Management's Discussion and Analysis

For the year ended December 31, 2019.

For purposes of this discussion, "Charlotte's Web", "CW", or the "Company" refers to Charlotte's Web Holdings, Inc. and its subsidiary, Charlotte's Web, Inc.

This management's discussion and analysis of financial condition and results of operations ("MD&A") is provided as of March 24, 2020, and should be read together with the Company's Consolidated Financial Statements and the accompanying notes for the years ended December 31, 2019 and 2018. The results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, unless otherwise noted, are expressed in United States dollars.

Additional information relating to the Company, including the Company's Annual Information Form ("AIF") dated April 29, 2019, Final Short Form Base Shelf Prospectus dated April 8, 2019, Prospectus Supplement dated May 13, 2019, and Prospectus Supplement dated November 27, 2019 can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

In the interest of providing the shareholders and potential investors of Charlotte's Web Holdings, Inc. with information about the Company, including management's assessment of the Company's future plans and operations, certain information provided in this MD&A constitutes forward-looking statements or information (collectively, "forward-looking statements"). Forward-looking statements are typically identified by words such as "may", "will", "should", "could", "anticipate", "expect", "project", "estimate", "forecast", "plan", "intend", "target", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Although these forward-looking statements are based on assumptions the Company considers to be reasonable based on the information available on the date such statements are made, such statements are not guarantees of future performance and readers are cautioned against placing undue reliance on forward-looking statements. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties, and other factors which may cause actual results, levels of activity, and achievements to differ materially from those expressed or implied by such statements. The forward-looking information contained in this MD&A is based on certain assumptions and analysis by management of the Company ("Management") in light of its experience and perception of historical trends, current conditions and expected future development and other factors that it believes are appropriate.

The material factors and assumptions used to develop the forward-looking statements herein include, but are not limited to, the following: (i) the regulatory climate in which the Company operates; (ii) the continued sales success of the Company's products; (iii) the continued success of sales and marketing activities; (iv) the Company's ability to complete the conversion or buildout of its facilities on time and on budget; (v) there will be no significant delays in the development and commercialization of the Company's products; (vi) the Company will continue to maintain sufficient and effective production and research and development capabilities to compete on the attributes and cost of its products; (vii) the Company's ability to deal with adverse growing conditions (due to pests, disease, fungus, climate or other factors) in a timely and cost-effective manner; (viii) there will be no significant reduction in the availability of qualified and cost-effective human resources; (ix) new products will continue to be added to the Company's portfolio; (x) demand for hemp-based wellness products will continue to grow in the foreseeable future; (xi) there will be no significant barriers to the acceptance of the Company's products in the market; (xii) the Company will be able to maintain compliance with applicable contractual and regulatory obligations and requirements; (xiii) there will be adequate liquidity available to the Company to carry out its operations; and (xiv) products do not develop that would render the Company's current and future product offerings undesirable and the Company is otherwise able to minimize the impact of competition and keep pace with changing consumer preferences; and (xv) the Company will be able to successfully manage and integrate acquisitions.

The Company's forward-looking statements are subject to risks and uncertainties pertaining to, among other things, revenue fluctuations, nature of government regulations, economic conditions, loss of key customers, retention and availability of executive talent, competing products, common share price volatility, loss of proprietary information, product acceptance, internet and system infrastructure functionality, information technology security, cash available to fund operations, crop risk, availability of capital and, international and political considerations, including but not limited to those risks and uncertainties discussed under the heading "Risk Factors" in this MD&A and the Company's other filings with securities regulators. The impact of any one risk, uncertainty, or factor on a particular forward-looking statement is not determinable with certainty as these are interdependent, and the Company's future course of action depends on Management's assessment of all information available at the relevant time. Except to the extent required by law, the Company assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A, whether as a result of new information, future events, or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on the Company's behalf, are expressly qualified in their entirety by these cautionary statements.

BUSINESS OVERVIEW

Charlotte's Web is a market leader in the production and distribution of innovative hemp-based, Cannabidiol ("CBD") wellness products. Through its vertically integrated business model, the Company strives to improve consumers' lives and meet their demands for stringent product quality, efficacy and consistency. The Company does not produce or sell medicinal or recreational marijuana or products derived therefrom.

The Company's hemp products are made from high quality and proprietary strains of whole-plant hemp extracts containing a full spectrum of phytocannabinoids, including CBD, terpenes, flavonoids and other minor but valuable hemp compounds. The Company believes the presence of these various compounds work synergistically to heighten the effects of the products, making them superior to single-compound CBD isolates.

The Company's hemp extracts are produced from hemp, which is defined in the 2018 Farm Bill as the plant *Cannabis sativa L.* and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol ("THC") concentration of not more than 0.3 percent on a dry weight basis. THC causes psychoactive effects when consumed and is typically associated with marijuana (i.e. Cannabis with high-THC content). The Company does not produce or sell medicinal or recreational marijuana or products derived from high-THC Cannabis/marijuana plants. Hemp products have no psychoactive effects.

The Company's current product categories include human ingestible (tinctures, capsules, and gummies), topicals, and pet products. Planned product categories, as or when approved by the U.S Food and Drug

Administration ("FDA"), include powdered supplements, beverage, food, beauty, sport, professional (dedicated health care practitioner products), and over-the-counter wellness. The Company's products are distributed through its e-commerce website, third-party e-commerce websites, select distributors and a variety of brick and mortar retailers.

The Company grows its proprietary hemp on farms leased or owned in eastern Colorado and sources high-quality hemp through long term contract farming operations in Kentucky and Oregon.

FACTORS AFFECTING THE COMPANY'S PERFORMANCE

The Company's performance and future success depends on a number of factors. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below and referred to under "Risk Factors".

Branding

The Company's well recognized brand, Charlotte's Web, is built around consumer trust with a focus on quality. Maintaining and growing the Company's brand appeal domestically and internationally is critical to its continued success.

