a going concern and complete the contemplated restructuring under the CCAA.

E. Directors' Charge

134. The Applicants seek a charge on the Applicants' Property in favour of the Applicants' current officers and directors in priority to all other charges other than the Administration Charge, the DIP Lender Charge up to a maximum amount of $600,000 ("**Directors' Charge**").

135. To ensure the ongoing stability of the Flowr Group's business during the CCAA proceeding, it requires the continued participation of its officers and directors. The officers and directors have skills, knowledge and expertise, as well as established relationships with various stakeholders that will contribute to a successful restructuring. As a practical but critical matter, I have the individual security clearance that Health Canada requires at least one director of a licensed cannabis company to have in order to maintain its licence. Flowr Okanagan must at all times have a director with the required security clearance.

136. Flowr carries the following insurance for its directors and officers:

(a) A directors and officers insurance policy from SiriusPoint Bermuda Insurance Company (the "**D&O Policy**") with a policy limit of $5 million; and

(b) An excess directors and officers liability insurance policy from a syndicate of insurers (the "**Excess D&O Policy**" and collectively with the D&O Policy, the "**D&O Policies**") with a policy limit of $5 million;

137. The term of the D&O Policies currently expires on November 4, 2022. As at the date of this Affidavit, the Flowr Group has negotiated a four (4) month extension of the D&O Policies on the basis that payment for the extension is paid up front. This payment is reflected in the Cash Flow Forecast.

138. While the Flowr Group's directors and officers have the benefit of the D&O Policies (at least until November 4, 2022) that provide them with coverage for certain claims and liabilities that may arise, I understand that these policies contain exclusions and exceptions to such coverage.

139. The Flowr Group's ordinary course operations give rise to potential director or officer liability, including for employee source deductions and sales tax. To address legitimate concerns expressed with respect to their potential exposure if they continue to act (rather than resign), the directors and officers have requested reasonable protection against personal liability that might arise during the post-filing period. The Directors' Charge is intended to address potential claims that may be brought against directors and officers.

140. The quantum of the Directors' Charge was developed with the assistance and support of the Proposed Monitor. The Flowr Group is of the view that the quantum of the Directors' Charge is reasonably necessary at this time to address circumstances that could lead to potential directors' liability prior to the Comeback Hearing.

F. Stay of Proceedings in Favour of the Applicants

141. Given the challenges faced by the Applicants described herein, the Flowr Group requires a stay of proceedings to maintain the *status quo* and to give the Applicants the breathing

space they require to develop a restructuring plan in consultation with their advisors and the Monitor including undertaking a SISP.

142. The Initial Order contemplates a stay of all proceedings against the Applicants and their Property for an initial period of ten (10) days (the "**Stay Period**"), which I understand is the maximum that can be authorized by a Court at the initial Application under the CCAA.

G. Authorization to Incur no Further Costs in Connection with Securities Filings

143. The Applicants seek authorization to dispense with certain securities filing requirements. In particular, the Applicants seek authorization for Flowr to incur no further expenses in relation to any filings (including financial statements), disclosures, core or non-core documents, restatements, amendments to existing filings, press releases or any other actions (collectively, the "**Securities Filings**") that may be required by any federal, provincial, or other law respecting securities or capital markets in Canada, or by the rules and regulations of a stock exchange, including without limitation, the *Securities Act (Ontario)*, RSO 1990 c S. 5 and comparable statutes enacted by other provinces of Canada, the CSE Policies 1-10 and other rules, regulations and policies of the CSE.

144. In my view, incurring the time and costs associated with preparing the Security Filings will detract from the Applicants successful restructuring. Further, there is no prejudice to stakeholders given that detailed financial information and other information regarding the Applicants will continue to be made publically available through the materials filed in these CCAA proceedings.

H. Relief to be Sought at the Comeback Hearing

145. If the Initial Order is granted, the Applicants propose to return to this Court for a Comeback Hearing on or before October 28, 2022.

146. At the Comeback Hearing, the Applicants intend to seek the Court's approval of an Amended and Restated Initial Order. For the benefit of this Court and the Applicants' stakeholders, this section highlights critical relief that the Applicants intend to seek at the Comeback Hearing. The Applicants may seek additional relief if determined to be necessary or advisable.

(i) Extension of Stay of Proceedings

147. The Applicants intend to seek an extension of the Stay Period for a sufficient length of time to allow the Applicants to conduct a SISP.

(ii) Increase Amount of Charges

148. The Applicants intend to seek to increase the quantum of the Administration Charge, DIP Lender's Charge and the Director's Charge to reflect the additional work to be undertaken done during the CCAA proceedings and the financing needed for the duration of the proceedings.

(iii) To Address Critical Suppliers

149. The Applicants rely on certain service providers in their day-to-day operations. To preserve their business and maintain critical relationships, the Applicants intend to seek the Court's approval to pay certain pre-filing expenses or to honour certain cheques issued to providers of goods and services prior to the date of filing that the Applicants, with the consent of the

Monitor, believe are necessary to facilitate the Applicants' ongoing operations and preserve value during these proceedings.

(iv) Approval of SISP including Stalking Horse Agreement

150. The Applicants also intend to seek approval of a SISP which will allow the Applicants to canvas the market for an investment in, or sale of, all or substantially all of the Applicants' Property. The Applicants are of the view that a Court-supervised SISP under the CCAA will be the most cost-efficient and effective means of maximizing creditor recovery and preserving employment for as many employees as possible.

151. The DIP Term Sheet grants an exclusivity period to the DIP Lender to negotiate a Stalking Horse Agreement. As a result, at this time, the Applicants anticipate that a Stalking Horse Agreement will form part of the SISP as it will provide certainty in the market place that the Flowr Group will emerge from these CCAA proceedings as a going concern entity.

152. The SISP is being developed in consultation with the Proposed Monitor taking into account the financial circumstances of the Applicants and the amount of DIP Financing available.

153. Currently the draft SISP contemplates the following milestone dates:

(a) An October 28, 2022 deadline to obtain the Amended and Restated Initial Order including the approval of the SISP;

(b) A November 14, 2022 deadline to publish notice of the SISP and circulate teaser and non-disclosure agreements;

(c) A bid deadline of December 2, 2022 to receive binding offers from potential purchasers and investors participating in the SISP;

(d) An auction date of December 8, 2022;

(e) Subject to Court availability, a motion date of December 16, 2022; and

(f) A January 31, 2023 deadline to close the transaction resulting from the SISP.

154. The SISP will be administered by the Monitor in consultation with the Applicants. In addition, the Monitor will have certain consent rights in connection with material decisions related to the SISP (e.g. extending timelines, dispensing with bid requirements, terminating the SISP).

(v) Approval of KERP

155. The Applicants have developed a KERP, with input from the Proposed Monitor, to facilitate and encourage the continued participation of certain key management employees in the business and the restructuring for the pendency of these CCAA proceedings.

156. An employee can only be selected for the KERP retention bonus if it is determined by the Applicants with input from the Board and approval from the Monitor and the DIP Lender that the employee is essential to ensure the stability of the business, to enhance the effectiveness of the SISP and to facilitate a successful and efficient restructuring.

157. The KERP will provide appropriate incentives for the Applicants' key employees to remain in their current positions and will ensure that they are property compensated for their assistance in the restructuring process. The KERP contemplates two milestone payments

one based on continuing employment for a period of time and the second based on a successful sale or recapitalization outcome.

158. The maximum amount that would be paid under the KERP is approximately $800,000, which amount is proposed to be secured by the KERP Charge on the Property of the Applicants, which would rank behind the Administration Charge, the DIP Lender's Charge and the Directors' Charge.

VI. CONCLUSION

159. I believe that the Applicants ought to be granted protection under the CCAA. I am confident that granting the draft Initial Order is in the best interests of the Applicants as well as their employees, creditors, and other stakeholders.

160. As set out above, I believe that CCAA protection will enable the Applicants to complete the contemplated SISP and maximize proceeds available for distribution to creditors on a more timely and cost-effective basis than the available alternatives, and will provide for an orderly claims process and distribution process.

161. I swear this affidavit in support of an Application under the CCAA for an Initial Order in the form contained at Tab 4 of the Application Record, and for no other or improper purpose.

SWORN before me at the City of Toronto, in the Province of Ontario, this 20th day of October, 2022 in accordance with O. Reg. 431/20 Administering Oath or Declaration Remotely	
Commissioner for Taking Affidavits	
ALINA STOICA	**DARREN KARASIUK**

This is Exhibit "A" referred to in the affidavit

of DARREN KARASIUK, SWORN BEFORE ME **this 20th day of October 2022**

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A COMMISSIONER FOR TAKING AFFIDAVITS

Ontario

Ministry of Government and
Consumer Services

Profile Report

THE FLOWR CORPORATION as of October 07, 2022

Act	Business Corporations Act
Type	Ontario Business Corporation
Name	THE FLOWR CORPORATION
Ontario Corporation Number (OCN)	5008578
Governing Jurisdiction	Canada - Ontario
Status	Active
Date of Amalgamation	January 01, 2019
Registered or Head Office Address	365 Bay Street, 800, Toronto, Ontario, Canada, M5H 2V1

Active Director(s)

Minimum Number of Directors	3
Maximum Number of Directors	15

Name	Stephen ARBIB
Address for Service	365 Bay Street, 800, Toronto, Ontario, Canada, M5H 2V1
Resident Canadian	No
Date Began	August 08, 2022

Name	Thomas FLOW
Address for Service	600 Horn Crescent, Kelowna, British Columbia, Canada, V1W 4Y6
Resident Canadian	Yes
Date Began	June 24, 2020

Name	Darren KARASIUK
Address for Service	365 Bay Street, 800, Toronto, Ontario, Canada, M5H 2V1
Resident Canadian	No
Date Began	August 08, 2022

Name	Joanne LEE
Address for Service	960 Britannia Road East, Mississauga, Ontario, Canada, L4W 5M7
Resident Canadian	Yes
Date Began	December 22, 2020

Name	Ryan ROEBUCK
Address for Service	31 Fairleigh Cres, Toronto, Ontario, Canada, M6C 3R7
Resident Canadian	Yes
Date Began	August 06, 2021

Name	Marvin SINGER
Address for Service	365 Bay Street, 800, Toronto, Ontario, Canada, M5H 2V1
Resident Canadian	No
Date Began	August 08, 2022

Active Officer(s)

Name	Matthew HUSSON
Position	Secretary
Address for Service	365 Bay Street, 800, Toronto, Ontario, Canada, M5H 2V1
Date Began	October 01, 2021
Name	Darren KARASIUK
Position	Chief Executive Officer
Address for Service	365 Bay Street, 800, Toronto, Ontario, Canada, M5H 2V1
Date Began	August 08, 2022
Name	Mike WILLETTS
Position	Chief Financial Officer
Address for Service	365 Bay Street, 800, Toronto, Ontario, Canada, M5H 2V1
Date Began	May 16, 2022

Corporate Name History

Name	THE FLOWR CORPORATION
Effective Date	January 01, 2019

Amalgamating Corporations

Corporation Name	THE FLOWR GROUP INC.
Ontario Corporation Number	5002275
Corporation Name	THE FLOWR CORPORATION
Ontario Corporation Number	5003039

Active Business Names

This corporation does not have any active business names registered under the Business Names Act in Ontario.

Expired or Cancelled Business Names

This corporation does not have any expired or cancelled business names registered under the Business Names Act in Ontario.

Document List

Filing Name	Effective Date
CIA - Notice of Change PAF: Matthew HUSSON	August 11, 2022
CIA - Notice of Change PAF: Matthew HUSSON	July 11, 2022
CIA - Notice of Change PAF: Paula CAMPBELL	June 03, 2022
CIA - Notice of Change PAF: Paula CAMPBELL	March 23, 2022
CIA - Notice of Change PAF: Paula CAMPBELL	December 17, 2021
CIA - Notice of Change PAF: PAULA CAMPBELL - OTHER	October 01, 2021
CIA - Notice of Change PAF: PAULA CAMPBELL - OTHER	September 13, 2021
CIA - Notice of Change PAF: PAULA CAMPBELL - OTHER	August 11, 2021
CIA - Notice of Change PAF: PAULA CAMPBELL - OTHER	June 11, 2021
CIA - Notice of Change PAF: PAULA CAMPBELL - OTHER	June 09, 2021
CIA - Notice of Change PAF: PAULA CAMPBELL - OTHER	May 06, 2021
CIA - Notice of Change PAF: PAULA CAMPBELL - OTHER	April 19, 2021
CIA - Notice of Change PAF: PAULA CAMPBELL - OTHER	March 30, 2021

CIA - Notice of Change PAF: ANDREW TEEHAN - OTHER	July 23, 2020
CIA - Notice of Change PAF: ANDREW TEEHAN - OTHER	April 20, 2020
CIA - Notice of Change PAF: ANDREW TEEHAN - OTHER	November 05, 2019
CIA - Notice of Change PAF: FRANCESCO TALLARICO - OFFICER	August 22, 2019
BCA - Articles of Amendment	August 19, 2019
CIA - Notice of Change PAF: FRANCESCO TALLARICO - OFFICER	June 12, 2019
CIA - Notice of Change PAF: FRANCESCO TALLARICO - OFFICER	May 06, 2019
CIA - Notice of Change PAF: FRANCESCO TALLARICO - OFFICER	February 13, 2019
BCA - Articles of Amalgamation	January 01, 2019

All “PAF” (person authorizing filing) information is displayed exactly as recorded in the Ontario Business Registry. Where PAF is not shown against a document, the information has not been recorded in the Ontario Business Registry.

This is Exhibit “B” referred to in the affidavit

of DARREN KARASIUK, SWORN BEFORE ME
this 20th day of October 202

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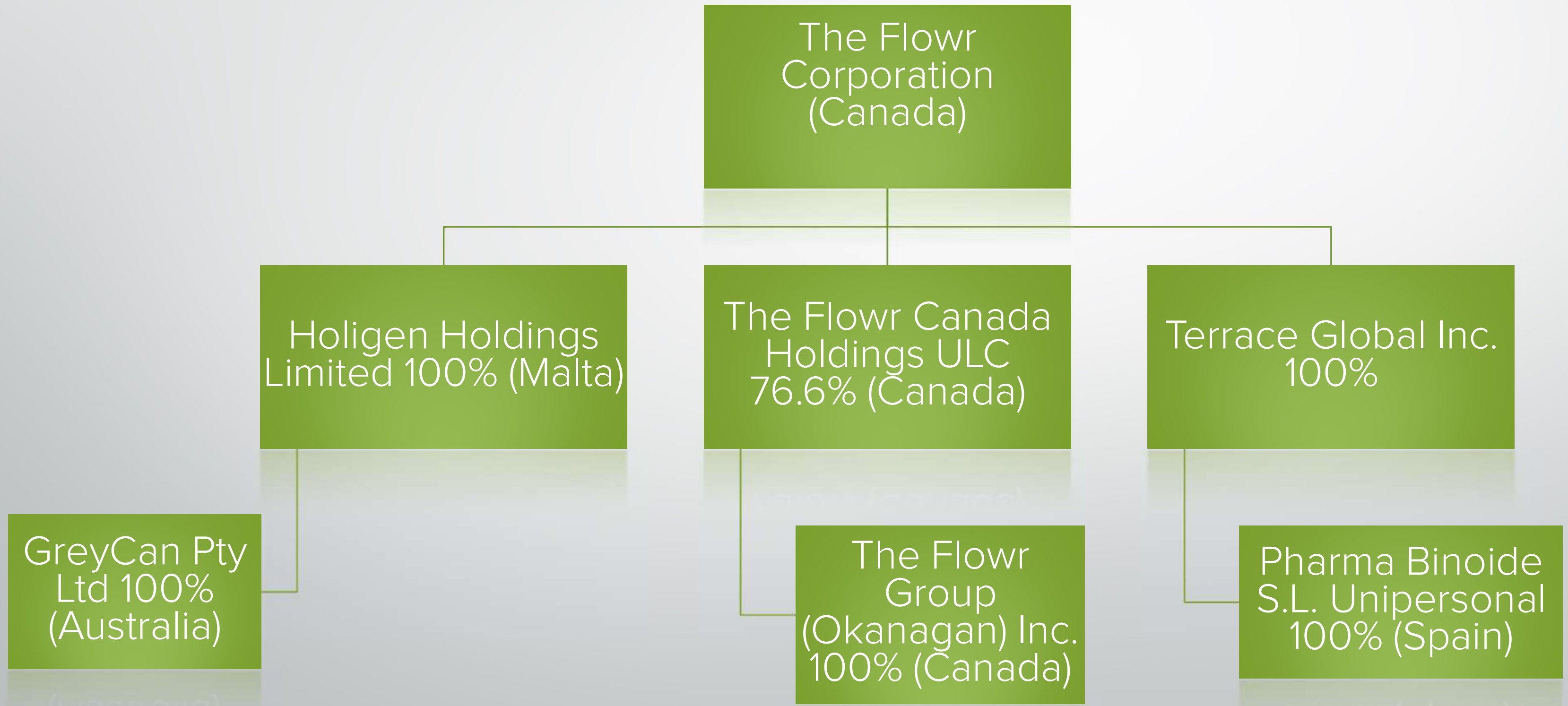
A COMMISSIONER FOR TAKING AFFIDAVITS

The Flowr Corporation

(as at June 30, 2022)



(i) Flowco Advisory LP (organized in Ontario) and RPK Biocultivation is a dormant, indirect subsidiary of The Flowr Corporation with no assets and is not depicted in this organizational chart.

This is Exhibit "C" referred to in the affidavit

of DARREN KARASIUK, SWORN BEFORE ME
this 20th day of October 2022

A COMMISSIONER FOR TAKING AFFIDAVITS

BRITISH COLUMBIA
BC Registry Services

Mailing Address:
PO Box 9431 Stn Prov Govt
Victoria BC V8W 9V3
www.corporateonline.gov.bc.ca

Location:
2nd Floor - 940 Blanshard Street
Victoria BC
1 877 526-1526

BC Company Summary

For
THE FLOWR CANADA HOLDINGS ULC

Date and Time of Search:	**October 07, 2022 08:43 AM Pacific Time**
Currency Date:	August 04, 2022

ACTIVE

Incorporation Number:	BC1142586		
Name of Company:	THE FLOWR CANADA HOLDINGS ULC		
Business Number:	783375884 BC0001		
Recognition Date and Time:	Incorporated on November 24, 2017 02:29 PM Pacific Time	**In Liquidation:**	No
Last Annual Report Filed:	November 24, 2021	**Receiver:**	No

COMPANY NAME INFORMATION

Previous Company Name	**Date of Company Name Change**
THE FLOWR CANNABIS ULC	February 12, 2018

REGISTERED OFFICE INFORMATION

Mailing Address:
2800 PARK PLACE
666 BURRARD STREET
VANCOUVER BC V6C 2Z7
CANADA

Delivery Address:
2800 PARK PLACE
666 BURRARD STREET
VANCOUVER BC V6C 2Z7
CANADA

RECORDS OFFICE INFORMATION

Mailing Address:
2800 PARK PLACE
666 BURRARD STREET
VANCOUVER BC V6C 2Z7
CANADA

Delivery Address:
2800 PARK PLACE
666 BURRARD STREET
VANCOUVER BC V6C 2Z7
CANADA

DIRECTOR INFORMATION

Last Name, First Name, Middle Name:
Karasiuk, Darren

Mailing Address:
365 BAY STREET, SUITE 800
TORONTO ON M5H 2V1
CANADA

Delivery Address:
365 BAY STREET, SUITE 800
TORONTO ON M5H 2V1
CANADA

Last Name, First Name, Middle Name:
Willetts, Mike

Mailing Address:
365 BAY STREET, SUITE 800
TORONTO ON M5H 2V1
CANADA

Delivery Address:
365 BAY STREET, SUITE 800
TORONTO ON M5H 2V1
CANADA

NO OFFICER INFORMATION FILED AS AT November 24, 2021.

This is Exhibit "D" referred to in the affidavit

of DARREN KARASIUK, SWORN BEFORE ME
this 20th day of October 2022

A COMMISSIONER FOR TAKING AFFIDAVITS

Ontario

Ministry of Government and
Consumer Services

Profile Report

TERRACE GLOBAL INC. as of October 07, 2022

Act	Business Corporations Act
Type	Ontario Business Corporation
Name	TERRACE GLOBAL INC.
Ontario Corporation Number (OCN)	5027828
Governing Jurisdiction	Canada - Ontario
Status	Active
Date of Amalgamation	December 31, 2019
Registered or Head Office Address	365 Bay Street, 800, Toronto, Ontario, Canada, M5H 2V1

Active Director(s)

Minimum Number of Directors	1
Maximum Number of Directors	10

Name	John CHOU
Address for Service	365 Bay Street, 800, Toronto, Ontario, Canada, M5H 2V1
Resident Canadian	Yes
Date Began	May 31, 2021

Name	Matthew HUSSON
Address for Service	365 Bay Street, Toronto, Ontario, Canada, M5H 2V1
Resident Canadian	Yes
Date Began	October 01, 2021

Active Officer(s)

Name	Darryl BROOKER
Position	Chief Executive Officer
Address for Service	365 Bay Street, 800, Toronto, Ontario, Canada, M5H 2V1
Date Began	May 03, 2021

Name	John CHOU
Position	Chief Financial Officer
Address for Service	365 Bay Street, 800, Toronto, Ontario, Canada, M5H 2V1
Date Began	May 31, 2021

Name	Matthew HUSSON
Position	Other (untitled)
Address for Service	365 Bay Street, Toronto, Ontario, Canada, M5H 2V1
Date Began	October 01, 2021

Corporate Name History

Name	TERRACE GLOBAL INC.
Effective Date	December 31, 2019

Amalgamating Corporations

Corporation Name	TERRACE INC.
Ontario Corporation Number	5024684
Corporation Name	TERRACE GLOBAL INC.
Ontario Corporation Number	2611119

Active Business Names

This corporation does not have any active business names registered under the Business Names Act in Ontario.

Expired or Cancelled Business Names

This corporation does not have any expired or cancelled business names registered under the Business Names Act in Ontario.

Document List

Filing Name	Effective Date
CIA - Notice of Change PAF: Paula CAMPBELL	November 11, 2021
CIA - Notice of Change PAF: Paula CAMPBELL	November 11, 2021
BCA – Articles of Arrangement	December 22, 2020
CIA - Initial Return PAF: MICHAEL GALEGO - DIRECTOR	December 09, 2020
BCA - Articles of Amalgamation	December 31, 2019

All “PAF” (person authorizing filing) information is displayed exactly as recorded in the Ontario Business Registry. Where PAF is not shown against a document, the information has not been recorded in the Ontario Business Registry.

This is Exhibit "E" referred to in the affidavit

of DARREN KARASIUK, SWORN BEFORE ME
this 20th day of October 2022

A COMMISSIONER FOR TAKING AFFIDAVITS

BRITISH COLUMBIA | BC Registry Services

Mailing Address:
PO Box 9431 Stn Prov Govt
Victoria BC V8W 9V3
www.corporateonline.gov.bc.ca

Location:
2nd Floor - 940 Blanshard Street
Victoria BC
250 356-8626

Incorporation Application

FORM 1
BUSINESS CORPORATIONS ACT
Section 10

CERTIFIED COPY
Of a Document filed with the Province of British Columbia Registrar of Companies

CAROL PREST

FILING DETAILS:	*Incorporation Application for:* **CANNATECH PLANT SYSTEMS INC.**
	Incorporation Number: **BC0974062**
Filed Date and Time:	**June 28, 2013 10:55 AM Pacific Time**
Recognition Date and Time:	**Incorporated on June 28, 2013 10:55 AM Pacific Time**

INCORPORATION APPLICATION

Name Reservation Number:
NR0783571

Name Reserved:
CANNATECH PLANT SYSTEMS INC.

INCORPORATION EFFECTIVE DATE:

The incorporation is to take effect at the time that this application is filed with the Registrar.

INCORPORATOR INFORMATION

Last Name, First Name, Middle Name:
Towill, David

Mailing Address:
700-1708 DOLPHIN AVENUE
KELOWNA BC V1Y 9S4
CANADA

COMPLETING PARTY

Last Name, First Name, Middle Name:	**Mailing Address:**
Towill, Shauna L.	700-1708 DOLPHIN AVENUE KELOWNA BC V1Y 9S4 CANADA

Completing Party Statement

I, Shauna L. Towill, the completing party, have examined the articles and the incorporation agreement applicable to the company that is to be incorporated by the filing of the Incorporation Application and confirm that:

a) the Articles and the Incorporation Agreement both contain a signature line for each person identified as an incorporator in the Incorporation Application with the name of that person set out legibly under the signature lines,

b) an original signature has been placed on each of those signature lines, and

c) I have no reason to believe that the signature placed on a signature line is not the signature of the person whose name is set out under that signature line.

NOTICE OF ARTICLES

Name of Company:

CANNATECH PLANT SYSTEMS INC.

REGISTERED OFFICE INFORMATION

Mailing Address:	**Delivery Address:**
700-1708 DOLPHIN AVENUE KELOWNA BC V1Y 9S4 CANADA	700-1708 DOLPHIN AVENUE KELOWNA BC V1Y 9S4 CANADA

RECORDS OFFICE INFORMATION

Mailing Address:	**Delivery Address:**
700-1708 DOLPHIN AVENUE KELOWNA BC V1Y 9S4 CANADA	700-1708 DOLPHIN AVENUE KELOWNA BC V1Y 9S4 CANADA

DIRECTOR INFORMATION

Last Name, First Name, Middle Name:
Kobasiuk, Paul

Mailing Address:	**Delivery Address:**
791 DOUGMAC ROAD WEST KELOWNA BC V1Z 3T7 CANADA	791 DOUGMAC ROAD WEST KELOWNA BC V1Z 3T7 CANADA

Last Name, First Name, Middle Name:
Cocar, Don

Mailing Address:
3855 KIMATOUCHE ROAD
KELOWNA BC V1W 4E7
CANADA

Delivery Address:
3855 KIMATOUCHE ROAD
KELOWNA BC V1W 4E7
CANADA

Last Name, First Name, Middle Name:
Dureault, Rene Alan

Mailing Address:
3190 OLD VERNON ROAD
KELOWNA BC V1X 6P3
CANADA

Delivery Address:
3190 OLD VERNON ROAD
KELOWNA BC V1X 6P3
CANADA

Last Name, First Name, Middle Name:
Towill, David

Mailing Address:
700-1708 DOLPHIN AVENUE
KELOWNA BC V1Y 9S4
CANADA

Delivery Address:
700-1708 DOLPHIN AVENUE
KELOWNA BC V1Y 9S4
CANADA

AUTHORIZED SHARE STRUCTURE

1.	No Maximum	Class A Voting Participating Common Shares	Without Par Value With Special Rights or Restrictions attached
2.	No Maximum	Class B Voting Participating Common Shares	Without Par Value With Special Rights or Restrictions attached
3.	No Maximum	Class C Non-Voting Participating Common Shares	Without Par Value With Special Rights or Restrictions attached
4.	No Maximum	Class D Non-Voting Participating Common Shares	Without Par Value With Special Rights or Restrictions attached

[illegible].	No Maximum	Class E Preferred Shares	With a Par Value of 0.01 Canadian Dollar(s) each With Special Rights or Restrictions attached
6.	No Maximum	Class F Preferred Shares	With a Par Value of 0.01 Canadian Dollar(s) each With Special Rights or Restrictions attached
7.	No Maximum	Class G Preferred Shares	With a Par Value of 0.10 Canadian Dollar(s) each With Special Rights or Restrictions attached
[illegible].	No Maximum	Class H Preferred Shares	With a Par Value of 1.00 Canadian Dollar(s) each With Special Rights or Restrictions attached

BRITISH COLUMBIA

BC Registry Services

INCORPORATION APPLICATION

FORM 1 - BC COMPANY

Section 10 *Business Corporations Act*

elephone: 250 356-8626
www.bcregistryservces.gov.bc.ca

DO NOT MAIL THIS FORM to the BC Registry Services unless you are instructed to do so by the registry staff. The Regulation under the *Business Corporations Act* requires the electronic version of this form to be filed on the Internet at www.corporateonline.gov.bc.ca

Freedom of Information and Protection of Privacy Act (FOIPPA)
The personal information provided on this form is collected, used and disclosed under the authority of the FOIPPA and the *Business Corporations Act.* Questions regarding the collection, use and disclosure of personal information can be directed to Administrative Assistant of the Corporate and Personal Property Registries at 250 356-1198, P.O. Box 9431 Stn Prov Govt, Victoria BC V8W 9V3

A NAME OF COMPANY – *Choose **one** of the following:*

☒ The name **Cannatech Plant Systems Inc.** is the name reserved for the company to be incorporated. The name reservation is NR0783571, *OR*

☐ The company is to be incorporated with a name created by adding "B.C. Ltd." after the incorporation number of the company.

B INCORPORATION EFFECTIVE DATE – *Choose **one** of the following:*

☒ The incorporation is to take effect at the time that this application is filed with the registrar.

☐ The incorporation is to take effect at 12:01 a.m. Pacific Time on [YYYY/MM/DD] being a date that is not more than ten days after the date of the filing of this application.

☐ The incorporation is to take effect at ______ ☐ a.m. or ☐ p.m. Pacific Time on [YYYY/MM/DD] being a date and time that is not more than ten days after the date of the filing of this application.

C INCORPORATOR NAME(S) AND MAILING ADDRESS(ES)

If an incorporator is a corporation or firm, enter the full name of the corporation or firm. Attach an additional sheet if more space is required.

LAST NAME	FIRST NAME	MIDDLE NAME
Towill	David	

MAILING ADDRESS	PROVINCE/STATE	COUNTRY	POSTAL CODE/ZIP CODE
700-1708 Dolphin Avenue, Kelowna	BC	CA	V1Y 9S4

D COMPLETING PARTY – The completing party must be an individual, not a corporation or a firm.

LAST NAME	FIRST NAME	MIDDLE NAME
Towill	David	M.

E MAILING ADDRESS OF COMPLETING PARTY

	PROVINCE/STATE	COUNTRY	POSTAL CODE/ZIP CODE
700-1708 Dolphin Avenue, Kelowna	BC	CA	V1Y 9S4

F COMPLETING PARTY STATEMENT

FIRST NAME	MIDDLE NAME	LAST NAME
I, DAVID	M.	TOWILL,

the completing party, have examined the Articles and Incorporation Agreement applicable to the company that is to be incorporated by the filing of this Incorporation Application and confirm that:

(a) the Articles and Incorporation Agreement both contain a signature line for each person identified as an incorporator in the Incorporation Application with the name of that person set out legibly under the signature line,
(b) an original signature has been placed on each of those signature lines, and
(c) I have no reason to believe that the signature placed on a signature line is not the signature of the person whose name is set out under that signature line.

NAME OF COMPLETING PARTY	SIGNATURE OF COMPLETING PARTY	DATE SIGNED YYYY/MM/DD
DAVID M. TOWILL	X [signature]	2013/06/28

NOTICE OF ARTICLES

A NAME OF COMPANY

Set out the name of the company as set out in Item A of the Incorporation Application.

Cannatech Plant Systems Inc.

B TRANSLATION OF COMPANY NAME

Set out every new translation of the company name that the company intends to use outside of Canada.

C DIRECTOR NAME(S) AND ADDRESS(ES)

Set out the full name, delivery address and mailing address (if different) of every director of the company. The director may select to provide either (a) the delivery address and, if different, the mailing address for the office at which the individual can usually be served with records between 9:00 a.m. and 4 p.m. on business days or (b) the delivery address, and, if different, the mailing address of the individual's residence. The delivery address must not be a post office box. Attach an additional sheet if more space is required.

LAST NAME	FIRST NAME	MIDDLE NAME		
Towill	David			
DELIVERY ADDRESS		PROVINCE/STATE	COUNTRY	POSTAL CODE/ZIP CODE
700-1708 Dolphin Avenue, Kelowna		BC	CA	V1Y 9S4
MAILING ADDRESS		PROVINCE/STATE	COUNTRY	POSTAL CODE/ZIP CODE
700-1708 Dolphin Avenue, Kelowna		BC	CA	V1Y 9S4
LAST NAME	FIRST NAME	MIDDLE NAME		
Dureault	Rene	Alan		
DELIVERY ADDRESS		PROVINCE/STATE	COUNTRY	POSTAL CODE/ZIP CODE
3190 Old Vernon Road, Kelowna		BC	CA	V1X 6P3
MAILING ADDRESS		PROVINCE/STATE	COUNTRY	POSTAL CODE/ZIP CODE
3190 Old Vernon Road, Kelowna		BC	CA	V1X 6P3
LAST NAME	FIRST NAME	MIDDLE NAME		
Cocar	Don			
DELIVERY ADDRESS		PROVINCE/STATE	COUNTRY	POSTAL CODE/ZIP CODE
3855 Kimatouche Road, Kelowna		BC	CA	V1W 4E7
MAILING ADDRESS		PROVINCE/STATE	COUNTRY	POSTAL CODE/ZIP CODE
3855 Kimatouche Road, Kelowna		BC	CA	V1W 4E7
LAST NAME	FIRST NAME	MIDDLE NAME		
Kobasiuk	Paul			
DELIVERY ADDRESS		PROVINCE/STATE	COUNTRY	POSTAL CODE/ZIP CODE
791 Dougmac Road, West Kelowna		BC	CA	V1Z 3T7
MAILING ADDRESS		PROVINCE/STATE	COUNTRY	POSTAL CODE/ZIP CODE
791 Dougmac Road, West Kelowna		BC	CA	V1Z 3T7

REGISTERED OFFICE ADDRESSES

DELIVERY ADDRESS OF THE COMPANY'S REGISTERED OFFICE	PROVINCE	POSTAL CODE
700-1708 Dolphin Avenue, Kelowna	**BC**	V1Y 9S4

MAILING ADDRESS OF THE COMPANY'S REGISTERED OFFICE	PROVINCE	POSTAL CODE
700-1708 Dolphin Avenue, Kelowna	**BC**	V1Y 9S4

E RECORDS OFFICE ADDRESSES

DELIVERY ADDRESS OF THE COMPANY'S RECORDS OFFICE	PROVINCE	POSTAL CODE
700-1708 Dolphin Avenue, Kelowna	**BC**	V1Y 9S4
MAILING ADDRESS OF THE COMPANY'S RECORDS OFFICE	PROVINCE	POSTAL CODE
700-1708 Dolphin Avenue, Kelowna	**BC**	V1Y 9S4

F AUTHORIZED SHARE STRUCTURE

Identifying name of class or series of shares	Maximum number of shares of this class or series of shares that the company is authorized to issue, or indicate there is no maximum number.		Kind of shares of this class or series of shares.			Are there special rights or restrictions attached to the shares of this class or series of shares?	
	THERE IS NO MAXIMUM (√)	MAXIMUM NUMBER OF SHARES AUTHORIZED	WITHOUT PAR VALUE (√)	WITH A PAR VALUE OF ($)	Type of currency	YES (√)	NO (√)
Class A Voting Participating Common	☒		☒			☒	☐
Class B Voting Participating Common	☒		☒			☒	☐
Class C Non-Voting Participating Common	☒		☒			☒	☐
Class D Non-Voting Participating Common	☒		☒			☒	☐
Class E Preferred	☒		☐	0.01	CAD	☒	☐
Class F Preferred	☒		☐	0.01	CAD	☒	☐
Class G Preferred	☒		☐	0.10	CAD	☒	☐
Class H Preferred	☒		☐	1.00	CAD	☒	☐

INCORPORATION AGREEMENT

The undersigned Incorporator wishes to form a company under the *Business Corporations Act* (British Columbia) in accordance with the terms of this agreement (the "**Agreement**").

1. The name of the company will be Cannatech Plant Systems Inc. (the "**Company**").
2. The Incorporator adopts the Incorporation Application and the Notice of Articles set out in Schedule "A" to this Agreement.
3. The Incorporator adopts as the Articles of the Company the Articles set out in Schedule "B" to this Agreement.
4. The Incorporator agrees to take the number and kind of shares in the Company set opposite his name.

Incorporator	**No & Class of Shares**
David Towill	1,000 Class A Voting Participating Common Shares without par value

DATED June 28, 2013.

DAVID TOWILL

SCHEDULE "A"

INCORPORATION APPLICATION & NOTICE OF ARTICLES

SCHEDULE "B'

ARTICLES

RESOLUTIONS CONSENTED TO IN WRITING BY THE SOLE VOTING SHAREHOLDER OF

CANNATECH PLANT SYSTEMS INC.
("Company")

AS OF DECEMBER ______, 2017

RESOLVED THAT:

Change of Name

These don't go into charter

1. As a special resolution, the name of the C
Inc., and the Notice of Articles and the Artic

Execution of Documents

2. Any director or officer of the Company is
name of the Company to execute and deliv
change of name, and any supporting docu
these resolutions.

(change of name).

Condition for Alteration of Articles

3. It is a condition of these resolutions that the
time that the Notice of Alteration takes effec

where are the 2013 articles?

Execution Procedure

4. These resolutions may be signed and delivered by facsimile or other electronic means and will be deemed an original bearing the date set out above.

These amendments to the Articles take effect on January 8, 2018 at ◆10:43 a.m. (the date and time that the Notice of Alteration was filed with the BC Registry Services).

CONSENT RESOLUTIONS OF THE SHAREHOLDERS
OF
CANNATECH PLANT SYSTMES INC.
(the "Company")

The undersigned, being all the shareholders of the Company entitled to vote in person or by proxy at a general meeting of the Company, HEREBY CONSENT to and adopt in writing the following resolutions to have the same force and effect as if they had been passed at a general meeting of the Company:

Alteration of Articles

BE IT RESOLVED, as Special Resolutions, THAT:

1. The existing Articles of the Company be abrogated and the Articles attached hereto as Schedule A be adopted as the Articles of the Company in substitution for, and to the exclusion of, the existing Articles of the Company.

2. The alteration to the Articles of the Company as set out above shall not take effect until the Notice of Articles of the Company is altered to reflect such alteration to the Articles.

3. The foregoing resolutions altering the Notice of Articles of the Company will not be effective until the above resolutions consented to in writing by the shareholders entitled to vote thereon are received at the registered office of the Company and until the Notice of Alteration has been filed with the Registrar of Companies.

4. Farris, Vaughan, Wills & Murphy LLP be appointed as the Company's agent to electronically file the Notice of Alteration to Notice of Articles with the Registrar of Companies.

Omnibus

BE IT RESOLVED THAT any one director or officer of the Company is hereby authorized and directed to do all such acts and things and to execute and deliver all such documents, instruments and agreements for, in the name and on behalf of the Company, whether under the corporate seal of the Company or otherwise, as he or she may determine to be necessary or desirable to implement and give effect to, and to carry out, any and all of the foregoing resolutions, the doing of all such acts and things and the execution and delivery of all such documents, instruments and agreements being conclusive evidence of such determination.

[The remainder of this page left intentionally blank]

Counterpart Execution

These amendments to the Articles are effective as of December 1, 2016 at 2:22 p.m. (the date and time that the notice of alteration was filed with BC Registry Services).

These amended Articles are effective as of December 1, 2016 at 2:22 p.m. (the date and time that the notice of alteration was filed with BC Registry Services).

INCORPORATION NUMBER: *BC0974062*

CANNATECH PLANT SYSTEMS INC.

("Company")

ARTICLES

1 Interpretation

1.1 Definitions

In these Articles, unless the context otherwise requires:

(a) **"Board of Directors"**, "**directors**" and "**board**" mean the directors or sole director of the Company for the time being;

(b) **"Business Corporations Act"** means the *Business Corporations Act* (British Columbia) from time to time in force and all amendments thereto and includes all regulations and amendments thereto made pursuant to that Act;

(c) **"Legal Personal Representative"** means the personal or other legal representative of the shareholder;

(d) **"Registered Address"** of a shareholder means the shareholder's address as recorded in the central securities register;

(e) **"Seal"** means the seal of the Company, if any;

1.2 *Business Corporations Act* and Act Definitions Applicable

The definitions in the *Business Corporations Act* and the definitions and rules of construction in the *Interpretation Act*, with the necessary changes, so far as applicable, and unless the context requires otherwise, apply to these Articles as if they were an enactment. If there is a conflict between a definition in the *Business Corporations Act* and a definition or rule in the lnte1pretation Act relating to a term used in these Articles, the definition in the *Business Corporations Act* will prevail in relation to the use of the term in these Articles. If there is a conflict between these Articles and the *Business Corporations Act*, the *Business Corporations Act* will prevail.

2. Shares and Share Certificates

2.1 Authorized Share Structure

The authorized share structure of the Company consists of shares of the class or classes and series, if any, described in the Notice of Articles of the Company.

2.2 Form of Share Certificate

Each share certificate issued by the Company must comply with, and be signed as required by, the *Business Corporations Act*.

2.3 Shareholder Entitled to Certificate or Acknowledgment

Each shareholder is entitled, without charge, to (a) one share certificate representing the shares of each class or series of shares registered in the shareholder's name or (b) a non-transferable written acknowledgment of the shareholder's right to obtain such a share certificate, provided that in respect of a share held jointly by several persons, the Company is not bound to issue more than one share certificate and delivery of a share certificate for a share to one of several joint shareholders or to one of the shareholders' duly authorized agents will be sufficient delivery to all.

2.4 Delivery by Mail

Any share certificate or non-transferable written acknowledgment of a shareholder's right to obtain a share certificate may be sent to the shareholder by mail at the shareholder's registered address and neither the Company nor any director, officer or agent of the Company is liable for any loss to the shareholder because the share certificate or acknowledgement is lost in the mail or stolen.

2.5 Replacement of Worn Out or Defaced Certificate or Acknowledgement

If the directors are satisfied that a share certificate or a non-transferable written acknowledgment of the shareholder's right to obtain a share certificate is worn out or defaced, they must, on production to them of the share certificate or acknowledgment, as the case may be, and on such other terms, if any, as they think fit:

(1) order the share certificate or acknowledgment, as the case may be, to be cancelled; and

(2) issue a replacement share certificate or acknowledgment, as the case may be.

2.6 Replacement of Lost, Stolen or Destroyed Certificate or Acknowledgment

If a share certificate or a non-transferable written acknowledgment of a shareholder's right to obtain a share certificate is lost, stolen or destroyed, a replacement share certificate or acknowledgment, as the case may be, must be issued to the person entitled to that share certificate or acknowledgment, as the case may be, if the directors receive:

(1) proof satisfactory to them that the share certificate or acknowledgment is lost, stolen or destroyed; and

(2) any indemnity the directors consider adequate.

2.7 Splitting Share Certificates

If a shareholder surrenders a share certificate to the Company with a written request that the Company issue in the shareholder's name two or more share certificates, each representing a specified number of shares and in the aggregate representing the same number of shares as the share certificate so surrendered, the Company must cancel the surrendered share certificate and issue replacement share certificates in accordance with that request.

2.8 Certificate Fee

There must be paid to the Company, in relation to the issue of any share certificate under Sections 2.5, 2.6 or 2.7, the amount, if any and which must not exceed the amount prescribed under the *Business Corporations Act*, determined by the directors.

2.9 Recognition of Trusts

Except as required by law or statute or these Articles, no person will be recognized by the Company as holding any share upon any trust, and the Company is not bound by or compelled in any way to recognize (even when having notice thereof) any equitable, contingent, future or partial interest in any share or fraction of a share or (except as by law or statute or these Articles provided or as ordered by a court of competent jurisdiction) any other rights in respect of any share except an absolute right to the entirety thereof in the shareholder.

3. Issue of Shares

3.1 Directors Authorized

Subject to the *Business Corporations Act* and the rights of the holders of issued shares of the Company, the Company may issue, allot, sell or otherwise dispose of the unissued shares, and issued shares held by the Company, at the times, to the persons, including directors, in the manner, on the terms and conditions and for the issue prices (including any premium at which shares with par value may be issued) that the directors may determine. The issue price for a share with par value must be equal to or greater than the par value of the share.

3.2 Commissions and Discounts

The Company may at any time pay a reasonable commission or allow a reasonable discount to any person in consideration of that person purchasing or agreeing to purchase shares of the Company from the Company or any other person or procuring or agreeing to procure purchasers for shares of the Company.

3.3 Brokerage

The Company may pay such brokerage fee or other consideration as may be lawful for or in connection with the sale or placement of its securities.

3.4 Conditions of Issue

Except as provided for by the *Business Corporations Act*, no share may be issued until it is fully paid. A share is fully paid when:

(1) consideration is provided to the Company for the issue of the share by one or more of the following:

   a. past services performed for the Company;

   b. property;

   c. money; and

(2) the value of the consideration received by the Company equals or exceeds the issue price set for the share under Section 3.1.

3.5 Share Purchase Warrants and Rights

Subject to the *Business Corporations Act*, the Company may issue share purchase warrants, options and rights upon such terms and conditions as the directors determine, which share purchase warrants, options and rights may be issued alone or in conjunction with debentures, debenture stock, bonds, shares or any other securities issued or created by the Company from time to time.

4. Share Registers

4.1 Central Securities Register

As required by and subject to the *Business Corporations Act*, the Company must maintain in British Columbia a central securities register. The directors may, subject to the *Business Corporations Act*, appoint an agent to maintain the central securities register. The directors may also appoint one or more agents, including the agent which keeps the central securities register, as transfer agent for its shares or any class or series of its shares, as the case may be, and the same or another agent as registrar for its shares or such class or series of its shares, as the case may be.

The directors may terminate such appointment of any agent at any time and may appoint another agent in its place.

4.2 Closing Register

The Company must not at any time close its central securities register.

5. Share Transfers

5.1 Registering Transfers

A transfer of a share of the Company must not be registered unless:

(1) a duly signed instrument of transfer in respect of the share has been received by the Company;

(2) if a share certificate has been issued by the Company in respect of the share to be transferred, that share certificate has been surrendered to the Company; and

(3) if a non-transferable written acknowledgment of the shareholder's right to obtain a share certificate has been issued by the Company in respect of the share to be transferred, that acknowledgment has been surrendered to the Company.

5.2 Form of Instrument of Transfer

The instrument of transfer in respect of any share of the Company must be either in the form, if any, on the back of the Company's share certificates or in any other form that may be approved by the directors from time to time.

5.3 Transferor Remains Shareholder

Except to the extent that the *Business Corporations Act* otherwise provides, the transferor of shares is deemed to remain the holder of the shares until the name of the transferee is entered in a securities register of the Company in respect of the transfer.

5.4 Signing of Instrument of Transfer

If a shareholder, or his or her duly authorized attorney, signs an instrument of transfer in respect of shares registered in the name of the shareholder, the signed instrument of transfer constitutes a complete and sufficient authority to the Company and its directors, officers and agents to register the number of shares specified in the instrument of transfer or specified in any other manner, or, if no number is specified, all the shares represented by the share certificates or set out in the written acknowledgments deposited with the instrument of transfer:

(1) in the name of the person named as transferee in that instrument of transfer; or

(2) if no person is named as transferee in that instrument of transfer, in the name of the person on whose behalf the instrument is deposited for the purpose of having the transfer registered.

5.5 Enquiry as to Title Not Required

Neither the Company nor any director, officer or agent of the Company is bound to inquire into the title of the person named in the instrument of transfer as transferee or, if no person is named as transferee in the instrument of transfer, of the person on whose behalf the instrument is deposited for the purpose of having the transfer registered or is liable for any claim related to registering the transfer by the shareholder or by any intermediate owner or holder of the shares, of any interest in the shares, of any share certificate representing such shares or of any written acknowledgment of a right to obtain a share certificate for such shares.

5.6 Transfer Fee

There must be paid to the Company, in relation to the registration of any transfer, the amount, if any, determined by the directors.

6. Transmission of Shares

6.1 Legal Personal Representative Recognized on Death

In case of the death of a shareholder, the legal personal representative, or if the shareholder was a joint holder, the surviving joint holder, will be the only person recognized by the Company as having any title to the shareholder's interest in the shares. Before recognizing a person as a legal personal representative, the directors may require proof of appointment by a court of competent jurisdiction, a grant of letters probate, letters of administration or such other evidence or documents as the directors consider appropriate.

6.2 Rights of Legal Personal Representative

The legal personal representative has the same rights, privileges and obligations that attach to the shares held by the shareholder, including the right to transfer the shares in accordance with these Articles, provided the documents required by the *Business Corporations Act* and the directors have been deposited with the Company.

7. Purchase of Shares

7.1 Company Authorized to Purchase Shares

Subject to Section 7.2, the special rights and restrictions attached to the shares of any class or series and the *Business Corporations Act*, the Company may, if authorized by the directors, purchase or otherwise acquire any of its shares at the price and upon the terms specified in such resolution.

7.2 Purchase When Insolvent

The Company must not make a payment or provide any other consideration to purchase or o1herwise acquire any of its shares if there are reasonable grounds for believing that:

(1) the Company is insolvent; or

(2) making the payment or providing the consideration would render the Company insolvent.

7.3 Sale and Voting of Purchased Shares

If the Company retains a share redeemed, purchased or otherwise acquired by it, the Company may sell, gift or otherwise dispose of the share, but, while such share is held by the Company, it:

(1) is not entitled to vote the share at a meeting of its shareholders;

(2) must not pay a dividend in respect of the share; and

(3) must not make any other distribution in respect of the share.

8. Borrowing Powers

The Company, if authorized by the directors, may:

(1) borrow money in the manner and amount, on the security, from the sources and on the terms and conditions that they consider appropriate;

(2) issue bonds, debentures and other debt obligations either outright or as security for any liability or obligation of the Company or any other person and at such discounts or premiums and on such other terms as they consider appropriate;

(3) guarantee the repayment of money by any other person or the performance of any obligation of any other person; and

(4) mortgage, charge, whether by way of specific or floating charge, grant a security interest in, or give other security on, the whole or any part of the present and future assets and undertaking of the Company.

9. Alterations

9.1 Alteration of Authorized Share Structure

Subject to Section 9.2 and the *Business Corporations Act*, the Company may by special resolution:

(1) create one or more classes or series of shares or, if none of the shares of a class or series of shares are allotted or issued, eliminate that class or series of shares;

(2) increase, reduce or eliminate the maximum number of shares that the Company is authorized to issue out of any class or series of shares or establish a maximum number of shares that the Company is authorized to issue out of any class or series of shares for which no maximum is established;

(3) subdivide or consolidate all or any of its unissued, or fully paid issued, shares;

(4) if the Company is authorized to issue shares of a class of shares with par value:

a. decrease the par value of those shares; or

b. if none of the shares of that class of shares are allotted or issued, increase the par value of those shares;

(5) change all or any of its unissued, or fully paid issued, shares with par value into shares without par value or any of its unissued shares without par value into shares with par value;

(6) alter the identifying name of any of its shares; or

(7) otherwise alter its shares or authorized share structure when required or permitted to do so by the *Business Corporations Act*.

9.2 Special Rights and Restrictions

Subject to the *Business Corporations Act*, the Company may by special resolution:

(1) create special rights or restrictions for, and attach those special rights or restrictions to, the shares of any class or series of shares, whether or not any or all of those shares have been issued; or

(2) vary or delete any special rights or restrictions attached to the shares of any class or series of shares, whether or not any or all of those shares have been issued.

9.3 Change of Name

The Company may by special resolution authorize an alteration of its Notice of Articles in order to change its name or adopt or change any translation of that name.

9.4 Other Alterations

If the *Business Corporations Act* does not specify the type of resolution and these Articles do not specify another type of resolution, the Company may by special resolution alter these Articles.

10. Meetings of Shareholders

10.1 Annual General Meetings

Unless an annual general meeting is deferred or waived in accordance with the *Business Corporations Act*, the Company must hold its first annual general meeting within 18 months after the date on which it was incorporated or otherwise recognized, and after that must hold an annual general meeting at least once in each calendar year and not more than 15 months after the last annual reference date at such time and place as may be determined by the directors.

10.2 Resolution Instead of Annual General Meeting

If all the shareholders who are entitled to vote at an annual general meeting consent by a unanimous resolution under the *Business Corporations Act* to all of the business that is required to be transacted at that annual general meeting, the annual general meeting is deemed to have been held on the date of the unanimous resolution. The shareholders must, in any unanimous resolution passed under this Section 10.2, select as the Company's annual reference date a date that would be appropriate for the holding of the applicable annual general meeting.

10.3 Calling of Meetings of Shareholders

The directors may, whenever they think fit, call a meeting of shareholders.

10.4 Notice for Meetings of Shareholders

The Company must send notice of the date, time and location of any meeting of shareholders, in the manner provided in these Articles, or in such other manner, if any, as may be prescribed by ordinary resolution (whether previous notice of the resolution has been given or not), to each shareholder entitled to attend the meeting, to each director and to the auditor of the Company, unless these Articles otherwise provide, at least the following number of days before the meeting:

(1) if and for so long as the Company is a public company, 21 days;

(2) otherwise, 10 days.

10.5 Record Date for Notice

The directors may set a date as the record date for the purpose of determining shareholders entitled to notice of any meeting of shareholders. The record date must not precede the date on which the meeting is to be held by more than two months or, in the case of a general meeting requisitioned by shareholders under the *Business Corporations Act*, by more than four months. The record date must not precede the date on which the meeting is held by fewer than:

(1) if and for so long as the Company is a public company, 21 days;

(2) otherwise, 10 days.

If no record date is set, the record date is 5 p.m. on the day immediately preceding the first date on which the notice is sent or, if no notice is sent, the beginning of the meeting.

10.6 Record Date for Voting

The directors may set a date as the record date for the purpose of determining shareholders entitled to vote at any meeting of shareholders. The record date must not precede the date on which the meeting is to be held by more than two months or, in the case of a general meeting requisitioned by shareholders under the *Business Corporations Act*, by more than four months. If no record date is set, the record date is 5 p.m. on the day immediately preceding the first date on which the notice is sent or, if no notice is sent, the beginning of the meeting.

10.7 Failure to Give Notice and Waiver of Notice

The accidental omission to send notice of any meeting to, or the non-receipt of any notice by, any of the persons entitled to notice does not invalidate any proceedings at that meeting. Any person entitled to notice of a meeting of shareholders may, in writing or otherwise, waive or reduce the period of notice of such meeting.

10.8 Notice of Business at Meetings of Shareholders

If a meeting of shareholders is to consider special business within the meaning of Section 11.1, the notice of meeting must:

(1) state the general nature of the special business; and

(2) if the special business includes considering, approving, ratifying, adopting or authorizing any document or the sign in g of or giving of effect to any document, have attached to it a copy of the document or state that a copy of the document will be available for inspection by shareholders:

   a. at the Company's records office, or at such other reasonably accessible location in British Columbia as is specified in the notice; and

   b. during statutory business hours on any one or more specified days before the day set for the holding of the meeting.

11. Proceedings at Meetings of Shareholders

11.1 Special Business

At a meeting of shareholders, the following business is special business:

(1) at a meeting of shareholders that is not an annual general meeting, all business is special business except business relating to the conduct of or voting at the meeting;

(2) at an annual general meeting, all business is special business except for the following:

a. business relating to the conduct of or voting at the meeting;

b. consideration of any financial statements of the Company presented to the meeting;

c. consideration of any reports of the directors or auditor;

d. the setting or changing of the number of directors;

e. the election or appointment of directors;

f. the appointment of an auditor;

g. the setting of the remuneration of an auditor;

h. business arising out of a report of the directors not requiring the passing of a special resolution or an exceptional resolution;

i. any other business which, under these Articles or the *Business Corporations Act*, may be transacted at a meeting of shareholders without prior notice of the business being given to the shareholders.

11.2 Special Majority

The majority of votes required for the Company to pass a special resolution at a meeting of shareholders is two-thirds of the votes cast on the resolution.

11.3 Quorum

A majority of the shareholders of the Company, in person or by means of conference telephone or other communications equipment as permits all person participating in the meeting to communicate with each other simultaneously and instantaneously, shall constitute a quorum at any meeting of the shareholders.

11.4 One Shareholder May Constitute Quorum

If there is only one shareholder entitled to vote at a meeting of shareholders:

(1) the quorum is one person who is, or who represents by proxy, that shareholder, and

(2) that shareholder, present in person or by proxy, may constitute the meeting.

11.5 Other Persons May Attend

The directors, the president (if any), the secretary (if any), the assistant secretary (if any), any lawyer for the Company, the auditor of the Company and any other persons invited by the directors are entitled to attend any meeting of shareholders, but if any of those persons does attend a meeting of shareholders, that person is not to be counted in the quorum and is not entitled to vote at the meeting unless that person is a shareholder or proxy holder entitled to vote at the meeting.

11.6 Requirement of Quorum

No business, other than the election of a chair of the meeting and the adjournment of the meeting, may be transacted at any meeting of shareholders unless a quorum of shareholders entitled to vote is present at the commencement of the meeting, but such quorum need not be present throughout the meeting.

11.7 Lack of Quorum

If, within one-half hour from the time set for the holding of a meeting of shareholders, a quorum is not present:

(1) in the case of a general meeting requisitioned by shareholders, the meeting is dissolved, and

(2) in the case of any other meeting of shareholders, the meeting stands adjourned to the same day in the next week at the same time and place.

11.8 Lack of Quorum at Succeeding Meeting

If, at the meeting to which the meeting referred to in Section 11.7(2) was adjourned, a quorum is not present within one-half hour from the time set for the holding of the meeting, the person or persons present and being, or representing by proxy, one or more shareholders entitled to attend and vote at the meeting constitute a quorum.

11.9 Chair

The following individual is entitled to preside as chair at a meeting of shareholders:

(1) the chair of the board, if any; or

(2) if the chair of the board is absent or unwilling to act as chair of the meeting, the president, if any.

11.10 Selection of Alternate Chair

If, at any meeting of shareholders, there is no chair of the board or president present within 15 minutes after the time set for holding the meeting, or if the chair of the board and the president are unwilling to act as chair of the meeting, or if the chair of the board and the president have advised the secretary, if any, or any director present at the meeting, that they will not be present at the meeting, the directors present must choose one of their number to be chair of the meeting or if all of the directors present decline to take the chair or fail to so choose or if no director is present, the shareholders entitled to vote at the meeting who are present in person or by proxy may choose any person present at the meeting to chair the meeting.

11.11 Adjournments

The chair of a meeting of shareholders may, and if so directed by the meeting must, adjourn the meeting from time to time and from place to place, but no business may be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

11.12 Notice of Adjourned Meeting

It is not necessary to give any notice of an adjourned meeting or of the business to be transacted at an adjourned meeting of shareholders except that, when a meeting is adjourned for 30 days or more, notice of the adjourned meeting must be given as in the case of the original meeting.

11.13 Decisions by Show of Hands or Poll

Subject to the *Business Corporations Act*, every motion put to a vote at a meeting of shareholders will be decided on a show of hands unless a poll, before or on the declaration of the result of the vote by show of hands, is directed by the chair or demanded by at least one shareholder entitled to vote who is present in person or by proxy.

11.14 Declaration of Result

The chair of a meeting of shareholders must declare to the meeting the decision on every question in accordance with the result of the show of hands or the poll, as the case may be, and that decision must be entered in the minutes of the meeting. A declaration of the chair that a resolution is carried by the necessary majority or is defeated is, unless a poll is directed by the chair or demanded under Section 11.13, conclusive evidence without proof of the number or proportion of the votes recorded in favour of or against the resolution.

11.15 Motion Need Not be Seconded

No motion proposed at a meeting of shareholders need be seconded unless the chair of the meeting rules otherwise, and the chair of any meeting of shareholders is entitled to propose or second a motion.

11.16 Casting Vote

In case of an equality of votes, the chair of a meeting of shareholders does not, either on a show of hands or on a poll, have a second or casting vote in addition to the vote or votes to which the chair may be entitled as a shareholder.

11.17 Manner of Taking Poll

Subject to Section 11.18, if a poll is duly demanded at a meeting of shareholders:

(1) the poll must be taken:

a. at the meeting, or within seven days after the date of the meeting, as the chair of the meeting directs; and

b. in the manner, at the time and at the place that the chair of the meeting directs;

(2) the result of the poll is deemed to be the decision of the meeting at which the poll is demanded; and

(3) the demand for the poll may be withdrawn by the person who demanded it.

11.18 Demand for Poll on Adjournment

A poll demanded at a meeting of shareholders on a question of adjournment must be taken immediately at the meeting.

11.19 Chair Must Resolve Dispute

In the case of any dispute as to the admission or rejection of a vote given on a poll, the chair of the meeting must determine the dispute, and his or her determination made in good faith is final and conclusive.

11.20 Casting of Votes

On a poll, a shareholder entitled to more than one vote need not cast all the votes in the same way.

11.21 Demand for Poll

No poll may be demanded in respect of the vote by which a chair of a meeting of shareholders is elected.

11.22 Demand for Poll Not to Prevent Continuance of Meeting

The demand for a poll at a meeting of shareholders does not, unless the chair of the meeting so rules, prevent the continuation of a meeting for the transaction of any business other than the question on which a poll has been demanded.

11.23 Retention of Ballots and Proxies

The Company must, for at least three months after a meeting of shareholders, keep each ballot cast on a poll and each proxy voted at the meeting, and, during that period, make them available for inspection during normal business hours by any shareholder or proxyholder entitled to vote at the meeting. At the end of such three month period, the Company may destroy such ballots and proxies.

12. Votes of Shareholders

12.1 Number of Votes by Shareholder or by Shares

Subject to any special rights or restrictions attached to any shares, including without limitation Section 29, and to the restrictions imposed on joint shareholders under Section 12.3:

(1) on a vote by show of hands, every person present who is a shareholder or proxy holder and entitled to vote on the matter has one vote; and

(2) on a poll, every shareholder entitled to vote on the matter has one vote in respect of each share entitled to be voted on the matter and held by that shareholder and may exercise that vote either in person or by proxy.

12.2 Votes of Persons in Representative Capacity

A person who is not a shareholder may vote at a meeting of shareholders, whether on a show of hands or on a poll, and may appoint a proxy holder to act at the meeting, if, before doing so, the person satisfies the chair of the meeting, or the directors, that the person is a legal personal representative or a trustee in bankruptcy for a shareholder who is entitled to vote at the meeting.

12.3 Votes by Joint Holders

If there are joint shareholders registered in respect of any share:

(1) any one of the joint shareholders may vote at any meeting, either personally or by proxy, in respect of the share as if that joint shareholder were solely entitled to it; or

(2) if more than one of the joint shareholders is present at any meeting, personally or by proxy, and more than one of them votes in respect of that share, then only the vote of the joint shareholder present whose name stands first on the central securities register in respect of the share will be counted.

12.4 Legal Personal Representatives as Joint Shareholders

Two or more legal personal representatives of a shareholder in whose sole name any share is registered are, for the purposes of Section 12.3, deemed to be joint shareholders.

12.5 Representative of a Corporate Shareholder

If a corporation, that is not a subsidiary of the Company, is a shareholder, that corporation may appoint a person to act as its representative at any meeting of shareholders of the Company, and:

(1) for that purpose, the instrument appointing a representative must:

a. be received at the registered office of the Company or at any other place specified, in the notice calling the meeting, for the receipt of proxies, at least the number of business days specified in the notice for the receipt of proxies, or if no number of days is specified, two business days before the day set for the holding of the meeting; or

b. be provided, at the meeting, to the chair of the meeting or to a person designated by the chair of the meeting;

(2) if a representative is appointed under this Section 12.5:

a. the representative is entitled to exercise in respect of and at that meeting the same rights on behalf of the corporation that the representative represents as that corporation could exercise if it were a shareholder who is an individual, including, without limitation, the right to appoint a proxy holder; and

b. the representative, if present at the meeting, is to be counted for the purpose of forming a quorum and is deemed to be a shareholder present in person at the meeting.

Evidence of the appointment of any such representative may be sent to the Company by written instrument, fax or any other method of transmitting legibly recorded messages.

12.6 Proxy Provisions Do Not Apply to All Companies

If and for so long as the Company is a public company or a pre-existing reporting company which has the Statutory Reporting Company Provisions as part of its Articles or to which the Statutory Reporting Company Provisions apply, Sections 12.7 to 12.15 apply only insofar as they are not inconsistent with any securities legislation in any province or territory of Canada or in the federal jurisdiction of the United States or in any states of the United States that is applicable to the Company and insofar as they are not inconsistent with the regulations and rules made and promulgated under that legislation and all administrative policy statements, blanket orders and rulings, notices and other administrative directions issued by securities commissions or similar authorities appointed under that legislation.

12.7 Appointment of Proxy Holders

Every shareholder of the Company, including a corporation that is a shareholder but not a subsidiary of the Company, entitled to vote at a meeting of shareholders of the Company may, by proxy, appoint one or more (but not more than five) proxy holders to attend and act at the meeting in the manner, to the extent and with the powers conferred by the proxy.

12.8 Alternate Proxy Holders

A shareholder may appoint one or more alternate proxy holders to act in the place of an absent proxy holder.

12.9 When Proxy Holder Need Not Be Shareholder

A person must not be appointed as a proxy holder unless the person is a shareholder, although a person who is not a shareholder may be appointed as a proxy holder if:

(1) the person appointing the proxy holder is a corporation or a representative of a corporation appointed under Section 12.5;

(2) the Company has at the time of the meeting for which the proxy holder is to be appointed only one shareholder entitled to vote at the meeting; or

(3) the shareholders present in person or by proxy at and entitled to vote at the meeting for which the proxy holder is to be appointed, by a resolution on which the proxy holder is not entitled to vote but in respect of which the proxy holder is to be counted in the quorum, permit the proxy holder to attend and vote at the meeting.

12.10 Deposit of Proxy

A proxy for a meeting of shareholders must:

(1) be received at the registered office of the Company or at any other place specified, in the notice calling the meeting, for the receipt of proxies, at least the number of business days specified in the notice, or if no number of days is specified, two business days before the day set for the holding of the meeting; or

(2) unless the notice provides otherwise, be provided, at the meeting, to the chair of the meeting or to a person designated by the chair of the meeting.

A proxy may be sent to the Company by written instrument, fax or any other method of transmitting legibly recorded messages.

12.11 Validity of Proxy Vote

A vote given in accordance with the terms of a proxy is valid notwithstanding the death or incapacity of the shareholder giving the proxy and despite the revocation of the proxy or the revocation of the authority under which the proxy is given, unless notice in writing of that death, incapacity or revocation is received:

(1) at the registered office of the Company, at any time up to and including the last business day before the day set for the holding of the meeting at which the proxy is to be used; or

(2) by the chair of the meeting, before the vote is taken.

12.12 Form of Proxy

A proxy, whether for a specified meeting or otherwise, must be either in the following form or in any other form approved by the directors or the chair of the meeting:

[name of company]

(the "Company")

The undersigned, being a shareholder of the Company, hereby appoints [name] or, failing that person, [name], as proxy holder for the undersigned to attend, act and vote for and on behalf of the undersigned at the meeting of shareholders of the Company to be held on [month, day, year] and at any adjournment of that meeting.

Number of shares in respect of which this proxy is given (if no number is specified, then this proxy if given in respect of all shares registered in the name of the shareholder):

Signed *[month, day, year]*

____
[Signature of shareholder]

____
[Name of shareholder - printed]

12.13 Revocation of Proxy

Subject to Section 12.14, every proxy may be revoked by an instrument in writing that is:

(1) received at the registered office of the Company at any time up to and including the last business day before the day set for the holding of the meeting at which the proxy is to be used; or

(2) provided, at the meeting, to the chair of the meeting.

12.14 Revocation of Proxy Must Be Signed

An instrument referred to in Section 12.13 must be signed as follows:

(1) if the shareholder for whom the proxy holder is appointed is an individual, the instrument must be signed by the shareholder or his or her legal personal representative or trustee in bankruptcy;

(2) if the shareholder for whom the proxy holder is appointed is a corporation, the instrument must be signed by the corporation or by a representative appointed for the corporation under Section 12.5.

12.15 Production of Evidence of Authority to Vote

The chair of any meeting of shareholders may, but need not, inquire into the authority of any person to vote at the meeting and may, but need not, demand from that person production of evidence as to the existence of the authority to vote.

13. Directors

13.1 First Directors; Number of Directors

The first directors are the persons designated as directors of the Company in the Notice of Articles that applies to the Company when it is recognized under the *Business Corporations Act*. The number of directors, excluding additional directors appointed under Article 14.8, is set at:

(1) subject to paragraphs (2) and (3), the number of directors that is equal to the number of the Company's first directors;

(2) if the Company is a public company, the greater of three and the most recently set of:

a. the number of directors set by ordinary resolution (whether or not previous notice of the resolution was given); and

b. the number of directors set under Article 14.4;

(3) if the Company is not a public company, the most recently set of:

a. the number of directors set by ordinary resolution (whether or not previous notice of the resolution was given); and

b. the number of directors set under Section 14.4.

13.2 Change in Number of Directors

If the number of directors is set under Sections 13.1(2)(a) or 13.1(3)(a):

(1) the shareholders may elect or appoint the directors needed to fill any vacancies in the board of directors up to that number;

(2) if the shareholders do not elect or appoint the directors needed to fill any vacancies in the board of directors up to that number contemporaneously with the setting of that number, then the directors may appoint, or the shareholders may elect or appoint, directors to fill those vacancies.

13.3 Directors' Acts Valid Despite Vacancy

An act or proceeding of the directors is not invalid merely because fewer than the number of directors set or otherwise required under these Articles is in office.

13.4 Qualifications of Directors

A director is not required to hold a share in the capital of the Company as qualification for his or her office but must be qualified as required by the *Business Corporations Act* to become, act or continue to act as a director.

13.5 Remuneration of Directors

The directors are entitled to the remuneration for acting as directors, if any, as the directors may from time to time determine. If the directors so decide, the remuneration of the directors, if any, will be determined by the shareholders. That remuneration may be in addition to any salary or other remuneration paid to any officer or employee of the Company as such, who is also a director.

13.6 Reimbursement of Expenses of Directors

The Company must reimburse each director for the reasonable expenses that he or she may incur in and about the business of the Company.

13.7 Special Remuneration for Directors

If any director performs any professional or other services for the Company that in the opinion of the directors are outside the ordinary duties of a director, or if any director is otherwise specially occupied in or about the Company's business, he or she may be paid remuneration fixed by the directors, or, at the option of that director, fixed by ordinary resolution, and such remuneration may be either in addition to, or in substitution for, any other remuneration that he or she may be entitled to receive.

13.8 Gratuity, Pension or Allowance on Retirement of Director

Unless otherwise determined by ordinary resolution, the directors on behalf of the Company may pay a gratuity or pension or allowance on retirement to any director who has held any salaried office or place of profit with the Company or to his or her spouse or dependants and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.

14. Election and Removal of Directors

14.1 Election at Annual General Meeting

At every annual general meeting and in every unanimous resolution contemplated by Section 10.2:

(1) the shareholders entitled to vote at the annual general meeting for the election of directors must elect, or in the unanimous resolution appoint, a board of directors consisting of the number of directors for the time being set under these Articles; and

(2) all the directors cease to hold office immediately before the election or appointment of directors under paragraph (1), but are eligible for re-election or re-appointment.

14.2 Consent to be a Director

No election, appointment or designation of an individual as a director is valid unless:

(1) that individual consents to be a director in the manner provided for in the *Business Corporations Act*;

(2) that individual is elected or appointed at a meeting at which the individual is present and the individual does not refuse, at the meeting, to be a director; or

(3) with respect to first directors, the designation is otherwise valid under the *Business Corporations Act*.

14.3 Failure to Elect or Appoint Directors

If:

(1) the Company fails to hold an annual general meeting, and all the shareholders who are entitled to vote at an annual general meeting fail to pass the unanimous resolution contemplated by Section 10.2, on or before the date by which the annual general meeting is required to be held under the *Business Corporations Act*; or

(2) the shareholders fail, at the annual general meeting or in the unanimous resolution contemplated by Section 10.2, to elect or appoint any directors;

then each director then in office continues to hold office until the earlier of:

(3) the date on which his or her successor is elected or appointed; and

(4) the date on which he or she otherwise ceases to hold office under the *Business Corporations Act* or these Articles.

14.4 Places of Retiring Directors Not Filled

If, at any meeting of shareholders at which there should be an election of directors, the places of any of the retiring directors are not filled by that election, those retiring directors who are not re-elected and who are asked by the newly elected directors to continue in office will, if willing to do so, continue in office to complete the number of directors for the time being set pursuant to these Articles until further new directors are elected at a meeting of shareholders convened for that purpose. If any such election or continuance of directors does not result in the election or continuance of the number of directors for the time being set pursuant to these Articles, the number of directors of the Company is deemed to be set at the number of directors actually elected or continued in office.

14.5 Directors May Fill Casual Vacancies

Any casual vacancy occurring in the board of directors may be filled by the directors.

14.6 Remaining Directors Power to Act

The directors may act notwithstanding any vacancy in the board of directors, but if the Company has fewer directors in office than the number set pursuant to these Articles as the quorum of directors, the directors may only act for the purpose of appointing directors up to that number or of summoning a meeting of shareholders for the purpose of filling any vacancies on the board of directors or, subject to the *Business Corporations Act*, for any other purpose.

14.7 Shareholders May Fill Vacancies

If the Company has no directors or fewer directors in office than the number set pursuant to these Articles as the quorum of directors, the shareholders may elect or appoint directors to fill any vacancies on the board of directors.

14.8 Additional Directors

Notwithstanding Sections 13.1 and 13.2, between annual general meetings or unanimous resolutions contemplated by Section 10.2, the directors may appoint one or more additional directors, but the number of additional directors appointed under this Section 14.8 must not at any time exceed:

(1) one-third of the number of first directors, if, at the time of the appointments, one or more of the first directors have not yet completed their first term of office; or

(2) in any other case, one-third of the number of the current directors who were elected or appointed as directors other than under this Section 14.8.

Any director so appointed ceases to hold office immediately before the next election or appointment of directors under Section 14.1(1), but is eligible for re-election or re-appointment.

14.9 Ceasing to be a Director

A director ceases to be a director when:

(1) the term of office of the director expires;

(2) the director dies;

(3) the director resigns as a director by notice in writing provided to the Company or a lawyer for the Company; or

(4) the director is removed from office pursuant to Sections 14.10 or 14.11.

14.10 Removal of Director by Shareholders

The Company may remove any director before the expiration of his or her term of office by special resolution. In that event, the shareholders may elect, or appoint by ordinary resolution, a director to fill the resulting vacancy. If the shareholders do not elect or appoint a director to fill the resulting vacancy contemporaneously with the removal, then the directors may appoint or the shareholders may elect, or appoint by ordinary resolution, a director to fill that vacancy.

14.11 Removal of Director by Directors

The directors may remove any director before the expiration of his or her term of office if the director is convicted of an indictable offence, or if the director ceases to be qualified to act as a director of a company and does not promptly resign, and the directors may appoint a director to fill the resulting vacancy.

15. Alternate Directors

15.1 Appointment of Alternate Director

Any director (an "appointor") may by notice in writing received by the Company appoint any person (an "appointee") who is qualified to act as a director to be his or her alternate to act in his or her place at meetings of the directors or committees of the directors at which the appointor is not present unless (in the case of an appointee who is not a director) the directors have reasonably disapproved the appointment of such person as an alternate director and have given notice to that effect to his or her appointor within a reasonable time after the notice of appointment is received by the Company.

15.2 Notice of Meetings

Every alternate director so appointed is entitled to notice of meetings of the directors and of committees of the directors of which his or her appointor is a member and to attend and vote as a director at any such meetings at which his or her appointor is not present.

15.3 Alternate for More Than One Director Attending Meetings

A person may be appointed as an alternate director by more than one director, and an alternate director:

(1) will be counted in determining the quorum for a meeting of directors once for each of his or her appointors and, in the case of an appointee who is also a director, once more in that capacity;

(2) has a separate vote at a meeting of directors for each of his or her appointors and, in the case of an appointee who is also a director, an additional vote in that capacity;

(3) will be counted in determining the quorum for a meeting of a committee of directors once for each of his or her appointors who is a member of that committee and, in the case of an appointee who is also a member of that committee as a director, once more in that capacity;

(4) has a separate vote at a meeting of a committee of directors for each of his or her appointors who is a member of that committee and, in the case of an appointee who is also a member of that committee as a director, an additional vote in that capacity.

15.4 Consent Resolutions

Every alternate director, if authorized by the notice appointing him or her, may sign in place of his or her appointor any resolutions to be consented to in writing.

15.5 Alternate Director Not an Agent

Every alternate director is deemed not to be the agent of his or her appointor.

15.6 Revocation of Appointment of Alternate Director

An appointor may at any time, by notice in writing received by the Company, revoke the appointment of an alternate director appointed by him or her.

15.7 Ceasing to be an Alternate Director

The appointment of an alternate director ceases when:

(1) his or her appointor ceases to be a director and is not promptly re-elected or re-appointed;

(2) the alternate director dies;

(3) the alternate director resigns as an alternate director by notice in writing provided to the Company or a lawyer for the Company;

(4) the alternate director ceases to be qualified to act as a director; or

(5) his or her appointor revokes the appointment of the alternate director.

15.8 Remuneration and Expenses of Alternate Director

The Company may reimburse an alternate director for the reasonable expenses that would be properly reimbursed if he or she were a director, and the alternate director is entitled to receive from the Company such proportion, if any, of the remuneration otherwise payable to the appointor as the appointor may from time to time direct.

16. Powers and Duties of Directors

16.1 Powers of Management

The directors must, subject to the *Business Corporations Act* and these Articles, manage or supervise the management of the business and affairs of the Company and have the authority to exercise all such powers of the Company as are not, by the *Business Corporations Act* or by these Articles, required to be exercised by the shareholders of the Company.

16.2 Appointment of Attorney of Company

The directors may from time to time, by power of attorney or other instrument, under seal if so required by law, appoint any person to be the attorney of the Company for such purposes, and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the directors under these Articles and excepting the power to fill vacancies in the board of directors, to remove a director, to change the membership of, or fill vacancies in, any committee of the directors, to appoint or remove officers appointed by the directors and to declare dividends) and for such period, and with such remuneration and subject to such conditions as the directors may think fit Any such power of attorney may contain such provisions for the protection or convenience of persons dealing with such attorney as the directors think fit. Any such attorney may be authorized by the directors to sub-delegate all or any of the powers, authorities and discretions for the time being vested in him or her.

17. Disclosure of Interest of Directors

17.1 Obligation to Account for Profits

A director or senior officer who holds a disclosable interest (as that term is used in the *Business Corporations Act*) in a contract or transaction into which the Company has entered or proposes to enter is liable to account to the Company for any profit that accrues to the director or senior officer under or as a result of the contract or transaction only if and to the extent provided in the *Business Corporations Act.*

17.2 Restrictions on Voting by Reason of Interest

A director who holds a disclosable interest in a contract or transaction into which the Company has entered or proposes to enter is not entitled to vote on any directors' resolution to approve that contract or transaction, unless all the directors have a disclosable interest in that contract or transaction, in which case any or all of those directors may vote on such resolution.

17.3 Interested Director Counted in Quorum

A director who holds a disclosable interest in a contract or transaction into which the Company has entered or proposes to enter and who is present at the meeting of directors at which the contract or transaction is considered for approval may be counted in the quorum at the meeting whether or not the director votes on any or all of the resolutions considered at the meeting.

17.4 Disclosure of Conflict of Interest or Property

A director or senior officer who holds any office or possesses any property, right or interest that could result, directly or indirectly, in the creation of a duty or interest that materially conflicts with that individual's duty or interest as a director or senior officer, must disclose the nature and extent of the conflict as required by the *Business Corporations Act.*

17.5 Director Holding Other Office in the Company

A director may hold any office or place of profit with the Company, other than the office of auditor of the Company, in addition to his or her office of director for the period and on the terms (as to remuneration or otherwise) that the directors may determine.

17.6 No Disqualification

No director or intended director is disqualified by his or her office from contracting with the Company either with regard to the holding of any office or place of profit the director holds with the Company or as vendor, purchaser or otherwise, and no contract or transaction entered into by or on behalf of the Company in which a director is in any way interested is liable to be voided for that reason.

17.7 Professional Services by Director or Officer

Subject to the *Business Corporations Act*, a director or officer, or any person in which a director or officer has an interest, may act in a professional capacity for the Company, except as auditor of the Company, and the director or officer or such person is entitled to remuneration for professional services as if that director or officer were not a director or officer.

17.8 Director or Officer in Other Corporations

A director or officer may be or become a director, officer or employee of, or otherwise interested in, any person in which the Company may be interested as a shareholder or otherwise, and, subject to the *Business Corporations Act*, the director or officer is not accountable to the Company for any remuneration or other benefits received by him or her as director, officer or employee of, or from his or her interest in, such other person.

18. Proceedings of Directors

18.1 Meetings of Directors

The directors may meet together for the conduct of business, adjourn and otherwise regulate their meetings as they think fit, and meetings of the directors held at regular intervals may be held at the place, at the time and on the notice, if any, as the directors may from time to time determine.

18.2 Voting at Meetings

Questions arising at any meeting of directors are to be decided by a majority of votes and, in the case of an equality of votes, the chair of the meeting does not have a second or casting vote.

18.3 Chair of Meetings

The following individual is entitled to preside as chair at a meeting of directors:

(1) the chair of the board, if any;

(2) in the absence of the chair of the board, the president, if any, if the president is a director; or

(3) any other director chosen by the directors if:

   a. neither the chair of the board nor the president, if a director, is present at the meeting within 15 minutes after the time set for holding the meeting;

   b. neither the chair of the board nor the president, if a director, is willing to chair the meeting; or

   c. the chair of the board and the president, if a director, have advised the secretary, if any, or any other director, that they will not be present at the meeting.

18.4 Meetings by Telephone or Other Communications Medium

A director may participate in a meeting of the directors or of any committee of the directors in person or by telephone if all directors participating in the meeting, whether in person or by telephone or other communications medium, are able to communicate with each other. A director may participate in a meeting of the directors or of any committee of the directors by a communications medium other than telephone if all directors participating in the meeting, whether in person or by telephone or other communications medium, are able to communicate with each other and if all directors who wish to participate in the meeting agree to such participation. A director who participates in a meeting in a manner contemplated by this Article 18.4 is deemed for all purposes of the *Business Corporations Act* and these Articles to be present at the meeting and to have agreed to participate in that manner.

18.5 Calling of Meetings

A director may, and the secretary or an assistant secretary of the Company, if any, on the request of a director must, call a meeting of the directors at any time.

18.6 Notice of Meetings

Other than for meetings held at regular intervals as determined by the directors pursuant to Section 18.1, reasonable notice of each meeting of the directors, specifying the place, day and time of that meeting must be given to each of the directors and the alternate directors by any method set out in Section 24.1 or orally or by telephone.

18.7 When Notice Not Required

It is not necessary to give notice of a meeting of the directors to a director or an alternate director if:

(1) the meeting is to be held immediately following a meeting of shareholders at which that director was elected or appointed, or is the meeting of the directors at which that director is appointed; or

(2) the director or alternate director, as the case may be, has waived notice of the meeting.

18.8 Meeting Valid Despite Failure to Give Notice

The accidental omission to give notice of any meeting of directors to, or the non-receipt of any notice by, any director or alternate director, does not invalidate any proceedings at that meeting.