Regulation

The Company is subject to the local, state, and federal laws in the jurisdictions in which it operates. Outside of the United States, the Company's products may be subject to tariffs, treaties and various trade agreements as well as laws affecting the importation of consumer goods and the retail sale of hemp-derived products. The 2018 Farm Bill became law on December 20, 2018. The 2018 Farm Bill removed hemp from the list of controlled substances under the Controlled Substances Act. The 2018 Farm Bill also redefined hemp to include its "derivatives, extracts, and cannabinoids", and accordingly removed popular hemp products, such as hemp-derived cannabidiol ("CBD") from the purview of the U.S. Drug Enforcement Agency (the "DEA"). Although the DEA no longer regulates hemp, the FDA retains its authority to regulate ingestible and topical products, including those that contain hemp and hemp extracts such as CBD. As a producer and marketer of hemp-derived products, the FDA governs the regulations applicable to manufacturing and marketing dietary supplements. These include regulations for food facility registration; current good manufacturing practice ("cGMPs") regulations; nutrition and allergen labeling and label claim regulations; rules for submission of received serious adverse event reports; and safety requirements, including, as applicable, new dietary ingredient ("NDI") and generally recognized as safe ("GRAS") regulations. The FDA has stated its concerns over drug claims being made about products that contain CBD, as well as the agency's position that under the Food, Drug and Cosmetic Act ("FD&C Act") CBD cannot be marketed in a dietary supplement because a product containing CBD was approved as a drug and substantial clinical trials studying CBD as a new drug were made public prior to the marketing of any food or dietary supplements containing CBD, and therefore dietary supplements or food are precluded from containing this ingredient (the "IND Preclusion"). The Company believes there are significant arguments against this position in that all conditions of the applicable statute must be met before the IND Preclusion applies. Importantly, the FDA has acknowledged there are pathways for FDA to consider with regard to circumstances in which certain cannabis-derived compounds such as CBD might be permitted in a food or dietary supplement. The FDA has authority to issue a regulation that would allow these naturally-occurring hemp compounds in a food, beverage or dietary supplement, and the FDA has indicated it is now engaged in a rule-making process to evaluate this issue.

On March 6, 2020, Charlotte's Web completed its assessment for self-affirmed Generally Recognized as Safe (GRAS) status for its full spectrum hemp extract. The company made this determination based on composite safety information and an Expert Panel review in accordance with FDA guidelines for GRAS. See 21 CFR 170.30. As required by law, this general recognition of safety utilized scientific procedures that are the same quantity and quality of scientific evidence that would be required to obtain FDA approval of a food additive, and the data is publicly available and accepted, i.e., published, in the scientific literature. GRAS status means that Charlotte's Web hemp extract is considered safe for use in a wide range of food and beverage applications.

Competition

The market for hemp-based CBD wellness products is highly competitive. The competition consists of publicly and privately-owned companies, which tend to be highly fragmented in terms of both geographic market coverage and products offered. With the Company's leading brand status, innovation capabilities, high-quality and safety-focused manufacturing processes, Management believes the Company is well-positioned to capitalize on favorable long-term trends in the hemp-based CBD wellness products segment as the FDA establishes guidelines on how the industry will operate.

Growth Strategies

The Company has a successful history of growing revenue and it believes it has a strong growth strategy aimed at meeting or exceeding industry growth rates. The Company's future depends, in part, on Management's ability to implement its growth strategy including (i) product innovations; (ii)growth in retail, wholesale and distributor partnerships; (vii) growth in e-commerce distribution; and (iv) improvements in operating income, gross profit and operating expense margins. The ability of the Company to implement this growth strategy depends on, among other things, its ability to develop new products that appeal to consumers, maintain and expand brand loyalty and brand recognition, maintain and improve competitive position in the markets, and identify and successfully enter and market products in new geographic areas and segments as well the ability to successfully navigate legislative and regulatory uncertainties (see "Risk Factors").

Product Innovation and Consumer Trends

The Company's business is subject to changing consumer trends and preferences, which is dependent, in part, on continued consumer interest in new products. The success of new product offerings, depends upon a number of factors, including the Company's ability to (i) accurately anticipate customer needs; (ii) develop new products that meet these needs; (iii) successfully commercialize new products; (iv) price products competitively; (v) manufacture and deliver products in sufficient volumes and on a timely basis; and (vi) differentiate product offerings from those of competitors.

Business Acquisitions and Partnerships

The Company believes that it needs to actively identify and source future acquisition and partnership opportunities. The Company is actively pursuing strategic acquisitions, joint ventures and partnerships that will enable it to further broaden and diversify its product offerings, leverage current and future manufacturing and distribution facilities for new products, cultivation for international markets, and expand its intellectual property portfolio.

Customer Relationships

The Company has relationships with wholesalers, distributors and retailers across the food, mass market, natural, specialty, professional and retail channels. The Company sells its products through e-commerce, food, drug and mass channels, and natural channels, and is reliant on knowledgeable partners to display and present its product to customers in their brick and mortar stores. The Company's partners service customers by stocking and displaying products and explaining product attributes and health benefits. The Company's relationship with these retail customers is important for consumer trust in the brand and the products they purchase.

CORPORATE HIGHLIGHTS

On November 14, 2019 the Company announced that Jacques Tortoroli had joined the Company's Board of Directors. Mr. Tortoroli previously served as Chief Administration Officer of Bacardi Limited in Bermuda, the largest privately held spirits company in the world. Prior to that, Mr. Tortoroli has held numerous senior finance roles at Viacom, Inc. as well as various executive leadership roles at Young & Rubicam, Inc., PepsiCo, Inc., and KPMG.

On December 3, 2019 the Company announced the completion of an underwritten public offering of 5,000,000 units of the Company at a price of C$13.25 (US$9.96) per Offered Unit, for aggregate gross proceeds to the Company of C$66.3 million (US$49.8 million). Each unit consists of one common share of the Company and one-half of one common share purchase warrant of the Company (each whole common share purchase warrant). Each Warrant will entitle the holder to purchase one common share of the Company at a price of C$16.50 on the date that is two years after the closing of the 2019 Offering. At initial measurement, the 2,500,000 warrants issued resulted in a $5.5 million financial liability reported in the statements of financial position. Net proceeds from the offering will be used primarily to fund the Company's business development and for general working capital purposes.

Chief Growth Officer, Eugenio Mendez, retired from the Company effective January 1, 2020. He made significant contributions in advising Charlotte's Web, as well as organizing and leading the marketing, e-commerce, and customer care teams. The Company is in the process of finalizing the organizational plans and structure for the team assembled under Mr. Mendez.

Chief Operating Officer, Stephen Lermer, left the Company effective January 31, 2020 to pursue regional opportunities in Central America. The Company's vertically integrated supply chain teams assembled under Mr. Lermer will continue their work under the oversight of Chief Financial Officer, Russ Hammer until the new operations leader is announced.

On February 28, 2020, the Company entered into an Asset Purchase Agreement with Stanley Brothers Bio Tec, Inc. The Company purchased substantially all the assets related to Stanley Brothers Bio Tec Inc. for total consideration of $0.3 million. The purchased assets consisted of lab equipment, trademarks, and inventories for the Company to establish an internal division for research and development, known as CW Labs R&D Sciences Division.

On November 30, 2019, Plaintiff Michele McCarthy filed a putative class-action lawsuit in the Northern District of California that alleges that the Company's products are mislabeled as dietary supplements. The lawsuit asserts claims under California's Unfair Competition Law, False Advertising Law, and Consumers Legal Remedies Act; alleges breach of express and implied warranties; and asks the court for a declaration under the federal Declaratory Judgment Act. The lawsuit seeks damages, equitable, and declaratory relief on behalf of Plaintiff and a putative class of California consumers who purchased Charlotte's Web products. Plaintiff also seeks declaratory relief on behalf of a nationwide class. On March 16, 2020, Charlotte's Web filed a motion to dismiss the lawsuit in its entirety. In the alternative, the Company asked the court to stay the case pending completion of regulatory activity by the U.S. Food & Drug Administration. On March 20, 2020, Plaintiff filed a notice voluntarily dismissing her complaint without prejudice.