18.9 Waiver of Notice of Meetings

Any director or alternate director may send to the Company a document signed by him or her waiving notice of any past, present or future meeting or meetings of the directors and may at any time withdraw that waiver with respect to meetings held after that withdrawal. After sending a waiver with respect to all future meetings and until that waiver is withdrawn, no notice of any meeting of the directors need be given to that director and, unless the director otherwise requires by notice in writing to the Company, to his or her alternate director, and all meetings of the directors so held are deemed not to be improperly called or constituted by reason of notice not having been given to such director or alternate director.

18.10 Quorum

A majority of the directors, in person or by means of conference telephone or other communications equipment as permits all person participating in the meeting to communicate with each other simultaneously and instantaneously, shall constitute a quorum at any meeting of the board.

18.11 Validity of Acts Where Defective

Subject to the *Business Corporations Act*, an act of a director or officer is not invalid merely because of an irregularity in the election or appointment or a defect in the qualification of that director or officer.

18.12 Consent Resolutions in Writing

A resolution of the directors or of any committee of the directors may be passed without a meeting:

(1) in all cases, if each of the directors entitled to vote on the resolution consents to it in writing; or

(2) in the case of a resolution to approve a contract or transaction in respect of which a director has disclosed that he or she has or may have a disclosable interest, if each of the other directors who are entitled to vote on the resolution consents to it in writing.

A consent in writing under this Article may be by signed document, fax, email or any other method of transmitting legibly recorded messages. A consent in writing may be in two or more counterparts which together are deemed to constitute one consent in writing. A resolution of the directors or of any committee of the directors passed in accordance with this Section 18.12 is effective on the date stated in the consent in writing or on the latest date stated on any counterpart and is deemed to be a proceeding at a meeting of directors or of the committee of the directors and to be as valid and effective as if it had been passed at a meeting of the directors or of the committee of the directors that satisfies all the requirements of the *Business Corporations Act* and all the requirements of these Articles relating to meetings of the directors or of a committee of the directors.

19. Executive and Other Committees

19.1 Appointment and Powers of Executive Committee

The directors may, by resolution, appoint an executive committee consisting of the director or directors that they consider appropriate, and this committee has, during the intervals between meetings of the board of directors, all of the directors' powers, except:

(1) the power to fill vacancies in the board of directors;

(2) the power to remove a director;

(3) the power to change the membership of, or fill vacancies in, any committee of the directors; and

(4) such other powers, if any, as may be set out in the resolution or any subsequent directors' resolution.

19.2 Appointment and Powers of Other Committees

The directors may, by resolution:

(1) appoint one or more committees (other than the executive committee) consisting of the director or directors that they consider appropriate;

(2) delegate to a committee appointed under paragraph (1) any of the directors' powers, except:

   a. the power to fill vacancies in the board of directors;

   b. the power to remove a director;

   c. the power to change the membership of, or fill vacancies in, any committee of the directors; and

   d. the power to appoint or remove officers appointed by the directors; and

(3) make any delegation referred to in paragraph (2) subject to the conditions set out in the resolution or any subsequent directors' resolution.

19.3 Obligations of Committees

Any committee appointed under Sections 19.1 or 19.2, in the exercise of the powers delegated to it, must:

(1) conform to any rules that may from time to time be imposed on it by the directors; and

(2) report every act or thing done in exercise of those powers at such times as the directors may require.

19.4 Powers of Board

The directors may, at any time, with respect to a committee appointed under Sections 19.1 or 19.2:

(1) revoke or alter the authority given to the committee, or override a decision made by the committee, except as to acts done before such revocation, alteration or overriding;

(2) terminate the appointment of, or change the membership of, the committee; and

(3) fill vacancies in the committee.

19.5 Committee Meetings

Subject to Section 19.3(1) and unless the directors otherwise provide in the resolution appointing the committee or in any subsequent resolution, with respect to a committee appointed under Sections 19.1 or 19.2:

(1) the committee may meet and adjourn as it thinks proper;

(2) the committee may elect a chair of its meetings but, if no chair of a meeting is elected, or if at a meeting the chair of the meeting is not present within 15 minutes after the time set for holding the meeting, the directors present who are members of the committee may choose one of their number to chair the meeting;

(3) a majority of the members of the committee constitutes a quorum of the committee; and

(4) questions arising at any meeting of the committee are determined by a majority of votes of the members present, and in case of an equality of votes, the chair of the meeting does not have a second or casting vote.

20. Officers

20.1 Directors May Appoint Officers

The directors may, from time to time, appoint such officers, if any, as the directors determine and the directors may, at any time, terminate any such appointment.

20.2 Functions, Duties and Powers of Officers

The directors may, for each officer:

(1) determine the functions and duties of the officer;

(2) entrust to and confer on the officer any of the powers exercisable by the directors on such terms and conditions and with such restrictions as the directors think fit; and

(3) revoke, withdraw, alter or vary all or any of the functions, duties and powers of the officer.

20.3 Qualifications

No officer may be appointed unless that officer is qualified in accordance with the *Business Corporations Act*. One person may hold more than one position as an officer of the Company. Any person appointed as the chair of the board or as a managing director must be a director. Any other officer need not be a director.

20.4 Remuneration and Terms of Appointment

All appointments of officers are to be made on the terms and conditions and at the remuneration (whether by way of salary, fee, commission, participation in profits or otherwise) that the directors thinks fit and are subject to termination at the pleasure of the directors, and an officer may in addition to such remuneration be entitled to receive, after he or she ceases to hold such office or leaves the employment of the Company, a pension or gratuity.

21. Indemnification

21.1 Definitions

In this Article 21:

(1) "eligible penalty" means a judgment, penalty or fine awarded or imposed in, or an amount paid in settlement of, an eligible proceeding;

(2) "eligible proceeding" means a legal proceeding or investigative action, whether current, threatened, pending or completed, in which a director, former director or alternate director of the Company (an "eligible party") or any of the heirs and legal personal representatives of the eligible party, by reason of the eligible party being or having been a director or alternate director of the Company:

   a. is or may be joined as a party; or

   b. is or may be liable for or in respect of a judgment, penalty or fine in, or expenses related to, the proceeding;

(3) "expenses" has the meaning set out in the *Business Corporations Act*.

21.2 Mandatory Indemnification of Directors and Former Directors

Subject to the *Business Corporations Act*, the Company must indemnify a director, former director or alternate director of the Company and his or her heirs and legal personal representatives against all eligible penalties to which such person is or may be liable, and the Company must, after the final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by such person in respect of that proceeding. Each director and alternate director is deemed to have contracted with the Company on the terms of the indemnity contained in this Section 21.2.

21.3 Indemnification of Other Persons

Subject to any restrictions in the *Business Corporations Act*, the Company may indemnify any person.

21.4 Non-Compliance with *Business Corporations Act*

The failure of a director, alternate director or officer of the Company to comply with the *Business Corporations Act* or these Articles does not invalidate any indemnity to which he or she is entitled under this Part.

21.5 Company May Purchase Insurance

The Company may purchase and maintain insurance for the benefit of any person (or his or her heirs or legal personal representatives) who:

(1) is or was a director, alternate director, officer, employee or agent of the Company;

(2) is or was a director, alternate director, officer, employee or agent of a corporation at a time when the corporation is or was an affiliate of the Company;

(3) at the request of the Company, is or was a director, alternate director, officer, employee or agent of a corporation or of a partnership, trust, joint venture or other unincorporated entity;

(4) at the request of the Company, holds or held a position equivalent to that of a director, alternate director or officer of a partnership, trust, joint venture or other un incorporated entity;

against any liability incurred by him or her as such director, alternate director, officer, employee or agent or person who holds or held such equivalent position.

22. Dividends

22.1 Payment of Dividends Subject to Special Rights

The provisions of this Article 22 are subject to the rights, if any, of shareholders holding shares with special rights as to dividends.

22.2 Declaration of Dividends

Subject to Article 32 and the *Business Corporations Act*, the directors may from time to time declare and authorize payment of such dividends as they may deem advisable.

22.3 No Notice Required

The directors need not give notice to any shareholder of any declaration under Section 22.2.

22.4 Record Date

The directors may set a date as the record date for the purpose of determining shareholders entitled to receive payment of a dividend. The record date must not precede the date on which the dividend is to be paid by more than two months. If no record date is set, the record date is 5 p.m. on the date on which the directors pass the resolution declaring the dividend.

22.5 Manner of Paying Dividend

A resolution declaring a dividend may direct payment of the dividend wholly or partly by the distribution of specific assets or of fully paid shares or of bonds, debentures or other securities of the Company, or in any one or more of those ways.

22.6 Settlement of Difficulties

If any difficulty arises in regard to a distribution under Section 22.5, the directors may settle the difficulty as they deem advisable, and, in particular, may:

(1) set the value for distribution of specific assets;

(2) determine that cash payments in substitution for all or any part of the specific assets to which any shareholders are entitled may be made to any shareholders on the basis of the value so fixed in order to adjust the rights of all parties; and

(3) vest any such specific assets in trustees for the persons entitled to the dividend.

22.7 When Dividend Payable

Any dividend may be made payable on such date as is fixed by the directors.

22.8 Dividends to be Paid in Accordance with Number of Shares

All dividends on shares of any class or series of shares must be declared and paid according to the number of such shares held.

22.9 Receipt by Joint Shareholders

If several persons are joint shareholders of any share, any one of them may give an effective receipt for any dividend, bonus or other money payable in respect of the share.

22.10 Dividend Bears No Interest

No dividend bears interest against the Company.

22.11 Fractional Dividends

If a dividend to which a shareholder is entitled includes a fraction of the smallest monetary unit of the currency of the dividend, that fraction may be disregarded in making payment of the dividend and that payment represents full payment of the dividend.

22.12 Payment of Dividends

Any dividend or other distribution payable in cash in respect of shares may be paid by cheque, made payable to the order of the person to whom it is sent, and mailed to the address of the shareholder, or in the case of joint shareholders, to the address of the joint shareholder who is first named on the central securities register, or to the person and to the address the shareholder or joint shareholders may direct in writing. The mailing of such cheque will, to the extent of the sum represented by the cheque (plus the amount of the tax required by law to be deducted), discharge all liability for the dividend unless such cheque is not paid on presentation or the amount of tax so deducted is not paid to the appropriate taxing authority.

22.13 Capitalization of Surplus

Notwithstanding anything contained in these Articles, the directors may from time to time capitalize any surplus of the Company and may from time to time issue, as fully paid, shares or any bonds, debentures or other securities of the Company as a dividend representing the surplus or any part of the surplus.

23. Accounting Records

23.1 Recording of Financial Affairs

The directors must cause adequate accounting records to be kept to record properly the financial affairs and condition of the Company and to comply with the *Business Corporations Act*.

23.2 Inspection of Accounting Records

Unless the directors determine otherwise, or unless otherwise determined by ordinary resolution, no shareholder of the Company is entitled to inspect or obtain a copy of any accounting records of the Company.

24. Notices

24.1 Method of Giving Notice

Unless the *Business Corporations Act* or these Articles provides otherwise, a notice, statement, report or other record required or permitted by the *Business Corporations Act* or these Articles to be sent by or to a person may be sent by any one of the following methods:

(1) mail addressed to the person at the applicable address for that person as follows:

  a. for a record mailed to a shareholder, the shareholder's registered address;

  b. for a record mailed to a director or officer, the prescribed address for mailing shown for the director or officer in the records kept by the Company or the mailing address provided by the recipient for the sending of that record or records of that class;

  c. in any other case, the mailing address of the intended recipient;

(2) delivery at the applicable address for that person as follows, addressed to the person:

  a. for a record delivered to a shareholder, the shareholder's registered address;

  b. for a record delivered to a director or officer, the prescribed address for delivery shown for the director or officer in the records kept by the Company or the delivery address provided by the recipient for the sending of that record or records of that class;

  c. in any other case, the delivery address of the intended recipient;

(3) sending the record by fax to the fax number provided by the intended recipient for the sending of that record or records of that class;

(4) sending the record by email to the email address provided by the intended recipient for the sending of that record or records of that class;

(5) physical delivery to the intended recipient.

24.2 Deemed Receipt of Mailing

A record that is mailed to a person by ordinary mail to the applicable address for that person referred to in Section 24.1 is deemed to be received by the person to whom it was mailed on the day, Saturdays, Sundays and holidays excepted, following the date of mailing.

24.3 Certificate of Sending

A certificate signed by the secretary, if any, or other officer of the Company or of any other corporation acting in that behalf for the Company stating that a notice, statement, report or other record was addressed as required by Section 24.1, prepaid and mailed or otherwise sent as permitted by Section 24.1 is conclusive evidence of that fact.

24.4 Notice to Joint Shareholders

A notice, statement, report or other record may be provided by the Company to the joint shareholders of a share by providing the notice to the joint shareholder first named in the central securities register in respect of the share.

24.5 Notice to Trustees

A notice, statement, report or other record may be provided by the Company to the persons entitled to a share in consequence of the death, bankruptcy or incapacity of a shareholder by:

(1) mailing the record, addressed to them:

a. by name, by the title of the legal personal representative of the deceased or incapacitated shareholder, by the title of trustee of the bankrupt shareholder or by any similar description; and

b. at the address, if any, supplied to the Company for that purpose by the persons claiming to be so entitled; or

(2) if an address referred to in paragraph (1)(b) has not been supplied to the Company, by giving the notice in a manner in which it might have been given if the death, bankruptcy or incapacity had not occurred.

25. Seal

25.1 Who May Attest Seal

Except as provided in Sections 25.2 and 25.3, the Company's seal, if any, must not be impressed on any record except when that impression is attested by the signatures of:

(1) any two directors;

(2) any officer, together with any director;

(3) if the Company only has one director, that director; or

(4) any one or more directors or officers or persons as may be determined by the directors.

25.2 Sealing Copies

For the purpose of certifying under seal a certificate of incumbency of the directors or officers of the Company or a true copy of any resolution or other document, despite Section 25.1, the impression of the seal may be attested by the signature of any director or officer.

25.3 Mechanical Reproduction of Seal

The directors may authorize the seal to be impressed by third parties on share certificates or bonds, debentures or other securities of the Company as they may determine appropriate from time to time. To enable the seal to be impressed on any share certificates or bonds, debentures or other securities of the Company, whether in definitive or interim form, on which facsimiles of any of the signatures of the directors or officers of the Company are, in accordance with the *Business Corporations Act* or these Articles, printed or otherwise mechanically reproduced, there may be delivered to the person employed to engrave, lithograph or print such definitive or interim share certificates or bonds, debentures or other securities one or more unmounted dies reproducing the seal and the chair of the board or any senior officer together with the secretary, treasurer, secretary-treasurer, an assistant secretary, an assistant treasurer or an assistant secretary-treasurer may in writing authorize such person to cause the seal to be impressed on such definitive or interim share certificates or bonds, debentures or other securities by the use of such dies. Share certificates or bonds, debentures or other securities to which the seal has been so impressed are for all purposes deemed to be under and to bear the seal impressed on them.

26. Prohibitions

26.1 Definitions

In this Article 26:

(1) "**designated security**" means:

a. a voting security of the Company;

b. a security of the Company that is not a debt security and that carries a residual right to participate in the earnings of the Company or, on the liquidation or winding up of the Company, in its assets; or

c. a security of the Company convertible, directly or indirectly, into a security described in paragraph (a) or (b);

(2) "**security**" has the meaning assigned in the Securities Act (British Columbia);

(3) "**voting security**" means a security of the Company that:

a. is not a debt security, and

b. carries a voting right either under all circumstances or under some circumstances that have occurred and are continuing.

26.2 Application

Section 26.3 does not apply to the Company if and for so long as it is a public company or a pre-existing reporting company which has the Statutory Reporting Company Provisions as part of its Articles or to which the Statutory Reporting Company Provisions apply.

26.3 Consent Required for Transfer of Shares or Designated Securities

No share or designated security may be sold, transferred or otherwise disposed of without the consent of the directors and the directors are not required to give any reason for refusing to consent to any such sale, transfer or other disposition.

27. Interpretation

27.1 Definitions

For purposes of Articles 27, 28, 29, 30, 31 and 32:

(a) "**Act**" means the Business Companies Act (British Columbia) from time to time in force and all amendments thereto and includes all regulations and amendments thereto made pursuant to that Act;

(b) "**Anti-Dilution Shares**" shall mean, collectively, the Class B Shares and the Class C Shares outstanding from time to time;

(c) "**Applicable Law**" means, with respect to any Person, property, transaction, event or other matter, any law, rule, statute, regulation, order, judgment, decree, treaty or other requirement having the force of law (collectively, the "Law") relating or applicable to such Person, property, transaction, event or other matter. Applicable Law also includes, where appropriate, any interpretation of the Law (or any part) by any Person having jurisdiction over it or charged with its administration or interpretation;

(d) "**Board of Directors**" means the board of directors of the Company;

(e) "**Class A Shares**" means Class A Voting Participating Common Shares in the capital of the Company;

(f) "**Class B Conversion Value**" means the number determined in accordance with Article 31;

(g) "**Class B Shares**" means Class B Voting Participating Common Shares in the capital of the Company;

(h) "**Class C Conversion Value**" means the number determined in accordance with Article 31;

(i) "**Class C Shares**" means Class C Voting Participating Common Shares in the capital of the Company;

(j) "**Conversion Date**" means the date on which the documentation set out in section 30.7(a) is received by the Company

(k) "**Common Shares**" means, collectively, the Class A Shares, the Class B Shares and the Class C Shares outstanding from time to time;

(l) "**Company**" means Cannatech Plant Systems Inc.;

(m) "**Derivative Securities**" means:

a. all shares and other securities that are convertible into or exchangeable for Common Shares (including the Anti-Dilution Shares); and

b. all options, warrants and other rights to acquire Common Shares or securities convertible into or exchangeable for Common Shares;

(n) "**Dilutive Issue**" has the meaning attributed thereto in section 31.2 hereof;

(o) "**EBITDA**" means, for any fiscal period, that amount equal to the net income of the Company from continuing operations for such period determined in accordance with GAAP plus, to the extent deducted in determining net income, interest expense, income taxes, depreciation and amortization, and before unusual, non-recurring or extraordinary items to the extent that they do not result in a payment of cash by the Company during such period, but after unusual, non-recurring or extraordinary items that result in a payment of cash by the Company during such period;

(p) "**Holders**" means, at any time, the holders of all outstanding Anti-Dilution Shares;

(q) "**Issuance Date**" means the first date on which Anti-Dilution Shares are issued;

(r) "**Liquidation Event**" means:

a. a voluntary or involuntary liquidation, dissolution or winding-up of the affairs of the Company;

b. a transaction or series of related transactions involving the amalgamation or merger of the Company with another Company, or an arrangement or other transaction;

c. a sale of 50% or more of any voting shares in the capital of the Company, or any other transaction or series of related transactions, in which the shareholders of the Company immediately prior to such event do not own, after completion of such event, shares in the capital of the Company carrying a majority of the voting rights then outstanding (other than a Qualified IPO); or

d. a sale of all or substantially all of the assets or undertaking of the Company;

(s) "**Person**" means any individual, sole proprietorship, partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, and a natural person in his capacity as trustee, executor, administrator, or other legal representative;

(t) "**Qualified Exchange**" means the AIM Exchange, the Toronto Stock Exchange, the New York Stock Exchange or the Nasdaq National Market, any successor exchange or market thereto or any other exchange or market consented to by shareholders holding a majority of the Class A Shares;

(u) "**Qualified IPO**" means either:

a. a firmly underwritten public offering of Common Shares in which immediately following the closing, the Common Shares are listed for trading or are quoted, as the case may be, on a Qualified Exchange; or

b. a sale of all or substantially all of the assets or shares in the capital of the Company to another entity (the "**Purchaser**"), pursuant to which shares or other securities of the Purchaser (which are listed or quoted on a Qualified Exchange, as applicable), are received as payment by the holders of the Common Shares;

(v) "**Shares**" means, at any time, (a) the Common Shares, and (b) any other equity securities now or hereafter issued by the Company, together with any Derivative Securities and any other shares issued or issuable with respect thereto (whether by way of a share dividend, share split or in exchange for or upon conversion of such shares or otherwise in connection with a combination of shares, recapitalization, merger, amalgamation, arrangement, consolidation or other corporate reorganization);

(w) "**Stock Split**" means:

a. the issuance of Common Shares as a dividend or other distribution on outstanding Common Shares;

b. the subdivision of outstanding Common Shares into a greater number of Common Shares; or

c. the combination of outstanding Common Shares into a smaller number of Common Shares.

27.2 Consent of Holders

For purposes of these articles, unless the specific context requires otherwise, where an action is to be taken by the Holders "by consent", in addition to the requirements of applicable law, if any, such action may be taken if two or more Holders of record who hold collectively at least fifty percent (50%) of the outstanding Class B Shares or Class C Shares, as applicable:

(a) agree in writing; or,

(b) pass a resolution to such effect at a duly constituted meeting of Holders, voting as a single class.

28. Consent Rights Attaching to the Class A Shares

28.1 Veto Rights

In addition to the approvals required by the Act and as long as there are issued and outstanding Class A Shares, the Company may not, without the prior approval of holders of Class A Shares, approve, authorize, enter into or carry out:

(a) any transfer or issuance of Shares;

(b) any amendment or other variation to the constating documents of the Company, including any proposal to increase the authorized share capital of the Company or any proposal to create, reclassify, redesignate, subdivide, consolidate or otherwise change any Shares (whether issued or unissued);

(c) any dissolution, liquidation or winding-up of the Company or other distribution of the assets of the Company for the purpose of winding-up its affairs, whether voluntary or involuntary;

(d) any transaction between the Company and any Person not dealing at arm's length with the Company or any of its shareholders or directors;

(e) the issuance of any Shares in the capital of the Company or any securities, warrants, options or rights convertible into, exchangeable for, or carrying the right to subscribe for, Shares in the capital of the Company or the entering of any agreement or arrangement respecting the foregoing;

(f) the redemption or purchase for cancellation of any Shares in the capital of the Company;

(g) the transfer by the Company of any right, title or interest it may now or hereafter have in or to any shares in the capital of any other entity;

(h) any change in the accountant of the Company;

(i) the approval of, or the approval of any material alteration in, the annual operating budget or business plan of the Company;

(j) declaring or paying any dividend or other distribution on or in respect of any Shares of the Company; paying or distributing amounts out of any capital account, reducing any capital account, distributing any surplus or earnings, or returning any capital;

(k) amalgamating, merging or entering into an arrangement or other corporate reorganization involving the Company or the continuance of the Company into any other jurisdiction;

(l) acknowledging the insolvency of the Company or the inability of the Company to pay its debts as they become due; (ii) making an assignment for the benefit of the creditors of the Company; (iii) appointing or allowing the appointment of any receiver, receiver-manager, trustee, liquidator or other Person acting in a similar capacity; (iv) instituting any proceeding seeking to have the Company adjudicated a bankrupt or insolvent; or (v) taking any action or instituting any proceeding for the purpose of, or leading to, the liquidation, dissolution, winding-up, reorganization, arrangement, adjustment, protection, relief or composition of the Company or its debts under any Applicable Law relating to bankruptcy, insolvency, reorganization or relief of debtors;

(m) any proposed sale, lease, exchange or other disposition of property or assets of the Company other than in the ordinary course of business or set out in the approved business plan and budget;

(n) any purchase of material assets or shares by the Company other than in the ordinary course of business;

(o) any borrowing or other financing by the Company or the application for, or obtaining of, any line of credit by the Company from any lender or any material alteration in such financing arrangements or the repayment of any debt;

(p) any assignment, mortgage, charge, pledge, encumbrance of, or grant of a security interest in, property or assets of the Company other than as specifically provided for herein;

(q) any provision of any guarantee, indemnity or other financial support by the Company of any other Person;

(r) the termination of, or any amendment or other variation to, the management services agreement between the Company and FlowCo Services LP, or any of its successors, which, for clarity, is understood to be controlled, as at the Issuance Date, by the holders of the Class A Shares;

(s) the annual business plan and budget and all amendments thereto or deviations there from;

(t) the hiring or dismissal by the Company of any employee, and the determination of, or any material alteration in, the remuneration and compensation or other terms and conditions of employment of any employees;

(u) any change in the number of directors on the Board of Directors; or

(v) an agreement to do any of the foregoing;

The above-mentioned approval by holders of Class A Shares shall be considered as having been validly obtained if the holders of at least two-thirds (2/3) in number of the then issued and outstanding Class A Shares adopt a resolution to that effect during a special shareholders meeting called for this purpose.

29. Voting Rights; Rights to Distribution of Assets

29.1 Entitlement to Vote

Except as required by the Act, each holder of Common Shares is entitled to vote on all matters submitted to a vote of shareholders of the Company.

29.2 Number of Votes

(a) Each Class A Share entitles the holder thereof to one (1) vote per Class A Share.

(b) Each Anti-Dilution Share entitles the Holder to the number of votes per share equal to the number of Class A Shares into which such Anti-Dilution Share is convertible pursuant to these Anti-Dilution Share provisions as of the record date for the determination of shareholders entitled to vote on such matter, or if no record date is established, the date such vote is taken or any written consent of shareholders is solicited.

29.3 Single Class

Except as otherwise provided in the Company's articles, as amended, or required by the Act, the Holders will vote together with the holders of Class A Shares and any other class of voting securities as a single class on all matters submitted to a vote of shareholders.

29.4 Exception to Single Class

Any addition to, change to or removal of any right, privilege, restriction or condition attaching to the Anti-Dilution Shares requires approval of the Holders by consent.

29.5 Rights to Distribution of Assets

In the event of liquidation, dissolution, or winding up of the Company, whether voluntary or involuntary, the holders of Class A Shares, Class B Shares and Class C Shares shall all be entitled to share equally (on an as-if-converted to Class A Shares basis) in any distribution of the assets of the Company.

30. Conversion of Anti-Dilution Shares

30.1 Optional Conversion Rights

The Anti-Dilution Shares are convertible, at any time and from time to time at the option of the Holder and without payment of additional consideration, into Class A Shares.

30.2 Class B Share Automatic Conversion

The Class B Shares automatically convert into Class A Shares upon the occurrence of the earlier of:

(a) the closing of a Qualified IPO; or

(b) the approval of the Holders by consent.

30.3 Class C Share Automatic Conversion

The Class C Shares automatically convert into Class A Shares upon the occurrence of the earlier of:

(a) the closing of a Qualified IPO; or

(b) the approval of the Holders by consent; or

(c) the Company reaching an enterprise value of not less than $40,000,000 (enterprise value shall be deemed to be not less than $40,000,000 when the product of multiplying the EBITDA of the Company by a factor of 15 is not less than $40,000,000); or

(d) a sale of all or substantially all the assets of or shares in the capital of the Company, in a single transaction or a series of related transactions, where the consideration proposed to be paid for same is to be in the form of cash or cash equivalents equal to or greater than $40,000,000; or

(e) an equity financing of the Company where Shares are issued to one or more non-arm's length parties in exchange for consideration of cash or cash equivalents equal to or greater than $2,000,000, which values the enterprise value of the Company at not less than $40,000,000.

30.4 Conversion Rate

(a) The number of Class A Shares into which each Class B Share is convertible is equal to the Class B Conversion Value.

(b) The number of Class A Shares into which each Class C Share is convertible is equal to the Class C Conversion Value.

30.5 Time of Conversion

Conversion is deemed to be effected:

(a) in the case of an optional conversion, immediately prior to the close of business on the Conversion Date; and

(b) in the case of automatic conversion, immediately prior to and conditional upon the occurrence of the event giving rise to the automatic conversion.

30.6 Effect of Conversion

Upon the conversion of the Anti-Dilution Shares:

(a) the rights of a Holder as a holder of the converted Anti-Dilution Shares cease, with the exception of any declared but unpaid dividends, which shall be paid as soon as practicable after conversion;

(b) each person in whose name any certificate for Class A Shares is issuable upon such conversion is deemed to have become the holder of record of such Class A Shares.

30.7 Mechanics of Optional Conversion

(a) To exercise optional conversion rights under Section 30.1, a Holder must:

  i. give written notice to the Company at its principal office:

    1. stating that the Holder elects to convert such shares; and

    2. providing the name or names (with address or addresses) in which the certificate or certificates for Class A Shares issuable upon such conversion are to be issued. Provided that there shall be no change in beneficial ownership resulting from the exercise of these conversion rights except as permitted in any applicable shareholder agreement;

  ii. surrender the certificate or certificates representing the Anti-Dilution Shares being converted to the Company at its principal office; and

  iii. where the Class A Shares are to be registered in the name of a person other than the Holder, provide evidence satisfactory to the Company of proper assignment and transfer of the surrendered Anti-Dilution Shares, including evidence of compliance with applicable securities laws and any applicable shareholder agreement.

(b) Within 10 days after the Conversion Date, the Company will issue and deliver to the Holder a certificate or certificates in such denominations as such Holder requests for the number of full Class A Shares issuable upon the conversion of such Anti-Dilution Shares, together with cash in respect of any fractional Class A Shares issuable upon such conversion.

30.8 Mechanics of Automatic Conversion

(a) Upon the automatic conversion of any Anti-Dilution Shares into Class A Shares, each Holder must surrender the certificate or certificates formerly representing that Holder's Anti-Dilution Shares at the principal office of the Company.

(b) Upon receipt by the Company of the certificate or certificates, the Company will issue and deliver to such Holder, promptly at the principal office of the Company and in the name shown on the surrendered certificate or certificates, a certificate or certificates for the number of Class A Shares into which such Anti-Dilution Shares are converted, together with cash in respect of any fractional Class A Shares issuable upon such conversion.

(c) The Company, is not required to issue certificates evidencing the Class A Shares issuable upon conversion until certificates formerly evidencing the converted Anti-Dilution Shares are either delivered to the Company or its transfer agent, or the Holder notifies the Company or such transfer agent that such certificates have been lost, stolen or destroyed, and executes and delivers an agreement satisfactory to the Company indemnifying the Company from any loss incurred by the Company in connection with the loss, theft or destruction.

30.9 Fractional Shares

The Company will not issue fractional Class A Shares upon conversion of the Anti-Dilution Shares. Instead of any fractional Class A Shares that would otherwise be issuable upon conversion of Anti-Dilution Shares, the Company will pay to the Holder a cash adjustment in respect of such fraction in an amount equal to the same fraction of the market price per Class A Share (as determined in a manner reasonably prescribed by the Board of Directors) at the close of business on the date of conversion.

30.10 Partial Conversion

If some but not all of the Anti-Dilution Shares represented by a certificate or certificates surrendered by a Holder are converted, the Company will execute and deliver to or on the order of the Holder, at the expense of the Company, a new certificate representing the number of Anti-Dilution Shares that were not converted.

31. Conversion Value

31.1 Initial Conversion Value

(a) The initial Class B Conversion Value for the Class B Shares is equal to 1 and remains in effect until the Class B Conversion Value is adjusted in accordance with the provisions of this Article.

(b) The initial Class C Conversion Value for the Class C Shares is equal to 1 and remains in effect until the Class C Conversion Value is adjusted in accordance with the provisions of this Article.

31.2 Adjustments for Dilution of Class B Shares

If, following the Issuance Date, the Company issues any Shares (any such issue being a "**Dilutive Issue**"), then the Class B Conversion Value shall be adjusted, concurrently with such Dilutive Issue, to equal the result of the following formula:

$$\text{New Class B Conversion Value} = \frac{0.25 * (Q1+Q2)}{P1}$$

in which:

P1 = the aggregate number of Class B Shares outstanding immediately prior to such issuance of additional Shares;

Q1 = the aggregate number of Shares deemed to be outstanding (including all Derivative Securities calculated on an "as-converted" to Class A Shares basis, if applicable) immediately prior to such issuance of additional Shares;

Q2 = the number of Shares issued or deemed issued (including all Derivative Securities calculated on an "as-converted" to Class A Shares basis, if applicable) in respect of such issuance of additional Shares.

31.3 Adjustments for Dilution of Class C Shares

If, following the Issuance Date, the Company issues any Shares (any such issue being a "**Dilutive Issue**"), then the Class C Conversion Value shall be adjusted, concurrently with such Dilutive Issue, to equal the result of the following formula:

$$\text{New Class C Conversion Value} = \frac{0.2 * (Q1+Q2)}{P1}$$

in which:

P1 = the aggregate number of Class C Shares outstanding immediately prior to such issuance of additional Shares;

Q1 = the aggregate number of Shares deemed to be outstanding (including all Derivative Securities calculated on an "as-converted" to Class A Shares basis, if applicable) immediately prior to such issuance of additional Shares;

Q2 = the number of Shares issued or deemed issued (including all Derivative Securities calculated on an "as-converted" to Class A Shares basis, if applicable) in respect of such issuance of additional Shares.

31.4 Additional Provisions Regarding Dilution

For purposes of Sections 31.2 or 31.3:

(a) no adjustment of the Class B Conversion Value or Class C Conversion Value is to be made upon the issuance of any Shares that are issued upon the exercise, conversion or exchange of any Derivative Securities if any such adjustment was previously made upon the original issuance of such Derivative Securities;

(b) any adjustment of the Class B Conversion Value or Class C Conversion Value is to be disregarded if, and to the extent that, the Derivative Securities that gave rise to such adjustment expire or are cancelled without having been exercised or converted, so that the Class B Conversion Value or Class C Conversion Value, as applicable, effective immediately upon such cancellation or expiration is equal to the Class B Conversion Value or Class C Conversion Value that otherwise would have been in effect immediately prior to the time of the issuance of the expired or cancelled Derivative Securities, with any additional adjustments as subsequently would have been made to that Class B Conversion Value or Class C Conversion Value had the expired or cancelled Derivative Securities not been issued;

(c) if the terms of any Derivative Securities previously issued by the Company are changed (whether by their terms or for any other reason) so as to raise or lower the number of Class A Shares issuable upon conversion of the Derivative Securities, the Class B Conversion Value and Class C Conversion Value are adjusted as of the date of such change, so that the Class B Conversion Value and Class C Conversion Value is equal to the Class B Conversion Value or Class C Conversion Value, as applicable, at the time of the issuance of the Derivative Securities, adjusted for the issuance of such Derivative Securities after giving effect to the change; and with any additional adjustments as would subsequently have been made had the Derivative Securities been issued on the changed terms; and

(d) the Shares to be issued by the Company in respect of Derivative Securities is determined in each instance:

   i. as of the date of issuance of Derivative Securities without giving effect to any possible future price adjustments or rate adjustments that might be applicable with respect to such Derivative Securities and that are contingent upon future events; and

   ii. in the case of an adjustment to be made as a result of a change in terms of any Derivative Securities, as of the date of such change.

31.5 Excluded Transactions

No adjustment to the Class B Conversion Value or Class C Conversion Value is to be made upon the issuance of:

(a) Shares in connection with a Qualified IPO;

(b) Shares pursuant to a Stock Split (other than the adjustments set out in section 31.6);

(c) Shares upon conversion of any Anti-Dilution Shares; or

(d) Shares upon exercise, conversion or exchange of Derivative Securities that are outstanding on the Issuance Date.

31.6 Adjustments for Stock Splits

After the Issuance Date, the Class B Conversion Value and Class C Conversion Value are adjusted upon a Stock Split, automatically and simultaneously with the Stock Split, such that the Class B Conversion Value or Class C Conversion Value, as applicable, is equal to the product obtained by multiplying the respective Class B Conversion Value or Class C Conversion Value immediately before the Stock Split by a fraction:

(a) the numerator of which is the number of Shares issued and outstanding immediately before the Stock Split; and

(b) the denominator of which is the number of Share issued and outstanding immediately after the Stock Split.

31.7 Adjustments for Capital Reorganizations

If, following the Issuance Date, the Class A Shares are changed into the same or a different number of shares of any class or series of stock, whether by capital reorganization, reclassification or otherwise (other than in connection with a Liquidation Event), the Company will provide each Holder with the right to convert each Anti-Dilution Share into the kind and amount of shares, other securities and property receivable upon such change that a holder of a number of Class A Shares equal to the number of Class A Shares into which such Anti-Dilution Share was convertible immediately prior to the change is entitled to receive upon such change.

31.8 No Impairment

The Company will not, by amendment of its articles or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed under this Article, but will at all times in good faith assist in the carrying out of all the provisions of Article 31 and Article 32, and in the taking of any action necessary or appropriate in order to protect the conversion rights of the Holders against impairment.

31.9 Certificate as to Adjustments

In each case of an adjustment or readjustment of the Class B Conversion Value or Class C Conversion Value, the Company will promptly furnish each Holder with a certificate, prepared by the Company's auditors, showing such adjustment or readjustment and stating in reasonable detail the facts upon which such adjustment or readjustment is based.

31.10 Further Adjustment Provisions

If, at any time as a result of an adjustment made pursuant to this Article 31, a Holder becomes entitled to receive any shares or other securities of the Company other than Class A Shares upon surrendering Anti-Dilution Shares for conversion, the Class B Conversion Value or Class C Conversion Value in respect of such other shares or securities will be adjusted after that time, and will be subject to further adjustment from time to time, in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Anti-Dilution Shares contained in this Article, and the remaining provisions of these Anti-Dilution Shares provisions apply on the same or similar terms to any such other shares or securities.

32. Miscellaneous

32.1 Other Rights

Except as otherwise provided in Sections 27 to 32 of these Articles, or required by the Act, the Common Shares:

(a) are identical in all respects (each Anti-Dilution Share having equivalent rights to the number of Class A Shares into which it is then convertible);

(b) have the same powers, preferences and rights; and

(c) are to be treated as a single class of shares for all purposes.

32.2 Subdivision and Consolidation

In the event that the Common Shares are at any time subdivided, consolidated or otherwise reclassified or exchanged for shares of another class, the rights, privileges and restrictions attached to the shares of the other class of shares will be amended at the same time so as to preserve the rights conferred by the Company's articles, as amended, on each class in relation to the other class.

32.3 Notices of Record Dates

If:

(a) the Company establishes a record date to determine the holders of any class of securities who are entitled to receive any dividend or other distribution; or

(b) there occurs any Stock Split or other capital reorganization of the Company, any reclassification or recapitalization of the capital of the Company, any merger or consolidation of the Company, or any transfer of all or substantially all of the assets of the Company to any other company or to any other entity or person, or any voluntary or involuntary dissolution, liquidation or winding-up of the Company.

the Company will deliver to each Holder, at least 30 days prior to such record date or the proposed effective date of the relevant transaction, a notice specifying:

i. the date of such record date for the purpose of such dividend or distribution and a description of such dividend or distribution;

ii. the date on which any such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation, or winding-up is expected to become effective; and

iii. the time, if any, that is to be fixed as to when the holders of record of Common Shares (or other securities) are entitled to exchange their Common Shares (or other securities) for cash, securities or other property deliverable upon such reorganization, reclassification, transfer, consolidation, merger, dissolution, liquidation or winding-up.

32.4 Notices

All notices, requests, payments, instructions or other documents to be given under these Anti-Dilution Shares provisions must be in writing or given by written telecommunication, and will be deemed to have been duly given if:

(a) delivered personally (effective upon delivery);

(b) mailed by certified mail, return receipt requested, postage prepaid (effective five business days after dispatch) if the recipient is located in Canada or the United States;

(c) sent by a reputable, established courier service that guarantees next business day delivery (effective the next business day) if the recipient is located in Canada or the United States;

(d) sent by air mail or by commercial express overseas air courier, with receipt acknowledged in writing by the recipient (effective upon the date of such acknowledgement) if the recipient is located outside the United States or Canada;

(e) sent by fax followed within 24 hours by confirmation by one of the foregoing methods (effective upon receipt of the fax in complete, readable form);

addressed as follows (or to such other address as the recipient party furnishes by notice to the sending party for these purposes):

i. if to any Holder, to the address of such Holder set forth in the register maintained by the Company at its principal executive office in which it enters the names and addresses of its shareholders; and

ii. if to the Company, to the address of its principal office.

This is Exhibit "F" referred to in the affidavit

of DARREN KARASIUK, SWORN BEFORE ME
this 20th day of October 2022

A COMMISSIONER FOR TAKING AFFIDAVITS

BRITISH
COLUMBIA

Number: BC0974062

CERTIFICATE
OF
CHANGE OF NAME

BUSINESS CORPORATIONS ACT

I Hereby Certify that CANNATECH PLANT SYSTEMS INC. changed its name to THE FLOWR GROUP (OKANAGAN) INC. on January 8, 2018 at 10:43 AM Pacific Time.

ELECTRONIC CERTIFICATE

Issued under my hand at Victoria, British Columbia
On January 8, 2018

CAROL PREST
Registrar of Companies
Province of British Columbia
Canada

BRITISH COLUMBIA | BC Registry Services

Mailing Address:
PO Box 9431 Stn Prov Govt
Victoria BC V8W 9V3
www.corporateonline.gov.bc.ca

Location:
2nd Floor - 940 Blanshard Street
Victoria BC
1 877 526-1526

Notice of Alteration

FORM 11
BUSINESS CORPORATIONS ACT
Section 257

Filed Date and Time:	**January 8, 2018 10:43 AM Pacific Time**
Alteration Date and Time:	**Notice of Articles Altered on January 8, 2018 10:43 AM Pacific Time**

NOTICE OF ALTERATION

Incorporation Number:
BC0974062

Name of Company:
CANNATECH PLANT SYSTEMS INC.

Name Reservation Number:
NR8425382

Name Reserved:
THE FLOWR GROUP (OKANAGAN) INC.

ALTERATION EFFECTIVE DATE:

The alteration is to take effect at the time that this application is filed with the Registrar.

CHANGE OF NAME OF COMPANY

From:
CANNATECH PLANT SYSTEMS INC.

To:
THE FLOWR GROUP (OKANAGAN) INC.

BRITISH COLUMBIA

BC Registry Services

Mailing Address:
PO Box 9431 Stn Prov Govt
Victoria BC V8W 9V3
www.corporateonline.gov.bc.ca

Location:
2nd Floor - 940 Blanshard Street
Victoria BC
1 877 526-1526

Cover Sheet

THE FLOWR GROUP (OKANAGAN) INC.

Confirmation of Service

Form Filed:	Notice of Alteration
Date and Time of Filing:	January 8, 2018 10:43 AM Pacific Time
Alteration Effective Date:	The alteration is to take effect at the time that this application is filed with the Registrar.
Name of Company:	THE FLOWR GROUP (OKANAGAN) INC.
Incorporation Number:	**BC0974062**

This package contains:

- Certified Copy of the Notice of Articles
- Certificate of Name Change

Check your documents carefully to ensure there are no errors or omissions. If errors or omissions are discovered, please contact the Corporate Registry for instructions on how to correct the errors or omissions.

Your proprietorship and/or partnership information has been updated to reflect the changes resulting from this filing.

THE FLOWR GROUP (OKANAGAN) INC. is listed as the owner in the following Sole Proprietorships:

- FLOWR FM0734269

BRITISH COLUMBIA

BC Registry Services

Mailing Address:
PO Box 9431 Stn Prov Govt
Victoria BC V8W 9V3
www.corporateonline.gov.bc.ca

Location:
2nd Floor - 940 Blanshard Street
Victoria BC
1 877 526-1526

CERTIFIED COPY
Of a Document filed with the Province of
British Columbia Registrar of Companies

CAROL PREST

Notice of Articles

BUSINESS CORPORATIONS ACT

This Notice of Articles was issued by the Registrar on: January 8, 2018 10:43 AM Pacific Time

Incorporation Number: **BC0974062**

Recognition Date and Time: Incorporated on June 28, 2013 10:55 AM Pacific Time

NOTICE OF ARTICLES

Name of Company:

THE FLOWR GROUP (OKANAGAN) INC.

REGISTERED OFFICE INFORMATION

Mailing Address:
2800 PARK PLACE
666 BURRARD STREET
VANCOUVER BC V6C 2Z7
CANADA

Delivery Address:
2800 PARK PLACE
666 BURRARD STREET
VANCOUVER BC V6C 2Z7
CANADA

RECORDS OFFICE INFORMATION

Mailing Address:
2800 PARK PLACE
666 BURRARD STREET
VANCOUVER BC V6C 2Z7
CANADA

Delivery Address:
2800 PARK PLACE
666 BURRARD STREET
VANCOUVER BC V6C 2Z7
CANADA

DIRECTOR INFORMATION

Last Name, First Name, Middle Name:
Cocar, Don

Mailing Address:	Delivery Address:
3855 KIMATOUCHE ROAD KELOWNA BC V1W 4E7 CANADA	3855 KIMATOUCHE ROAD KELOWNA BC V1W 4E7 CANADA

Last Name, First Name, Middle Name:
Towill, David

Mailing Address:	Delivery Address:
700-1708 DOLPHIN AVENUE KELOWNA BC V1Y 9S4 CANADA	700-1708 DOLPHIN AVENUE KELOWNA BC V1Y 9S4 CANADA

RESOLUTION DATES:

Date(s) of Resolution(s) or Court Order(s) attaching or altering Special Rights and Restrictions attached to a class or a series of shares:

November 23, 2016
November 25, 2016

AUTHORIZED SHARE STRUCTURE

1.	No Maximum	Class A Voting Participating Common Shares	Without Par Value With Special Rights or Restrictions attached
2.	No Maximum	Class B Voting Participating Common Shares	Without Par Value With Special Rights or Restrictions attached
3.	No Maximum	Class C Voting Participating Common Shares	Without Par Value With Special Rights or Restrictions attached

BRITISH
COLUMBIA

Number: BC0974062

CERTIFICATE
OF
CHANGE OF NAME

BUSINESS CORPORATIONS ACT

I Hereby Certify that CANNATECH PLANT SYSTEMS INC. changed its name to THE FLOWR GROUP (OKANAGAN) INC. on January 8, 2018 at 10:43 AM Pacific Time.

Issued under my hand at Victoria, British Columbia
On January 8, 2018

CAROL PREST
Registrar of Companies
Province of British Columbia
Canada

ELECTRONIC CERTIFICATE

Number: BC0974062

BRITISH
COLUMBIA

CERTIFICATE
OF
INCORPORATION

BUSINESS CORPORATIONS ACT

I Hereby Certify that CANNATECH PLANT SYSTEMS INC. was incorporated under the Business Corporations Act on June 28, 2013 at 10:55 AM Pacific Time.

Issued under my hand at Victoria, British Columbia
On June 28, 2013

CAROL PREST
Registrar of Companies
Province of British Columbia
Canada

BRITISH COLUMBIA | BC Registry Services

Mailing Address:
PO Box 9431 Stn Prov Govt
Victoria BC V8W 9V3
www.corporateonline.gov.bc.ca

Location:
2nd Floor - 940 Blanshard Street
Victoria BC
1 877 526-1526

CERTIFIED COPY
Of a Document filed with the Province of
British Columbia Registrar of Companies

CAROL PREST

Notice of Articles

BUSINESS CORPORATIONS ACT

This Notice of Articles was issued by the Registrar on: July 26, 2018 07:33 AM Pacific Time

Incorporation Number: **BC0974062**

Recognition Date and Time: *Incorporated on June 28, 2013 10:55 AM Pacific Time*

NOTICE OF ARTICLES

.ame of Company:

THE FLOWR GROUP (OKANAGAN) INC.

REGISTERED OFFICE INFORMATION

Mailing Address:
2800 PARK PLACE
666 BURRARD STREET
VANCOUVER BC V6C 2Z7
CANADA

Delivery Address:
2800 PARK PLACE
666 BURRARD STREET
VANCOUVER BC V6C 2Z7
CANADA

RECORDS OFFICE INFORMATION

Mailing Address:
2800 PARK PLACE
666 BURRARD STREET
VANCOUVER BC V6C 2Z7
CANADA

Delivery Address:
2800 PARK PLACE
666 BURRARD STREET
VANCOUVER BC V6C 2Z7
CANADA

DIRECTOR INFORMATION

st Name, First Name, Middle Name:
I owill, David

Mailing Address:
700-1708 DOLPHIN AVENUE
KELOWNA BC V1Y 9S4
CANADA

Delivery Address:
700-1708 DOLPHIN AVENUE
KELOWNA BC V1Y 9S4
CANADA

Last Name, First Name, Middle Name:
Cocar, Don

Mailing Address:
9590 MCCARTHY ROAD
KELOWNA BC V4V 1R2
CANADA

Delivery Address:
9590 MCCARTHY ROAD
KELOWNA BC V4V 1R2
CANADA

RESOLUTION DATES:

Date(s) of Resolution(s) or Court Order(s) attaching or altering Special Rights and Restrictions attached to a class or a series of shares:

November 23, 2016
November 25, 2016

ITHORIZED SHARE STRUCTURE

1.	No Maximum	Class A Voting Participating Common Shares	Without Par Value With Special Rights or Restrictions attached
2.	No Maximum	Class B Voting Participating Common Shares	Without Par Value With Special Rights or Restrictions attached
3.	No Maximum	Class C Voting Participating Common Shares	Without Par Value With Special Rights or Restrictions attached

BRITISH COLUMBIA | BC Registry Services

Mailing Address:
PO Box 9431 Stn Prov Govt
Victoria BC V8W 9V3
www.corporateonline.gov.bc.ca

Location:
2nd Floor - 940 Blanshard Street
Victoria BC
1 877 526-1526

Notice of Alteration

FORM 11
BUSINESS CORPORATIONS ACT
Section 257

Filed Date and Time:	**January 8, 2018 10:43 AM Pacific Time**
Alteration Date and Time:	**Notice of Articles Altered on January 8, 2018 10:43 AM Pacific Time**

NOTICE OF ALTERATION

Incorporation Number:
BC0974062

Name of Company:
CANNATECH PLANT SYSTEMS INC.

Name Reservation Number:
NR8425382

Name Reserved:
THE FLOWR GROUP (OKANAGAN) INC.

ALTERATION EFFECTIVE DATE:

The alteration is to take effect at the time that this application is filed with the Registrar.

CHANGE OF NAME OF COMPANY

From:
CANNATECH PLANT SYSTEMS INC.

To:
THE FLOWR GROUP (OKANAGAN) INC.

BRITISH COLUMBIA | BC Registry Services

NOTICE OF ALTERATION

FORM 11 – BC COMPANY

Section 257(4) *Business Corporations Act*

Telephone: 1 877 526-1526
www.bcregistryservices.gov.bc.ca

DO NOT MAIL THIS FORM to BC Registry Services unless you are instructed to do so by registry staff. The Regulation under the *Business Corporations Act* requires the electronic version of this form to be filed on the Internet at www.corporateonline.gov.bc.ca

Freedom of Information and Protection of Privacy Act (FOIPPA): Personal information provided on this form is collected, used and disclosed under the authority of the *FOIPPA* and the *Business Corporations Act* for the purposes of assessment. Questions regarding the collection, use and disclosure of personal information can be directed to the Executive Coordinator of the BC Registry Services at 1 877 526-1526, PO Box 9431 Stn Prov Govt, Victoria BC V8W 9V3.

A INCORPORATION NUMBER OF COMPANY

BC0974062

B NAME OF COMPANY

Cannatech Plant Systems Inc.

C ALTERATIONS TO THE NOTICE OF ARTICLES

Please indicate what information on the Notice of Articles is to be altered:
("altered" means create, add to, vary or delete)

- [x] Company name
- [ ] A translation of company name
- [ ] Pre-existing Company Provisions
- [ ] Date of a Resolution or Court Order **(applies to special rights or restrictions only)**
- [ ] Authorized Share Structure

D ALTERATION EFFECTIVE DATE – *Choose **one** of the following:*

- [x] The alteration is to take effect at the time that this notice is filed with the registrar.
- [ ] The alteration is to take effect at 12:01a.m. Pacific Time on ______ (YYYY / MM / DD) being a date that is not more than ten days after the date of the filing of this notice.
- [ ] The alteration is to take effect at ______ [ ] a.m. or [ ] p.m. Pacific Time on ______ (YYYY / MM / DD) being a date and time that is not more than ten days after the date of the filing of this notice.

E CHANGE OF COMPANY NAME

The company is to change its name from Cannatech Plant Systems Inc.

to *(choose **one** of the following):*

- [x] The Flowr Group (Okanagan) Inc. . This name has been reserved for the company under name reservation number 8425382, or
- [ ] a name created by adding "B.C. Ltd." after the incorporation number of the company.

F TRANSLATION OF COMPANY NAME

Set out every new translation of the company name, or set out any change or deletion of an existing translation of the company name to be used outside of Canada.

Additions: Set out every new translation of the company name that the company intends to use outside of Canada.

Changes: Change the following translation(s) of the company name:

PREVIOUS TRANSLATION OF THE COMPANY NAME	NEW TRANSLATION OF THE COMPANY NAME

Deletions: Remove the following translation(s) of the company name:

G PRE-EXISTING COMPANY PROVISIONS (refer to Part 17 and Table 3 of the Regulation under the *Business Corporations Act*)
Complete this item only if the company has resolved that none of the Pre-existing Company Provisions are to apply to this company.

☐ The company has resolved that the Pre-existing Company Provisions are no longer to apply to this company.

H AUTHORIZED SHARE STRUCTURE

Set out the date of each resolution or court order altering special rights or restrictions attached to a class or series of shares.

YYYY / MM / DD

Set out the new authorized share structure

Identifying name of class or series of shares	Maximum number of shares of this class or series of shares that the company is authorized to issue, or indicate there is no maximum number.		Kind of shares of this class or series of shares.			Are there special rights or restrictions attached to the shares of this class or series of shares?	
	THERE IS NO MAXIMUM (✔)	MAXIMUM NUMBER OF SHARES AUTHORIZED	WITHOUT PAR VALUE (✔)	WITH A PAR VALUE OF ($)	Type of currency	YES (✔)	NO (✔)

I CERTIFIED CORRECT – I have read this form and found it to be correct.

NAME OF AUTHORIZED SIGNING AUTHORITY FOR THE COMPANY	SIGNATURE OF AUTHORIZED SIGNING AUTHORITY FOR THE COMPANY	DATE SIGNED YYYY / MM / DD
David Towill	X	

FORM 11/WEB Rev. 2014 / 03 / 17

BRITISH COLUMBIA | BC Registry Services

Mailing Address:
PO Box 9431 Stn Prov Govt
Victoria BC V8W 9V3
www.corporateonline.gov.bc.ca

Location:
2nd Floor - 940 Blanshard Street
Victoria BC
1 877 526-1526

Notice of Alteration

FORM 11
BUSINESS CORPORATIONS ACT
Section 257

Filed Date and Time:	**December 1, 2016 02:22 PM Pacific Time**
Alteration Date and Time:	**Notice of Articles Altered on December 1, 2016 02:22 PM Pacific Time**

NOTICE OF ALTERATION

Incorporation Number:
)974062

Name of Company:
CANNATECH PLANT SYSTEMS INC.

ALTERATION EFFECTIVE DATE:

The alteration is to take effect at the time that this application is filed with the Registrar.

ADD A RESOLUTION DATE:

Date(s) of Resolution(s) or Court Order(s) attaching or altering Special Rights and Restrictions attached to a class or a series of shares:

New Resolution Date:
November 25, 2016

AUTHORIZED SHARE STRUCTURE

1.	No Maximum	Class A Voting Participating Common Shares	Without Par Value With Special Rights or Restrictions attached

2.	No Maximum	Class B Voting Participating Common Shares	Without Par Value With Special Rights or Restrictions attached
3.	No Maximum	Class C Voting Participating Common Shares	Without Par Value With Special Rights or Restrictions attached

BRITISH COLUMBIA | BC Registry Services

Mailing Address:
PO Box 9431 Stn Prov Govt
Victoria BC V8W 9V3
www.corporateonline.gov.bc.ca

Location:
2nd Floor - 940 Blanshard Street
Victoria BC
1 877 526-1526

Notice of Alteration

FORM 11
BUSINESS CORPORATIONS ACT
Section 257

Filed Date and Time:	**November 23, 2016 04:40 PM Pacific Time**
Alteration Date and Time:	**Notice of Articles Altered on November 23, 2016 04:40 PM Pacific Time**

NOTICE OF ALTERATION

Incorporation Number:
974062

Name of Company:
CANNATECH PLANT SYSTEMS INC.

ALTERATION EFFECTIVE DATE:

The alteration is to take effect at the time that this application is filed with the Registrar.

ADD A RESOLUTION DATE:

Date(s) of Resolution(s) or Court Order(s) attaching or altering Special Rights and Restrictions attached to a class or a series of shares:

New Resolution Date:

November 23, 2016

AUTHORIZED SHARE STRUCTURE

1.	No Maximum	Class A Voting Participating Common Shares	Without Par Value With Special Rights or Restrictions attached

2.	No Maximum	Class B Voting Participating Common Shares	Without Par Value With Special Rights or Restrictions attached
3.	No Maximum	Class C Voting Participating Common Shares	Without Par Value With Special Rights or Restrictions attached

This is Exhibit "G" referred to in the affidavit

of DARREN KARASIUK, SWORN BEFORE ME
this __ day of October 2022

____

A COMMISSIONER FOR TAKING AFFIDAVITS

BRITISH COLUMBIA
BC Registry Services

Mailing Address:
PO Box 9431 Stn Prov Govt
Victoria BC V8W 9V3
www.corporateonline.gov.bc.ca

Location:
2nd Floor - 940 Blanshard Street
Victoria BC
1 877 526-1526

BC Company Summary

For

THE FLOWR GROUP (OKANAGAN) INC.

Date and Time of Search: **October 07, 2022 08:38 AM Pacific Time**

Currency Date: August 04, 2022

ACTIVE

Incorporation Number:	BC0974062		
Name of Company:	THE FLOWR GROUP (OKANAGAN) INC.		
Business Number:	850702630 BC0001		
Recognition Date and Time:	Incorporated on June 28, 2013 10:55 AM Pacific Time	**In Liquidation:**	No
Last Annual Report Filed:	June 28, 2021	**Receiver:**	No

COMPANY NAME INFORMATION

Previous Company Name	**Date of Company Name Change**
CANNATECH PLANT SYSTEMS INC.	January 08, 2018

REGISTERED OFFICE INFORMATION

Mailing Address:
2800 PARK PLACE
666 BURRARD STREET
VANCOUVER BC V6C 2Z7
CANADA

Delivery Address:
2800 PARK PLACE
666 BURRARD STREET
VANCOUVER BC V6C 2Z7
CANADA

RECORDS OFFICE INFORMATION

Mailing Address:
2800 PARK PLACE
666 BURRARD STREET
VANCOUVER BC V6C 2Z7
CANADA

Delivery Address:
2800 PARK PLACE
666 BURRARD STREET
VANCOUVER BC V6C 2Z7
CANADA

DIRECTOR INFORMATION

Last Name, First Name, Middle Name:
Karasiuk, Darren

Mailing Address:	**Delivery Address:**
365 BAY STREET, SUITE 800 TORONTO ON M5H 2V1 CANADA	365 BAY STREET, SUITE 800 TORONTO ON M5H 2V1 CANADA

Last Name, First Name, Middle Name:
Willetts, Mike

Mailing Address:	**Delivery Address:**
365 BAY STREET, SUITE 800 TORONTO ON M5H 2V1 CANADA	365 BAY STREET, SUITE 800 TORONTO ON M5H 2V1 CANADA

OFFICER INFORMATION AS AT June 28, 2021

Last Name, First Name, Middle Name:
BROOKER, DARRYL

Office(s) Held: (CEO)

Mailing Address:	**Delivery Address:**
5445 LAKESHORE ROAD KELOWNA KELOWNA ON V1W 4S5 CANADA	5445 LAKESHORE ROAD KELOWNA KELOWNA ON V1W 4S5 CANADA

Last Name, First Name, Middle Name:
CHOU, JOHN

Office(s) Held: (CFO)

Mailing Address:	**Delivery Address:**
4-385 SOUTH PARK ROAD THORNHILL THORNHILL ON L3T 7Y7 CANADA	4-385 SOUTH PARK ROAD THORNHILL THORNHILL ON L3T 7Y7 CANADA

This is Exhibit "H" referred to in the affidavit

of DARREN KARASIUK, SWORN BEFORE ME
this 20th day of October 2022

A COMMISSIONER FOR TAKING AFFIDAVITS

Licence No. - Nº de licence
LIC-DG4JA5DWP1-2020-16

LICENCE

This licence is issued in accordance with the *Cannabis Act* and *Cannabis Regulations*

LICENCE

Cette licence est délivrée conformément à la *Loi sur le cannabis* et le *Règlement sur le cannabis*

Licence Holder / Titulaire de la licence :
The Flowr Group (Okanagan) Inc.

Licensed Site / Lieu autorisé :
9590 MCCARTHY ROAD
KELOWNA, BC, CANADA, V4V 1S5

The above-mentioned person is authorized to conduct, at the site specified on this licence, the activities listed below for the following licence classes and subclasses.

La personne susmentionnée est autorisée à effectuer, sur le site spécifié sur cette licence, les activités énumérées ci-dessous pour les catégories et les sous-catégories de licence suivantes.

Standard Cultivation — Culture standard

Activities	Activités
• To possess cannabis • To obtain dried cannabis, fresh cannabis, cannabis plants or cannabis plant seeds by cultivating, propagating and harvesting cannabis • For the purposes of testing, to obtain cannabis by altering its chemical or physical properties by any means • To sell cannabis in accordance with subsection 11(5) of the Cannabis Regulations	• Avoir du cannabis en sa possession • Obtenir du cannabis séché, du cannabis frais, des plantes de cannabis ou des graines provenant de telles plantes par la culture, la multiplication et la récolte de cannabis • Afin d'effectuer des essais sur du cannabis, obtenir du cannabis par l'altération, par tout moyen, de ses propriétés physiques ou chimiques • Vendre du cannabis en vertu du paragraphe 11(5) du Règlement sur le cannabis

Conditions	Conditions
The licence holder must meet the requirements set out in the Health Canada document entitled "*Mandatory cannabis testing for pesticide active ingredients - Requirements*".	Le titulaire de la licence doit respecter les exigences énoncées dans le document de Santé Canada intitulé *« Analyse obligatoire du cannabis pour les résidus de principes actifs de pesticides-Exigences ».*

Standard Processing — Transformation standard

Activities	Activités
• To possess cannabis • To produce cannabis, other than obtain it by cultivating, propagating or harvesting it • To sell cannabis in accordance with subsection 17(5) of the Cannabis Regulations	• Avoir du cannabis en sa possession • Produire du cannabis, sauf en l'obtenant par la culture, la multiplication et la récolte • Vendre du cannabis en vertu du paragraphe 17(5) du Règlement sur le cannabis

Conditions	Conditions
The licence holder must meet the requirements set out in the Health Canada document entitled "*Mandatory cannabis testing for pesticide active ingredients - Requirements*".	Le titulaire de la licence doit respecter les exigences énoncées dans le document de Santé Canada intitulé *« Analyse obligatoire du cannabis pour les résidus de principes actifs de pesticides-Exigences ».*
The only cannabis products that the licence holder may sell or distribute to (i) a holder of a licence for sale, and (ii) a person that is authorized under a provincial Act referred to in subsection 69(1) of the Act to sell cannabis, are as follows: cannabis plants; cannabis plant seeds; dried cannabis; fresh cannabis; cannabis topicals; cannabis extracts; and edible cannabis.	Les seuls produits du cannabis que le titulaire de la licence peut vendre ou distribuer (i) à un titulaire d 'une licence de vente et (ii) à une personne autorisée sous le régime d'une loi provinciale visée au paragraphe 69(1) de la Loi à vendre du cannabis sont les suivants : plantes de cannabis; graines provenant d 'une plante de cannabis; cannabis séché; cannabis frais; cannabis pour usage topique; extrait de cannabis; et cannabis comestible.

Shelley Hatton

Acting Director, Licencing and Security, Controlled Substances and Cannabis Branch

Directrice par intérim, Licences et sécurité, Direction générale des substances contrôlées et du cannabis

Conditions	Conditions
The only cannabis products that the licence holder may send or deliver to the purchaser at the request of (i) a holder of a licence for sale, and (ii) a person that is authorized under a provincial Act referred to in subsection 69(1) of the Act to sell cannabis, are as follows: cannabis plants; cannabis plant seeds; dried cannabis; fresh cannabis; cannabis topicals; cannabis extracts; and edible cannabis.	Les seuls produits du cannabis que le titulaire de la licence peut expédier ou livrer à l'acheteur à la demande (i) d'un titulaire d'une licence de vente et (ii) dune personne autorisée sous le régime d'une loi provinciale visée au paragraphe 69(1) de la Loi à vendre du cannabis sont les suivants : plantes de cannabis; graines provenant d'une plante de cannabis; cannabis séché; cannabis frais; cannabis pour usage topique; extrait de cannabis; et cannabis comestible.

Sale for Medical Purposes

Vente à des fins médicales

Activities	Activités
• To possess cannabis • To sell cannabis products in accordance with section 27 and Part 14, Division 1 of the Cannabis Regulations	• Avoir du cannabis en sa possession • Vendre des produits du cannabis en vertu de l'article 27 et la section 1 de la partie 14 du Règlement sur le cannabis

Conditions	Conditions
N/A	nd

Indoor Area(s) / Zone(s) intérieure(s)
The possession of cannabis and the other activities mentioned above are authorized in the following building(s) / La possession de cannabis et les autre activités mentionnées ci-haut sont autorisées dans les bâtiment(s) suivant(s) :

Building 1

Effective date of the licence:

This licence is effective as of **August 10, 2022**

Date d'entrée en vigueur de la licence:

Cette licence entre en vigueur à compter du **10 août 2022**

Expiry date of the licence:

This licence expires on **December 1, 2023**

Date d'expiration de la licence:

La présente licence expire le **1 décembre 2023**

Shelley Alth

Acting Director, Licencing and Security, Controlled Substances and Cannabis Branch

Directrice par intérim, Licences et sécurité, Direction générale des substances contrôlées et du cannabis

This is Exhibit "I" referred to in the affidavit

of DARREN KARASIUK, SWORN BEFORE ME
this 20th day of October 2022

____

A COMMISSIONER FOR TAKING AFFIDAVITS

Health Canada Santé Canada

PROTECTED B / PROTÉGÉ B

Licence No. - Nº de licence
LIC-AQ4YORB346-2021-3

LICENCE

This licence is issued in accordance with the *Cannabis Act* and *Cannabis Regulations*

LICENCE

Cette licence est délivrée conformément à la *Loi sur le cannabis* et le *Règlement sur le cannabis*

Licence Holder / Titulaire de la licence :
The Flowr Group (Okanagan) Inc.

The above-mentioned person is authorized to conduct, at the site specified on this licence, the activities listed below for the following licence classes and subclasses:

- Research

La personne susmentionnée est autorisée à effectuer, sur le site spécifié sur cette licence, les activités énumérées ci-dessous pour les catégories et les sous-catégories de licence suivantes :

- Recherche

Site and authorized activities

Site et activités autorisées

Site	Activities	Activités
9590 MCCARTHY ROAD KELOWNA, BC, CANADA, V4V 1S5	• to possess cannabis for the purpose of research	• aux fins de recherche, avoir du cannabis en sa possession

Conditions

Conditions

This licence is restricted, in addition to all other applicable conditions, in that all research conducted under this licence is based on the Research Protocol "Cannabis Preference Study" provided to Health Canada on June 2, 2021.	Cette licence est restreinte, en plus des autres conditions qui s'appliquent, du fait que toute la recherche effectuée sous cette licence est basée sur le protocole de recherche «Cannabis Preference Study», fourni à Santé Canada le 2 juin 2021.
The maximum quantity of cannabis to be stored for the purpose of research at the address indicated on this licence is: 25 kg of dried cannabis (or equivalent) at any given time.	La quantité maximale de cannabis pour des fins de recherche qui peut être entreposé à l 'adresse indiquée sur cette licence est : 25 kg de cannabis séché (ou équivalent) en tout temps.
The researcher may only be in possession of cannabis if such possession is to use in accordance with the research protocol submitted.	Le chercheur peut posséder du cannabis seulement si la possession est pour une utilisation en conformité avec le protocole de recherche soumis.
With respect to research involving the administration or distribution of cannabis to human research subjects for assessments of taste, sight, smell or touch of cannabis, in addition to any other conditions listed in this licence, the researcher must meet the requirements set out in the document entitled *Appendix: Additional conditions for licensed researchers administering or distributing cannabis to human research subjects using cannabis obtained from a holder of a licence for processing in the final form of cannabis.*	En ce qui a trait aux recherches qui nécessitent l'administration ou la distribution de cannabis à des sujets de recherche humains à fins d'évaluation de goût, d'apparence, d'odeur ou de propriétés tactiles du cannabis, en plus de tout autres conditions indiquées sur la licence, le chercheur doit rencontrer les exigences énoncées dans le document intitulé *Annexe: Conditions additionnelles pour des titulaires de licence de recherche qui administrent ou distribuent du cannabis à des sujets de recherche humains en utilisant du cannabis qui a été obtenu d'un titulaire d'une licence de transformation sous sa forme finale de cannabis.*
Destruction of cannabis - At the end of the research, all cannabis must be destroyed in accordance with s.43 of the *Cannabis Regulations* unless distributed in a manner authorized by the *Cannabis Regulations.*	À la fin de la recherche, tout cannabis doit être détruit en conformité avec l'article 43 du *Règlement sur le cannabis* à moins d'être distribué d'une manière autorisée par le *Règlement sur le cannabis*.

Effective date of the licence:

This licence is effective as of **September 2, 2022**

Date d'entrée en vigueur de la licence:

Cette licence entre en vigueur à compter du **2 septembre 2022**

Expiry date of the licence:

This licence expires on **June 30, 2026**

Date d'expiration de la licence:

La présente licence expire le **30 juin 2026**

Acting Director, Licencing and Security, Controlled Substances and Cannabis Branch

Directrice par intérim, Licences et sécurité, Direction générale des substances contrôlées et du cannabis

Canada

This is Exhibit "J" referred to in the affidavit

of DARREN KARASIUK, SWORN BEFORE ME
this 20th day of October 2022

A COMMISSIONER FOR TAKING AFFIDAVITS

Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(in thousands of Canadian dollars)

Independent Auditor's Report

To the Shareholders of The Flowr Corporation:

Opinion

We have audited the consolidated financial statements of The Flowr Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and December 31, 2020, and the consolidated statements of loss and comprehensive loss, shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2021 and, as of that date, the Company had a negative cash flows form operations and an accumulated deficit. As stated in Note 2.1, these events or conditions, along with other matters as set forth in Note 2.1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Shawn Mincoff.

MNP LLP

Ottawa, Ontario

Chartered Professional Accountants

May 20, 2022

Licensed Public Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2021 and 2020

(in thousands of Canadian dollars)

	Notes	December 31, 2021	December 31, 2020
ASSETS			
Current Assets			
Cash and cash equivalents		4,196	20,774
Amounts receivable	*4, 13*	3,741	2,516
Prepaids and other receivables		2,321	2,328
Inventory	*5*	4,254	5,153
Biological assets	*6*	1,288	846
Assets held for sale	*8*	16,000	1,000
		31,800	32,617
Non-Current Assets			
Investments at fair value	*7*	29	29
Property, plant and equipment	*8, 24*	36,816	97,129
Intangible assets	*9, 3*	17,358	26,364
Goodwill	*9, 3*	—	24,552
Other long-term assets		1,053	308
		55,256	148,382
TOTAL ASSETS		87,056	180,999
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	*10, 13*	7,613	11,919
Due to related parties	*13*	—	97
Debt related to assets held for sale	*8, 11*	12,439	—
Short-term lease obligations	*24*	905	994
Current portion of long-term debt	*11*	11,246	6,813
		32,203	19,823
Non-Current Liabilities			
Long-term debt	*11*	—	31,654
Convertible debentures	*12*	4,113	3,834
Lease obligations	*24*	5,031	6,678
Other long-term liabilities		—	147
Deferred tax liabilities	*30*	—	3,109
		9,144	45,422
TOTAL LIABILITIES		41,347	65,245
SHAREHOLDERS' EQUITY			
Share capital	*20*	282,851	264,584
Other reserves	*21*	7,947	529
Deficit		(265,200)	(178,618)
Accumulated other comprehensive loss		1,785	4,912
Equity attributable to common shareholders of the Company		27,383	91,407
Non-controlling interests	*26*	18,326	24,347
TOTAL EQUITY		45,709	115,754
TOTAL LIABILITIES AND EQUITY		87,056	180,999

Basis of presentation and going concern (note 2.1)
Commitments and contingencies (*note 25*)
Subsequent events (*note 31*)

The accompanying notes are an integral part of the consolidated financial statements

Approved by the Board of Directors

Don Duet "(signed)" Director

Maurice Levesque "(signed)" Director

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the years ended December 31, 2021 and 2020
(in thousands of Canadian dollars)

	Notes	Year ended December 31, 2021	2020
Revenue	*15*	12,348	7,513
Cost of sales	*28*	22,064	11,468
Impairment of inventory	*5*	2,394	3,517
Gross loss before fair value adjustments		(12,110)	(7,472)
Fair value adjustments on inventory sold		(6,025)	(1,031)
Unrealized loss on changes in fair value of biological assets	*6*	3,571	7,369
Gross loss		(9,656)	(13,810)
Selling and marketing	28	4,508	3,009
General and administrative	*13, 28*	11,819	15,604
Research and development	*28*	1,732	947
Share-based compensation	*17*	(83)	3,020
Transaction costs	*3*	—	917
Loss on early conversion of convertible debentures	*3*	—	7,966
Restructuring costs	*16*	—	726
Design and construction income		—	(595)
Management fee income	*11*	(1,367)	—
Depreciation and amortization		3,135	1,563
Finance costs	*18*	3,149	4,269
Loss from disposal of subsidiary		241	—
Impairment of assets	*8, 9*	57,096	83,979
Other expense (income)	*13, 19*	2,236	(1,393)
Loss before income taxes		(92,122)	(133,822)
Deferred income tax recovery	*30*	(2,888)	(5,967)
Net loss		(89,234)	(127,855)
Currency translation adjustments		(3,127)	6,178
Total comprehensive loss		(92,361)	(121,677)
Net loss attributable to:			
Common and preferred shareholders of the Company		(85,532)	(125,621)
Non-controlling interests		(3,702)	(2,234)
Net loss		(89,234)	(127,855)
Total comprehensive loss attributable to:			
Common and preferred shareholders of the Company		(88,659)	(119,443)
Non-controlling interests		(3,702)	(2,234)
Total comprehensive loss		(92,361)	(121,677)
Basic and diluted loss per share attributable to common shareholders of the Company	*22*	(0.23)	(0.95)

The accompanying notes are an integral part of the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2021 and 2020
(in thousands of Canadian dollars)

	Notes	Year ended December 31, 2021	2020
OPERATING ACTIVITIES			
Loss before income taxes		(92,122)	(133,822)
Items not affecting cash and other adjustments	*23(a)*	72,893	116,698
Changes in non-cash working capital	*23(b)*	(6,194)	(7,534)
Cash used in operating activities		(25,423)	(24,658)
INVESTING ACTIVITIES			
Cash acquired through acquisition of subsidiaries	*3*	—	19,782
Note payable effective settlement as part of Terrace acquisition	*3*	—	1,500
Proceeds on sale of investment		—	479
Proceeds on sale of subsidiaries		461	—
Proceeds on sale of plant, property and equipment	*8*	6,104	—
Finance lease income		122	100
Expenditures on property, plant and equipment	*8*	(1,351)	(15,463)
Expenditures on intangible assets		(2)	(57)
Cash provided by investing activities		5,334	6,341
FINANCING ACTIVITIES			
Proceeds from shares issued	*20*	23,501	4,819
Proceeds from exercise of stock options	*17*	31	46
Proceeds from convertible debt	*13*	—	21,579
Share and convertible debt issuance costs	*20*	(2,401)	(536)
Net loan proceeds	*11*	—	7,030
Loan repayments	*11*	(15,060)	(6,179)
Financing fees on debt		—	(327)
Finance lease obligations	*24*	(1,347)	(1,510)
Decrease in restricted cash		—	4,889
Interest paid		(1,213)	(1,191)
Cash provided by financing activities		3,511	28,620
Decrease in cash and cash equivalents		(16,578)	10,303
Cash and cash equivalents, beginning of period		20,774	10,471
Cash and cash equivalents, end of period		4,196	20,774

The accompanying notes are an integral part of the consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2021 and 2020

(in thousands of Canadian dollars, expect for number of shares)

		Share Capital		Share Capital		Other reserves							
	Notes	Number of Common shares	Common share Capital	Number of Preferred shares	Preferred share Capital	Warrants (note 21)	Contributed Surplus (note 17)	Equity portion of convertible debenture	Flowr ULC share issuances	Accumulated other Comprehensive loss	Non-controlling Interest	Deficit	Total
Balance at January 1, 2020		107,077,830	130,666	26,106,036	48,770	6,468	18,431	-	(37,244)	(1,266)	30,741	(47,646)	148,920
Share-based compensation	17	-	-	-	-	-	3,553	-	-	-	-	-	3,553
Shares issued from exercise of options		918,750	297	-	-	-	(257)	-	-	-	-	-	40
RSU redeemed	18(b)	422,835	1,542	-	-	-	(1,542)	-	-	-	-	-	-
ULC class A preferred share conversion		1,500,000	255	-	-	-	-	-	-	-	(255)	-	-
Expiry of Warrants		-	-	-	-	(258)	258	-	-	-	-	-	-
Issuance of convertible debentures net of issuance cost of $122		-	-	-	-	1,674	-	2,088	-	-	-	-	3,762
Conversion of debentures		47,865,238	23,445	-	-	-	-	(1,608)	-	-	-	-	21,837
Shares issued as interest on debentures		894,013	340	-	-	-	-	-	-	-	-	-	340
Other changes in non-controlling interest	26	-	-	-	-	-	-	-	9,511	-	(3,905)	(5,351)	255
Cumulative translation adjustments		-	-	-	-	-	-	-	-	6,178	-	-	6,178
Acquisition of Terrace Global		144,558,919	59,269	-	-	6	71	-	-	-	-	-	59,346
Terrace private placement		9,266,358	3,470	-	-	1,348	-	-	-	-	-	-	4,818
Shares and warrents to be cancelled pursuant to Terrace Agreement		(9,266,358)	(3,470)	-	-	(1,348)	(622)	-	-	-	-	-	(5,440)
Holigen - Series I voting convertible redeemable preferred shares conversion	20	26,106,036	48,770	(26,106,036)	(48,770)	-	-	-	-	-	-	-	-
Net loss for the year ended December 31, 2020		-	-	-	-	-	-	-	-	-	(2,234)	(125,621)	(127,855)
Balance at December 31, 2020		329,343,621	264,584	—	—	7,890	19,892	480	(27,733)	4,912	24,347	(178,618)	115,754
Balance at January 1, 2021		329,343,621	264,584	—	—	7,890	19,892	480	(27,733)	4,912	24,347	(178,618)	115,754
Share-based compensation	17	—	—	—	—	—	(12)	—	—	—	—	—	(12)
Shares issued from exercise of options	17(a)	618,750	204	—	—	—	(173)	—	—	—	—	—	31
RSU redeemed	17(b)	1,215,601	2,051	—	—	—	(2,051)	—	—	—	—	—	—
ULC class A preferred share conversion		402,000	68	—	—	—	—	—	—	—	(68)	—	—
Expiry of warrants		—	—	—	—	(6,215)	6,215	—	—	—	—	—	—
Other changes in non-controlling interest	26	—	—	—	—	—	—	—	3,369	—	(2,251)	(1,050)	68
Cumulative translation adjustments		—	—	—	—	—	—	—	—	(3,127)	—	—	(3,127)
Shares issued to settle liabilities		2,959,542	620	—	—	—	—	—	—	—	—	—	620
Shares issued as interest on debentures	12	8,483,574	509	—	—	—	—	—	—	—	—	—	509
Shares issued in financing	20	67,385,000	14,815			6,285	—	—	—	—	—	—	21,100
Net loss for the year ended December 31, 2021		—	—	—	—	—	—	—	—	—	(3,702)	(85,532)	(89,234)
Balance at December 31, 2021		410,408,088	282,851	—	—	7,960	23,871	480	(24,364)	1,785	18,326	(265,200)	45,709

The accompanying notes are an integral part of the consolidated financial statements

1. CORPORATE INFORMATION

The Flowr Corporation ("Flowr" or the "Company"), is a publicly traded cannabis company that was incorporated under the *Business Corporations Act* (Alberta) ("ABCA") on June 1, 2016. The Head Office of the Company is located at 9590 McCarthy Road, Kelowna, British Columbia, V4V 1R2. The principal activity of the Company is the production and sale of premium cannabis in Canada, and medical cannabis products in other legal global markets, primarily Portugal and the European Union. In December 2017, through its subsidiary, The Flowr Group (Okanagan) Inc. ("Flowr Okanagan"), the Company received its license from Health Canada to operate as a licensed producer, under the provisions of the *Access to Cannabis for Medical Purposes Regulations*. On August 10, 2018, Flowr Okanagan received its sales license from Health Canada, allowing the Company to sell to the Canadian medical market and to the adult-use recreational market post legalization on October 17, 2018. Internationally, through its wholly owned subsidiary RPK Biopharma Unipessoal Lda ("RPK"), the Company is licensed to cultivate medicinal cannabis in Portugal, where it operates a GMP licensed cultivation facility. The Company's common shares are listed on the TSX Venture Exchange (the "Exchange"), under the trading symbol "FLWR".

2.1 BASIS OF PRESENTATION AND GOING CONCERN

(a) Statement of compliance

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee. These consolidated financial statements were approved for issuance by the Board of Directors on May 20, 2022.

(b) Basis of measurement

These consolidated financial statements have been prepared on a going concern basis, under historical cost convention except for biological assets (note 6) and certain financial instruments (note 7) which are measured at fair value.

(c) Basis of consolidation

Subsidiaries are entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Power is demonstrated through existing rights that give the ability to direct relevant activities, those which significantly affect the entity's returns.

(in thousands of Canadian dollars, unless otherwise indicated)

Name of Subsidiaries	Country	Holdings as at (%) December 31, 2021	Holdings as at (%) December 31, 2020	Parent Entity
The Flowr Canada Holdings ULC (“Flowr ULC”) (1)	Canada	90.8	88.7	The Flowr Corporation
Holigen Holdings Limited ("Holigen")	Malta	100.0	100.0	The Flowr Corporation
The Flowr Group (Okanagan) Inc. (“Flowr Okanagan”)	Canada	100.0	100.0	Flowr ULC
Holigen Limited ("HL")	Malta	100.0	100.0	Holigen
RPK Biopharma Unipessoal Lda (“RPK”)	Portugal	100.0	100.0	HL
TCann Pty Ltd ("TCann")*	Australia	—	100.0	GreyCan
GreyCan Pty Ltd ("GreyCan")(1)	Australia	100.0	100.0	HL
Terrace Global Inc. ("Terrace")	Canada	100.0	100.0	The Flowr Corporation
Oransur, S.A ("Oransur")*	Uruguay	—	100.0	Terrace
Terra Nova Business Holdings Inc. ("TNBH")*	BVI	—	100.0	Terrace
Pharma Binoide S.L. Unipersonal ("Pharma Binoide")	Spain	100.0	100.0	Terrace
Terra Nova Productos Natrurais e Farmaceuticos, LDA ("Terra Nova")*	Portugal	—	100.0	TNBH

** TCann, Oransur, TNBH and Terra Nova were wound up during 2021.*

Subsidiaries are fully consolidated from the date on which control is acquired by the Company and they are deconsolidated from the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. The financial statements of the subsidiaries and parent are consolidated on a line-by-line basis and all inter-company balances, revenues and expenses and earnings and losses resulting from inter-company transactions are eliminated on consolidation.