On March 23, 2020, the Company entered into a new Asset Backed Line of Credit with J.P. Morgan for $10 million with an accordion feature to extend the line to $20 million with a 3-year maturity. In addition, Charlotte's Web has partnered with J.P. Morgan for its commercial banking services including its merchant processing services to support the Company's global growth.

On March 23, 2020, Charlotte's Web announced the acquisition of Abacus Health ("Abacus") in an all-stock transaction valued at $69 million. Upon closing of the transaction Abacus shareholders will own approximately 15% of Charlotte's Web effective outstanding common shares. Abacus is a leading provider of over-the-counter ("OTC") FDA-registered topical pain relief and skincare products containing CBD hemp extracts. Abacus distributes the industry's widest portfolio of topical CBD SKUs through more than 7,800 doors including the three largest U.S. pharmacy chains and also reaches 14,500 health care practitioners. Combined, the Companies will represent 43.5% market share of the mass retail drugstore segment and have an aggregate reach into more than one billion points of sale. The acquisition greatly extends Charlotte's Web's product offerings and reach and solidifies a dominant position in the U.S. hemp CBD topicals category which is forecasted to become fastest growing and largest CBD segment by 2021.

SELECTED FINANCIAL DATA

The following table sets forth selected financial information for the periods indicated.

U.S. $ millions, except per share data	Year ended December 31, 2019	2018	2017
Revenue	**$ 94.6**	$ 69.5	$ 40.0
Gross (loss) profit before biological assets adjustment	**50.4**	52.5	30.8
Net impact, fair value of biological assets	**0.2**	(0.2)	(0.9)
Gross (loss) profit	**50.6**	52.3	29.9
Operating expenses	**75.4**	37.3	17.9
Other (income) and expense, net	**(3.6)**	(0.5)	0.2
(Loss) income before taxes	**(21.2)**	15.5	11.8
Net (loss) income	**$ (15.6)**	$ 11.8	$ 7.5
EPS basic	**$ (0.16)**	$ 0.14	$ 0.09
EPS diluted	**$ (0.16)**	$ 0.12	$ 0.09
Adjusted EBITDA	**$ (1.7)**	$ 19.4	$ 14.3

Assets:	**December 31, 2019**	December 31, 2018	December 31, 2017
Cash and cash equivalents	**$ 68.6**	$ 73.4	$ 7.1
Total assets	**$ 222.9**	$ 139.1	$ 19.5
Liabilities:			
Long-term liabilities	**$ 39.8**	$ 3.5	$ 0.5
Total liabilities	**$ 69.2**	$ 17.6	$ 6.8

Cash Flow:	Year ended December 31, **2019**	2018	2017
Net cash provided (used) by operating activities	**$ (33.4)**	$ (0.9)	$ 7.5
Net cash provided (used) in investing activities	**$ (17.7)**	$ (4.7)	$ (2.4)
Net cash provided (used) by financing activities	**$ 46.3**	$ 71.9	$ 0.8

FINANCIAL INFORMATION

The following table sets forth selected financial information for the periods indicated.

U.S. $ millions, except per share data	Three months ended December 31, 2019	2018	Year ended December 31, 2019	2018
Revenue	**$ 22.8**	$ 21.5	**$ 94.6**	$ 69.5
Gross (loss) profit before biological assets adjustment	**(1.7)**	15.4	**50.4**	52.5
Net impact, fair value of biological assets	**(0.4)**	0.8	**0.2**	(0.2)
Gross (loss) profit	**(2.1)**	16.3	**50.6**	52.3
Operating expenses	**26.4**	13.0	**75.4**	37.3
Other (income) and expense, net	**(2.9)**	(0.3)	**(3.6)**	(0.5)
(Loss) income before taxes	**(25.5)**	3.6	**(21.2)**	15.5
Net (loss) income	**$ (18.8)**	$ 3.2	**$ (15.6)**	$ 11.8
EPS basic	**$ (0.19)**	$ 0.03	**$ (0.16)**	$ 0.14
EPS diluted	**$ (0.19)**	$ 0.02	**$ (0.16)**	$ 0.12
Adjusted EBITDA	**$ (10.2)**	$ 3.4	**$ (1.7)**	$ 19.4

Assets:	**Dec 31, 2019**	Dec 31, 2018
Cash and cash equivalents	**$ 68.6**	$ 73.4
Total assets	**$ 222.9**	$ 139.1
Liabilities:		
Long-term liabilities	**$ 39.8**	$ 3.5
Total liabilities	**$ 69.2**	$ 17.6

Results of Operations

The year ended December 31, 2019 was characterized as a transition year for the Company transitioning from a startup to a standup consumer-packaged goods ("CPG") company capable of serving the food, drug, mass ("F/D/M") retailer channel. In anticipation of the FDA providing a regulatory framework for CBD in 2019 and planned significant expansion into the F/D/M retail channel, the Company invested heavily in both management and infrastructure, in order to expand cultivation and production, as well extraction and distribution, capacity. This investment included a significant buildup of finished goods inventory in early 2019 to meet anticipated F/D/M demand, as well as substantial investment during the year ended December 31, 2019 in the cultivation of harvested hemp.

While the Company added several food and drug mass retail partners in 2019, expansion of F/D/M reach was not as significant as planned for and slowed in the fourth quarter, as the segment anticipated regulatory clarity that did not materialize. As a result, the Company recognized a significant inventory provision of $13.9 million in the fourth quarter of 2019, primarily due to expiration of finished good products prior to estimated sales.

Recent public comments and reports from the FDA have been encouraging towards establishing regulatory oversight for hemp derived dietary supplements. A definitive timeline has not yet been provided. However, the enormous hemp CBD wellness market opportunity remains intact and Charlotte's Web believes it is the well positioned to serve the market once a regulatory framework is established.

The Company anticipates the substantial investments made during the year ended December 31, 2019 in both management and infrastructure, as well as the Company's robust 2019 hemp harvest, will help support demand into future years.

To support the significant investments made during the year ended December 31, 2019, the Company increased liquidity through a share offering for aggregate gross proceeds of C$66.3 million (US$49.8 million) on December 3, 2019.

Revenue

Quarterly Revenue:

The following table sets forth selected quarterly revenue information for the Company's eight most recent fiscal quarters. This information is unaudited, but reflects all adjustments of a normal, recurring nature that are, in the opinion of Management, necessary to present a fair statement of the Company's consolidated revenue for the periods presented. Quarter-to-quarter comparisons of the Company's financial results are not necessarily meaningful and should not be relied on as an indication of future performance.