(d) Critical accounting estimates and judgments

The preparation of the Company’s consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities on the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The significant areas of estimation and/or judgment considered by management in preparing the consolidated financial statements include, but are not limited to:

- Biological assets (note 2.2(c));
- Inventory valuation (note 2.2(d));
- Revenue recognition (note 2.2(j));
- Fair value of certain financial instruments (notes 2.2(l) and 2.2(n));
- Expected credit loss on accounts receivables (note 2.2(l));
- Fair value of assets and liabilities acquired in business combinations (note 3(b) and (c));
- Property, plant and equipment (note 2.2(e));
- Leases (note 2.2(h));
- Intangible assets (note 2.2(f));
- Assets held for sale (note 2.2(v));
- Share-based compensation (note 2.2(p));
- Deferred income tax assets and liabilities (note 2.2(q));
- Provisions and contingencies (note 2.2(i))
- Impairment of assets (note 2.2(g))

(e) Presentation and functional currency

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its Canadian subsidiaries. International operations are comprised of subsidiaries that have a functional currency other than the Canadian dollar. As at December 31, 2021, the Company's foreign subsidiaries with (i) Euro functional currency include Holigen, HL, RPK, Pharma Binoide and THNBH and (ii) Australian dollar functional currency include GreyCan.

(f) Going concern

These consolidated financial statements have been prepared on a going concern basis which presumes that the Company will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of its operations.

As of December 31, 2021, the Company had working deficit of $403 (December 31, 2020 – $12,794) and an accumulated deficit of $265,200 (December 31, 2020 –$178,618). During the year ended December 31, 2021, the Company had net loss of $89,234 (year ended December 31, 2020 - $127,855) and used $25,423 of cash on operating activities (year ended December 31, 2020 - $24,658). As at December 31, 2021, the Company has insufficient cash on hand to fund its planned operations for the next 12 months. The Company may need to obtain further funding in the form of asset sales, debt, equity or a combination thereof to continue operations for the next twelve months.

Subsequent to December 31, 2021, the Company has entered into binding agreements to sell its Kelowna R&D Facility and Holigen Limited (including RPK). The sale of the Kelowna R&D Facility (note 31a) is expected to close in the first half of 2022 and result in net cash proceeds of $4,000 (after the full repayment of the Hawthorne Loan). The sale of Holigen Limited (note 31b) closed on April 29, 2022 and provides the Company with $3,000 in cash and buyer share considerations (net of transaction costs).

Although the Company believes the above asset sales are expected to be completed with a high probability, they are not guaranteed. There can be no assurance that additional funding either through external financing or other asset sales will be available to the Company. If positive operating cash flows are not achieved, debt obligations are not repaid, or adequate funding is not available, the Company may be required to delay or reduce the scope of any or all of its operations. In addition, the Company's senior secured credit facility require the Company to meet certain financial covenants. A failure to comply with these covenants would result in an event of default and if not cured would allow the lenders to accelerate the repayment of the debt. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to generate sufficient cash flow from operating and/or financing activities to the extent that would impair the Company's ability to continue as a going concern, material adjustments would likely be necessary in the carrying amounts of assets and liabilities, expenses, the accumulated deficit, and the classification used in the consolidated statement of financial position.

2.2 SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash deposits and/or other highly rated and liquid securities with an original maturity of less than three months.

(b) Foreign currency

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates on the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated at the exchange rates on the dates that their fair values are determined. Non-loss monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated at the exchange rates on the dates of the transactions. Income and expense items are translated at the exchange rate on the dates of the transactions. Exchange gains and losses resulting from the translation of these amounts are included in the consolidated statements of loss and comprehensive loss.

Foreign operations

Foreign operations are comprised of subsidiaries of the Company that have a functional currency other than the Canadian dollar. The translation of asset and liabilities of foreign operations, including fair value adjustments and goodwill arising on acquisition, are translated to Canadian dollars using the exchange rate in effect at the reporting date. The revenue and expenses of foreign operations are translated into Canadian dollars using the average exchange rate for the period incurred. The gains or losses resulting from such translation are recognized as foreign currency adjustments (“CTA”) included in other comprehensive loss. When a subsidiary is disposed of, in full, the relevant amount of CTA is transferred to net loss in the consolidated statements of loss and comprehensive loss. However, when a change in the parent's ownership does not result in loss of control of a subsidiary, such changes are recorded through equity.

(c) Biological assets

While the Company’s biological assets, consisting of cannabis plants, are within the scope of IAS 41 Agriculture, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 Inventories. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related costs, grow consumables, utilities, facilities costs including an allocation of overhead costs related to production facility, quality and testing costs, and production related depreciation. Capitalized costs are subsequently recorded within cost of sales in the consolidated statements of loss and comprehensive loss in the period that the related product is sold.

The Company measures biological assets, at fair value less cost to sell up to the point of harvest. Unrealized gains or losses arising from the changes in fair value less cost to sell during the period are separately recorded in the consolidated statements of loss and comprehensive loss for the related period. Cost to sell includes post harvest production costs and fulfilment costs.

Determination of the fair value of biological assets required the Company to make a number of estimates, including the stage of growth in relation to the point of harvest, post-harvest costs, selling costs, sales prices, wastage and expected yields of the cannabis plants. Refer to note 6 for details.

(d) Inventory

Inventory of harvested bulk cannabis and finished goods are valued at the lower of cost and net realizable value. Cost is determined using weighted average method. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. All subsequent direct and indirect post-harvest costs are capitalized to inventory as incurred, including labour related costs, consumables, packaging supplies, facilities costs, including an allocation of overhead costs related to production facility, quality and testing costs, and related depreciation. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Supplies and consumables are valued at the lower of cost and net realizable value, with cost determined based on an average cost basis.

In determining final inventory values, the Company estimates price ranges and obsolete or expired inventory in determining the net realizable value of inventory. Refer to note 5 for details.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment charges.

The initial cost of property, plant and equipment comprises its purchase price or construction cost and any costs directly attributable to bringing it to a working condition for its intended use. The purchase price or construction cost is the aggregate amount of cash consideration paid and the fair value of any other consideration given to acquire the asset. Where an item of property, plant and equipment is comprised of significant components with different useful lives, the components are accounted for as separate items of property, plant and equipment.

Depreciation

For all property, plant and equipment, depreciation is based on the estimated useful life of the asset on a straight-line basis starting from the date it is available for use.

The estimated useful lives for the current and comparative years are as follows:

Asset Category	Estimated useful life (Years)
Right-of-use-assets	Term of the lease (3-25 years)
Leasehold improvements	Term of the lease (3-25 years)
Building and building improvements	10 - 30 years
Facilities equipment	5-10 years
Furniture, equipment and others	3-5 years

Construction-in-progress includes property, plant and equipment in the course of construction and is carried at cost less any recognized impairment charge. These assets are reclassified to the appropriate category of property, plant and equipment and depreciation of these assets commences when they are completed and ready for their intended use.

An item of property, plant and equipment, including any significant part initially recognized, is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of loss and comprehensive loss when the asset is derecognized.

The residual values, useful lives and methods of depreciation of all assets are reviewed at each financial year end and are adjusted prospectively, if appropriate. Significant judgment is involved in the determination of estimated residual values and useful lives and no assurance can be given that actual residual values and useful lives will not differ significantly from current estimates.

The Company capitalizes borrowing costs on qualifying capital construction projects. Upon the asset becoming available for use, amortization of borrowing costs commences on a straight-line basis over the estimated useful life of the related asset.

(f) Intangible assets

Intangible assets include costs related to obtaining Health Canada licenses. Intangible assets acquired separately are measured upon initial recognition at cost, which comprises the purchase price plus any costs directly attributable to the preparation of the asset for its intended use. Intangible assets acquired through business combinations or asset acquisitions are initially recognized at fair value as at the date of acquisition. Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment charges.

All intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

Asset Category	Estimated useful life (Years)
License	Term of the lease/ building life (20 - 24 years)
Website development	2 years
Software	3 years

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the intangible assets require the use of estimates and assumptions and are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense attributable to an intangible asset is recognized in the consolidated statements of loss and comprehensive loss in the expense category consistent with the function of the intangible asset.

The gain or loss arising from the derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the consolidated statements of loss and comprehensive loss when the asset is derecognized.

(g) Impairment of non-financial assets

The carrying value of property, plant and equipment and intangible assets are assessed for indication of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. Events or changes in circumstances which may indicate impairment include: a significant change to the Company's operations, significant decline in performance, or a change in market conditions which adversely affect the Company. The recoverable amount is determined as the higher of the fair value less costs of disposal ("FVLCD") and its value in use ("VIU") based on discounted cash flows.

Goodwill is tested for impairment on an annual basis and whenever there is an indication that the recoverable amount of a cash-generating unit is less than its carrying amount based on a number of factors including operating results, business plans, future cash flows and economic conditions. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in the consolidated statements of loss and comprehensive loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded. Judgment is required in the determination of a CGU unit which is based on the basis in which management makes operating and strategic decisions.

These significant estimates and assumptions, some of which may be subjective, require that management make decisions based on the best available information at each reporting period. It is possible that the actual recoverable amount could be significantly different than those estimates. A significant change in the discount rate in the asset's market value, decrease in sale forecasts, increases in estimated future costs of production, increases in estimated future capital costs, and/or adverse industry and market conditions can result in a write-down of the carrying amounts of the Company's assets. Judgment is also required when considering whether significant changes in any of these items indicate a previous impairment may have reversed.

(h) Leases

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.

As a lessee, the Company recognizes a lease obligation and a right-of-use asset in the consolidated statements of financial position on a present-value basis at the date when the leased asset is available for use. Each lease payment is apportioned between a finance charge and a reduction of the lease obligation. Finance charges are recognized in finance cost in the consolidated statements of loss and comprehensive loss. The right of-use asset is included in property, plant and equipment and is depreciated over the shorter of its estimated useful life and the lease term on a straight-line basis.

Lease obligations are initially measured at the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments are discounted using the interest rate implicit in the lease, or if this rate cannot be determined, the Company's incremental borrowing rate. The weighted-average incremental borrowing rate is based on the internal borrowing rate as well as the underlying location and asset class related risks, which relies on judgments and estimates.

Right-of-use assets are initially measured at cost comprising the following:

- the amount of the initial measurement of the lease obligation;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs;
- rehabilitation costs; and
- includes option renewal period if the Company is reasonably certain to exercise the extension option.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statements of loss and comprehensive loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise primarily small equipment.

Sublease

The Company entered into sublease agreements, which are classified as finance leases under IFRS 16 – Leases ("IFRS 16") by reference to the right of use asset generated through the Company's lease obligations ("Head Lease"). Upon entering into the sublease arrangement, the right of use asset generated from the Head Lease is derecognized and a receivable related to the net investment in lease is generated based on the net present value of cash flows to be received from the sublease. The difference between the derecognized asset and the receivable is recorded in the consolidated statements of loss and comprehensive loss. As of December 31, 2021, the Company had a number of sublease arrangements in Kelowna, British Columbia and Toronto, Ontario.

(i) Provisions and contingencies

Provisions are recognized when: a) the Company has a present obligation (legal or constructive) as a result of a past event; and b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision as a result of the passage of time is recognized in finance cost in the consolidated statements of loss and comprehensive loss.

A contingent liability is not recognized in the case where no reliable estimate can be made; however, disclosure is required unless the possibility of an outflow of resources embodying economic benefits is remote. By its nature, a contingent liability will only be resolved when one or more future events occur or fail to occur. The assessment of a contingent liability inherently involves the exercise of significant judgment and estimates of the outcome of future events.

(j) Revenue

Revenue from the sale of cannabis is recognized when control has been transferred, which is considered to occur when products have been delivered to the location specified in the sales contract and accepted by the customer and collectability is reasonably assured. Revenue is measured based on the consideration specified in the contract taking into account any variation that may result from rights of return or price concessions.

The Company is required to remit excise tax to the Canada Revenue Agency on the sale of medical and recreational cannabis in Canada. The Company becomes liable for these excise duties when cannabis products are delivered to the customer. In accordance with IFRS 15 – Revenue from Contracts with Customers ("IFRS 15"), revenue presented on the consolidated statements of loss and comprehensive loss, represents revenue from the sale of goods less applicable excise tax.

Design and construction income relating to construction services and other revenues generated from services are recognized over a period of time as performance obligations are completed based on percentage of completion.

The Company also generates revenue in Holigen from providing processing services to third parties ("tolling"). Under these tolling arrangements, customers supply harvested cannabis to Holigen to provide further processing into dried cannabis. Revenue for tolling is recognized when the customer takes delivery of the products.

Significant areas of judgment include (i) estimating returns on product sold and price concessions based on historical returns and price adjustments; (ii) assessment of whether control has passed to the customer based on criteria established in IFRS 15; and (iii) estimating the period in which performance obligations are met.

As of December 31, 2021, the Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust any of the transaction prices for the time value of money.

(k) Deferred revenue

Deferred revenue is recognized in the consolidated statements of financial position when a cash prepayment is received from one or more customers prior to the sale of product or delivery of service. Revenue is subsequently recognized in the consolidated statements of loss and comprehensive loss when the sale occurs, which generally occurs when control has been transferred or in the case of services, when the services have been rendered.

(l) Financial instruments

Financial assets at amortized cost

A financial asset is classified and subsequently measured at amortized cost if it is held within a business model whose objective is to hold the asset in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company's cash and cash equivalents, accounts receivable, other receivables and other long term assets are measured at amortized cost, which approximate fair value.

Financial assets at fair value through profit or loss ("FVPL")

Financial assets measured at FVPL include equity instruments, financial assets management intends to sell and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of loss and comprehensive loss. The Company's investment in the equity of Inplanta Biotechnology, a private enterprise, is classified as financial assets at FVPL.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the asset.

Impairment of financial assets

The impairment model under IFRS 9 – Financial Instruments ("IFRS 9") is applicable to financial assets measured at amortized cost where any expected future credit losses are provided for, irrespective of whether a loss event has occurred as at the reporting date. The Company's only financial assets subject to impairment are accounts receivable, other receivables and other long-term assets, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized. The Company has measured the lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to debtors and other relevant factors.

Estimates of expected credit losses take into account the Company's collection history, deterioration of collection rates during the average credit period, as well as observable changes in and forecasts of future economic conditions that affect default risk. Where applicable, the carrying amount of accounts receivables and other receivables are reduced for any expected credit losses through the use of an allowance for expected credit loss provision. Changes in the expected credit loss provision are recognized in the consolidated statements of loss and comprehensive loss. When the Company determines that no recovery of the amount owing is possible, the amount is deemed irrecoverable and the finance asset is written off.

Financial liabilities

Non-derivative financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include accounts payable and accrued liabilities, lease obligations, amounts due to related parties, debt related to assets held for sale, long-term debt and convertible dentures which are each measured at amortized cost.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

Financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the consolidated statements of loss and comprehensive loss.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gains or losses reported in other income or expense in the consolidated statements of loss and comprehensive loss.

(m) Offsetting of financial instruments

Financial assets and financial liabilities are offset if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the assets and settle the liabilities simultaneously.

(n) Compound financial instruments

Compound financial instruments issued by the Company comprise convertible debentures that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The components of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash of another financial asset for a fixed number of the Company's own equity instruments is an equity instrument. The Company has determined that based on the terms of the convertible debentures, the host debt component should be classified as a financial liability and measured at the contractual cash flow discounted at the market interest rate of a similar debt instrument with no conversion feature while the residual balance, representing the conversion feature, is classified as reserves in equity.

At the date of issue, the liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The Company reviews similar financial instruments in companies in the same industry along with its credit rating when considering the fair value of a similar liability. In calculating the fair value of a similar liability, a market interest rate is used to discount future cash flows. The market rate is estimated from the market interest rate on similar debt instruments. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

(o) Research and development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized in the consolidated statements of loss and comprehensive loss as incurred. To date, no development costs have been capitalized.

(p) Share-based compensation

Equity settled share-based payments

A Long-Term Incentive Plan ("LTIP") and Stock Option Plan ("SOP") was established for directors, certain employees and eligible contactors ("Participant") of the Company and its wholly-owned subsidiaries in consideration for past services to the Company. Under the terms of the LTIP and SOP, the Board of Directors (the "Board") or a committee on behalf of the Board may grant units, which may be either non-performance or performance based restricted share units ("RSUs"), deferred share units ("DSUs") and stock options.

The Company measures stock options, RSUs and DSUs based on the fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. The estimation of share-based compensation requires the selection of an appropriate valuation model and consideration as to inputs necessary for the valuation model chosen. The Company has made estimates as to the fair value and volatility of its shares, the probable life of options and warrants granted and issued, the time of exercise of those instruments, as well as forfeiture rates. Stock options are measured on the date of grant by reference to the fair value determined using a Black-Scholes valuation model, further details of which are given in note 17. RSU and DSU fair value is determined based on the closing price of the Company's common shares on the date of the grant. The value is recognized as share-based compensation expense in the consolidated statements of loss and comprehensive loss and an increase to contributed surplus in the consolidated statements of changes in shareholders' equity over the period in which the performance and/or service conditions are fulfilled. Estimates are subsequently revised if there is any indication that the number expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if awards ultimately exercised are different to that estimated on vesting. Share-based compensation expense related to employees directly involved in the production process, is capitalized and expensed when the finished good is sold through cost of sales.

For share-based payments granted to non-employees the compensation expense is measured at the fair value of the goods and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted.

Consideration paid by employees or non-employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from contributed surplus to share capital. The Company currently settles all RSU redemptions through the issuance of common shares. There are no issued and outstanding DSUs as of December 31, 2021.

(q) Income taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities on the taxable loss or income for the period. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted by the end of the reporting period.

Current income tax assets and current income tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Deferred income tax

Deferred income tax is provided using the balance sheet method on temporary differences on the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, and the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be generated in future periods to utilize these deductible temporary differences.

The following temporary differences do not result in deferred income tax assets or liabilities:

- The initial recognition of assets or liabilities, not arising from a business combination, that does not affect accounting or taxable profit;
- Initial recognition of goodwill, if any; and
- Investments in subsidiaries, associates and jointly controlled entities where the timing of the reversal of temporary differences can be controlled and reversal in the foreseeable future is not probable.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable income will be generated to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable income will be generated to allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to be in effect in the period when the asset is expected to be realized or the liability is expected to be settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and liabilities are offset if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Judgment is required in determining whether deferred income tax assets and liabilities are recognized on the consolidated statements of financial position. Deferred income tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate future taxable income in order to utilize the deferred income tax assets. Estimates of future taxable income are based on forecasted cash flows from operations or other activities. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred income tax assets recorded on the reporting date could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could impact tax deductions in future periods and the value of its deferred income tax assets and liabilities.

(r) Loss per share

Basic earnings per share is computed by dividing the net earnings available to common shareholders by the weighted average number ordinary shares outstanding during the reporting period. Ordinary shares include the outstanding common shares of the Company and the outstanding Series 1 Voting Convertible Redeemable Preferred Shares that will not be subject to recall.

Diluted earnings per share reflects the potential dilution that could occur if additional ordinary shares are assumed to be issued under securities that entitle their holders to obtain common shares in the future. The number of additional shares for inclusion in diluted earnings per share is determined using the treasury stock method, whereby stock options and warrants, whose exercise price is less than the average market price of the Company's common shares, are assumed to be exercised at the beginning of the period with proceeds based on the average market price for the period. The incremental number of common shares issued under stock options, warrants, Series 1 Voting Convertible Redeemable Preferred Shares and RSUs are included in the calculation of diluted earnings per share. If these computations prove to be anti-dilutive, diluted earnings per share is the same as basic earnings per share.

(s) Business combination

The Company uses the acquisition method of accounting to account for business combinations. The fair value of the acquisition of a subsidiary is based on the fair value of the assets acquired, the liabilities assumed, and the fair value of the consideration. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on the acquisition date. The excess, if any, of the consideration over the fair value of the identifiable net assets acquired is recorded as goodwill.

For acquisitions that do not meet the definition of a business under IFRS, the Company follows International Accounting Standard ("IAS") 16 – Property, Plant and Equipment ("IAS 16") and IAS 38 – Intangible Assets ("IAS 38") guidelines for asset acquisitions, where the consideration paid is allocated to assets acquired based on fair values on the acquisition date and transactions costs are capitalized and allocated to the assets acquired.

Non-controlling interests in the net assets of consolidated subsidiaries are a separate component of the Company's equity. Non-controlling interests consist of the non-controlling interests on the date of the original acquisition plus the non-controlling interests' share of changes in equity since the date of acquisition. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction.

(t) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. When a joint arrangement undertakes its activities under joint operations, the party recognizes, in relation to its interest, in the joint operation; (i) its assets, including its share of any assets held jointly, (ii) its liabilities, including its share of any liabilities incurred jointly, (iii) its revenue from the sale of its share of the output arising from the joint operation, and (iv) its expense, including its share of any expenses incurred jointly.

The Company accounted for its Equity Line and Profit Sharing Agreement with Terrace Global Inc. as described in note 20 as a joint operation, prior to the acquisition of Terrace in 2020 (note 3).

(u) Government grants

Government grants are assistance from the government in the form of transfer of resources for past or future compliance with certain conditions relating to the operating activities of the Company. The Company recognizes government grants when there is a reasonable assurance that it will comply with the conditions required to qualify for the grant, and that the grant will be received. The Company has received grants the Canada Emergency Wage Subsidy and Australia's cash flow boost program which have been recorded as other income in the year ended December 31, 2021.

(v) Assets held for sale and discontinued operations

Non-current assets or assets in a disposal group that are expected to be recovered primarily through sale rather than through continuing use are classified as assets held for sale. A disposal group is a group of assets which the Company intends to dispose of in a single transaction. These assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment charges on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in consolidated statements of loss and comprehensive loss from discontinued operations. The reversal of any previously recognized impairment charge cannot exceed the carrying amount that would have been determined had no impairment charge been recognized for the asset held for sale.

Assets and liabilities in a disposal group are classified as held for sale and are presented separately in the consolidated statements of financial position.

The measurement of assets held for sale requires the use of estimates and assumptions related to the carrying value and its recoverability through sale. Actual sale proceeds may differ materially from the carrying value.

A discontinued operation is a component of the Company that has been disposed of or is classified as held for sale and represents a separate line of business or geographical area of operations. The operating results and cash flows of discontinued operations are presented separately in the consolidated statements loss and comprehensive loss and cash flows.

There were no discontinued operations for the year ended December 31, 2021.

2.3 RECENT ACCOUNTING PRONOUNCEMENTS

As at the date of authorization of these consolidated financial statements, the IASB and the IFRS Interpretations Committee had issued certain pronouncements that are mandatory for the Company's accounting periods commencing on or after January 1, 2022. Many are not applicable or do not have a significant impact to the Company, have been excluded. The Company had assessed that no material impact is expected upon the adoption of the following amendments on its consolidated financial statements:

Amendments to IAS 1

In January 2020, the IASB issued amendments to IAS 1 which clarify the requirements for classifying liabilities as either current or non-current by: (i) specifying that the conditions which exist at the end of the reporting period determine if a right to defer settlement of a liability exists; (ii) clarifying that settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services; (iii) clarifying that classification is unaffected by management's expectation about events after the date of the statement of financial position; and (iv) clarifying the classification requirements for debt an entity may settle by converting it into equity.

The amendments clarify existing requirements, rather than make changes to the requirements, and so are not expected to have a significant impact on the Company's financial statements. However, the clarifications may result in reclassification of some liabilities from current to non-current or vice-versa, which could impact an entity's loan covenants. Because of this impact, the IASB has provided a longer effective date to allow entities to prepare for these amendments. In July 2020, the IASB issued an amendment to defer the effective date of the amendments by one year from its originally planned effective date to annual periods beginning on or after January 1, 2023 due to the impact of COVID-19. Early application is permitted.

Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendment narrowed the scope of certain recognition exemptions so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognizes deferred tax for all temporary differences related to leases and decommissioning obligations and recognizes the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date. The amendment is effective for annual periods beginning on or after January 1, 2023 with early application permitted.

Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37")

In May 2020, the IASB issued amendments to update IAS 37. The amendments specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract. These amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted.

(in thousands of Canadian dollars, unless otherwise indicated)

3. SIGNIFICANT TRANSACTIONS

Acquisition of Terrace Global Inc.

On December 22, 2020, Flowr completed the acquisition of 100% of the equity interest in Terrace Global Inc. ("Terrace") (the "Terrace Acquisition") pursuant to the Arrangement Agreement entered into between the Company and Terrace on October 19, 2020. The Terrace Acquisition was completed by way of a court approved plan of arrangement under the *Business Corporations Act* (Ontario) (the "Arrangement"). Pursuant to the terms of the Arrangement, each shareholder of Terrace received 0.4973 of a newly issued common share in Flowr (each a "Flowr Share" and collectively the "Flowr Shares") per Terrace common share, resulting in the issuance of 144,558,919 Flowr Shares. In addition, 236,712 stock options and 375,063 share purchase warrants of Flowr were issued to former holders of Terrace stock options and warrants, at the same exchange ratio as the common shares. Following the acquisition, the shares of Terrace ("TRCE") were delisted from the Exchange.

Terrace is a holding company which operated through the following subsidiaries: (i) Terra Nova Produção e Comercialização de Produtos Natuis e Farmacêuticos, Lda ("Terra Nova"), a Portuguese company with a pre-license issued by the government regulatory body for the cultivation, importation, and exportation of medical cannabis in Portugal; (ii) Oransur, S.A. ("Oransur"), a Uruguayan company previously engaged in the production of hemp in Uruguay; and (iii) Pharmabinoide S.L. ("Pharmabinoide"), which previously produced hemp in Spain. Prior to the acquisition by Flowr, Terrace had also entered into a subscription receipts financing for gross proceeds of $17 million, with the Terrace Acquisition being one of the conditions precedent to the release of the funds from escrow. As a result of the successful closing of the Terrace Acquisition, the proceeds net of transaction costs were released to Terrace.

The Company has accounted for the Terrace Acquisition as a business combination, as the operations of Terrace meets the definition of a business. The following table summarizes the consideration paid in connection with the acquisition of Terrace and the fair value of the assets acquired, liabilities assumed at the date of acquisition.

Issuance of common shares (144,558,919)	59,269
Cancellation of common shares previously issued to Terrace (9,266,538)	(3,799)
Stock options and warrants issued to replace Terrace stock options and warrants	77
Cancellation of warrants previously issued to Terrace	(1,641)
Note payable to Terrace	(1,500)
Total consideration transferred	**52,406**
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	19,782
Amounts receivable	826
Prepaids and other receivables	11
Other current assets	2
Property, plant and equipment	341
Accounts payable and accrued liabilities	(3,207)
Current liabilities	(1,039)
Lease obligations	(94)
Total identifiable net assets	**16,622**
Goodwill	35,784
Total net assets acquired	**52,406**

(in thousands of Canadian dollars, unless otherwise indicated)

Fair value of the consideration paid in common shares was determined based on the last traded price on the date of the acquisition. Fair value of the stock options and warrants issued were determined using the Black-Scholes option pricing model based on the following key assumptions and inputs:

	Warrants	Options
Share price	$0.39	$0.39
Exercise price	$1.01	$0.50
Five year risk free interest rate	0.27 %	0.48 %
Expected life in years	0.57	7.2
Expected volatility	95 %	95 %
Dividends per share	—	— —

As part of the Arrangement, the Company acquired 9,266,538 Flowr common shares and an equal number of Flowr warrants held by Terrace with a fair value on the date of the acquisition of $3,799 and $1,641, respectively. These shares and warrants were previously issued as consideration for funding by Terrace. These Flowr shares and warrants with carrying values of $3,470 and $1,348, respectively, are to be cancelled pursuant to the Arrangement.

The goodwill recognized upon the acquisition of Terrace is attributable to a number of factors that cannot specifically be allocated to an identifiable asset, including the unique skills and experience of Terrace's officers and directors who are joining Flowr's management and board of directors, and the improved access to capital provided by the new shareholders. As a result, the goodwill has been allocated to the Company's CGUs that would benefit from acquisition, based the CGU's proportionate fair value. The fair value of the CGUs were determined based on the value in use approach. The following table summarizes the CGUs fair value on the acquisition date, and the related allocation of goodwill:

	Allocation of goodwill
Flowr Canada	24,834
Holigen	10,950
Total	35,784

Goodwill is not deductible for tax purposes.

The Company incurred and expensed $917 in transaction costs for the year ended December 31, 2020, of which $nil are included in accounts payable as at December 31, 2021 (December 31, 2020 - $172).

Professional fees	684
Office and general	98
Investor relations	24
Non-cash costs	
Loss on debt modification (note 11)	111
Total transactions costs	917

At the time of acquisition, the Company also early converted certain convertible debentures resulting in a loss of $7,966 recorded in the consolidated statements of loss and comprehensive loss. *See note 12.*

(in thousands of Canadian dollars, unless otherwise indicated)

4. AMOUNTS RECEIVABLE

	December 31, 2021	December 31, 2020
Accounts receivable	3,027	1,277
Taxes receivable	714	1,239
Total	3,741	2,516

As at December 31, 2021, 70% of accounts receivable (December 31, 2020 – 92%) are due within 30 days. As at December 31, 2021, $876 (December 31, 2020 - $58) of accounts receivable were outstanding above 90 days, of which $465 (December 31, 2020 - $58) has been included in the provision for expected credit losses.

5. INVENTORY

	Capitalized costs	Fair valuation adjustment	Impairment	Carrying value
Harvested cannabis				
Work in process	4,543	(404)	(1,557)	2,582
Finished goods	762	(9)	—	753
	5,305	(413)	(1,557)	3,335
Supplies and consumables	919	—	—	919
Balance at December 31, 2021	6,224	(413)	(1,557)	4,254

	Capitalized costs	Fair valuation adjustment	Impairment	Carrying value
Harvested cannabis				
Work in process	12,991	(4,961)	(3,749)	4,281
Finished goods	483	11	(60)	434
	13,474	(4,950)	(3,809)	4,715
Supplies and consumables	438	—	—	438
Balance at December 31, 2020	13,912	(4,950)	(3,809)	5,153

$1,053 (2020 - $2,545) of depreciation and amortization recognized during the year ended December 31, 2021 is included in the capitalized costs of inventory held as at December 31, 2021. Capitalized depreciation of $856 (2020 – $1,168) was expensed to cost of sales in the year ended December 31, 2021.

For the year ended December 31, 2021, $18,891 (2020 - $6,234) have been recorded as cost of sales related to the cost of inventory produced and purchased during the year.

During the year ended December 31, 2021, the Company recognized an inventory impairment of $2,394 (2020 - $3,517) due to the capitalized costs of inventory being higher than the net realizable value.

(in thousands of Canadian dollars, unless otherwise indicated)

6. BIOLOGICAL ASSETS

Biological assets consist of cannabis plants. The changes in the carrying value of biological assets are as follows:

Balance at January 1, 2020	784
Production costs capitalized	13,099
Changes in fair value less cost to sell due to biological transformation	(7,369)
Transferred to inventory upon harvest	(5,668)
Balance at December 31, 2020	846
Production costs capitalized	9,964
Changes in fair value less cost to sell due to biological transformation	(3,571)
Transferred to inventory upon harvest	(5,951)
Balance at December 31, 2021	1,288

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price less costs to sell per gram. During the years ended December 31, 2021 and 2020, the fair value of biological assets less costs to sell was lower than capitalized production costs.

The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique used. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

Biological assets as at December 31, 2021 includes $449 (2020 - $335) of depreciation and amortization expense incurred in the period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2021 and 2020
(in thousands of Canadian dollars, unless otherwise indicated)

The following table quantifies each significant unobservable input, and provides the impact a 10% increase/decrease in each input would have on the fair value of biological assets for operations in Canada:

	Assumptions:	As at December 31, 2021 Input	As at December 31, 2021 Impact from 10% change	As at December 31, 2020 Input	As at December 31, 2020 Impact from 10% change
(i)	Weighted average of expected loss of plants until harvest *(a)*	3 %	$ 1	6 %	$ 4
(ii)	Expected yields for cannabis plants (average grams per plant) *(b)*	33 grams dry flower	$ 102	28.50 grams dry flower	$ 85
(iii)	Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	48 %	$ 101	56 %	$ 85
(iv)	Estimated bulk selling price (per gram) *(c)* I	$ 2.61 for dry flower	$ 179	$ 3.50 for dry flower	$ 131
(v)	Average post harvest cost to complete and sell (per gram)	$ 1.11	$ 75	$ 1.24	$ 47
(vi)	Reasonable margin on average after harvest costs to complete and sell (per gram)	$ 0.26	$ 18	$ 0.35	$ 13

(a) Weighted average of expected loss of plants until harvest represents loss via plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.

(b) Expected average yields for cannabis plants vary based on the mix of strains existing at each reporting date. The expected average grams of dry flower from plants as of December 31, 2021 is 33 grams (December 31, 2020 – 28.50 grams). The expected average grams of trim from plants as of December 31, 2021 is nil (December 31, 2020 – nil grams).

(c) The estimated selling price (per gram) represents the actual contractual sales price for the Company's various strains sold as bulk products or expected bulk selling price for strains with no contractual sales price. The selling price is impacted by the mix of expected THC levels from the plants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(in thousands of Canadian dollars, unless otherwise indicated)

The following table quantifies each significant unobservable input, and provides the impact a 10% increase/decrease in each input would have on the fair value of biological assets for operations in Portugal:

		As at December 31, 2021	
	Assumptions:	Input	10% change
(i)	Weighted average of expected loss of plants until harvest *(a)*	3 %	$ —
(ii)	Expected yields for cannabis plants (average grams per plant)	29 grams dry flower	$ 24
(iii)	Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	51 %	$ 24
(iv)	Estimated bulk selling price (per gram) *(b)*	$ 4.32 for dry flower	$ 68
(v)	After harvest cost to complete and sell (per gram)	$ 2.76	$ 43
(vi)	Reasonable margin on after harvest costs to complete and sell (per gram)	$ 0.43	$ 7

(a) Weighted average of expected loss of plants until harvest represents loss via plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.

(b) Expected average yields for cannabis plants vary based on the mix of strains existing at each reporting date. The expected average grams of dry flower from plants as of December 31, 2021 is 29 grams.

(c) The estimated selling price (per gram) represents the expected bulk selling price. The selling price is impacted by the mix of expected THC levels from the plants.

These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The Company estimates the harvest yields for cannabis at various stages of growth. As of December 31, 2021, it is expected that the Company's biological assets in Canada will yield approximately 1,410,772 grams of dry cannabis when harvested.

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

(in thousands of Canadian dollars, unless otherwise indicated)

7. FINANCIAL INSTRUMENTS

Set out below is a comparison, by category, of the carrying amounts of the Company's financial instruments that are recognized in the consolidated statements of financial position.

Other than convertible debentures (*note 12*) and lease obligations (*note 24*), the carrying values of all the financial assets and liabilities measured at amortized cost approximate their fair values as at December 31, 2021 and December 31, 2020.

		Carrying Amount	
	Financial Instrument Classification	December 31, 2021	December 31, 2020
Financial assets			
Cash and cash equivalents	Amortized cost	4,196	20,774
Accounts receivable	Amortized cost	3,027	1,277
Other receivables	Amortized cost	1,031	116
Investment in private securities - shares	FVPL	29	29
Financial liabilities			
Accounts payable and accrued liabilities	Amortized cost	7,636	11,704
Due to related parties	Amortized cost	—	97
Lease obligations	Amortized cost	5,936	7,672
Debt related to assets held for sale	Amortized cost	12,439	—
Long-term debt	Amortized cost	11,246	38,467
Convertible debentures	Amortized cost	4,113	3,834

Fair value hierarchy

The fair value of investments may be adjusted for:

- Equity financings provided by outside investors at a valuation different than the current value of the investee company in which case the fair value of investment is adjusted to the value at which that financing took place.
- Significant events that in management's opinion will have a material impact on the investee company's valuation, in which case the fair value adjustment is subject to management assumptions and judgment.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: based on quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: based on inputs which have a significant effect on fair value that are observable, either directly or indirectly from market data; and
- Level 3: based on inputs which have a significant effect on fair value that are not observable from market data.

The investment in privately held securities have been classified as Level 3 in the fair value hierarchy as at December 31, 2021 and December 31, 2020.

During the years ended December 31, 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

(in thousands of Canadian dollars, unless otherwise indicated)

The following table reconciles Level 3 fair value measurements from January 1, 2020 to December 31, 2021:

Balance as at January 1, 2020	650
Sale of Ace Hill shares	(479)
Realized loss on sale of Ace Hill shares	(271)
Unrealized gain on share investments	168
Unrealized loss on warrant investments	(39)
Balance as at December 31, 2020 and December 31, 2021	29

8. PROPERTY, PLANT AND EQUIPMENT

	Balance as at January 1, 2021	Additions	Disposals	Transfers	Impairment	Currency translation	Balance as at December 31, 2021
Cost:							
Land	10,990	—	(4,724)	(1,112)	(1,606)	(101)	3,447
Building and building improvements	28,825	27	—	(11,449)	(6,169)	(931)	10,303
Right-of-use assets (Note 24)	8,544	—	(4,224)	—	(130)	(5)	4,185
Leasehold improvements	15,054	—	(799)	8	(6,346)	(4)	7,913
Construction in progress	1,022	709	(6)	(1,693)	—	(30)	2
Facilities equipment	41,132	541	(462)	(2,996)	(12,019)	(611)	25,585
Furniture, equipment and others	2,018	16	(48)	(266)	(285)	(45)	1,390
Total cost	107,585	1,293	(10,263)	(17,508)	(26,555)	(1,727)	52,825
Accumulated depreciation:							
Building and building improvements	1,176	1,807	—	(569)	(42)	(92)	2,280
Right-of-use assets (Note 24)	1,133	853	(1,922)	—	—	(29)	35
Leasehold improvements	889	555	(58)	—	—	—	1,386
Facilities equipment	6,683	5,647	(7)	(666)	(161)	(87)	11,409
Furniture, equipment and others	575	391	(18)	(28)	—	(21)	899
Total accumulated depreciation	10,456	9,253	(2,005)	(1,263)	(203)	(229)	16,009
Net book value	97,129						36,816

As of December 31, 2021, right-of-use assets included in property, plant and equipment consists of the Flowr Okanagan facility lease, the Company's office lease and furniture lease in Toronto, Holigen's land, vehicle and building leases in Portugal. Refer to *note 24*.

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	Balance as at January 1, 2020	Additions	Disposals	Transfers	Impairment	Currency translation	Balance as at December 31, 2020
Cost:							
Land	10,905	—	—	—	—	85	10,990
Building and building improvements	7,260	262	—	20,867	—	436	28,825
Right-of-use Assets	8,909	127	(651)	—	—	159	8,544
Leasehold improvements	9,810	—	—	5,408	(166)	2	15,054
Construction in progress	38,611	11,174	(1,131)	(46,742)	(1,583)	693	1,022
Facilities equipment	20,814	1,022	(80)	19,112	—	264	41,132
Furniture, equipment and others	1,846	197	(429)	355	—	49	2,018
Total cost	98,155	12,782	(2,291)	(1,000)	(1,749)	1,688	107,585
Accumulated depreciation:							
Building and building improvements	271	885	—	—	—	20	1,176
Right-of-use Assets	594	1,150	(651)	—	—	40	1,133
Leasehold improvements	320	569	—	—	—	—	889
Facilities equipment	2,378	4,295	(2)	—	—	12	6,683
Furniture, equipment and others	316	470	(180)	—	—	(31)	575
Total accumulated depreciation	3,879	7,369	(833)	—	—	41	10,456
Net book value	94,276						97,129

Included in additions for the year ended December 31, 2020 is $341 related to property, plant and equipment acquired from the acquisition of Terrace and $4 of translation difference pertaining to Terrace.

Significant disposals

In the fourth quarter of 2020, the Company initiated the process of selling certain extraction equipment. Upon reclassification of the equipment as available for sale in the consolidated statements of financial position, the assets were revalued to its estimated recoverable amount. This has been reflected as a transfer in the table above. The recoverable amount of $1.0 million is based on purchase offers received by the Company. In 2021, $674 of these assets were disposed of and a loss on disposal of $201 was recorded in the consolidated statements of loss and comprehensive loss. During 2021, the Company transferred $158 of previously identified assets held for sale back to property, plant and equipment. The remaining $168 of assets held for sale from December 31, 2020, along with a further $475 of extraction equipment was fully impaired during the year ended December 31, 2021 and recorded as an impairment of assets on the consolidated statements of loss and comprehensive loss.

In December 2021, the Company completed the sale of the surplus industrial land and certain facilities equipment on that land with a carrying value of $4,724, adjacent to its operating facility located in Kelowna, British Columbia for gross consideration of $6,305. Pursuant to the sale agreement, the Company received $5,255 in cash proceeds on closing (December 2021), with an additional $1,050 cash payment (“holdback amount”) held in escrow to be released upon satisfaction of certain conditions within six months after closing. A net gain of $327, net of $204 of related transactions costs was recorded in other income and expenses of the consolidated statements of loss and comprehensive loss.

(in thousands of Canadian dollars, unless otherwise indicated)

In 2021, the Company initiated the process of selling its research and development facility ("R&D Facility") located in Kelowna, British Columbia. In February 2022, the Company and Hawthorne (defined in note 11) entered into a purchase and sale agreement ("Hawthorne Sale Agreement") under which the Company agrees to sell the R&D Facility to Hawthorne for gross consideration of $16,000. Pursuant to the Hawthorne Sale Agreement, the outstanding principal amount under the Hawthorne Loan (note 11) on closing of the sale would be set off against the gross consideration, resulting in net cash proceeds to the Company of approximately $4 million. The transaction is subject to customary closing conditions and is expected to be completed in the first half of 2022. The carrying value of the R&D Facility was $17,341 consisting of land, building and improvement, and equipment. An amount of $16,000 was transferred to assets held for sale representing the lower of the agreed upon sale price and the carrying amount. An impairment of $1,341 was recorded based on the purchase offer received by the Company in relation to the sale of the R&D Facility.

Other impairment

As at December 31, 2021, the carrying value of certain surplus land and equipment, adjacent to its operating facility located in Kelowna, British Columbia exceeded its estimated recoverable amount of $3,248 estimated based on comparable market transactions, resulting in an impairment charge of $5,762 recognized in the consolidated statements of loss and comprehensive loss.

See note 9.

9. INTANGIBLE ASSETS AND GOODWILL

	Balance as at January 1, 2021	Additions	Disposals	Impairment	Currency translation	Balance as at December 31, 2021
Cost:						
Software	141	2	—	(27)	(7)	109
License	29,726	215	—	(5,984)	(2,073)	21,884
Total cost	29,867	217	—	(6,011)	(2,080)	21,993
Accumulated amortization:						
Software	43	29	—	—	5	77
License	3,460	1,368	—	—	(270)	4,558
Total accumulated amortization	3,503	1,397	—	—	(265)	4,635
Net book value	26,364					17,358

(in thousands of Canadian dollars, unless otherwise indicated)

Capitalized license costs relates to costs incurred by the Company to acquire its cannabis licenses in Canada and Portugal.

	Balance as at January 1, 2020	Additions	Disposals	Impairment	Currency translation	Balance as at December 31, 2020
Cost:						
Software	98	57	—	—	(14)	141
Website development	294	—	(294)	—	—	—
License	44,053	—	—	(17,201)	2,874	29,726
Total cost	44,445	57	(294)	(17,201)	2,860	29,867
Accumulated amortization:						
Software	16	27	—	—	—	43
Website development	241	9	(250)	—	—	—
License	1,070	2,329	—	—	97	3,460
Total accumulated amortization	1,327	2,365	(250)	—	97	3,503
Net book value	43,118					26,364

Goodwill

The following is a goodwill continuity for the periods indicated:

Balance as at January 1, 2020	50,264
Goodwill on Terrace acquisition - Flowr Canada (note 3)	24,834
Goodwill on Terrace acquisition - Holigen (note 3)	10,950
Impairment of goodwill - Flowr Canada	(282)
Impairment of goodwill - Holigen	(64,747)
Translation differences	3,533
Balance as at December 31, 2020	24,552
Impairment of goodwill - Flowr Canada	(24,552)
Balance as at December 31, 2021	—

Impairment Charge

Holigen

As at December 31, 2021, the carrying value of Holigen exceeded its estimated recoverable amount resulting in an impairment charge of $8,950 (2020 - $81,948) recognized in the consolidated statements of loss and comprehensive loss, $4,661 of which was applied against Holigen's cultivation and processing license and $4,289 applied again Holigen's property, plant and equipment (2020 - $64,747 impairment applied against goodwill and $17,201 against intangible asset). The charge was primarily related to slow ramp up of Holigen's Portuguese operations and declining cannabis market conditions as compared to the conditions at the time of acquisition.

(in thousands of Canadian dollars, unless otherwise indicated)

Holigen's recoverable amount was determined using fair value less costs of disposal ("FVLCD") approach, primarily based on the sale consideration pursuant to the Holigen Sale (note 31b). The fair value of Holigen was estimated to include:

- Cash consideration of approximately $3,750 (US$ 3,000);
- 1,900,000 common shares of Akanda with an estimated fair value of $11.05 per share for a gross share consideration of $21,625;
- Assumption of approximately $5,066 in Holigen long-term debt; and
- $1,224 of interim funding provided by Akanda to Holigen prior to signing of the Purchase Agreement.

The fair value of the common shares of Akanda, which are subject to a lockup period of six months from the date of issuance on closing, was determined by estimating the implied discount on the shares for the lockup restriction and subtracting such discount from the closing share price of Akanda at the time of signing the Purchase Agreement.

The recoverable amount as determined is net of estimated transaction costs of $2,701, which primarily consists of investment advisory fees of 7% of the gross consideration and professional fees.

Flowr Canada

As at December 31, 2021, the recoverable amount of the Flowr Canada CGU is determined based on the FVLCD. In calculating the FVLCD, the Company determined the fair value based on comparisons of recently completed comparable market transactions and other relevant information. The carrying value of Flowr Canada exceeded its estimated recoverable amount and an impairment charge of $40,400 (2020 - $282) was recognized in the consolidated statements of loss and comprehensive loss, of which $24,552 was applied against goodwill recognized in the acquisition of Terrace, $1,350 applied against the Company's capitalized costs to acquire its cannabis license in Canada and $14,498 applied property, plant and equipment.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2021	December 31, 2020
Accounts payable (note 13)	5,279	8,739
Accrued liabilities	2,357	2,965
Refund liabilities	—	200
Excise and other taxes payable	(23)	15
Total	7,613	11,919

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11. LONG-TERM DEBT

The following is a loan continuity for the years indicated:

	ATB Loan	Holigen Loans	Hawthorne loan	Total
Balance as of January 1, 2020	19,427	5,850	11,500	36,777
Add: Additions	3,731	2,127	1,172	7,030
Add: Loss on modification of debt	113	-	—	113
Add: Interest and accretion expense	238	52	648	938
Less: Fees on modification on debt	(327)	-	—	(327)
Less: Payments	(5,246)	(985)	(258)	(6,489)
Add: Translation difference	—	425	—	425
Balance as at December 31, 2020	17,936	7,469	13,062	38,467
Add: Interest and accretion expense	1,266	192	394	1,852
Less: Payments	(13,574)	(1,486)	(1,017)	(16,077)
Add: Translation difference	—	(557)	—	(557)
Balance as of December 31, 2021	5,628	5,618	12,439	23,685
Current portion of debt	5,628	5,618	12,439	23,685
Non-current portion of debt	—	—	—	—

ATB Credit Agreement

On November 18, 2019, the Company entered into a credit agreement (the "ATB Credit Agreement") with a syndicate of lenders led by ATB Financial ("ATB") and including Farm Credit Canada (the "Senior Lenders"). On the closing date of the ATB Credit Agreement, the credit facility available consisted of a $24,500 recapitalization term facility and a $500 revolving operating credit facility (together the "Term Facilities"). Pursuant to the conditions of the Term Facilities, Flowr received a first tranche of funding of $20,050 million on November 18, 2019, the final tranche of funding of $3,200 on February 27, 2020 and accessed the $500 on the revolving operating credit facility on February 27, 2020.

As of March 31, 2020, the Company was in breach of the current ratio covenant and total assets covenant. On June 17, 2020, the Company obtained a waiver under the ATB Credit Facilities with respect to the covenant breaches. Under the terms of the waiver the Company had 120 days to partner with ATB on an amendment to the ATB Credit Facilities to include Holigen and its subsidiaries, as applicable, as loan parties under the ATB Credit Facilities. The Company and certain of its subsidiaries entered into an amending agreement (the "Sixth Amending Agreement") with respect to the ATB Credit Facilities pursuant to which each of Holigen, Holigen Limited and RPK Biopharma became a Material Subsidiary, a Guarantor and a Loan Party (for being Guarantors) under the ATB Credit Facilities. As a result of the Sixth Amending Agreement, the default relating to the Total Assets and EBITDA covenant was remedied.

On July 31, 2020, the $1,100 holdback with respect to builder's liens was released by ATB upon completion of construction of the Company's production facility in Kelowna, BC.

In connection with the Terrace Acquisition, on December 18, 2020, the Company entered into an Amended and Restated Credit Agreement (the "ARCA") with the Senior Lenders. Under the terms of the ARCA, the original financial covenants were removed and replaced with the following financial covenants (i) to maintain a senior debt to tangible net worth ratio of no greater than 1.3:1 (ii) a minimum cash holding of $3,500 and (iii) commencing on the fourth quarter of 2021, the Company must maintain certain quarterly minimum EBITDA balances. In addition, the ARCA allows for the Company to prepay the Term Facilities by $5,000, at which point the EBITDA covenant would be deferred for an additional year.

(in thousands of Canadian dollars, unless otherwise indicated)

On August 6, 2021, the Company entered into an amendment to the ARCA whereby the Senior Lenders agreed to certain amendments allowing Flowr to issue equity without any repayment to the lenders and providing additional flexibility to enter into financings arrangements with respect to Holigen. The Company repaid $7,500 on August 6, 2021 and a further $3,000 on December 13, 2021 towards the credit facility, reducing the principal amount outstanding under the ATB Financial term and operating facilities to approximately $5,700 as at December 31, 2021. As a result of the repayment on December 13, 2021, the Senior Lenders were required to remove each of Holigen, Holigen Limited and RPK Biopharma as a Material Subsidiary, a Guarantor and a Loan Party (for being Guarantors) all underlying security pledged to the Senior Lenders under the ARCA.

Under the ARCA, the outstanding balance of the loan proceeds bear interest at prime plus 2.75 basis points. The principal repayments under the Term Facilities are quarterly and the remaining principal amount of all loans and all other obligations in connection with the Term Facilities being repayable on the maturity date being November 18, 2022, with a one-year extension at the discretion of the Company. Interest payments are made on a monthly basis.

The loan has an effective interest rate of 7% per annum. As at December 31, 2021, the loan had an outstanding principal balance of $5,705. The difference between the carrying value and outstanding balance of the loan relates to $77 of unamortized fees incurred on the loan and unaccreted loss on the modification of debt.

Flowr had the following outstanding undiscounted loan obligation as of December 31, 2021:

	up to 1 year	1 - 3 years	Total
Loan Commitments in CAD	5,705	—	5,705

Covenants and 2022 Amendments to the ARCA

As of December 31, 2021, the Company is in compliance with the senior debt to tangible net worth ratio and the minimum cash covenants. The Company was not in compliance with the minimum EBITDA covenant for the fourth quarter of 2021, the first time the covenant was tested. On May 20, 2022, the Company and the Senior Lenders entered into a Second Amendment to Credit Agreement (the “2022 ARCA”). The 2022 ARCA included the following key amendments:

- The minimum cash covenant is reduced to $2,000 from $3,500;
- The minimum EBITDA test is deferred to commence with the second quarter of 2022, and may be further deferred if the Company completes the Hawthorne Sale Agreement and the Holigen sale transaction before June 30, 2022;
- An immediate early repayment of $918 towards the principal amount outstanding under the Term Facility;
- The final proceeds from the Hawthorne Sale Agreement of approximately $1,000 will be used towards early repayment of the Term Facility upon closing of the transaction; and
- An amount of up to $1,600 from the cash portion of the Holigen sale will be used towards early repayment of the Term Facility upon closing of the transaction.

Holigen Loans

In February 2019, RPK entered into a term loan (the “RPK Mortgage Loan”) with Caixa pursuant to which up to €5,220 ($7,798) was made available to RPK. The RPK Mortgage Loan matures in February 2026 and bears interest at a variable rate of the 12-month EURIBOR rate plus 3% per annum with a floor of 3% per annum, interest only for the first 12 months and is secured by RPK’s land and building assets in Sintra, Portugal. As at December 31, 2021, €2,219 ($3,194) (December 31, 2020, €2,578 ($4,024)) was drawn down under the RPK Mortgage Loan.

(in thousands of Canadian dollars, unless otherwise indicated)

In June 2019, RPK entered into a secured loan (the "RPK Equipment Loan") with Caixa pursuant to which an amount up to a certain percentage of new equipment purchased was made available to RPK. The RPK Equipment Loan matures in June 2025 and bears interest at a variable rate of the 12-month EURIBOR rate plus 3% per annum with a floor of 3% per annum, interest only for the first 12 months and is secured by RPK's equipment. The RPK Equipment loan has the following covenants (i) loan to RPK value ratio of less than or equal to 70% (ii) financial autonomy ratio of 20% or more and (iii) net debt/EBITDA ratio in RPK of equal or less than four beginning from January 2020. As at December 31, 2021, €1,685 ($2,424) (2020 – €2,030 ($3,168) was drawn down under the RPK Equipment Loan. As at December 31, 2021, RPK was in breach of the net debt/ EBITDA ratio covenant. The Company is in process of requesting a waiver from Caixa with respect to the debt/EBITDA ratio covenant. As RPK is in technical breach of the debt/EBITDA covenant at December 31, 2021, Holigen Loans have been classified as a current loan payable in the consolidated statements of financial position.

All of the RPK loans described above have an effective interest rate that is the same as their coupon rate.

The Company had the following outstanding undiscounted loan obligations related to its Holigen operations as of December 31, 2021:

	up to 1 year	1 - 3 years	3 - 5 years	over 5 years	Total
Loan Commitments in EUR	722	1,914	1,268	—	3,904
Loan Commitments in CAD	1,039	2,754	1,825	—	5,618

Hawthorne Agreement

On January 25, 2018, and subsequently amended, Hawthorne Canada Limited ("Hawthorne") and Flowr Okanagan entered into an agreement (the "R&D Agreement") to construct a research and development facility ("R&D Facility") and for Flowr Okanagan to provide certain R&D services upon completion of the R&D Facility.

Pursuant to the R&D Agreement, the Company would own the R&D Facility and Hawthorne would finance all construction and development costs through a loan to the Company and in return have access to the R&D Facility over a 20 year period. The Company would provide management and operational services to the R&D Facility and retain ownership facility at the end of the 20-year period. In total, Hawthorne loaned the Company $11,500 in principal amounts for the construction and development of the R&D Facility (the "Hawthorne Loan"). Upon the completion of the first floor of the R&D Facility in October 2020, the Hawthorne Loan began amortizing through an agreed upon payment schedule over 20 years, including an annual interest rate of 4%. If the R&D Agreement is terminated under certain circumstances, the Company could be required to pay 100% of all amounts advanced by Hawthorne and $1,500 in liquidated damages.

The Hawthorne Loan as of December 31, 2021 has an outstanding balance of $10,781 (December 31, 2020 - $11,356). The loan is secured by the R&D Facility, which has a carrying value of $14,338 as at December 31, 2021.

Upon the official commissioning of R&D Facility in October 2020 Hawthorne began paying the Company a monthly management fee and a monthly SR&ED service fee for overseeing the operations of the R&D Facility, which will continue through the 20-year term. In accordance with the R&D Agreement, these fees will completely offset the monthly principal repayments and interest accruals on the Hawthorne Loan over the life of the loan.

In addition to the Hawthorne Loan, on September 30, 2020, the Company entered into an amendment to the R&D Agreement whereby Hawthorne agreed to lend up to $1,300 in additional funding to Flowr at an interest rate of 4% per annum. The funding will be used to fund approved budgeted expenses related to the development of the R&D Facility. As of December 31, 2021, this loan has an outstanding balance of $1,173 (December 31, 2020 - $1,180).

In addition to the R&D Facility, the Company has also granted Hawthorne security over a cash collateral account to a maximum of $2.5 million, which account is only required to be funded at such time that the appraised value of the R&D Facility is lower than the amount of the Hawthorne Loan. As at December 31, 2021 and December 31, 2020, the cash collateral account was $nil. The effective interest rate of the loan is 3.39%.

(in thousands of Canadian dollars, unless otherwise indicated)

As at December 31, 2021, the total loan amounts outstanding to Hawthorne was $11,954. The difference between the carrying value and outstanding balance of the loan relates to $485 unamortized capitalized borrowing costs on the loan. The loan is classified as current as at December 31, 2021 as the R&D Facility is classified in assets held for sale at December 31, 2021.

The Company had the following outstanding loan obligations to Hawthorne as of December 31, 2021:

	up to 1 year	1 - 3 years	3 - 5 years	over 5 years	Total
Loan Commitments in CAD	11,954	—	—	—	11,954

12. CONVERTIBLE DEBENTURES

Convertible debentures balance as at December 31, 2021 is as follows:

	Liability component	Warrants component	Conversion option component
Balance as at January 1, 2020	—	—	—
Gross proceeds from issuance of convertible debentures units	21,579	—	—
Amount allocated to warrants	(2,331)	2,331	—
Amount allocated to conversion option	(2,911)	—	2,911
Accretion expense	2,119	—	—
Interest paid with issuance of shares	(1,436)	—	—
Transaction costs	(381)	(54)	(68)
Deferred tax recovery	—	(603)	(754)
Conversion of convertible debentures	(12,805)	—	(1,609)
Balance as at December 31, 2020	3,834 —	1,674 —	480
Accretion expense	788	—	—
Interest paid with issuance of shares	(509)	—	—
Balance at December 31, 2021	4,113	1,674	480

The Company has $4,966 in principal amounts of convertible debentures (the "Debentures") outstanding as at December 31, 2021 (December 31, 2020 - $4,966). The Debentures bear interest at 10% per annum, calculated semi-annually in arrears on June 30 and December 31 of each year, with the last interest payment to be paid on the fourth anniversary of April 27, 2024 (the "Maturity Date"). The interest is paid annually through the issuance of common shares based on the market price of the common shares on the business day immediately prior to the issuance, subject to approval by the Exchange. In the event that the Exchange does not authorize any particular payment of interest in common shares, that interest payment will be paid in cash.

The Debentures are convertible into common shares of the Company at the option of the subscriber at any time prior to the Maturity Date at a fixed price of $0.58 per common share. The Debentures rank subordinate to any and all current secured indebtedness, including the security granted to the lenders under the ATB Credit Agreement, and senior to any and all current and future unsecured indebtedness of the Company and any and all future secured indebtedness of the Company.

(in thousands of Canadian dollars, unless otherwise indicated)

13. RELATED PARTY TRANSACTIONS

As at December 31, 2021 and 2020, related party amounts included in (a) due to related parties (b) amounts receivable (c) property plant and equipment and (d) accounts payable and accrued liabilities were as follows:

		December 31, 2021	December 31, 2020
(a)	Reimbursable expenses due to a corporation with directors and officers in common with Flowr	—	97
(b)	Amounts receivable from a company with an officer in common with Holigen	—	122
(c)	Fees paid to a company for the construction of the Kelowna facility whose principal was an employee and is a shareholder of Flowr	—	358
(d)	Amounts due to a company that shares an officer in common with Holigen	—	134

Included in general and administrative expense are amounts paid to shareholders or to companies whose principals are either a shareholder, director or officer of the Company as follows:

	Year ended December 31, 2021	2020
General and administrative		
Consulting and administration fees	349	608
Rental fees	87	265
Other income		
Packaging and labelling services	(91)	(87)
	345	786

All the above transactions are in the normal course of operations and are measured at the exchange amounts, being the amounts agreed to by the parties, which approximate their fair values.

14. KEY MANAGEMENT REMUNERATION

The Company's related parties include its key management. Key management includes directors, officers and managing partners reporting directly to the Chief Executive Officer.

The remuneration of the key management of the Company recognized in the consolidated statements of loss and comprehensive loss for year ended December 31, 2021 and 2020 were as follows:

	Year ended December 31, 2021	2020
Salaries and short-term benefits	1,726	3,243
Termination benefits	758	319
Share-based compensation	672	950
Total renumeration	3,156	4,512

(in thousands of Canadian dollars, unless otherwise indicated)

15. REVENUE

	Year ended December 31, 2021	2020
Revenue from cannabis sales		
Gross revenue	14,165	9,441
Excise tax	(1,548)	(1,487)
Returns and concessions	(981)	(441)
Total net revenue from cannabis sales	11,636	7,513
Tolling revenue	712	—
Total	12,348	7,513

16. RESTRUCTURING COSTS

On March 23, 2020, the Company announced a restructuring of approximately 25% of its global workforce. The changes were part of a comprehensive review of operations in order to focus on high value priorities and accelerate cash flow generation.

The following is a summary of total restructuring costs:

	Year ended December 31, 2021			Year ended December 31, 2020		
	Flowr Canada	Holigen	Total	Flowr Canada	Holigen	Total
Severance costs	—	—	—	312	406	718
Professional fees	—	—	—	—	8	8
Total Restructuring costs	—	—	—	312	414	726

$190 of severance cost incurred in the year ended December 31, 2021 related to former officers of the Company who are also directors.

17. SHARE-BASED COMPENSATION

a) Stock options

The Company has established a stock option plan ("SOP") for directors, selected employees and consultants. Pursuant to the SOP, the exercise price of the option cannot be less than the closing price of Flowr's common shares on the trading date preceding the day the option is granted, subject to permitted discounts pursuant to the rules of the Exchange. The maximum number of common shares reserved for issuance under the SOP is 10% of the total issued and outstanding common shares of the Company including the 41,598,000 convertible Flowr ULC Class A Preferred Shares.

During the year ended December 31, 2021, the Company granted 17,396,000 (2020 - 631,712) stock options at a fair value of $3,301 (2020 - $227). The estimated value of the options granted will be recognized as an expense in the consolidated statements of loss and comprehensive loss and an addition to contributed surplus in the consolidated statements of changes in shareholders' equity over the vesting period. The options generally vest over 3 to 3.5 years from the grant date.

(in thousands of Canadian dollars, unless otherwise indicated)

As at December 31, 2021, there was $1,430 of share-based compensation cost remaining to be charged to the consolidated statements loss and comprehensive loss in future periods relating to stock option grants. The fair value of options granted was estimated using the Black-Scholes option pricing model. Due to limited historical data, the expected volatility is estimated based on the volatility of Flowr and comparable publicly traded companies. The inputs used in the measurement of the fair values at the time the options were granted were as follows:

	2021	2020
Share price	$0.06 to $0.38	$0.39 - $0.64
Exercise price	$0.06 to $0.44	$0.50 - $0.64
Risk free interest rate	0.48 - 1.25 %	0.37-0.68 % %
Expected life in years	5.00	5.00 - 7.2
Expected volatility	85 - 95 %	84-100 %
Dividends per share	—	—
Forfeiture rate	20 %	12 %

The following is a stock option continuity for the periods indicated:

	Number of options	Weighted average exercise price per share $
Balance as at January 1, 2020	12,192,697	2.84
Options granted	631,712	0.54
Options exercised	(918,750)	0.05
Options forfeited	(1,805,728)	3.93
Options expired	(1,357,201)	3.29
Balance as at December 31, 2020	8,742,730	2.78
Options granted	17,396,000	0.37
Options exercised	(618,750)	0.05
Options forfeited	(4,808,269)	1.26
Options expired	(4,803,999)	2.99
Balance as at December 31, 2021	15,907,712	0.56

During the year ended December 31, 2021, 17,396,000 stock options were granted to officers of the Company with an average exercise price of $0.37, a vesting period of three years, and an aggregate fair value of $3,299.

The following lists the options outstanding and exercisable as at December 31, 2021:

	Options outstanding			Options exercisable	
Range of exercise prices per share	Number of options outstanding	Weighted average remaining years	Weighted average exercise price per share $	Number of options exercisable	Weighted average exercise price per share $
$ 0.05 - 1.00	14,567,712	4.42	0.29	521,712	0.51
2.60 - 2.88	890,000	1.34	2.60	890,000	2.60
3.08 - 3.43	220,000	2.64	3.08	146,666	3.08
4.00 - 6.98	230,000	2.42	5.70	158,333	5.70
$ 0.05 - 6.98	15,907,712	4.35	0.56	1,716,711	2.45

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(in thousands of Canadian dollars, unless otherwise indicated)

The following lists the options outstanding and exercisable as at December 31, 2020:

	Options outstanding			Options exercisable	
Range of exercise prices per share	Number of options outstanding	Weighted average remaining years	Weighted average exercise price per share $	Number of options exercisable	Weighted average exercise price per share $
$ 0.05 - 1.00	1,160,462	1.46	0.19	855,462	0.05
2.60 - 2.88	6,420,530	2.20	2.27	4,896,123	2.45
3.08 - 4.00	245,000	3.64	3.08	98,333	3.08
5.24 - 6.98	916,738	3.35	6.52	575,562	6.71
$ 0.05 - 6.98	8,742,730	3.01	2.78	6,425,480	2.68

b) Long-term incentive plan ("LTIP")

On December 28, 2018, the shareholders of the Company approved the Company's LTIP, which was subsequently approved by the Exchange on January 16, 2019. The maximum number of common shares which may be reserved and set aside for issue under the LTIP in respect of Deferred share units ("DSU") to DSU participants and for payments in respect of awards of Restricted share units ("RSU") to RSU participants, shall not exceed 10% of the total issued and outstanding common shares of the Company, including 42,000,000 convertible Flowr ULC Class A Preferred Shares, at the time of approval of the LTIP (being 13,057,421 common shares of the Company). On May 9, 2019, the Board approved an amendment to the LTIP, which permits RSU participants to defer their settlement of an RSU award that has vested, within a period of 5 years from the vesting date.

The following is a RSUs continuity for the years indicated:

	Number of RSUs
Balance as at December 31, 2019	2,299,750
RSUs granted	573,500
RSU redeemed	(422,835)
RSUs forfeited	(717,749)
Balance as at December 31, 2020	1,732,666
RSUs granted	3,830,043
RSU redeemed	(1,215,601)
RSUs forfeited	(1,970,408)
Balance as at December 31, 2021	2,376,700

There are no DSUs issued and outstanding as of December 31, 2021 and 2020. During the year ended December 31, 2021, the Company granted 3,830,043 RSUs which have varying vesting terms and performance conditions. The majority vest over a period of 3 years. The grant date fair value of the RSUs granted is $382 which will be recognized over the vesting period.

(in thousands of Canadian dollars, unless otherwise indicated)

As the Company intends to settle vested RSUs with common shares, no mark-to-market adjustments have been made on the outstanding RSUs. As of December 31, 2021, there was $326 of share-based compensation expense remaining to be charged to the consolidated statements of loss and comprehensive loss in future periods relating to RSU grants.

The following is a summary of share-based compensation expense recorded in the consolidated statements of loss and comprehensive loss:

	Year ended December 31, 2021	2020
Stock Options	(138)	759
RSUs	196	2,519
	58	3,278

In the year ended December 31, 2021, a total of ($83) share based compensation recovery (2020 - $3,020 share-based compensation) was recorded in the consolidated statements of loss and comprehensive loss and an additional amount of share-based compensation of $141 ($259) was recorded as part of cost of sales.

In the year ended December 31, 2021, ($12) recoveries (2020 - $3,553) of share-based compensation was recorded to other reserves in the consolidated statements of equity of which $(22) recoveries (2020 - $533) was capitalized and $10 (2020 - $3,020) were recorded in the year, through the consolidated statements of loss and comprehensive loss. The difference between the share-based compensation recorded on the consolidated statements of equity of ($22) and the share-based compensation of $58 recorded in the consolidated statement of loss and comprehensive is related to share based compensation recorded as part of biological assets and inventory at the end of the current year and prior year.

The recoveries recorded in year ended December 31, 2021 are related to the reversal of previously recognized share based compensation on unvested stock options and unvested RSUs that were forfeited during the year.

18. FINANCE COSTS

	Year ended December 31, 2021	2020
Interest expense on lease liabilities	460	546
Accretion and interest on convertible debentures	788	2,119
Interest and accretion on borrowings	1,852	1,563
Other	49	41
	3,149	4,269

(in thousands of Canadian dollars, unless otherwise indicated)

19. OTHER EXPENSE (INCOME)

	Year ended December 31, 2021	2020
Loss on warrants investment valuation	—	39
Unrealized (gain) loss on fair value of investments held in shares	—	(168)
Realized loss on investments held in shares	—	271
Interest (income) expense, net	2	(26)
Government subsidies	(239)	(3,105)
Loss on disposal of asset	20	1,131
Loss on sublease	482	—
Severance costs	1,232	—
Adjustments to taxes receivables	202	—
Bad debt expense	369	58
Other expense	168	407
Total	2,236	(1,393)

20. SHARE CAPITAL

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series. As of December 31, 2021, the Company had 410,408,088 common shares issued and outstanding of which 9,266,538 common shares are to be cancelled pursuant to the Terrace Acquisition. Preferred shares are held in an escrow account until such shares convert into common shares. All preferred shares issued in relation to the Holigen SPA have been converted as at December 31, 2021.

In December 2017, through a corporate reorganization, Flowr ULC issued 44,100,000 class A preferred shares which provide the shareholders thereof with a right to exchange these shares for common shares of the Company at any point in time. During 2020, 1,500,000 of the Flowr ULC class A preferred shares were converted into common shares of the Company. As of December 31, 2021, 41,598,000 Flowr ULC preferred class A shares are convertible into common shares of the Company on a one for one basis. In the event that the Company issues additional common shares, a corresponding amount of Flowr ULC common shares are required to be issued from Flowr ULC to the Company. See Note 26 for a summary of the non-controlling interest deriving from these Flowr ULC class A preferred shares.

Equity financing

The following table summarizes equity financings during the year ended December 31, 2021:

	Number of shares	Gross proceeds $	Common shares $	Share issue costs for common shares $	Warrants $	Share issues costs for warrants $
Bought deal - March 16, 2021	31,127,453	15,875	11,626	(1,312)	4,249	(401)
Bought deal - July 15 and 27, 2021	36,019,047	7,564	5,286	(666)	2,278	(363)
At-the-market offering	238,500	62	62	(181)	-	-
Total, December 31, 2021	67,385,000	23,501	16,974	(2,159)	6,527	(764)

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On March 16, 2021, the Company closed an equity financing of 31,127,453 units at a price of $0.51 per unit for aggregate gross proceeds of $15,875. Each unit consisted of one common share and one common share purchase warrant. Each whole warrant is exercisable to acquire one common share of the Company for a period of 24 months at an exercise price of $0.64. The total fair value of warrants was estimated to be $4,249 using the Black-Scholes valuation method. The total fair value of share capital was $11,626. 1,867,647 broker warrants with a fair value of $294 estimated using the Black-Scholes valuation method were issued in relation of to this financing, of which $215 was allocated to share capital as share issue costs and $79 was allocated to warrants as share issue costs. Each broker warrant is exercisable to acquire one common shares of the Company for a period of 24 months at an exercise price of $0.51. A total of $1,312 of share issue costs were allocated to share capital in relation to this financing including the broker warrants. A total of $401 share issue costs were allocated to warrants in relation to this financing including broker warrants.

In July 2021, the Company closed two equity financings for a total of 36,019,047 units at a price of $0.21 per unit for aggregate gross proceeds of $7,564. Each unit consisted of one common share and one common share purchase warrant. Each whole warrant is exercisable to acquire one common share of the Company for a period of 42 months at an exercise price of $0.26. The total fair value of warrants was estimated to be $2,278 using the Black-Scholes valuation method. The total fair value of share capital was $5,286. 2,000,400 broker warrants with a fair value of $228 estimated using the Black-Scholes valuation method were issued in relation to these financings, of which $159 was allocated to share capital as share issue costs and $68 was allocated to warrants as share issue costs. Each broker warrant is exercisable to acquire one common share of the Company for a period of 36 months at an exercise price of $0.21. A total of $666 of share issue costs were allocated to share capital in relation to this financing including broker warrants. A total of $363 share issue costs were allocated to warrants in relation to this financing including broker warrants.

During the year ended December 31, 2021, through an at-the-market offering, the Company raised $62 total proceeds through issuance of 238,500 shares at an average share price of $0.26 per share. Share issue costs of $181 were incurred in relation to this issuance.

The following table summarizes equity financings during the year ended December 31, 2020:

	Number of shares	Gross proceeds $	Common shares $	Share issue costs for common shares $	Warrants $	Share issues costs for warrants $
Terrace financing - June 24, 2020	1,472,308	766	551	—	214	—
Terrace financing - August 5, 2020	961,538	500	1,878	—	140	—
Terrace financing - August 28, 2020	673,077	350	6,467	—	98	—
Terrace financing - September 8, 2020	1,351,923	703	139	—	196	—
Terrace financing - October 1, 2020	1,923,077	1,000	(1,878)	—	280	—
Terrace financing - October 22, 2020	2,884,615	1,500	197	—	420	—
Total, December 31, 2020	9,266,538	4,819	7,354	—	1,348	—

On May 12, 2020, the Company entered into an Equity Line and Profit Sharing Agreement (the "Terrace Agreement") with, among others, Terrace Global Inc. ("Terrace"), whereby the two companies agreed to work together to develop finished cannabis products for the European medicinal market. Under the terms of the Terrace Agreement, Terrace has agreed to fund the operations and certain capital expenditures at the Company's outdoor facility located in Aljustrel, Portugal in exchange for common shares and warrants in the Company issued in certain intervals during 2020 and sharing of net proceeds from the sale of any medical cannabis products produced from the facility.

(in thousands of Canadian dollars, unless otherwise indicated)

Upon the closing of each tranche of funding, the common shares issuable to Terrace will be issued at a price equal to the volume weighted average trading price of the common shares on the day prior to the day of such subscription less the maximum applicable discount available under the rules of the Exchange, subject in all circumstances to a minimum price of $0.52 per common share. In addition, upon issuance of common shares under the Terrace Agreement, Terrace will be entitled to an equal number of whole warrants, with each warrant being exercisable to purchase one common share for a period of thirty-six (36) months at an exercise price to be set at the greater of (a) $0.76 per common share and (b) the minimum exercise price permitted on the date of the closing of the tranche under the rules of the Exchange. As at December 31, 2020, Terrace has funded $4,819 in relation to the Terrace Agreement resulting in the issuance of 9,266,538 common shares and warrants. In connection with the completion of the Terrace Acquisition, all of the 9,266,538 Common Shares and Warrants held by Terrace are in the process of being cancelled. While never formally terminated, as of December 31, 2020, the Profit Sharing Agreement has expired on its terms and has not been renewed.

The allocation in proceeds between shares and warrants were estimated using the Black-Scholes valuation method. See *note 21*.

Other issuances

During the year ended December 31, 2021, the Company issued 2,959,542 common shares to settle certain liabilities in the amount of $620. Included in the shares issued were 85,098 common shares issued to a director of the Company to settle liabilities of $85 in relation to the Terrace Acquisition and 728,571 common shares issued to a former officer of the Company for termination benefits.

On February 12, 2020, March 26, 2020, July 29, 2020 and September 16, 2020, four Holigen milestones, as per the Holigen SPA and related transaction agreements, were achieved, resulting in conversion of 13,053,018, 2,447,441, 4,894,882 and 5,710,695 series 1 voting convertible redeemable preferred shares into common shares of Flowr, respectively.

21. WARRANTS

The following lists the warrants outstanding and exercisable as at December 31, 2021 and 2020:

	Number of warrants	Value $	Weighted average exercise price per share $
Balance as at January 1, 2020	5,519,098	6,468	4.91
Warrants granted	46,843,797	3,028	0.76
Warrants to be cancelled *(note 3)*	(9,266,538)	(1,348)	0.76
Warrants expired	(214,098)	(258)	2.56
Balance as at December 31, 2020	42,882,259	7,890	1.19
Warrants granted	71,014,547	6,285	0.43
Warrants expired	(5,680,063)	(6,215)	4.74
Balance as at December 31, 2021	**108,216,743**	**7,960**	**0.54**

(in thousands of Canadian dollars, unless otherwise indicated)

The fair value of warrants granted was estimated using the Black-Scholes option pricing model. Due to limited historical data, the expected volatility is estimated based on the volatility of comparable publicly traded companies. The inputs used in the measurement of the fair values at the time the warrants were granted were as follows:

	2021	2020
Share price	$0.13 to $0.38	$0.38 - $0.39
Exercise price	$0.21 to $0.64	$0.76 - $1.01
Risk free interest rate (one to three years)	0.31% to 0.57%	0.25% - 0.32%
Expected life in years	2 to 3.5	1 - 3
Expected volatility	85% - 95%	87% - 95%
Dividends per share	-	-

Refer to *notes 3, 12 and 20.*

22. LOSS PER SHARE

	Year ended December 31, 2021	2020
Net loss attributable to common shareholders	(85,532)	(125,621)
Basic and diluted weighted average number of common shares outstanding	372,916,488	132,373,595
Basic and diluted loss per ordinary share	(0.23)	(0.95)

23. SUPPLEMENTARY CASH FLOW INFORMATION

(a) Items not affecting cash and other adjustments:

	Year ended December 31, 2021	2020
Depreciation and amortization	11,764	6,431
Unrealized loss (gain) resulting from fair valuation of biological assets	(2,454)	6,338
Impairment of Inventory	2,394	3,517
Provision on expected credit loss	407	58
Share-based compensation expense	58	3,279
Gain on investments	—	142
Transaction costs	—	8,078
Loss on sublease	570	—
Loss on disposal of property, plant & equipment	—	1,218
Impairment on property, plant & equipment	26,533	1,749
Loss on disposal of subsidiaries	369	—
Impairment on intangible asset	6,011	17,201
Impairment losses on goodwill	24,552	65,029
Net interest expense	1,937	3,051
Other, net	752	607
Items not affecting cash and other adjustments	72,893	116,698

(in thousands of Canadian dollars, unless otherwise indicated)

(b) Changes in non-cash working capital:

	Year ended December 31, 2021	2020
Increase in amounts receivable	(1,863)	1,525
Decrease in other current assets	158	139
Decrease (increase) in inventories	2,850	(2,172)
Increase in biological assets	(3,586)	(6,648)
Decrease in accounts payable and accrued liabilities	(3,656)	(120)
Decrease in deferred revenue	—	(256)
(Decrease) increase in amounts due to related parties	(97)	(2)
Changes in non-cash working capital	(6,194)	(7,534)

24. LEASES

The following is a right-of-use assets continuity for the years indicated:

	Land	Building	Others	Total
Balance as at January 1, 2020	832	7,354	130	8,316
Additions	—	—	127	127
Depreciation	(150)	(956)	(44)	(1,150)
Currency translation	56	57	5	118
Balance at December 31, 2020	738	6,455	218	7,411
Additions	—	—	—	—
Disposal	—	(669)	(80)	(749)
Subleased during the period	—	(1,506)	(47)	(1,553)
Depreciation	(145)	(667)	(41)	(853)
Currency translation	(54)	(40)	(12)	(106)
Balance at December 31, 2021	539	3,573	38	4,150

The following is a lease liability continuity for the years indicated:

	Land	Building	Others	Total
Balance at January 1, 2020	727	7,567	105	8,399
Additions	—	—	127	127
Interest	60	476	9	545
Repayments	(192)	(1,266)	(53)	(1,511)
Currency translation	52	53	7	112
Balance as at December 31, 2020	647	6,830	195	7,672
Disposals	—	(663)	(81)	(744)
Interest	47	399	8	454
Repayments	(178)	(1,113)	(56)	(1,347)
Currency translation	(51)	(39)	(9)	(99)
Balance at December 31, 2021	465	5,414	57	5,936

The Company had the following undiscounted lease commitments as at December 31, 2021:

	up to 1 year	1 - 3 years	3 - 5 years	over 5 years	Total
Undiscounted lease commitments	1,271	1,734	620	7,354	10,979

(in thousands of Canadian dollars, unless otherwise indicated)

Discounted lease commitments are shown as short-term lease obligations and lease obligations on the consolidated statements of financial position.

The Flowr Okanagan facility lease is payable to 0954717 B.C. LTD. whose principal owners are also shareholders of Flowr. The total remaining commitment for this lease is $8,831, of which $287 is due within one year.

During 2021, the Company entered into several subleases with third party sub-tenants for the unused office space in Toronto, Ontario, and warehouse space in Kelowna, British Columbia. The terms of the subleases are for the remainder of the lease obligations. As a result of these subleases, the Company has recorded a reduction of $1,553 to right-of-use assets with corresponding amounts of $449 in other receivables and $534 in other long-term assets on the consolidated statements of financial position as at December 31, 2021.

Following are the amounts recognized in consolidated statements of loss and comprehensive loss pertaining to leases for the periods indicated:

	Year ended December 31,	
	2021	2020
Depreciation expense on right-of-use assets	679	962
Interest expense on lease liabilities (note 18)	460	546
Interest income earned on sub-lease	22	2
Expenses related to short-term leases	256	129

Following are the amounts recognized in the consolidated statements of cash flows pertaining to leases for periods indicated:

	Year ended December 31,	
	2021	2020
Total cash inflow from net investment in lease	122	100
Total cash outflow for leases	1,347	1,510

25. COMMITMENTS AND CONTINGENCIES

The Company had contractual commitments related to purchase orders in the normal course of business of $138 as at December 31, 2021 due within a year.

The Company is subject to legal proceedings and claims, which have arisen in the ordinary course of business. The Company's management does not reasonably expect that these legal actions, when ultimately concluded and determined, will have a material and adverse effect on the Company's results of operations or financial condition. As at December 31, 2021, a total of $60 of contingent liabilities have been recorded.

26. NON-CONTROLLING INTEREST

Set out below is summarized financial information reported by Flowr ULC and its subsidiaries that have been incorporated into these consolidated financial statements. All of the financial information is presented before any intercompany eliminations with its parent company (Flowr).

(in thousands of Canadian dollars, unless otherwise indicated)

The following table summarizes the consolidated financial position for Flowr ULC as at December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Current assets	27,340	9,031
Non-current assets	206,306	245,925
Current liabilities	(15,672)	(5,415)
Non-current liabilities	(18,845)	(34,272)
Net assets	199,129	215,269

The following tables summarizes Flowr ULC's consolidated net loss for the years ended December 31, 2021 and 2020:

	Year ended December 31,	
	2021	2020
Revenue	11,636	7,446
Expenses	(51,890)	(27,227)
Net loss	(40,254)	(19,781)

Other changes in non-controlling interest as reported in the consolidated statement of changes in shareholders' equity is primarily attributable to the shares issued by Flowr ULC to the Company as required whenever the Company issues common shares on a one for one basis.