U.S. $ millions	**Q4 2019**	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Total revenue	**$ 22.8**	$ 25.1	$ 25.0	$ 21.7	$ 21.5	$ 17.7	$ 17.2	$ 13.1

Revenue for the quarter ended December 31, 2019 totaled $22.8 million, compared to $21.5 million for the same period in 2018, representing a 6.0% increase. On a year-over-year basis for the quarter ended December 31, 2019, direct-to-consumer ("DTC") ecommerce sales grew by 14% and business-to-business ("B2B") sales decreased by 6%. During the quarter ended December 31, 2019 and 2018, DTC sales accounted for 65% and 60% of total sales, respectively. B2B accounted for 35% and 40% of total sales, respectively. On a year-over-year basis for the quarter ended December 31, 2019, on a gross revenue basis, revenue from human ingestible, topicals and pet products grew by 26%, 29% and 33%, respectively. During the quarter ended December 31, 2019, on a gross revenue basis, the Company's human ingestible, topicals and pet products accounted for approximately 90%, 6% and 4%, respectively, of total sales compared to 91%, 5%, and 4% of total sales for the same period in 2018.

Revenue for the year-to-date period ended December 31, 2019 totaled $94.6 million, compared to $69.5 million for the same period in 2018, representing a 36.1% increase. On a year-over-year basis for the year-to-date period ended December 31, 2019, DTC sales grew by 39% and B2B sales grew by 33%. During the year-to-date period ended December 31, 2019 and 2018, DTC sales accounted for 57% and 56% of total sales, respectively. During the year-to-date period ended December 31, 2019 and 2018, B2B sales accounted for 43% and 44% of total sales, respectively. On a year-over-year basis for the year ended December 31, 2019, on a gross revenue basis, revenue from human ingestible, topicals and pet products great by 40%, 213% and 63% respectively. During the year ended December 31, 2019, on a gross revenue basis, the Company's human ingestible, topicals and pet products accounted for approximately 87%, 9% and 4% of total sales compared to 92%, 4% and 4% of total sales for the same period in 2018.

The decrease in year-over-year B2B revenue for the quarter and year-to-date period ended December 31, 2019 was driven primarily by sales decline in the natural health channel due to competitive crowding and resulting saturation, causing consumer confusion due to inconsistencies in product formulations and quality. As consumer education increases and regulatory oversight is eventually introduced, the Company expects to see increased success in its trusted brand and quality products. Improvements in DTC sales for the same period were achieved through expanded marketing programs, increased industry awareness of the Company's products, social media and word of mouth advertising.

Cost of Sales

Cost of sales includes the cost of inventory sold, changes in inventory provisions, and production costs expensed. Direct and indirect production costs include direct labor, processing, testing, packaging, quality assurance, security, inventory, shipping, depreciation of production equipment, production management and other related expenses. The components of cost of sales are as follows:

	Three months ended December 31,		Year ended December 31,	
U.S. $ millions	**2019**	2018	**2019**	2018
Cost of sales	**$ 24.5**	$ 6.0	**$ 44.1**	$ 17.0
Inventory expensed to cost of sales	**10.0**	5.3	**22.7**	12.7
Inventory provision	**13.9**	0.1	**15.5**	0.3
Other production costs	**0.4**	0.1	**5.1**	2.8
Depreciation and amortization	**0.2**	0.5	**0.8**	1.2

Cost of sales for the quarter ended December 31, 2019 was $24.5 million compared to $6.0 million for the same period in 2018. As a percent of revenue, cost of sales for the quarter ended December 31, 2019 was 107.5% compared to 27.9% for the same period in 2018.

Cost of sales for the year-to-date period ending December 31, 2019 was $44.1 million compared to $17.0 million for the same period in 2018. As a percent of revenue, cost of sales for the year-to-date period ending December 31, 2019 was 46.6% compared to 24.5% for the same period in 2018.

The primary factors that can impact cost of sales on a period to period basis include the mix of revenue between DTC and B2B, third-party quality costs, transportation, overhead allocations, the mix of products sold and changes in inventory provisions.

An inventory provision is estimated by management and is included in cost of sales. For the years ended, December 31, 2019 and 2018, inventory provisions of $15.5 million and $0.3 million, respectively, were expensed through cost of sales. In anticipation of significant growth in the CBD industry, the Company expanded production of finished goods extensively in 2019. Due to stagnant movement in the current regulatory environment, expected sales were significantly lower than estimated. During the fourth quarter of 2019, the Company recognized $13.9 million of inventory provision, of which $12.0 million was against finished goods. This increase is primarily due to expiration of products prior to estimated sales.

Gross Profit

Gross (loss) profit totaled ($2.1) million for the quarter ended December 31, 2019, compared to $16.3 million for the same period in 2018, a year-over-year decrease of 112.9%. As a percent of total net revenue, gross (loss) profit in the quarter ended December 31, 2019 was (9.2)%, compared to 75.8% for the same period in 2018. Gross (loss) profit prior to biological asset adjustments as a percentage of net revenue for the quarter ended December 31, 2019 and 2018 was (7.5)% and 71.6%, respectively.

Gross (loss) profit totaled $50.6 million for the year-to-date period ended December 31, 2019, compared to $52.3 million for the same period in 2018, a year-over-year decrease of 3.3%. As a percent of total revenue, gross (loss) profit for the year-to-date period ended December 31, 2019 was 53.5% compared to 75.3% for the same period in 2018. Gross (loss) profit prior to biological asset adjustments as a percentage of revenue for the year-to-date period ended December 31, 2019 and 2018 was 53.3% and 75.5%, respectively.

The primary factors that can impact gross profit margins include the mix of revenue between DTC and B2B, third-party quality costs, transportation costs, the mix of products sold, changes in inventory provisions and biological asset adjustments.

Biological assets, consisting of industrial hemp plants, are measured at fair value less costs to sell up to the point of harvest. Determination of the fair values of the biological assets requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the industrial hemp plants up to the point of harvest, sales price and expected remaining future yields for the industrial hemp plants. Gains or losses arising from changes in fair value less costs to sell during the year are included in the statements of income and other comprehensive income of the related year.

Classification of Operating Expenses

The composition of the operating costs classification on the Consolidated Financial Statements is as follows:

	Three months ended December 31,		Year ended December 31,	
U.S. $ millions	**2019**	2018	**2019**	2018
General and administrative	**$ 15.0**	$ 8.1	**$ 45.6**	$ 22.3
Personnel	**9.0**	5.5	**26.9**	13.1
Other operating expenses	**4.8**	2.0	**14.5**	7.5
Depreciation and amortization	**1.2**	0.1	**2.9**	0.4
Travel and entertainment	**-**	0.5	**1.3**	1.3
Sales and marketing	**$ 10.7**	$ 4.4	**$ 28.1**	$ 12.8
Advertising, promotions and selling costs	**7.1**	2.9	**16.4**	7.7
Personnel	**2.8**	1.1	**9.5**	3.9
Other operating expenses	**0.5**	0.3	**1.1**	0.7
Travel and entertainment	**0.3**	0.1	**1.0**	0.5
Depreciation and amortization	**-**	-	**0.1**	-
Research and development	**$ 0.7**	$ 0.5	**$ 1.7**	$ 0.8
Personnel	**0.3**	0.2	**1.1**	0.5
Facilities and other expenses	**0.4**	0.3	**0.5**	0.3
Depreciation and amortization	**-**	-	**0.1**	-

Personnel

Personnel expense includes all employee compensation, employee benefits and employee commissions. Consolidated active employee headcount was 302 at December 31, 2019, a 33.6% increase from 226 at December 31, 2018. On a comparative basis, the increase in personnel count is primarily due to an increase of 60 personnel in production and fulfillment and an increase of 14 personnel in sales and marketing. These increases related to the ramp up of personnel for the expected expansion of CPG in future anticipated F/D/M retail channel growth. Other departments saw normal fluctuations due to normal business operations.

Gross personnel expense for the quarter ended December 31, 2019, totaled $12.1 million (year-to-date $37.5 million) and for the same period in 2018, gross personnel expense totaled $6.8 million (year-to-date $17.5 million).

Non-cash compensation expense is included in operating costs and relates to the Company's stock options. Non-cash share-based compensation for the quarter ended December 31, 2019, totaled $1.7 million (year-to-date $3.0 million) compared to $0.2 million (year-to-date $0.9 million) for the same period in 2018.

Other Operating Expenses

Other operating expenses include (i) utilities and maintenance; (ii) professional and consulting services; (iii) banking and credit card processing fees; (iv) legal fees; (v) third-party software expenses (including maintenance and support); and (vi) taxes, permits and other fees (other than income taxes), net of overhead allocations.

For the quarter ended December 31, 2019, other operating expenses were $5.7 million compared to $2.6 million for the same period in 2018. For the year-to-date period ended December 31, 2019, other operating expenses were $16.1 million compared to $8.6 million for the same period in 2018. The primary reasons for the increase in other operating expenses for the periods ending December 31, 2019 over the same periods in 2018 were (i) merchant fees, which vary with DTC sales, (ii) increased insurance expense for directors and officers (post IPO), product liability and property, (iii) legal expenses associated with corporate governance, regulatory (federal, state and international), intellectual property, licensing, contracts and securities, and (iv) professional and consulting fees associated with executive recruitment and expansion of existing ERP system.

Advertising, Promotions and Selling Costs

For the quarter ended December 31, 2019 and 2018, advertising, promotions and selling costs were $7.1 million and $2.9 million, respectively. As a percent of revenue, advertising, promotions and selling costs for the quarter ended December 31, 2019 and 2018 were 31.1% and 13.5%, respectively.

For the year-to-date period ended December 31, 2019 and 2018 respectively, advertising, promotions and selling costs were $16.4 million and $7.7 million, respectively. As a percent of revenue, advertising, promotions and selling costs for the year ended December 31, 2019 and 2018 were 17.3% and 11.1%, respectively.

The following table sets forth total sales and marketing costs as a percentage of revenue for the eight most recent fiscal quarters. The Company believes that marketing of its brand and products, together with customer education, is fundamental to the future success of the business. The costs associated with these activities may vary significantly from period to period on both an absolute and relative basis as a result of targeted marketing programs, retail customer support, trade show activities, packaging design, personnel and web-based activities.

Sales and Marketing	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Percent of revenue	46.9%	25.1%	26.1%	21.0%	20.6%	22.0%	14.0%	15.8%

Travel and entertainment

For the quarter ended December 31, 2019 and 2018, travel expense was $0.3 million and $0.6 million, respectively. For the year-to-date period ended December 31, 2019 and 2018, travel expense was $2.3 million and $1.8 million, respectively. This amount is primarily from travel associated with the Company's sales, marketing, investor relations and business development efforts to support the revenue growth of the Company and its public company status.

Adjusted EBITDA

Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") is not a recognized performance measure under IFRS. The term EBITDA consists of net (loss) income and excludes interest ("financing costs"), taxes, depreciation and amortization. Adjusted EBITDA also excludes share-based compensation, IPO and share offering related costs, impairment of assets and adjustments for fair value of both biological assets and warrant liabilities. Adjusted EBITDA is included as a supplemental disclosure because Management believes that such measurement provides a better assessment of the Company's operations on a continuing basis by eliminating certain non-cash charges and charges or gains that are nonrecurring. The most directly comparable measure to Adjusted EBITDA calculated in accordance with IFRS is net (loss) income. The following is a reconciliation of the Company's net (loss) income to Adjusted EBITDA.

	Three months ended December 31,		Year ended December 31,	
U.S. $ millions	**2019**	2018	**2019**	2018
Net (loss) income	**$ (18.8)**	$ 3.2	**$ (15.6)**	$ 11.8
Depreciation and amortization	**1.4**	0.6	**4.0**	1.5
Financing costs	**0.1**	-	**0.3**	0.2
Interest income	**(0.1)**	(0.4)	**(1.0)**	(0.5)
Income taxes	**(6.7)**	0.5	**(5.6)**	3.7
EBITDA	**(24.1)**	3.9	**(17.9)**	16.7
Share-based compensation	**1.7**	0.2	**3.0**	0.9
Share offering related costs	**-**	-	**-**	1.3
Impairment of assets	**13.9**	0.1	**15.5**	0.3
Net impact, fair value of biological assets	**0.4**	(0.8)	**(0.2)**	0.2
Fair value adjustment on warrant liability	**(2.1)**	-	**(2.1)**	-
Adjusted EBITDA[1]	**$ (10.2)**	$ 3.4	**$ (1.7)**	$ 19.4

[1] Adjusted EBITDA presented in prior periods has been restated to conform with the current period presentation to include Interest income as a reduction of EBITDA and Adjusted EBITDA.

The following table sets forth Adjusted EBITDA as a percentage of revenue for the nine most recent fiscal quarters.

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Adjusted EBITDA[1]	$ (10.2)	$ 0.7	$ 3.6	$ 4.2	$ 3.4	$ 5.3	$ 6.0	$ 4.6	$ 4.7
Percent of revenue	(44.7)%	2.8%	14.4%	19.4%	15.8%	29.9%	34.9%	35.1%	37.6%

[1] Adjusted EBITDA presented in prior periods has been restated to conform with the current period presentation to include Interest income as a reduction of EBITDA and Adjusted EBITDA.