27. FINANCIAL RISK MANAGEMENT

The Company's principal financial liabilities comprise of accounts payable and accrued liabilities, amounts due to related parties, capital lease obligations, convertible debenture and long-term debt. The main purpose of these financial instruments is to assist with the management of the Company's short term and long-term cash flow requirements. The Company has various financial assets, such as cash and cash equivalents, accounts receivable and other receivables, which arise directly from its operations.

The main risks that could adversely affect the Company's financial assets, liabilities or future cash flows are market risk, liquidity risk and credit risk. Management reviews each of these risks and establishes policies for managing them as summarized below.

Market risk

Market risk is the risk that the future cash flows or the fair value of a financial instrument will fluctuate because of changes in market conditions. The Company operates in an industry regulated by Health Canada and other regulatory authorities in Portugal and Australia. Changes in legislation could have a significant impact on the Company's operations.

Interest rate risk

Interest rate risk primarily arises from floating rate borrowing, including various revolving and other lines of credit. A 10% change in the floating interest rates does not have a material impact on the consolidated statements of loss and comprehensive loss. Certain borrowings are also transacted at fixed interest rates. The Company has an agreement with ATB that requires the Company to enter into interest rate swap contracts on 25% of its outstanding loan with ATB. On December 31, 2021, the Company entered into an interest rate swap contract on a notional amount of $3,926 with ATB whereby the Company has a fixed interest rate of 1% per annum and ATB has a floating interest rate based on benchmark bankers' acceptance. The swap contract has a three-month term and is settled monthly. The termination date of the agreement is November 18, 2022.

Foreign currency risk

The operating results and financial position of the Company are reported in Canadian dollars. As the Company operates internationally, certain of the Company's financial instruments and transactions are denominated in currencies other than the Canadian dollar. The results of the Company's operations are, therefore, subject to currency transaction and translation risks.

The Company's main risk is associated with fluctuations in Euros, Australian and U.S. dollars. The Company holds cash in Canadian dollars, U.S. dollars and Euros. Assets and liabilities are translated based on the Company's foreign currency translation policy. The Company has determined that as at December 31, 2021, the effect of a 10% increase or decrease in Euros and U.S. dollars against the Canadian dollar on financial assets and liabilities would result in an increase or decrease of approximately $3,076 (December 31, 2020 – $10,190) to net loss and $738 (2020 – $461) to comprehensive loss for the year ended December 31, 2021.

At December 31, 2021, the Company has not entered into any hedging agreements to mitigate currency risks, with respect to foreign exchange rates.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not significantly exposed to other price risk with respect to its financial instruments, as their fair values and future cash flows are not impacted materially by fluctuations in market prices.

Credit risk

The exposure to credit risk arises through the potential failure of a customer or another third party to meet its contractual obligations to the Company. As at December 31, 2021, the Company had amounts receivable of $3,027 (December 31, 2020 - $1,277). The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. The Company is not significantly exposed to credit risk as the amounts receivables are primarily due from provincial government organizations and overall amounts receivable comprise 5% (December 31, 2020 – 1.4%) of the Company's total assets. All cash is held with highly rated financial institutions and associated risks are considered nominal. For maximum credit risk exposure on amounts receivable, see note 4.

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Liquidity risk

The Company relies on the cash flows generated from its operations, retained cash balances, available lines of credit under its loan facilities and its ability to raise debt and equity from the capital markets to fund its operating, investment, commitments and other liquidity needs. To reduce these risks, the Company: (i) prepares regular cash flow forecasts to monitor its capital requirements and available liquidity (ii) strives to maintain a prudent capital structure that is comprised primarily of equity and debt financing; and (iii) targets a minimum level of liquidity comprised of surplus cash balances to avoid having to raise additional capital at times when the costs or terms would be regarded as unfavorable.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

As at December 31, 2021	Total	Less than 1 year	1-3 years	3 - 5 years	over 5 years
Accounts payable and liabilities	7,613	7,613	—	—	—
Lease obligations	10,979	1,271	1,734	620	7,354
Long-term debt, excluding Hawthrone debt	11,323	6,744	2,754	1,825	—
Hawthorne debt	11,954	11,954	—	—	—
Convertible debentures	4,113	—	4,113	—	—
Total contractual obligations	45,982	27,582	8,601	2,445	7,354

As at December 31, 2020	Total	Less than 1 year	1-3 years	3 - 5 years	over 5 years
Accounts payable and liabilities	11,919	11,919	—	—	—
Due to related parties	97	97	—	—	—
Lease obligations	12,993	1,184	2,680	1,549	7,580
Long-term debt, excluding Hawthrone debt	26,001	6,333	17,645	2,023	—
Hawthorne debt	12,528	809	1,619	1,619	8,481
Convertible debentures	3,834	—	—	3,834	—
Total contractual obligations	67,372	20,342	21,944	9,025	16,061

Capital management

The Company considers its capital to be its equity and debt. The Company's objective for capital management is to: (i) maintain sufficient levels of liquidity to fund and support its capital projects and operating activities; and (ii) maintain a strong financial position to ensure it has ready access to debt and equity markets to supplement free cash flow being invested in its growth projects. The Company monitors its financial position and the potential impact of adverse market conditions on an ongoing basis. The Company manages its capital structure and makes adjustments to it based on prevailing market conditions and according to its business plan. The Company's funding strategy is to maintain a capital structure comprised primarily of cash sourced from equity and debt offerings and net earnings generated from its operations. In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, did not materially disrupt the Company's operations during year ended December 31, 2021. The production and sale of cannabis have been recognized as essential services. The Company is continuously monitoring the impact of the COVID-19 pandemic on market conditions and will adjust its capital structure strategy accordingly.

See note 11.

(in thousands of Canadian dollars, unless otherwise indicated)

28. EXPENSE BY NATURE

Cost of sales as reported in the consolidated statements of loss and comprehensive loss, have been regrouped by the nature of the expenses as follows:

	Year ended December 31, 2021	2020
Production costs	7,300	3,913
Salaries and benefits	7,011	2,682
Share-based compensation	141	259
Depreciation and amortization	7,612	4,614
Total	22,064	11,468

Selling and marketing and general and administrative expenses as reported in the consolidated statements of loss and comprehensive loss, have been regrouped by the nature of the expenses as follows:

	Year ended December 31, 2021	2020
Salaries and benefits	7,296	10,739
Professional fees	2,683	2,573
General and administrative	2,741	3,068
Travel	475	516
Selling and marketing	3,132	1,717
Total	16,327	18,613

Research and development costs, as reported in the consolidated statements of loss and comprehensive loss, have been regrouped by the nature of the expenses as follows:

	Year ended December 31, 2021	2020
Salaries and benefits	262	421
Research and development	453	271
Depreciation and amortization	1,017	255
Total	1,732	947

(in thousands of Canadian dollars, unless otherwise indicated)

29. OPERATING SEGMENT INFORMATION

Operating segments are components of an entity whose operating results are regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance and for which separate financial information is available.

The Company primarily operates in two reportable operating segments, (i) Flowr Canada being a licensed producer operating in Canada ("Flowr Canada") and (ii) Holigen being a licensed producer with operations primarily in Portugal. Prior to the acquisition of Holigen in August 2019, the Company operated in one reportable segment. The following table summarizes the net loss and other relevant information by segment for the year ended December 31, 2021:

	Year ended December 31, 2021			
	Flowr Canada	Holigen	Other	Total
Revenue	11,636	712	—	12,348
Cost of sales	19,372	2,692	—	22,064
Impairment of inventory	1,748	646	—	2,394
Gross loss before fair value adjustments	(9,484)	(2,626)	—	(12,110)
Loss before income taxes	(75,426)	(18,730)	2,034	(92,122)
Total Capital Expenditure*	469	824	—	1,293

* *Includes cash and non-cash expenditure related to property plant & equipment and intangible assets and excludes additions related to right-of-use assets.*

	Year ended December 31, 2020			
	Flowr Canada	Holigen	Other	Total
Revenue	7,446	67	—	7,513
Cost of sales	7,975	3,493	—	11,468
Impairment of inventory	2,937	555	25	3,517
Gross loss before fair value adjustments	(3,466)	(3,981)	(25)	(7,472)
Loss before income taxes	(38,992)	(93,854)	(976)	(133,822)
Total Capital Expenditure*	7,152	5,372	189	12,713

For the year ended December 31, 2021, 60% (2020 – 90%) of the Company's cannabis revenue relates to sales made to provincial regulatory bodies in Canada and 40% (2020 – 10%) to other licensed distributors, licensed producers and retailers in Canada.

(in thousands of Canadian dollars, unless otherwise indicated)

The following table summarizes the total assets and liabilities by segment as at December 31, 2021 and 2020:

	December 31, 2021			
	Flowr Canada	Holigen	Other	Total
Assets				
Current Assets	30,174	950	676	31,800
Non-current Assets (*)	24,646	30,597	13	55,256
Total Assets	54,820	31,547	689	87,056
Current Liabilities	23,627	7,287	1,289	32,203
Non-current liabilities	8,812	332	—	9,144
Total Liabilities	32,439	7,619	1,289	41,347

	December 31, 2020			
	Flowr Canada	Holigen	Other	Total
Assets				
Current Assets	10,032	1,898	20,687	32,617
Non-current Assets (*)	100,809	45,831	1,742	148,382
Total Assets	110,841	47,729	22,429	180,999
Current Liabilities	9,512	5,899	4,412	19,823
Non-current liabilities	37,454	7,122	846	45,422
Total Liabilities	46,966	13,021	5,258	65,245

**As at December 31, 2021, Holigen non-current assets include goodwill of $nil (December 31, 2020 - $nil) and intangibles of $12,394 (December 31, 2020 - $25,882).*

30. INCOME TAXES

The major items causing the Company's effective income tax rate to differ from the combined federal and provincial enacted rate of 26.5% (2020 -26.5%) were as follows:

	2021	2020
Losses before income taxes	(92,122)	(133,822)
Combined Canadian federal and provincial statutory income tax rates	26.50%	26.50%
Expected income tax recovery	(24,412)	(35,463)
Share based compensation expense and Non-deductible expenses	554	2,724
Share issue costs recorded through equity	(630)	42
Other	7,478	17,233
Tax rate changes and other adjustments	—	2,053
Change in tax benefit not recognized	14,122	7,444
Income tax recovery	(2,888)	(5,967)

(in thousands of Canadian dollars, unless otherwise indicated)

Deferred income tax (assets) and liabilities have been recognized in respect of the following deductible (taxable) temporary differences:

	2021	2020
Lease obligations	1,129	(30)
Property, plant and equipment	(1,250)	(4,003)
Intangible assets	(3,179)	(5,686)
Convertible debentures	(540)	(614)
Non-capital loss carry-forwards	3,840	7,224
Net deferred income tax liabilities	—	(3,109)

Movement in net deferred tax liabilities:

	2021	2020
Balance at the beginning of the year	(3,109)	(7,238)
Recognized in profit/loss	2,888	5,967
Foreign exchange	221	(1,838)
Balance at the end of the year	—	(3,109)

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intention to offset. Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	2021	2020
Non-capital loss carry-forwards	101,453	54,482
Share issue costs	4,120	3,639
Inventory	4,995	5,285
Other temporary differences	8,908	7,134
Total deductible temporary differences	119,476	70,540

31. SUBSEQUENT EVENTS

(a) Sale of R&D Facility

Subsequent to December 31, 2021, the Company entered into an agreement to sell the R&D Facility for an aggregate purchase price of $16,000 comprising of $4,000 in cash and full extinguishment of its Hawthorne Loan as described in note 11.

(b) Sale of Holigen

On April 19, 2022, the Company, through its wholly-owned subsidiary HHL, entered into a share purchase agreement (the “Purchase Agreement”) with Akanda Corp. (NASDAQ: AKAN) (“Akanda”) and Cannahealth Limited (the “Purchaser”), a wholly-owned subsidiary of Akanda. Pursuant to the Purchase Agreement, the Purchaser will acquire from HHL (the “Holigen Sale”) all of interests in HL (including HL’s wholly owned subsidiary RPK) for aggregate consideration of approximately $35,000.

Pursuant to the terms of the Purchase Agreement, the Company has agreed to sell HL to the Purchaser for total consideration payable of approximately $35,000 (the "Purchase Price") consisting of: (i) $3,750 in cash; (ii) 1,900,000 common shares in the capital of Akanda (the "Consideration Shares") which closed at U.S.$10.30 per share on April 19, 2022; (iii) the indirect assumption by Akanda of RPK's indebtedness of approximately $5,100; and (iv) at least $834 of interim funding to Holigen which has already been received by Flowr. If the Purchase Agreement does not close on or prior to May 31, 2022, the interim funding will be repaid to Akanda by the delivery of medical cannabis from Holigen at a price of €2.00 ($2.72) per gram or in cash, at the discretion of Flowr. In connection with the Transaction, Holigen will pay an advisory fee equal to 7% of the Purchase Price, 50% of which is payable in cash and 50% of which is payable in Consideration Shares.

In addition, Akanda has agreed to subscribe for $1,000 of common shares in the capital of Flowr (the "Private Placement") at a price per share of $0.07 per share, subject to the approval of the TSX Venture Exchange (the "TSXV"). The Consideration Shares are subject to a customary six-month lockup.

The Holigen Sale closed on April 29, 2022 upon receiving the necessary approvals and satisfaction of other closing conditions.

(c) Amendments of Senior Credit Facilities

Refer to ATB Credit Agreement under note 11.

This is Exhibit "K" referred to in the affidavit

of DARREN KARASIUK, SWORN BEFORE ME
this 20th day of October 2022

____
A COMMISSIONER FOR TAKING AFFIDAVITS

THE flowr™ MC CORPORATION

Consolidated Financial Statements

For the three and six month periods ended June 30, 2022 and 2021

(in thousands of Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim condensed consolidated financial statements of The Flowr Corporation have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at June 30, 2022 and December 31, 2021

(in thousands of Canadian dollars)

	Notes	June 30, 2022 *(unaudited)*	December 31, 2021
ASSETS			
Current Assets			
Cash and cash equivalents		1,235	4,196
Amounts receivable	*4*	2,652	3,741
Prepaids and other receivables		1,675	2,321
Inventory	*5*	3,762	4,254
Biological assets	*6*	113	1,288
Assets held for sale	*8*	19,248	16,000
		28,685	31,800
Non-Current Assets			
Investments at fair value	*7*	1,639	29
Property, plant and equipment	*8, 24*	18,006	36,816
Intangible assets	*9*	1,322	17,358
Other long-term assets		867	1,053
		21,834	55,256
TOTAL ASSETS		50,519	87,056
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	*4, 10*	10,501	7,613
Debt related to assets held for sale	*8, 11*	12,146	12,439
Short-term lease obligations	*24*	695	905
Current portion of long-term debt	*11*	2,011	11,246
		25,353	32,203
Non-Current Liabilities			
Convertible debentures	*12*	4,517	4,113
Lease obligations	*24*	4,375	5,031
		8,892	9,144
TOTAL LIABILITIES		34,245	41,347
SHAREHOLDERS' EQUITY			
Share capital	*20*	284,093	282,851
Other reserves	*21*	8,932	7,947
Deficit		(298,136)	(265,200)
Accumulated other comprehensive loss		4,734	1,785
Equity attributable to common shareholders of the Company		(377)	27,383
Non-controlling interests	*26*	16,651	18,326
TOTAL EQUITY		16,274	45,709
TOTAL LIABILITIES AND EQUITY		50,519	87,056

Commitments and contingencies (*note 24*)
Subsequent events (*note 28*)

The accompanying notes are an integral part of the condensed interim consolidated financial statements

Approved by the Board of Directors

Ryan Roebuck (signed) Director   *Darren Karasiuk (signed)* Director

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the three and six months ended June 30, 2022 and 2021
(unaudited, in thousands of Canadian dollars)

	Notes	Three months ended June 30, 2022	2021	Six months ended June 30, 2022	2021
Revenue	*15*	2,730	2,001	6,193	5,623
Cost of sales	*28*	1,485	5,279	5,163	8,009
Impairment of inventory	*5*	358	129	1,041	878
Gross profit (loss) before fair value adjustments		887	(3,407)	(11)	(3,264)
Fair value adjustments on inventory sold		(1,120)	(3,413)	(1,812)	(3,521)
Unrealized loss on changes in fair value of biological assets	*6*	1,509	708	3,890	2,524
Gross profit/(loss)		498	(702)	(2,089)	(2,267)
Selling and marketing	28	605	1,069	1,531	2,581
General and administrative	*13, 28*	2,230	2,637	4,156	5,124
Research and development	*28*	163	435	303	849
Share-based compensation	*17*	(96)	(1,566)	(321)	(1,145)
Fair value adjustments to investments	*7*	15,512	—	15,512	—
Restructuring costs	*16*	318	—	318	—
Management fee income	*11*	(337)	(342)	(675)	(686)
Depreciation and amortization		42	218	78	493
Finance costs	*18*	494	722	1,004	1,458
Loss from disposal of subsidiary		—	(931)	—	(985)
Impairment of investments	*8, 9*	—	—	29	—
Other expense (income)	*19*	104	922	275	991
Loss before income taxes		(18,537)	(3,865)	(24,299)	(10,946)
Deferred income tax recovery		—	—	—	—
Net loss from continuing operations		(18,537)	(3,865)	(24,299)	(10,946)
Net loss from discontinued operations	*3*	(7,734)	(3,619)	(8,472)	(5,240)
Net loss		(26,271)	(7,484)	(32,771)	(16,186)
Currency translation adjustments		2,835	605	2,949	(1,225)
Total comprehensive loss		(23,436)	(6,879)	(29,822)	(17,411)
Net loss attributable to:					
Common and preferred shareholders of the Company		(26,184)	(7,204)	(32,291)	(15,481)
Non-controlling interests		(87)	(280)	(480)	(705)
Net loss		(26,271)	(7,484)	(32,771)	(16,186)
Total comprehensive loss attributable to:					
Common and preferred shareholders of the Company		(23,349)	(6,599)	(29,342)	(16,706)
Non-controlling interests		(87)	(280)	(480)	(705)
Total comprehensive loss		(23,436)	(6,879)	(29,822)	(17,411)
Basic and diluted loss per share attributable to common shareholders of the Company					
Continuing operations	*21*	(0.04)	(0.02)	(0.06)	(0.04)
Discontinued operations	*21*	(0.02)	(0.00)	(0.02)	(0.00)

The accompanying notes are an integral part of the condensed interim consolidated financial statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and six months ended June 30, 2022 and 2021

(unaudited, in thousands of Canadian dollars)

	Notes	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
OPERATING ACTIVITIES					
Loss from continuing operations		(18,537)	(3,865)	(24,299)	(10,946)
Items not affecting cash and other adjustments	*23(a)*	19,396	(5,065)	22,714	(1,523)
Changes in non-cash working capital	*23(b)*	(3,008)	394	548	(5,580)
Cash provided by (used in) operating activities		(2,149)	(8,536)	(1,037)	(18,049)
INVESTING ACTIVITIES					
Proceeds on sale of subsidiaries		1,694	461	1,694	461
Finance lease income	*24*	127	—	253	—
Expenditures on property, plant and equipment	*8*	30	(75)	2	28
Expenditures on intangible assets		—	1	—	1
Cash provided by investing activities		1,851	387	1,949	490
FINANCING ACTIVITIES					
Proceeds from shares issued	*20*	1,000	61	1,000	15,936
Share issuance costs		—	(1,678)	—	(1,678)
Proceeds from exercise of stock options	*17*	—	—	—	31
Share and convertible debt issuance costs	*20*	—	1,497	—	—
Net loan proceeds	*11*	—	554	—	554
Loan repayments	*11*	(3,340)	(704)	(4,172)	(1,286)
Finance lease obligations	*24*	165	(120)	(39)	(447)
Interest paid		(497)	(491)	(570)	(781)
Cash (used in) provided by financing activities		(2,672)	(881)	(3,781)	12,329
Cash provided by (used in) discontinued operations	3	(226)	381	(92)	(273)
Increase in cash and cash equivalents		(3,196)	(8,649)	(2,961)	(5,503)
Cash and cash equivalents, beginning of period		4,431	23,920	4,196	20,774
Cash and cash equivalents, end of period		1,235	15,271	1,235	15,271

The accompanying notes are an integral part of the condensed interim consolidated financial statements

THE flowr CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the three and six months ended June 30, 2022 and 2021

(unaudited, in thousands of Canadian dollars, expect for number of shares)

		Share Capital		Share Capital		Other reserves							
	Notes	Number of Common shares	Common share Capital	Number of Preferred shares	Preferred share Capital	Warrants (note 20)	Contributed Surplus (note 16)	Equity portion of convertible debenture	Flowr ULC share issuances	Accumulated other Comprehensive loss	Non-controlling Interest	Deficit	Total
Balance at January 1, 2021		329,343,621	264,584	-	-	7,890	19,892	480	(27,733)	4,912	24,347	(178,618)	115,754
Share-based compensation	17	—	—	—	—	—	(1,356)	—	—	—	—	—	(1,356)
Shares issued from exercise of options	17(a)	618,750	204	—	—	—	(173)	—	—	—	—	—	31
RSU redeemed	17(b)	930,741	1,635	—	—	—	(1,635)	—	—	—	—	—	—
Other changes in non-controlling interest	26	—	—	—	—	—	—	—	593	—	(127)	(456)	(1)
Cumulative translation adjustments		—	—	—	—	—	—	—	—	(1,225)	—	—	(1,225)
Shares issued to settle liabilities		1,472,821	506	—	—	—	—	—	—	—	—	—	506
Shares issued in financing	20	31,365,953	10,196			4,064	—	—	—	—	—	—	14,259
Net loss for the year ended June 30, 2021		—	—	—	—	—	—	—	—	—	(705)	(15,481)	(16,186)
Balance at June 30, 2021		363,731,886	277,125	—	—	11,954	16,728	480	(27,140)	3,687	23,515	(194,555)	111,782
Balance at January 1, 2022		410,408,088	282,851	—	—	7,960	23,871	480	(24,364)	1,785	18,326	(265,200)	45,709
Shares issued in financing	20	14,285,714	1,000	—	—	—	—	—	—	—	—	—	1,000
RSU redeemed	17(b)	1,774,831	242	—	—	—	(242)	—	—	—	—	—	—
Share-based compensation	17	—	—	—	—	—	(613)	—	—	—	—	—	(613)
Cumulative translation adjustments		—	—	—	—	—	—	—	—	2,949	—	—	2,949
Net loss for the year ended June 30, 2022		—	—	—	—	—	—	—	—	—	(480)	(32,291)	(32,771)
Balance at June 30, 2022		426,468,633	284,093	—	—	7,960	23,016	480	(22,524)	4,734	16,651	(298,136)	16,274

The accompanying notes are an integral part of the condensed interim consolidated financial statements

1. CORPORATE INFORMATION

The Flowr Corporation ("Flowr" or the "Company"), is a publicly traded, cannabis company that was incorporated under the *Business Corporations Act* (Alberta) ("ABCA") on June 1, 2016. The Head Office of the Company is located at 9590 McCarthy Road, Kelowna, British Columbia, V4V 1R2. The principal activity of the Company is the production and sale of premium cannabis in Canada, and medical cannabis products in other legal global markets, primarily Portugal and the European Union. In December 2017, through its subsidiary, The Flowr Group (Okanagan) Inc. ("Flowr Okanagan"), the Company received its license from Health Canada to operate as a licensed producer, under the provisions of the *Access to Cannabis for Medical Purposes Regulations*. On August 10, 2018, Flowr Okanagan received its sales license from Health Canada, allowing the Company to sell to the Canadian medical market and to the adult-use recreational market post legalization on October 17, 2018. The Company's common shares are listed on the TSX Venture Exchange (the "Exchange"), under the trading symbol "FLWR".

2.1 BASIS OF PRESENTATION

(a) Statement of compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Chartered Professional Accountants of Canada Handbook – Accounting applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting.

These condensed interim consolidated financial statements do not include all of the information required for full financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2021, which have been prepared in accordance with IFRS. The accounting policies applied in these condensed interim consolidated financial statements are consistent with those applied in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2021. These condensed interim consolidated financial statements were approved by the Board of Directors on August 26, 2022.

Certain comparative amounts have been retrospectively restated in these condensed interim consolidated financial statements as a result of the sale of Holigen (note 3) which occurred during the second quarter of 2022. Results of o9eprations and cash flows associated with Holigen have been aggregated and presented as discontinued operations as applicable.

(b) Basis of measurement

These consolidated financial statements have been prepared on a going concern basis, under historical cost convention except for biological assets (note 6) and certain financial instruments (note 7) which are measured at fair value.

(c) Basis of consolidation

As at June 30, 2022, Flowr's condensed interim consolidated financial statements include Flowr and its primary subsidiary companies (collectively, the "Company").

(in thousands of Canadian dollars, unless otherwise indicated)

		Holdings as at (%)		
Name of Subsidiaries	Country	June 30, 2022	December 31, 2021	Parent Entity
The Flowr Canada Holdings ULC ("Flowr ULC") [(1)]	Canada	91.5	91.5	The Flowr Corporation
Holigen Holdings Limited ("Holigen")	Malta	100.0	100.0	The Flowr Corporation
The Flowr Group (Okanagan) Inc. ("Flowr Okanagan")	Canada	100.0	100.0	Flowr ULC
Holigen Limited ("HL")	Malta	—	100.0	Holigen
RPK Biopharma Unipessoal Lda ("RPK")	Portugal	—	100.0	HL
GreyCan Pty Ltd ("GreyCan")[(1)]	Australia	100.0	100.0	HL
Terrace Global Inc. ("Terrace")	Canada	100.0	100.0	The Flowr Corporation
Pharma Binoide S.L. Unipersonal ("Pharma Binoide")	Spain	100.0	100.0	Terrace

(1) In the process of being wound up

Subsidiaries are fully consolidated from the date on which control is acquired by the Company and they are deconsolidated from the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. The financial statements of the subsidiaries and parent are consolidated on a line-by-line basis and all inter-company balances, revenues and expenses and earnings and losses resulting from inter-company transactions are eliminated on consolidation.

(d) Critical accounting estimates and judgments

The preparation of the Company's condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities on the date of the condensed interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Accounting estimates and judgments applied in these condensed interim consolidated financial statements are consistent with those applied in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2021.

(e) Presentation and functional currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its Canadian subsidiaries. International operations are comprised of subsidiaries that have a functional currency other than the Canadian dollar. The assets and liabilities of international operations, including fair value adjustments arising on acquisition, are translated into Canadian dollars at exchange rates on the reporting date. The income and expenses of international operations are translated into Canadian dollars at the average exchange rates of the reporting period incurred. Foreign currency differences are recognized as currency translation adjustments in other comprehensive income or loss. As at June 30, 2022, the Company's foreign subsidiaries with (i) Euro functional currency include HL and Pharma Binoide and (ii) Australian dollar functional currency include GreyCan.

(f) Going concern

These condensed interim consolidated financial statements have been prepared on a going concern basis which presumes that the Company will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of its operations.

As of June 30, 2022, the Company had working capital of $3,332 (December 31, 2021 – working deficit of $403) and an accumulated deficit of $298,136 (December 31, 2021 –$265,200). During the three and six months ended June 30, 2022, the Company had net losses of $36,271 and $32,771 (three and six months ended June 30, 2022 - $7,484 and $16,186) and used $2,149 and $1,037 of cash on operating activities (three and six months ended June 30, 2022 - used $8,536 and $18,049). As at June 30, 2022, the Company has insufficient cash on hand to fund its planned operations for the next 12 months. The Company will need to obtain further funding in the form of asset sales, debt, equity or a combination thereof to continue operations for the next twelve months.

Although the Company believes the above asset sales are expected to be completed with a high probability, they are not guaranteed. There can be no assurance that additional funding either through external financing or other asset sales will be available to the Company. If positive operating cash flows are not achieved, debt obligations are not repaid, or adequate funding is not available, the Company may be required to delay or reduce the scope of any or all of its operations. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

These condensed interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to generate sufficient cash flow from operating and/or financing activities to the extent that would impair the Company's ability to continue as a going concern, material adjustments would likely be necessary in the carrying amounts of assets and liabilities, expenses, the accumulated deficit, and the classification used in the condensed interim consolidated statement of financial position.

2.2 RECENT ACCOUNTING PRONOUNCEMENTS

As at the date of authorization of these condensed interim consolidated financial statements, the IASB and the IFRS Interpretations Committee had issued certain pronouncements that are mandatory for the Company's accounting periods commencing on or after January 1, 2022. Many are not applicable to the Company and have been excluded. The Company had assessed there would be no material impact from amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets which was effective beginning on January 1, 2022. The Company had assessed that no material impact is expected upon the adoption of the following amendments on its condensed interim consolidated financial statements:

Amendments to IAS 1

In January 2020, the IASB issued amendments to IAS 1 which clarify the requirements for classifying liabilities as either current or non-current by: (i) specifying that the conditions which exist at the end of the reporting period determine if a right to defer settlement of a liability exists; (ii) clarifying that settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services; (iii) clarifying that classification is unaffected by management's expectation about events after the date of the statement of financial position; and (iv) clarifying the classification requirements for debt an entity may settle by converting it into equity.

The amendments clarify existing requirements, rather than m,ake changes to the requirements, and so are not expected to have a significant impact on the Company's financial statements. However, the clarifications may result in reclassification of some liabilities from current to non-current or vice-versa, which could impact an entity's loan covenants. Because of this impact, the IASB has provided a longer effective date to allow entities to prepare for these amendments. In July 2020, the IASB issued an amendment to defer the effective date of the amendments by one year from its originally planned effective date to annual periods beginning on or after January 1, 2023 due to the impact of COVID-19. Early application is permitted.

Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendment narrowed the scope of certain recognition exemptions so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognizes deferred tax for all temporary differences related to leases and decommissioning obligations and recognizes the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date. The amendment is effective for annual periods beginning on or after January 1, 2023 with early application permitted.

3. DISPOSAL OF SUBSIDIARY

On April 29, 2022, the Company, through its wholly-owned subsidiary Holigen, completed a share purchase agreement (the "Purchase Agreement") with Akanda Corp. (NASDAQ: AKAN) ("Akanda") and Cannahealth Limited (the "Purchaser"), a wholly-owned subsidiary of Akanda. Pursuant to the Purchase Agreement, the Purchaser will acquire from Holigen (the "Holigen Sale") all of interests in HL (including HL's wholly owned subsidiary RPK) for the following consideration:

- Cash consideration of USD of $3,000 (CAD $3,835)
- 1,900,000 shares of Akanda subject to certain holds with a fair market value of $17,942 on April 29, 2022

Transactions costs of $2,815 were incurred in relation to the disposal.

Results of Discontinued Operations

The condensed interim consolidated statement of loss and comprehensive loss for the three and six months ended June 30, 2022 and 2021 have been presented to show the discontinued operations separate from the continuing operations of the Company as a result of the disposal.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2022 and 2021

(in thousands of Canadian dollars, unless otherwise indicated)

Details of the results from discontinued operations are as follows:

	Three months ended June 30, 2022	2021	Six months ended June 30, 2022	2021
Revenue	—	171	—	383
Cost of sales	102	755	463	1,517
Gross loss before fair value adjustments	(102)	(584)	(463)	(1,134)
Unrealized loss on changes in fair value of biological assets	7	—	34	—
Gross loss	(109)	(584)	(497)	(1,134)
General and administrative	79	489	365	1,090
Share-based compensation	—	13	—	13
Depreciation and amortization	137	572	162	1,161
Finance costs	8	63	51	129
Loss from disposal of subsidiary	7,414	2,044	7,414	2,044
Other expense (income)	(13)	15	(17)	15
Loss before income taxes	(7,734)	(3,781)	(8,472)	(5,587)
Current income tax expense	—	—	—	—
Deferred income tax recovery	—	(162)	—	(347)
Net loss from discontinued operations	(7,734)	(3,619)	(8,472)	(5,240)

*Cost of sales in discontinued operations were a result of the underutilization of certain facilities in HL.

Consideration received:

Cash consideration	3,324
Cash receivable	511
1,900,000 common shares of Akanda	17,942
Transaction costs (advisory fees and professional fees)	(2,815)
Total net fair value of consideration	18,962
Carrying amount of net assets sold	(26,376)
Loss on sale	(7,414)

The carrying amounts of assets and liabilities as at the date of the sale were:

	As at April 29, 2022
Cash and cash equivalents	305
Amounts receivable	556
Prepaids and other receivables	305
Inventory	1,157
Biological asset	257
Property, plant and equipment	16,555
Intangibles	14,650
Total assets	33,785
Accounts payable and accrued liabilities	(1,949)
Loan payable	(5,025)
Lease obligations	(435)
Total liabilities	(7,409)
Net assets	26,376

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and six months ended June 30, 2022 and 2021
(in thousands of Canadian dollars, unless otherwise indicated)

Cash flows relating to discontinued operations as follows:

	Six months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Cash provided in operating activities	218	1,213	671	1,459
Cash used in investing activities	-	46	-	(349)
Cash used in financing activities	(444)	(878)	(763)	(1,383)
Cash provided (used in) discontinued operations	(226)	381	(92)	(273)

4. AMOUNTS RECEIVABLE

	June 30, 2022	December 31, 2021
Accounts receivable	2,005	3,027
Taxes receivable	647	714
Total	2,652	3,741

As at June 30, 2022, 80% of accounts receivable (December 31, 2021 – 70%) are due within 30 days. As at June 30, 2022, $500 (December 31, 2021 - $876) of accounts receivable were outstanding above 90 days, of which $465 (December 31, 2021 - $465) has been included in the provision for expected credit losses.

The Company entered into a factoring with recourse assignment in the period ended June 30, 2022 for certain accounts receivable. As the company retains the risk and rewards associated with the cash flows and the Company is continuously involved in the collection of the receivables, the Company has continued to recognize factored receivables as accounts receivables and the amounts owed to the factor are recognized without accounts payable and accrued liabilities. included in accounts receivable was $428 (December 31, 2021 - $nil) that was factored. All factored amounts were settled subsequent to June 30, 2022.

5. INVENTORY

	Capitalized costs	Fair valuation adjustment	Impairment	Carrying value
Harvested cannabis				
Work in process	3,699	(1,976)	(366)	1,357
Finished goods	1,744	(268)	(213)	1,263
	5,443	(2,244)	(579)	2,620
Supplies and consumables	1,142	—	—	1,142
Balance at June 30, 2022	6,585	(2,244)	(579)	3,762

	Capitalized costs	Fair valuation adjustment	Impairment	Carrying value
Harvested cannabis				
Work in process	4,543	(404)	(1,557)	2,582
Finished goods	762	(9)	—	753
	5,305	(413)	(1,557)	3,335
Supplies and consumables	919	—	—	919
Balance at December 31, 2021	6,224	(413)	(1,557)	4,254

(in thousands of Canadian dollars, unless otherwise indicated)

$68 and $278 (2021 - $610 and $1,384) of depreciation and amortization recognized during the three and six months ended June 30, 2022 is included in the capitalized costs of inventory held as at June 30, 2022. Capitalized depreciation of $44 and $88 (2021 -$217 and $431) was expensed to cost of sales in the three and six months ended June 30, 2022.

For the three and six months ended June 30, 2022, $550 and $1,560 (2021 - $1,754 and $2,212) have been recorded as cost of sales related to the cost of inventory produced and purchased during the period.

During the three and six months ended June 30, 2022, the Company recognized an inventory impairment of $358 and $1,041 (2021 - $129 and $878) due to the capitalized costs of inventory being higher than the net realizable value.

6. BIOLOGICAL ASSETS

Biological assets consist of cannabis plants. The changes in the carrying value of biological assets are as follows:

Balance at January 1, 2021	846
Production costs capitalized	9,964
Changes in fair value less cost to sell due to biological transformation	(3,571)
Transferred to inventory upon harvest	(5,951)
Balance at December 31, 2021	1,288
Production costs capitalized	4,511
Changes in fair value less cost to sell due to biological transformation	(3,923)
Transferred to inventory upon harvest	(1,506)
Disposed of in sale of subsidiary	(257)
Balance at June 30, 2022	113

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price less costs to sell per gram. During the period ended June 30, 2022, the fair value of biological assets less costs to sell was lower than capitalized production costs.

The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique used. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

Biological assets as at June 30, 2022 includes $134 (2021 - $438) of depreciation and amortization expense incurred in the period.

(in thousands of Canadian dollars, unless otherwise indicated)

The following table quantifies each significant unobservable input, and provides the impact a 10% increase/decrease in each input would have on the fair value of biological assets for operations in Canada:

	Assumptions:	As at June 30, 2022		As at December 31, 2021	
		Input	Impact from 10% change	Input	Impact from 10% change
(i)	Weighted average of expected loss of plants until harvest *(a)*	4 %	$ —	3 %	$ 1
(ii)	Expected yields for cannabis plants (average grams per plant) *(b)*	37 grams dry flower	$ 11	33 grams dry flower	$ 102
(iii)	Weighted average number of growing weeks completed as a percentage of total growing weeks as at period end	48 %	$ 11	48 %	$ 101
(iv)	Estimated bulk selling price (per gram) *(c)*	$ 1.54 for dry flower	$ 85	$ 2.61 for dry flower	$ 179
(v)	Average post harvest cost to complete and sell (per gram)	$ 1.33	$ 73	$ 1.11	$ 75
(vi)	Reasonable margin on average after harvest costs to complete and sell (per gram)	$ 0.15	$ 8	$ 0.26	$ 18

(a) Weighted average of expected loss of plants until harvest represents loss via plants that do not survive to the point of harvest. It does not include any financial loss on a surviving plant.

(b) Expected average yields for cannabis plants vary based on the mix of strains existing at each reporting date. The expected average grams of dry flower from plants as of June 30, 2022 is 37 grams (December 31, 2021 - 33 grams). The expected average grams of trim from plants as of June 30, 2022 is nil (December 31, 2021 – nil grams).

(c) The estimated selling price (per gram) represents the actual contractual sales price for the Company's various strains sold as bulk products or expected bulk selling price for strains with no contractual sales price. The selling price is impacted by the mix of expected THC levels from the plants.

These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The Company estimates the harvest yields for cannabis at various stages of growth. As of June 30, 2022, it is expected that the Company's biological assets in Canada will yield approximately 880,092 grams of dry cannabis when harvested.

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

(in thousands of Canadian dollars, unless otherwise indicated)

7. FINANCIAL INSTRUMENTS

Set out below is a comparison, by category, of the carrying amounts of the Company's financial instruments that are recognized in the condensed interim consolidated statements of financial position.

Other than convertible debentures (*note 12*) and lease obligations (*note 23*), the carrying values of all the financial assets and liabilities measured at amortized cost approximate their fair values as at June 30, 2022 and December 31, 2021.

		Carrying Amount	
	Financial Instrument Classification	June 30, 2022	December 31, 2021
Financial assets			
Cash and cash equivalents	Amortized cost	1,235	4,196
Accounts receivable	Amortized cost	2,005	3,027
Other receivables	Amortized cost	959	1,031
Investment in private securities - shares	FVPL	—	29
Investment in public securities - shares	FVPL	1,639	—
Financial liabilities			
Accounts payable and accrued liabilities	Amortized cost	10,460	7,636
Lease obligations	Amortized cost	5,070	5,936
Debt related to assets held for sale	Amortized cost	12,146	12,439
Long-term debt	Amortized cost	2,011	11,246
Convertible debentures	Amortized cost	4,517	4,113

Investments in public securities – Shares

Akanda Corp.

On April 29, 2022, the Company received 1,900,000 shares of Akanda as part of the consideration received in relation to the Holigen sale (*note 3*). The fair value of these shares were determined to be $21,777 based on the quoted market price of Akanda on the date of closing less a discount of 13% for certain hold conditions on the shares.

Transaction costs of $1,250 were settled with 96,354 Akanda shares at the time of closing.

As at June 30, 2022, the fair value of the shares were determined to be $1,639 and an unrealized loss of $15,512 was recorded for the three and six months ended June 30, 2022 (three and six months ended June 30, 2021 - $nil).

Investments in private securities – Shares

Fair value hierarchy

The fair value of investments may be adjusted for:

- Equity financings provided by outside investors at a valuation different than the current value of the investee company in which case the fair value of investment is adjusted to the value at which that financing took place.
- Significant events that in management's opinion will have a material impact on the investee company's valuation, in which case the fair value adjustment is subject to management assumptions and judgment.

(in thousands of Canadian dollars, unless otherwise indicated)

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: based on quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: based on inputs which have a significant effect on fair value that are observable, either directly or indirectly from market data; and
- Level 3: based on inputs which have a significant effect on fair value that are not observable from market data.

The investments in privately held securities have been classified as Level 3 in the fair value hierarchy as at December 31, 2021.