Depreciation of Property and Equipment

Depreciation of Property and Equipment and amortization of Intangibles for the quarter ended December 31, 2019 and 2018 was $1.4 million and $0.6 million, respectively. Depreciation of Property and Equipment and amortization of Intangibles for the year-to-date period ended December 31, 2019 and 2018 was $4.0 million and $1.5 million, respectively. The increase in depreciation and amortization is primarily the result of investments in equipment and machinery in advance of expected food, drug and mass channel revenue.

Depreciation of Right of Use Assets

The Company implemented IFRS 16, Leases, on January 1, 2019. Depreciation expense associated with Right-of-Use (RoU) assets for the quarter ended December 31, 2019 was $0.9 million and for the year-to-date period ended December 31, 2019 was $2.3 million (see note 8 of the Consolidated Financial Statements).

Income Tax

Income tax (benefit) expense of ($6.7) million was incurred during the quarter ended December 31, 2019, compared to $0.5 million for the same period in 2018. Income tax (benefit) expense of ($5.6) million was incurred during the year-to-date period ending December 31, 2019, compared to $3.7 million for the same period in 2018. The combined income tax rate used in 2019 is 26.6%, compared to 24.0% in 2018.

Accounts Receivable

Accounts receivable increased from $4.9 million at December 31, 2018, to $5.5 million at December 31, 2019 as a result of increased B2B revenue during 2019. The Company reviews the accounts receivable aging monthly and monitors the payment status of each outstanding invoice. The Company communicates with its customers on a regular basis regarding the schedule of future payments, as required. At the balance sheet date, $0.5 million has been booked as an expected credit loss based on individual account review and overall customer payment history.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities generally include trade payables, revenue-based tax accruals, personnel-related costs and interest on outstanding debt obligations. Accounts payable and accrued liabilities increased to $16.1 million at December 31, 2019 from $9.9 million at December 31, 2018.

U.S. $ millions		**December 31, 2019**		December 31, 2018
Accounts payable	**$**	**8.8**	$	3.4
Accrued liabilities		**7.3**		6.5
	$	**16.1**	$	9.9

The accounts payable balance increased from $3.4 million at December 31, 2018 to $8.8 million at December 31, 2019. The increase is due primarily to timing of payments on trade payables. The accrued liabilities balance increased from $6.5 million at December 31, 2018 to $7.3 million at December 31, 2019.

Lease Obligations

Lease obligations at December 31, 2019 increased to $24.1 million from $0.4 million at December 31, 2018 due to adoption of IFRS 16, Leases, effective January 1, 2019. Additionally, the increase in lease liabilities was significantly driven by newly signed lease at 700 Tech Court in Louisville, Colorado. The new location enables the Company to prepare for production, distribution, and R&D expansion to meet increasing demand from the food, drug and mass consumer and national retailer channels. IFRS 16 introduces a single lessee accounting model that requires a lessee to recognize RoU assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. On transition to IFRS 16, the Company recognized an additional $3.1 million of RoU assets and corresponding lease liabilities related to the discounted amount of commitments and extension options. RoU assets added during the year ended December 31, 2019 totaled $22.9 million.

Cultivation Liabilities

Current and non-current cultivation liabilities at December 31, 2019 increased to $25.1 million from $6.8 million at December 31, 2018. The $25.1 million liability reflects amounts owed to third-party farming operations, based on the estimated potency and yield from the 2019 hemp crop. The amounts are paid in multiple years per the terms of the related contracts. The increase reflects our increase in cultivation capacity for future anticipated F/D/M retail channel revenue growth.

CONTRACTUAL OBLIGATIONS

Contractual obligations include leases on office locations, land, and manufacturing equipment and amounts owed to third-party farming operations. Payments for these obligations are as follows:

Contractual obligations	Total	within 1 year	1 - 5 years	> 5 years
Lease obligations	34.3	2.7	12.0	19.6
Third-party farming operations	25.1	10.8	14.3	-
Total	$ 59.4	$ 13.5	$ 26.3	$ 19.6

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary liquidity and capital requirements are for capital expenditures, inventory, working capital and general corporate purposes. The Company currently has a cash balance of $68.6 million at December 31, 2019 and along with cash flows from operations, will provide capital to support the growth of the business and for general corporate purposes.

The Company's ability to fund operating expenses and capital expenditures will depend on its future operating performance which will be affected by general economic, financial, regulatory, FDA, and other factors including factors beyond the Company's control (See "Risk Factors"). From time-to-time, Management reviews acquisition opportunities and if suitable opportunities arise, may make selected acquisitions to implement the Company's business strategy.

Management continually assesses liquidity in terms of the ability to generate sufficient cash flow to fund the business. Net cash flow is affected by the following items: (i) operating activities, including the level of amounts receivable, accounts payable, accrued liabilities and unearned revenue and deposits; (ii) investing activities, including the purchase of property and equipment; and (iii) financing activities, including debt financing and the issuance of capital stock.

Cash used in operations during the year ended December 31, 2019 totaled $33.4 million, compared to $0.9 million for the same period in 2018. The increase in cash used by operations is due primarily to the growth in inventory levels, and deposits, made for varying purposes including third-party production requirements and asset acquisitions, as well as increased marketing and personnel.

Net cash used in investing activities totaled $17.7 million for the year ended December 31, 2019 compared to $4.7 million for the same period in 2018. Net cash used in investing activities for the year was primarily for the purchase of equipment and land used in the Company's cultivation and manufacturing operations.

Net cash provided by financing activities totaled $46.3 million for the year ended December 31, 2019 compared to $71.9 million provided for the same period in 2018. The net cash provided by financing activities during the year ended December 31, 2019 resulted primarily from the proceeds from the public share offering.

The cash position of the Company at December 31, 2019 ("cash and cash equivalents") was $68.6 million, compared to $73.4 million at December 31, 2018. Working capital increased from $93.8 million as of December 31, 2018 to $116.9 million as of December 31, 2019.

During the year ended December 31, 2019, the Company generated an operating loss of $24.8 million, produced negative adjusted EBITDA of $1.7 million, and negative cash flow from operations of $33.5 million. The Company has shareholders' equity of $153.7 million and positive working capital of $116.9 million.

RELATED PARTY TRANSACTIONS

At December 31, 2018, the Company had a non-interest bearing, unsecured, receivable due from certain founders of the Company in the amount of $0.1 million. The loans were made to assist certain of the founders with costs incurred in the development of the business prior to its original incorporation and for other indirect business costs. On November 5, 2019, the balance outstanding of $0.1 million was paid in full, leaving a balance at December 31, 2019 of $0.

During 2019, the Company entered into an agreement for the lease of property held by an entity owned by certain founders of the Company. The lease term is effective January 1, 2019 through December 31, 2020. Per the terms of the lease agreement, the Company prepaid base rent in full upon execution in the amount $0.1 million. The lease asset is presented as a right of use asset with property and equipment on the Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue Recognition

The Company recognizes revenue when products are shipped, and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Freight revenue is generally exempt from state sales taxes. Sales tax collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenues in the Consolidated Financial Statements.

Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowances for doubtful accounts; the valuation of deferred tax assets, fixed assets, inventory, share-based compensation and provisions for other contingencies.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include the following:

Biological assets and inventory

In calculating the value of biological assets and inventory, Management is required to make a number of estimates, including estimating the stage of growth of the industrial hemp plants to the point of harvest, harvesting costs and selling costs. Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Cost is determined by use of the first-in, first-out method. The Company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions, including forecasted demand compared to quantities on hand, as well as other factors such as potential excess or aged inventories based on product shelf life, and other factors that affect inventory obsolescence.

Useful lives of depreciable and amortizable assets

In calculating the depreciation and amortization expense, Management is required to make estimates of the expected useful lives of property and equipment and intangible assets.

Share-based compensation

The Company uses the Black-Scholes option-pricing model to determine the grant date fair value of share-based compensation. The following assumptions are used in the model: dividend yield; expected volatility; risk-free interest rate; expected option life; and fair value.

Changes to assumptions used to determine the grant date fair value of share-based compensation awards can affect the amounts recognized in the consolidated financial statements.

Taxes

In calculation of current and deferred income taxes, Management is required to make estimates and assumptions regarding the carrying values of assets and liabilities that are subject to accounting estimates inherent in those balances, the interpretation of tax legislation in various jurisdictions, expectations on future operating results, timing of reversal of temporary differences and possible audits by regulating tax authorities.

Changes in estimates or assumptions may result in changes to the current or deferred income tax balances in the consolidated financial statements.

Impairment of financial assets

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value. Expected credit losses are measured by making estimates and assumptions in regard to probability-weighted amounts, the time value of money, information regarding past events, current conditions and forecasts of future economic conditions.

Leases

The application of IFRS 16 “Leases” requires significant judgements and certain key estimations to be made. Critical judgements required in the application of IFRS 16 include the following (i) identifying whether a contract includes a lease; (ii) determining whether it is reasonably certain that an extension or termination option will exercised; (iii) determining whether variable payments are in-substance fixes; (iv) establishing whether there are multiple leases in an arrangement; and (v) determining the stand-alone selling price of lease and non-lease components. Key sources of estimation uncertainty in the application of IFRS 16 include the following: (i) estimating the lease term; (ii) determining the appropriate rate to discount lease payments; and (iii) assessing whether a RoU asset is impaired.

IFRS 16, "Leases"

In January 2016, the International Accounting Standards Board ("IASB") issued a new International Financial Reporting Standard ("IFRS") on lease accounting effective for periods beginning on or after January 1, 2019. IFRS 16 introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Lease assets and liabilities are initially recognized on a present value basis and subsequently, similarly to other non-financial assets and financial liabilities, respectively. The lessor accounting requirements are substantially unchanged and, accordingly, continue to require classification and measurement as either operating or finance leases. The new standard also introduces detailed disclosure requirements for both the lessee and lessor.

The Company adopted the new standard on January 1, 2019 and Management has elected to apply IFRS 16 retrospectively: recognizing the cumulative effect of initially applying the standard, at the date of initial application. At January 1, 2019 on transition to IFRS 16 the Company recognized an additional $3.1 million of RoU assets and liabilities, with no net impact on retained earnings in the Consolidated Financial Statements. Rental expense is replaced by interest expense and depreciation, which will result in an increase in Adjusted EBITDA.

At inception of a contract, the Company assesses the right to control the use of an identified asset for a period of time in exchange for consideration to determine if the contract is a lease. The Company recognizes a RoU asset and a lease liability at the lease commencement date. The RoU asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The asset is depreciated to the earlier of the end of the useful life or the lease term using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to use that option. The RoU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments, if there is a change in the Company's estimated amount expected to be paid, or if the Company changes its assessment if it will exercise a purchase, extension or termination option.

The Company has elected to apply the practical expedients to exclude initial direct costs from measuring the RoU asset at the date of initial application and used hindsight when determining the lease term if contract contains options to extend or terminate the lease.

The Company adopted the standard using the modified retrospective method, and prior year amounts were not adjusted. They remain as previously reported under International Accounting Standard ("IAS") 17, "Leases" and related interpretations. On initial application, the Company elected to record RoU assets based on the corresponding lease liability. When measuring lease liabilities, the Company discounted its incremental borrowing rate at January 1, 2019. The weighted average rate applied was 4.80%. The Company is now recording lease payments as depreciation and interest expense, which was previously recorded as rent expense. There was no impact on cash flows from prior periods, however, current period cash flows from operating activities increased as lease payments are now recognized in cash flows from financing activities and interest expense from the lease obligations is included in financing costs.

The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previous assessed under IAS 17 and International Financial Reporting Interpretations Committee ("IFRIC") 4, "Determining Whether an Arrangement Contains a Lease." The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2018.

The impact on the Consolidated Financial Statements as of December 31, 2019 and December 31, 2018 of adopting IFRS 16 is summarized in tables in the notes to the financial statements (see note 3(q) of the Consolidated Financial Statements).

OUTSTANDING SHARE DATA

The Company is authorized by its certificate of incorporation to issue (i) and unlimited number of common shares; (ii) and unlimited number of proportionate voting shares (each proportionate voting share is equal to 400 common shares); and (iii) an unlimited number of preferred shares, issued in series.

At the close of business on March 23, 2020, 108,430,544 common shares and common equivalent shares (i.e. proportional voting shares on a common share equivalent basis) were issued and outstanding. There are no preferred shares currently issued and outstanding.

As of March 23, 2020, potential dilutive securities include (i) 2,281,515 outstanding share options in the Company's 2015 legacy option plan with a weighted average exercise price of \$0.5556; (ii) 578,744 outstanding share options in the Company's 2018 option plan with a weighted average exercise price of \$11.30; (iii) 1,110 broker warrants with an exercise price of C\$7.00; (iv) 2,500,000 common share warrants with an exercise price of C\$16.50, and (v) 107,375 restricted shares. Each option and restricted share entitles the holder to purchase one common share.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

In accordance with National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the establishment and maintenance of Disclosure Controls and Procedures ("DCP") and Internal Control Over Financial Reporting ("ICFR") is the responsibility of Management. The DCP and ICFR have been designed by Management based on the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to provide reasonable assurance that the Company's financial reporting is reliable and that its financial statements have been prepared in accordance with IFRS.

Regardless of how well the DCP and ICFR are designed, internal controls have inherent limitations and can only provide reasonable assurance that the controls are meeting the Company's objectives in providing reliable financial reporting information in accordance with IFRS. These inherent limitations include, but are not limited to, human error and circumvention of controls and as such, there can be no assurance that the controls will prevent or detect all misstatements due to errors or fraud, if any.