During the period ended June 30, 2022 and the year ended December 31, 2021, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

The following table reconciles Level 3 fair value measurements from January 1, 2021 to June 30, 2022:

Balance as at December 31, 2020 and December 31, 2021	29
Impairment	(29)
Balance as at June 30, 2022	—

8. PROPERTY, PLANT AND EQUIPMENT

	Balance as at January 1, 2022	Additions	Assets related to discontinued operations	Transfers	Currency translation	Balance as at June 30, 2022
Cost:						
Land	3,447	—	(894)	(2,526)	(27)	—
Building and building improvements	10,303	—	(8,831)	(1,225)	(196)	51
Right-of-use assets (Note 23)	4,842	—	(817)	—	(142)	3,883
Leasehold improvements	7,913	—	—	—	—	7,913
Construction in progress	2	—	—	—	—	2
Facilities equipment	25,585	40	(6,928)	(1,385)	(98)	17,214
Furniture, equipment and others	1,390	—	(251)	—	(12)	1,127
Total cost	53,482	40	(17,721)	(5,136)	(475)	30,190
Accumulated depreciation:						
Building and building improvements	2,280	310	(1,654)	(838)	(33)	65
Right-of-use assets (Note 23)	692	125	(426)	—	(9)	382
Leasehold improvements	1,386	125	—	—	—	1,511
Facilities equipment	11,409	867	(1,643)	(1,049)	(35)	9,549
Furniture, equipment and others	899	113	(328)		(7)	677
Total accumulated depreciation	16,666	1,540	(4,051)	(1,887)	(84)	12,184
Net book value	36,816					18,006

As at June 30, 2022, right-of-use assets included in property, plant and equipment consists of the Flowr Okanagan facility lease, the Company's office lease and furniture lease in Toronto. Refer to *note 23*.

(in thousands of Canadian dollars, unless otherwise indicated)

	Balance as at January 1, 2021	Additions	Disposals	Transfers	Impairment	Currency translation	Balance as at December 31, 2021
Cost:							
Land	10,990	—	(4,724)	(1,112)	(1,606)	(101)	3,447
Building and building improvements	28,825	27	—	(11,449)	(6,169)	(931)	10,303
Right-of-use assets (Note 23)	9,201	—	(4,224)	—	(130)	(5)	4,842
Leasehold improvements	15,054	—	(799)	8	(6,346)	(4)	7,913
Construction in progress	1,022	709	(6)	(1,693)	—	(30)	2
Facilities equipment	41,132	541	(462)	(2,996)	(12,019)	(611)	25,585
Furniture, equipment and others	2,018	16	(48)	(266)	(285)	(45)	1,390
Total cost	108,242	1,293	(10,263)	(17,508)	(26,555)	(1,727)	53,482
Accumulated depreciation:							
Building and building improvements	1,176	1,807	—	(569)	(42)	(92)	2,280
Right-of-use assets (Note 23)	1,790	853	(1,922)	—	—	(29)	692
Leasehold improvements	889	555	(58)	—	—	—	1,386
Facilities equipment	6,683	5,647	(7)	(666)	(161)	(87)	11,409
Furniture, equipment and others	575	391	(18)	(28)	—	(21)	899
Total accumulated depreciation	11,113	9,253	(2,005)	(1,263)	(203)	(229)	16,666
Net book value	97,129						36,816

Significant disposals

In the fourth quarter of 2020, the Company initiated the process of selling certain extraction equipment. Upon reclassification of the equipment as available for sale in the consolidated statements of financial position, the assets were revalued to its estimated recoverable amount. This has been reflected as a transfer in the table above. The recoverable amount of $1.0 million is based on purchase offers received by the Company. In 2021, $674 of these assets were disposed of and a loss on disposal of $201 was recorded in the consolidated statements of loss and comprehensive loss. During 2021, the Company transferred $158 of previously identified assets held for sale back to property, plant and equipment. The remaining $168 of assets held for sale from December 31, 2020, along with a further $475 of extraction equipment was fully impaired during the year ended December 31, 2021 and recorded as an impairment of assets on the consolidated statements of loss and comprehensive loss.

In December 2021, the Company completed the sale of the surplus industrial land and certain facilities equipment on that land with a carrying value of $4,724, adjacent to its operating facility located in Kelowna, British Columbia for gross consideration of $6,305. Pursuant to the sale agreement, the Company received $5,255 in cash proceeds on closing (December 2021). A net gain of $327, net of $204 of related transactions costs was recorded in other income and expenses of the consolidated statements of loss and comprehensive loss.

(in thousands of Canadian dollars, unless otherwise indicated)

In 2021, the Company initiated the process of selling its research and development facility ("R&D Facility") located in Kelowna, British Columbia. In February 2022, the Company and Hawthorne (defined in note 11) entered into a purchase and sale agreement ("Hawthorne Sale Agreement") under which the Company agrees to sell the R&D Facility to Hawthorne for gross consideration of $16,000. Pursuant to the Hawthorne Sale Agreement, the outstanding principal amount under the Hawthorne Loan (note 11) on closing of the sale would be set off against the gross consideration, resulting in net cash proceeds to the Company of approximately $4 million. The transaction was closed subsequent to June 30, 2022. The carrying value of the R&D Facility was $17,341 consisting of land, building and improvement, and equipment. An amount of $16,000 was transferred to assets held for sale representing the lower of the agreed upon sale price and the carrying amount. An impairment of $1,341 was recorded based on the purchase offer received by the Company in relation to the sale of the R&D Facility in the year ended December 31, 2021.

Other impairment

As at December 31, 2021, the carrying value of certain surplus land and equipment, adjacent to its operating facility located in Kelowna, British Columbia exceeded its estimated recoverable amount of $3,248 estimated based on comparable market transactions, resulting in an impairment charge of $5,762 recognized in the consolidated statements of loss and comprehensive loss. During the period ended June 30, 2022, the Company initiated the process of selling the surplus land and equipment. An amount of $3,249 was transferred to assets held for sale representing the lower of net proceeds and the carrying amount.

9. INTANGIBLE ASSETS AND GOODWILL

	Balance as at January 1, 2022	Additions	Assets related to discontinued operations	Currency translation	Balance as at June 30, 2022
Cost:					
Software	109	—	(57)	(22)	30
License	21,884	—	(19,074)	(739)	2,071
Total cost	21,993	—	(19,131)	(761)	2,101
Accumulated amortization:					
Software	77	5	(32)	(20)	30
License	4,558	325	(3,983)	(151)	749
Total accumulated amortization	4,635	330	(4,015)	(171)	779
Net book value	17,358				1,322

(in thousands of Canadian dollars, unless otherwise indicated)

Capitalized license costs relates to costs incurred by the Company to acquire its cannabis licenses in Canada and Portugal.

	Balance as at January 1, 2021	Additions	Impairment	Currency translation	Balance as at December 31, 2021
Cost:					
Software	141	2	(27)	(7)	109
License	29,726	215	(5,984)	(2,073)	21,884
Total cost	29,867	217	(6,011)	(2,080)	21,993
Accumulated amortization:					
Software	43	29	—	5	77
License	3,460	1,368	—	(270)	4,558
Total accumulated amortization	3,503	1,397	—	(265)	4,635
Net book value	26,364				17,358

Goodwill

The following is a goodwill continuity for the periods indicated:

Balance as at December 31, 2020	24,552
Impairment of goodwill - Flowr Canada	(24,552)
Balance as at December 31, 2021 and June 30, 2022	—

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2022	December 31, 2021
Accounts payable	7,421	5,279
Accrued liabilities	3,038	2,357
Excise and other taxes payable	42	(23)
Total	10,501	7,613

(in thousands of Canadian dollars, unless otherwise indicated)

11. LONG-TERM DEBT

The following is a loan continuity for the periods indicated:

	ATB Loan	Holigen Loans	Hawthorne loan	Total
Balance as of January 1, 2021	17,936	7,469	13,062	38,467
Add: Interest and accretion expense	1,266	192	394	1,852
Less: Payments	(13,574)	(1,486)	(1,017)	(16,077)
Add: Translation difference	—	(557)	—	(557)
Balance as at December 31, 2021	5,628	5,618	12,439	23,685
Add: Loss on modification of debt	—	—	—	—
Add: Interest and accretion expense	178	38	207	423
Less: Extinguishment of debt from Holigen sale	—	(5,503)	—	(5,503)
Less: Payments	(3,795)	(286)	(500)	(4,581)
Add: Translation difference	—	133	—	133
Balance as of June 30, 2022	2,011	—	12,146	14,157
Current portion of debt	2,011	—	12,146	14,157
Non-current portion of debt	—	—	—	—

ATB Credit Agreement

On November 18, 2019, the Company entered into a credit agreement (the "ATB Credit Agreement") with a syndicate of lenders led by ATB Financial ("ATB") and including Farm Credit Canada (the "Senior Lenders"). On the closing date of the ATB Credit Agreement, the credit facility available consisted of a $24,500 recapitalization term facility and a $500 revolving operating credit facility (together the "Term Facilities"). Pursuant to the conditions of the Term Facilities, Flowr received a first tranche of funding of $20,050 on November 18, 2019, the final tranche of funding of $3,200 on February 27, 2020 and accessed the $500 on the revolving operating credit facility on February 27, 2020.

As of March 31, 2020, the Company was in breach of the current ratio covenant and total assets covenant. On June 17, 2020, the Company obtained a waiver under the ATB Credit Facilities with respect to the covenant breaches. Under the terms of the waiver the Company had 120 days to partner with ATB on an amendment to the ATB Credit Facilities to include Holigen and its subsidiaries, as applicable, as loan parties under the ATB Credit Facilities. The Company and certain of its subsidiaries entered into an amending agreement (the "Sixth Amending Agreement") with respect to the ATB Credit Facilities pursuant to which each of Holigen, Holigen Limited and RPK Biopharma became a Material Subsidiary, a Guarantor and a Loan Party (for being Guarantors) under the ATB Credit Facilities. As a result of the Sixth Amending Agreement, the default relating to the Total Assets and EBITDA covenant was remedied.

On July 31, 2020, the $1,100 holdback with respect to builder's liens was released by ATB upon completion of construction of the Company's production facility in Kelowna, BC.

(in thousands of Canadian dollars, unless otherwise indicated)

In connection with the Terrace Acquisition, on December 18, 2020, the Company entered into an Amended and Restated Credit Agreement (the "ARCA") with the Senior Lenders. Under the terms of the ARCA, the original financial covenants were removed and replaced with the following financial covenants (i) to maintain a senior debt to tangible net worth ratio of no greater than 1.3:1 (ii) a minimum cash holding of $3,500 and (iii) commencing on the fourth quarter of 2021, the Company must maintain certain quarterly minimum EBITDA balances. In addition, the ARCA allows for the Company to prepay the Term Facilities by $5,000, at which point the EBITDA covenant would be deferred for an additional year.

On August 6, 2021, the Company entered into an amendment to the ARCA whereby the Senior Lenders agreed to certain amendments allowing Flowr to issue equity without any repayment to the lenders and providing additional flexibility to enter into financings arrangements with respect to Holigen. The Company repaid $7,500 on August 6, 2021 and a further $3,000 on December 13, 2021 towards the credit facility, reducing the principal amount outstanding under the ATB Financial term and operating facilities to approximately $5,700 as at December 31, 2021. As a result of the repayment on December 13, 2021, the Senior Lenders were required to remove each of Holigen, Holigen Limited and RPK Biopharma as a Material Subsidiary, a Guarantor and a Loan Party (for being Guarantors) all underlying security pledged to the Senior Lenders under the ARCA.

Under the ARCA, the outstanding balance of the loan proceeds bear interest at prime plus 2.75 basis points. The principal repayments under the Term Facilities are quarterly and the remaining principal amount of all loans and all other obligations in connection with the Term Facilities being repayable on the maturity date being November 18, 2022, with a one-year extension at the discretion of the Company. Interest payments are made on a monthly basis.

The loan has an effective interest rate of 7% per annum. As at June 30, 2022, the loan had an outstanding principal balance of $2,023. The difference between the carrying value and outstanding balance of the loan relates to $12 of unamortized fees incurred on the loan and unaccreted loss on the modification of debt.

Flowr had the following outstanding undiscounted loan obligation as of June 30, 2022:

	up to 1 year	1 - 3 years	Total
Loan Commitments in CAD	2,023	—	2,023

Covenants and 2022 Amendments to the ARCA

As of June 30, 2022, the Company was not in compliance with the senior debt to tangible net worth ratio and the minimum cash covenants. The Company was not in compliance with the minimum EBITDA covenant for the fourth quarter of 2021, the first time the covenant was tested. On May 20, 2022, the Company and the Senior Lenders entered into a Second Amendment to Credit Agreement (the "2022 ARCA"). The 2022 ARCA included the following key amendments:

- The minimum cash covenant is reduced to $2,000 from $3,500;
- The minimum EBITDA test is deferred to commence with the second quarter of 2022, and may be further deferred if the Company completes the Hawthorne Sale Agreement and the Holigen sale transaction before June 30, 2022;
- An immediate early repayment of $918 towards the principal amount outstanding under the Term Facility;
- The final proceeds from the Hawthorne Sale Agreement of approximately $1,000 will be used towards early repayment of the Term Facility upon closing of the transaction; and
- An amount of $1,600 from the cash portion of the Holigen sale was used towards early repayment of the Term Facility upon closing of the transaction.

Subsequent to June 30, 2022, the loan was fully repaid to ATB.

Holigen Loans

In February 2019, RPK entered into a term loan (the “RPK Mortgage Loan”) with Caixa pursuant to which up to €5,220 ($7,798) was made available to RPK. The RPK Mortgage Loan matures in February 2026 and bears interest at a variable rate of the 12-month EURIBOR rate plus 3% per annum with a floor of 3% per annum, interest only for the first 12 months and is secured by RPK’s land and building assets in Sintra, Portugal.

In June 2019, RPK entered into a secured loan (the “RPK Equipment Loan”) with Caixa pursuant to which an amount up to a certain percentage of new equipment purchased was made available to RPK. The RPK Equipment Loan matures in June 2025 and bears interest at a variable rate of the 12-month EURIBOR rate plus 3% per annum with a floor of 3% per annum, interest only for the first 12 months and is secured by RPK’s equipment. The RPK Equipment loan has the following covenants (i) loan to RPK value ratio of less than or equal to 70% (ii) financial autonomy ratio of 20% or more and (iii) net debt/EBITDA ratio in RPK of equal or less than four beginning from January 2020.

During the period ended June 30, 2022, the above mentioned loans were disposed of as part of the Holigen sale.

Hawthorne Agreement

On January 25, 2018, and subsequently amended, Hawthorne Canada Limited (“Hawthorne”) and Flowr Okanagan entered into an agreement (the “R&D Agreement”) to construct a research and development facility (“R&D Facility”) and for Flowr Okanagan to provide certain R&D services upon completion of the R&D Facility.

Pursuant to the R&D Agreement, the Company would own the R&D Facility and Hawthorne would finance all construction and development costs through a loan to the Company and in return have access to the R&D Facility over a 20 year period. The Company would provide management and operational services to the R&D Facility and retain ownership of the facility at the end of the 20-year period. In total, Hawthorne loaned the Company $11,500 in principal amounts for the construction and development of the R&D Facility (the “Hawthorne Loan”). Upon the completion of the first floor of the R&D Facility in October 2020, the Hawthorne Loan began amortizing through an agreed upon payment schedule over 20 years, including an annual interest rate of 4%. If the R&D Agreement is terminated under certain circumstances, the Company could be required to pay 100% of all amounts advanced by Hawthorne and $1,500 in liquidated damages.

The Hawthorne Loan as of June 30, 2022 has an outstanding balance of $10,493 (December 31, 2021 - $10,781). The loan is secured by the R&D Facility, which has a carrying value of $14,338 as at June 30, 2022.

Upon the official commissioning of R&D Facility in October 2020 Hawthorne began paying the Company a monthly management fee and a monthly SR&ED service fee for overseeing the operations of the R&D Facility, which will continue through the 20-year term. In accordance with the R&D Agreement, these fees will completely offset the monthly principal repayments and interest accruals on the Hawthorne Loan over the life of the loan.

(in thousands of Canadian dollars, unless otherwise indicated)

In addition to the Hawthorne Loan, on September 30, 2020, the Company entered into an amendment to the R&D Agreement whereby Hawthorne agreed to lend up to $1,300 in additional funding to Flowr at an interest rate of 4% per annum. The funding will be used to fund approved budgeted expenses related to the development of the R&D Facility. As of June 30, 2022, this loan has an outstanding balance of $1,173 (December 31, 2021 - $1,173).

In addition to the R&D Facility, the Company has also granted Hawthorne security over a cash collateral account to a maximum of $2,500, which account is only required to be funded at such time that the appraised value of the R&D Facility is lower than the amount of the Hawthorne Loan. As at June 30, 2022 and December 31, 2021, the cash collateral account was $nil. The effective interest rate of the loan is 3.39%.

As at June 30, 2022, the loan had an outstanding balance of $11,432. The difference between the carrying value and outstanding balance of the loan relates to $234 unamortized discount on the loan.

The Company had the following outstanding loan obligations to Hawthorne as of June 30, 2022:

	up to 1 year	1 - 3 years	3 - 5 years	over 5 years	Total
Loan Commitments in CAD	11,666	—	—	—	11,666

12. CONVERTIBLE DEBENTURES

Convertible debentures balance as June 30, 2022 is as follows:

	Liability component	Warrants component	Conversion option component
Balance as at January 1, 2021	3,834	1,674	480
Accretion expense	788	—	—
Interest paid with issuance of shares	(509)	—	—
Balance as at December 31, 2021	4,113	1,674	480
Accretion expense	401	—	—
Balance as at June 30, 2022	**4,514**	**1,674**	**480**

The Company has $4,966 in principal amounts of convertible debentures (the “Debentures”) outstanding as at June 30, 2022 (December 31, 2021 - $4,966). The Debentures bear interest at 10% per annum, calculated semi-annually in arrears on June 30 and December 31 of each year, with the last interest payment to be paid on the fourth anniversary of April 27, 2024 (the “Maturity Date”). The interest is paid annually through the issuance of common shares based on the market price of the common shares on the business day immediately prior to the issuance, subject to approval by the Exchange. In the event that the Exchange does not authorize any particular payment of interest in common shares, that interest payment will be paid in cash.

The Debentures are convertible into common shares of the Company at the option of the subscriber at any time prior to the Maturity Date at a fixed price of $0.58 per common share. The Debentures rank subordinate to any and all current secured indebtedness, including the security granted to the lenders under the ATB Credit Agreement, and senior to any and all current and future unsecured indebtedness of the Company and any and all future secured indebtedness of the Company.

During the three and six months ended June 30, 2022, $205 and $401 (2021 - $192 and $376) of accretion and interest was recorded on the Debentures.

(in thousands of Canadian dollars, unless otherwise indicated)

13. RELATED PARTY TRANSACTIONS

As at June 30, 2022 and December 31, 2021, there were no related party amounts included in (a) due to related parties (b) amounts receivable (c) property plant and equipment and (d) accounts payable and accrued liabilities.

Included in general and administrative expense are amounts paid to shareholders or to companies whose principals are either a shareholder, director or officer of the Company as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
General and administrative				
Consulting and administration fees	—	29	—	71
Rental fees	—	34	—	87
Other income				
Packaging and labelling services	—	(25)	—	(91)
	—	38	—	67

All the above transactions are in the normal course of operations and are measured at the exchange amounts, being the amounts agreed to by the parties, which approximate their fair values.

14. KEY MANAGEMENT REMUNERATION

The Company's related parties include its key management. Key management includes directors, officers and managing partners reporting directly to the Chief Executive Officer.

The remuneration of the key management of the Company recognized in the condensed interim consolidated statements of loss and comprehensive loss for three and six months ended June 30, 2022 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Salaries and short-term benefits	353	417	774	893
Termination benefits	100	623	100	736
Share-based compensation	—	86	—	238
Total renumeration	453	1,126	874	1,867

15. REVENUE

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Revenue from cannabis sales				
Gross revenue	3,289	2,235	7,167	6,638
Excise tax	(508)	(210)	(886)	(789)
Returns and concessions	(51)	(24)	(88)	(226)
Total net revenue from cannabis sales	2,730	2,001	6,193	5,623

(in thousands of Canadian dollars, unless otherwise indicated)

16. RESTRUCTURING COSTS

On June 23, 2022, the Company announced a restructuring of approximately 27% of its Canadian workforce. The changes were part of a comprehensive review of operations in order to focus on high value priorities and accelerate cash flow generation.

The total restructuring costs included severance costs of $318 and $318 for the three and six months ended June 30, 2022 (2021 - $nil and $nil).

17. SHARE-BASED COMPENSATION

a) Stock options

The Company has established a stock option plan ("SOP") for directors, selected employees and consultants. Pursuant to the SOP, the exercise price of the option cannot be less than the closing price of Flowr's common shares on the trading date preceding the day the option is granted, subject to permitted discounts pursuant to the rules of the Exchange. The maximum number of common shares reserved for issuance under the SOP is 10% of the total issued and outstanding common shares of the Company including the 41,598,000 convertible Flowr ULC Class A Preferred Shares.

During the three and six months ended June 30, 2022, the Company granted nil (June 30, 2021 – 6,696,000) stock options at a fair value of $nil (2021 – $1,737). The estimated value of the options granted will be recognized as an expense in the consolidated statements of loss and comprehensive loss and an addition to contributed surplus in the consolidated statements of changes in shareholders' equity over the vesting period. The options generally vest over 3 to 3.5 years from the grant date.

As at June 30, 2022, there was $176 of share-based compensation cost remaining to be charged to the condensed interim consolidated statements loss and comprehensive loss in future periods relating to stock option grants. The fair value of options granted was estimated using the Black-Scholes option pricing model. Due to limited historical data, the expected volatility is estimated based on the volatility of Flowr and comparable publicly traded companies. The inputs used in the measurement of the fair values at the time the options were granted were as follows:

	2022	2021
Share price	—	$0.06 to $0.38
Exercise price	—	$0.06 to $0.44
Risk free interest rate	— %	0.48 - 1.25 %
Expected life in years	—	5.00
Expected volatility	— %	85 - 95 %
Dividends per share	—	—
Forfeiture rate	— %	20 %

(in thousands of Canadian dollars, unless otherwise indicated)

The following is a stock option continuity for the periods indicated:

	Number of options	Weighted average exercise price per share $
Balance as at January 1, 2021	8,742,730	2.78
Options granted	17,396,000	0.37
Options exercised	(618,750)	0.05
Options forfeited	(4,808,269)	1.26
Options expired	(4,803,999)	2.99
Balance as at December 31, 2021	15,907,712	0.56
Options forfeited	(10,657,333)	0.30
Options expired	(828,667)	2.99
Balance as at June 30, 2022	**4,421,712**	**0.68**

The following lists the options outstanding and exercisable as at June 30, 2022:

Options outstanding				Options exercisable	
Range of exercise prices per share	Number of options outstanding	Weighted average remaining years	Weighted average exercise price per share $	Number of options exercisable	Weighted average exercise price per share $
$ 0.05 - 1.00	3,406,712	3.89	0.34	1,110,045	0.47
2.60 - 2.88	765,000	1.03	2.60	765,000	2.60
3.08 - 3.43	70,000	2.15	3.08	46,666	3.08
4.00 - 6.98	180,000	1.82	6.77	175,000	6.80
$ 0.05 - 6.98	**4,421,712**	**3.68**	**1.03**	**2,096,711**	**1.84**

b) Long-term incentive plan ("LTIP")

On December 28, 2018, the shareholders of the Company approved the Company's LTIP, which was subsequently approved by the Exchange on January 16, 2019. The maximum number of common shares which may be reserved and set aside for issue under the LTIP in respect of Deferred share units ("DSU") to DSU participants and for payments in respect of awards of Restricted share units ("RSU") to RSU participants, shall not exceed 10% of the total issued and outstanding common shares of the Company, including 41,598,000 convertible Flowr ULC Class A Preferred Shares, at the time of approval of the LTIP (being 13,057,421 common shares of the Company). On May 9, 2019, the Board approved an amendment to the LTIP, which permits RSU participants to defer their settlement of an RSU award that has vested, within a period of 5 years from the vesting date.

(in thousands of Canadian dollars, unless otherwise indicated)

The following is a RSUs continuity for the years indicated:

	Number of RSUs
Balance as at December 31, 2020	1,732,666
RSUs granted	3,830,043
RSU redeemed	(1,215,601)
RSUs forfeited	(1,970,408)
Balance as at December 31, 2021	2,376,700
RSUs granted	—
RSU redeemed	(1,674,831)
RSUs forfeited	(40,199)
Balance as at June 30, 2022	661,670

There are no DSUs issued and outstanding as of June 30, 2022.

As the Company intends to settle vested RSUs with common shares, no mark-to-market adjustments have been made on the outstanding RSUs. As of June 30, 2022, there was $261 of share-based compensation expense remaining to be charged to the condensed interim consolidated statements of loss and comprehensive loss in future periods relating to RSU grants.

The following is a summary of share-based compensation expense (recovery) recorded in the condensed interim consolidated statements of loss and comprehensive loss:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Stock Options	(190)	(1,040)	(308)	(781)
RSUs	94	(280)	94	(55)
	(96)	(1,320)	(214)	(836)

In the three and six months ended June 30, 2022, a total of ($96) and ($321) share based compensation recovery (2021 – ($1,566) and ($1,145)) was recorded in the consolidated statements of loss and comprehensive loss and an additional amount of share-based compensation of $nil and $107 (2021 - $232 and $296) was recorded as part of cost of sales.

In the period ended June 30, 2022, ($613) recoveries (2021 – ($1,356)) of share-based compensation was recorded to other reserves in the consolidated statements of equity of which a recovery ($292) (2021 – ($296)) was capitalized and ($321) recovery (2021 – ($1,145)) were recorded in the period, through the condensed interim consolidated statements of loss and comprehensive loss. The difference between the share-based compensation recorded on the consolidated statements of equity of ($631) and the share-based compensation recovery of ($214) recorded in the consolidated statement of loss and comprehensive is related to share-based compensation recorded as part of biological assets and inventory at the end of the current year and prior year.

The recoveries recorded in periods ended June 30, 2022 and 2021 are related to the reversal of previously recognized share based compensation on unvested stock options and unvested RSUs that were forfeited during the period.

(in thousands of Canadian dollars, unless otherwise indicated)

18. FINANCE COSTS

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Interest expense on lease liabilities	86	90	174	218
Accretion and interest on convertible debentures	205	192	401	376
Interest and accretion on borrowings	184	443	373	864
Other	19	(3)	56	—
	494	722	1,004	1,458

19. OTHER EXPENSE (INCOME)

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Interest (income) expense, net	53	3	46	9
Government subsidies	—	—	—	(239)
Loss on disposal of asset	—	(161)	—	(169)
Severance costs	130	960	201	1,181
Other expense	(79)	156	28	209
Total	104	922	275	991

20. SHARE CAPITAL

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series. As of June 30, 2022, the Company had 426,468,633 common shares issued and outstanding as well as 9,266,538 common shares that are to be cancelled pursuant to the Terrace Acquisition. Preferred shares are held in an escrow account until such shares convert into common shares. All preferred shares issued in relation to the Holigen SPA have been converted as at June 30, 2022.

In December 2017, through a corporate reorganization, Flowr ULC issued 43,500,000 class A preferred shares which provide the shareholders thereof with a right to exchange these shares for common shares of the Company at any point in time. As at June 30, 2022, 1,902,000 of the Flowr ULC class A preferred shares were converted into common shares of the Company. As of December 31, 2021, 41,598,000 Flowr ULC preferred class A shares are convertible into common shares of the Company on a one for one basis. In the event that the Company issues additional common shares, a corresponding amount of Flowr ULC common shares are required to be issued from Flowr ULC to the Company. See Note 26 for a summary of the non-controlling interest deriving from these Flowr ULC class A preferred shares.

On April 29, 2022, concurrent to the Holigen sale, Akanda has subscribed 14,285,714 common shares of the Company for $1,000.

(in thousands of Canadian dollars, unless otherwise indicated)

21. WARRANTS

The following lists the warrants outstanding and exercisable as at June 30, 2022 and December 31, 2021:

	Number of warrants	Value $	Weighted average exercise price per share $
Balance as at January 1, 2021	42,882,259	7,890	1.29
Warrants granted	71,014,547	6,285	0.43
Warrants expired	(5,680,063)	(6,215)	4.74
Balance as at December 31, 2021 and June 30, 2022	108,216,743	7,960	0.54

The fair value of warrants granted was estimated using the Black-Scholes option pricing model. Due to limited historical data, the expected volatility is estimated based on the volatility of comparable publicly traded companies. The inputs used in the measurement of the fair values at the time the warrants were granted were as follows:

	2022	2021
Share price	-	$0.13 to $0.38
Exercise price	-	$0.21 to $0.64
Risk free interest rate (one to three years)	-	0.31% to 0.57%
Expected life in years	-	2 to 3.5
Expected volatility	-	85% - 95%
Dividends per share	-	-

Refer to *note 12*.

22. LOSS PER SHARE

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Net loss attributable to common shareholders from continuing operations	(18,450)	(3,585)	(23,819)	(10,241)
Net loss attributable to common shareholders from discontinued operations	(7,734)	(3,619)	(8,472)	(5,240)
Basic and diluted weighted average number of common shares outstanding	415,301,537	362,349,519	420,141,212	348,875,015
Basic and diluted loss per ordinary share - from continuing operations	(0.04)	(0.01)	(0.06)	(0.03)
Basic and diluted loss per ordinary share - from discontinued operations	(0.02)	(0.01)	(0.02)	(0.00)

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the three and six months ended June 30, 2022 and 2021
(in thousands of Canadian dollars, unless otherwise indicated)

23. SUPPLEMENTARY CASH FLOW INFORMATION

(a) Items not affecting cash and other adjustments:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Depreciation and amortization	458	2,131	1,361	3,626
Unrealized loss (gain) resulting from fair valuation of biological assets	396	(2,706)	2,112	(998)
Impairment of Inventory	358	129	1,041	878
Provision on expected credit loss	—	—	32	—
Share-based compensation expense	(11)	(1,842)	(129)	(1,357)
Unrealized loss on investments	15,483	—	15,483	—
Impairment of investments	—	—	29	—
Amortization of deferred financing costs	—	393	—	393
Loss on disposal of property, plant & equipment	—	1,715	—	1,707
Impairment on property, plant & equipment	29	—	29	—
Loss on disposal of subsidiaries	—	1,059	—	1,059
Net interest expense	59	308	532	813
Other, net	2,624	(6,252)	2,224	(7,644)
Items not affecting cash and other adjustments	19,396	(5,065)	22,714	(1,523)

(b) Changes in non-cash working capital:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Decrease (increase) in amounts receivable	(1,050)	1,409	(3)	(528)
Decrease in other current assets	81	(400)	235	361
(Increase) decrease in inventories	(1,560)	947	(551)	494
Increase in biological assets	(1,849)	(406)	(3,242)	(1,809)
Increase (decrease) in accounts payable and accrued liabilities	1,370	(1,059)	4,109	(4,001)
Decrease in amounts due to related parties	—	(97)	—	(97)
Changes in non-cash working capital	(3,008)	394	548	(5,580)

(in thousands of Canadian dollars, unless otherwise indicated)

24. LEASES

The following is a right-of-use assets continuity for the periods indicated:

	Land	Building	Others	Total
Balance as at January 1, 2021	738	6,455	218	7,411
Additions	—	—	—	—
Disposal	—	(669)	(80)	(749)
Subleased during the period	—	(1,506)	(47)	(1,553)
Depreciation	(145)	(667)	(41)	(853)
Currency translation	(54)	(40)	(12)	(106)
Balance at December 31, 2021	**539**	**3,573**	**38**	**4,150**
Additions	—	—	—	—
Disposal	—	—	—	—
Transferred to assets related to discontinued operations	(397)	—	(30)	(427)
Depreciation	(46)	(72)	(7)	(125)
Currency translation	(96)	—	(1)	(97)
Balance at June 30, 2022	—	3,501	—	3,501

The following is a lease liability continuity for the periods indicated:

	Land	Building	Others	Total
Balance at January 1, 2021	647	6,830	195	7,672
Disposals	—	(663)	(81)	(744)
Interest	47	399	8	454
Repayments	(178)	(1,113)	(56)	(1,347)
Currency translation	(51)	(39)	(9)	(99)
Balance as at December 31, 2021	**465**	**5,414**	**57**	**5,936**
Interest	9	176	4	189
Repayments	—	(531)	(17)	(548)
Currency translation	(71)	—	(1)	(72)
Disposals	(403)	—	(32)	(435)
Balance at June 30, 2022	**—**	**5,059**	**11**	**5,070**

The Company had the following undiscounted lease commitments as at June 30, 2022:

	up to 1 year	1 - 3 years	3 - 5 years	over 5 years	Total
Undiscounted lease commitments	992	1,049	612	7,118	**9,771**

Discounted lease commitments are shown as short-term lease obligations and lease obligations on the condensed interim consolidated statement of financial position.

The Flowr Okanagan facility lease is payable to 0954717 B.C. LTD. whose principal owners are also shareholders of Flowr. The total remaining commitment for this lease is $8,615, of which $287 is due within one year.

(in thousands of Canadian dollars, unless otherwise indicated)

Following are the amounts recognized in condensed interim consolidated statements of loss pertaining to leases for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Depreciation expense on right-of-use assets	98	266	125	501
Interest expense on lease liabilities (note 18)	86	118	174	246
Interest income earned on sub-lease	11	4	24	4
Expenses related to short-term leases	38	43	76	87

Following are the amounts recognized in the consolidated statement of cash flows pertaining to leases for periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Total cash inflow from net investment in lease	127	36	253	36
Total cash outflow for leases	273	304	548	343

25. COMMITMENTS AND CONTINGENCIES

The Company had contractual commitments related to purchase orders in the normal course of business of $169 as at June 30, 2022 due within a year.

The Company is subject to legal proceedings and claims, which have arisen in the ordinary course of business. The Company's management does not reasonably expect that these legal actions, when ultimately concluded and determined, will have a material and adverse effect on the Company's results of operations or financial condition. As at June 30, 2022, a total of $190 of contingent liabilities have been recorded.

26. NON-CONTROLLING INTEREST

Set out below is summarized financial information reported by Flowr ULC and its subsidiaries that have been incorporated into these condensed interim consolidated financial statements. All of the financial information is presented before any intercompany eliminations with its parent company (Flowr).

(in thousands of Canadian dollars, unless otherwise indicated)

The following table summarizes the consolidated financial position for Flowr ULC as at June 30, 2022 and December 31, 2021:

	June 30, 2022	December 31, 2021
Current assets	27,088	27,340
Non-current assets	207,203	206,306
Current liabilities	(19,627)	(15,672)
Non-current liabilities	(18,260)	(18,845)
Net assets	196,404	199,129

The following tables summarizes Flowr ULC's consolidated net loss for the periods ended June 30, 2022 and 2021:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Revenue	2,730	2,001	6,193	5,623
Expenses	(4,124)	(4,714)	(11,860)	(12,424)
Net loss	(1,394)	(2,713)	(5,667)	(6,801)

Other changes in non-controlling interest as reported in the condensed interim consolidated statement of changes in shareholder's equity is primarily attributable to the shares issued by Flowr ULC to the Company as required whenever the Company issues common shares on a one for one basis.

27. FINANCIAL RISK MANAGEMENT

The Company's principal financial liabilities comprise of accounts payable and accrued liabilities, capital lease obligations, convertible debenture and long-term debt. The main purpose of these financial instruments is to assist with the management of the Company's short term and long-term cash flow requirements. The Company has various financial assets, such as cash and cash equivalents, and amounts receivable, which arise directly from its operations.

The main risks that could adversely affect the Company's financial assets, liabilities or future cash flows are market risk, liquidity risk and credit risk. Management reviews each of these risks and establishes policies for managing them as summarized below.

Market risk

Market risk is the risk that the future cash flows or the fair value of a financial instrument will fluctuate because of changes in market conditions. The Company operates in an industry regulated by Health Canada. Changes in legislation could have a significant impact on the Company's operations.

Interest rate risk

Interest rate risk primarily arises from floating rate borrowing, including various revolving and other lines of credit. A ten-percentage change in the floating interest rates does not have a material impact on the condensed interim consolidated statements of loss and comprehensive loss. Certain borrowings are also transacted at fixed interest rates. The Company has an agreement with ATB that requires the Company to enter into interest rate swap contracts on 25% of its outstanding loan with ATB. On June 30, 2022, the Company entered into an interest rate swap contract on a notional amount of $3,635 with ATB whereby the Company has a fixed interest rate of 1% per annum and ATB has a floating interest rate based on benchmark bankers' acceptance. The swap contract has a three-month term and is settled monthly. The termination date of the agreement is November 18, 2022.

Foreign currency risk

The operating results and financial position of the Company are reported in Canadian dollars. As the Company operates internationally, certain of the Company's financial instruments and transactions are denominated in currencies other than the Canadian dollar. The results of the Company's operations are, therefore, subject to currency transaction and translation risks.

The Company's main risk is associated with fluctuations in U.S. dollars. The Company holds cash in Canadian dollars and U.S. dollars. Assets and liabilities are translated based on the Company's foreign currency translation policy. The Company has determined that as at June 30, 2022, the effect of a 10% increase or decrease in U.S. dollars against the Canadian dollar on financial assets and liabilities would result in an increase or decrease of approximately $122 (December 31, 2021 - $3,076) to net loss and $677 (2021 - $186) to comprehensive loss for the period ended June 30, 2022.

At June 30, 2022, the Company has not entered into any hedging agreements to mitigate currency risks, with respect to foreign exchange rates.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is exposed to equity price risk, which arises from investments measured at FVTPL. For such investments classified as FVTPL, the impact of 10% increase or decrease in the share price would have increased or decrease equity by $164 (2021 - $nil).

Credit risk

The exposure to credit risk arises through the potential failure of a customer or another third party to meet its contractual obligations to the Company. As at June 30, 2022, the Company had amounts receivable of $1,577 (December 31, 2021 - $3,027). The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. The Company is not significantly exposed to credit risk as the accounts receivables are primarily due from provincial government organizations and overall amounts receivable comprise 4.5% (December 31, 2021 – 5%) of the Company's total assets. All cash is held with highly rated financial institutions and associated risks are considered nominal. For maximum credit risk exposure on accounts receivable, see note 4.

Liquidity risk

The Company relies on the cash flows generated from its operations, retained cash balances and its ability to raise debt and equity from the capital markets to fund its operating, investment, commitments and other liquidity needs. To reduce these risks, the Company: (i) prepares regular cash flow forecasts to monitor its capital requirements and available liquidity and (ii) strives to maintain a prudent capital structure that is comprised primarily of equity and debt financing.

(in thousands of Canadian dollars, unless otherwise indicated)

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

As at June 30, 2022	Total	Less than 1 year	1-3 years	3 - 5 years	over 5 years
Accounts payable and liabilities	10,501	10,501	—	—	—
Lease obligations	9,771	992	1,049	612	7,118
Long-term debt, excluding Hawthorne debt	2,023	2,023	—	—	—
Hawthorne debt	11,666	11,666	—	—	—
Convertible debentures	4,966	—	4,966	—	—
Total contractual obligations	38,927	25,182	6,015	612	7,118

As at December 31, 2021	Total	Less than 1 year	1-3 years	3 - 5 years	over 5 years
Accounts payable and liabilities	7,613	7,613	—	—	—
Lease obligations	10,979	1,271	1,734	620	7,354
Long-term debt, excluding Hawthorne debt	11,323	6,744	2,754	1,825	—
Hawthorne debt	11,954	11,954	—	—	—
Convertible debentures	4,966	—	4,966	—	—
Total contractual obligations	46,835	27,582	9,454	2,445	7,354

Capital management

The Company considers its capital to be its equity. The Company's objective for capital management is to maintain sufficient levels of liquidity to fund and support its capital projects and operating activities. The Company monitors its financial position and the potential impact of adverse market conditions on an ongoing basis. The Company manages its capital structure and makes adjustments to it based on prevailing market conditions and according to its business plan. The Company's funding strategy is to maintain a capital structure comprised primarily of cash sourced from equity and debt offerings and net earnings generated from its operations. In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, did not materially disrupt the Company's operations during the period ended June 30, 2022. The production and sale of cannabis have been recognized as essential services across Canada. The Company is continuously monitoring the impact of the COVID-19 pandemic on market conditions and will adjust its capital structure strategy accordingly.

See note 11.

28. EXPENSE BY NATURE

Cost of sales as reported in the condensed interim consolidated statements of loss and comprehensive loss, have been regrouped by the nature of the expenses as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Production costs	(156)	598	1,158	1,891
Salaries and benefits	990	2,446	2,177	3,114
Share-based compensation	85	232	192	296
Depreciation and amortization	566	2,003	1,636	2,708
Total	1,485	5,279	5,163	8,009

(in thousands of Canadian dollars, unless otherwise indicated)

Selling and marketing and general and administrative expenses as reported in the condensed interim consolidated statements of loss, have been regrouped by the nature of the expenses as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Salaries and benefits	1,322	1,262	2,622	3,063
Professional fees	831	856	1,325	1,500
General and administrative	407	728	776	1,272
Travel	26	105	65	164
Selling and marketing	249	755	899	1,706
Total	2,835	3,706	5,687	7,705

Research and development costs, as reported in the condensed interim consolidated statements of loss, have been regrouped by the nature of the expenses as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Salaries and benefits	26	60	75	157
Research and development	137	122	228	188
Depreciation and amortization	—	253	—	504
Total	163	435	303	849

29. SUBSEQUENT EVENTS

(a) Sale of R&D Facility

During the six months ended June 30, 2022, the Company entered into an agreement to sell the R&D Facility for an aggregate purchase price of $16,000 comprising of $4,000 in cash and full extinguishment of its Hawthorne Loan as described in note 11. The agreement closed subsequent to June 30, 2022.

(b) Sale of surplus land and equipment

During the six months ended June 30, 2022, the Company entered into an agreement to sale surplus land and equipment adjacent to its operating facility located in Kelowna, British Columbia for an aggregate purchase price $3,400. The agreement closed subsequent to June 30, 2022.

(c) Repayment of ATB debt

Subsequent to June 30, 2022, the Company repaid $2,011 to ATB. All amounts outstanding under the ATB Credit Agreement were fully extinguished.