RISKS AND UNCERTAINTIES

The risks and uncertainties described below are not exhaustive. Additional risks not presently known or currently deemed immaterial may also impair the Company's business operation. If any of the events described in the following business risks actually occur, overall business, operating results and the financial condition of the Company could be materially adversely affected. Additional risks and uncertainties can be found in other public filings of the Company on www.sedar.com including the Company's Annual Information Form ("AIF") dated April 29, 2019, Final Short Form Base Shelf Prospectus dated April 8, 2019, Prospectus Supplement dated May 13, 2019 and Prospectus Supplement dated November 27,2019.

Industry Competition

The markets for businesses in the CBD and hemp extracts industries are competitive and evolving. In particular, the Company faces strong competition from both existing and emerging companies that offer similar products to the Company. Some of the Company's current and potential competitors may have longer operating histories, greater financial, marketing and other resources and larger customer bases.

Given the rapid changes affecting the global, national and regional economies generally and the CBD industry, in particular, the Company may not be able to create and maintain a competitive advantage in the marketplace. The Company's success will depend on its ability to keep pace with any changes in such markets, especially in light of legal and regulatory changes. The Company's success will depend on its ability to compete in an environment when many competitors do not adhere to FDA and/or other federal, state and international rules, law and/or guidelines. The Company's success will also depend on its ability to respond to, among other things, changes in the economy, market conditions, and regulatory and competitive pressures. Any failure to anticipate or respond adequately to such changes could have a material adverse effect on the Company's financial condition, operating results, liquidity, cash flow and operational performance.

Key Officers and Employees

The Company's success and future growth will depend, to a significant degree, on the continued efforts of the Company's directors and officers to develop the business and manage operations, and on their ability to attract and retain key technical, scientific, sales, and marketing staff or consultants. The loss of any key person or the inability to attract and retain new key personnel could have a material adverse effect on the business. Competition for qualified technical, scientific, sales, and marketing staff, as well as officers and directors can be intense, and no assurance can be provided that the Company will be able to attract or retain key personnel in the future. The Company's inability to retain and attract the necessary personnel could materially adversely affect the business and financial results from operations.

Product Viability

If the products the Company sells do not have the physiological effects intended, the business may suffer. The Company's products may contain innovative ingredients or combinations of ingredients. There is little long-term experience with human or other animal consumption of certain of these ingredients or combinations thereof in concentrated form. The Company's products could have certain side effects if not taken as directed or if taken by a consumer that has certain medical conditions. Furthermore, there can be no assurance that any of the products, even when used as directed, will have the effects intended or will not have harmful side effects.

Agricultural Operations Risk

The Company's business is dependent on the outdoor growth and production of industrial hemp, an agricultural product. As such, the risks inherent in engaging in agricultural businesses apply to the Company. Potential risks include the risk that crops may become diseased or victim to insects, fungus or other pests and contamination, or subject to extreme weather conditions such as excess rainfall, hail, freezing temperature or drought, all of which could result in low crop yields, decreased availability of industrial hemp, inadequate inventory levels for future expected growth, and higher acquisition prices. There can be no guarantee that an agricultural event will not adversely affect the business and operating results.

Success of Quality Control Systems

The quality and safety of the Company's products are critical to the success of the business and operations. As such, it is imperative that the Company's service providers' quality control systems operate effectively and successfully. Quality control systems can be negatively impacted by the design of the quality control systems, the quality training program, and adherence by employees to quality control guidelines. Although the Company strives to ensure that all of its service providers have implemented and adhere to high caliber quality control systems, any significant failure or deterioration of such quality control systems could have a material adverse effect on our business and operating results.

Domestic Supply Risk

The Company uses only hemp products with full compliance under federal and state regulations to be sold across the United States, and on a limited basis Internationally. The regulation of third-party suppliers may have a significant impact upon the business. Any state or federal enforcement activity or any additional uncertainties which may arise in the future, could cause substantial interruption or cessation of the business, including adverse impacts to the Company's supply chain and distribution channels, and other civil and/or criminal penalties at the federal level.

Weather Patterns

The Company's business can be affected by unusual weather patterns. The production of some of the Company's products rely on the availability and use of live plant material, which is grown in Colorado, Kentucky and Oregon. Growing periods can be impacted by weather patterns and these unpredictable weather patterns may impact the Company's ability to harvest its industrial hemp and produce products. In addition, severe weather, including drought, hail and freezing temperatures, can destroy a crop, which could result in limited quantities of hemp to process. If the Company is unable to harvest its hemp plants through its proprietary operations or contract farming arrangements, the ability to meet customer demand, generate sales and maintain operations could be impacted.

Impacts of COVID-19 to the Company's Business

The impacts of the global emergence of coronavirus (COVID-19) on the Company's business are currently unknown. The Company will monitor the situation and may take actions that alter its business operations as may be required by federal, state or local authorities or that the Company determines are in the best interests of its employees, customers, partners, suppliers, shareholders and stakeholders. Any such alterations or modifications could cause substantial interruption to the Company's business, any of which could have a material adverse effect on the Company's operations or financial results, and could include temporary closures of one or more of the Company's facilities; temporary or long-term labor shortages; temporary or long-term adverse impacts on the Company's supply chain and distribution channels; the potential of increased network vulnerability and risk of data loss resulting from increased use of remote access and removal of data from the Company's facilities.

Reliance on Third-Party Suppliers and Service Providers

The Company intends to maintain a full supply chain for the material portions of the production process of its products. Despite maintaining full federal compliance and legality, the Company's suppliers and service providers may elect, at any time, to cease to engage in supply or service agreements in respect of the

Company's products. Loss of suppliers or service providers could have a material adverse effect on the business and operational results.

Product Recalls

Product manufacturers and distributors are sometimes required to recall or initiate returns of their products for various reasons, including product defects such as contaminations, unintended harmful side effects or interactions with other products, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled, it could incur unexpected expense relating to the recall and any legal proceedings that might arise in connection with the recall. The Company may lose significant revenue due to loss of sales and may not be able to compensate for or replace that revenue. There can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory actions or lawsuits. A recall of products could lead to adverse publicity, decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition.

Product Liability

The Company's products will be produced for sale directly to end consumers, and therefore there is an inherent risk of exposure to product liability claims, regulatory action and litigation if the products are alleged to have caused loss or injury. In addition, the manufacture and sale of the Company's products involves the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation, and could have a material adverse effect on the business and operational results.

Effectiveness and Efficiency of Advertising and Promotional Expenditures

The Company's future growth and profitability will depend on the effectiveness and efficiency of advertising and promotional expenditures, including the Company's ability to (i) create greater awareness of its products; (ii) determine the appropriate creative message and media mix for future advertising expenditures; and (iii) effectively manage advertising and promotional costs in order to maintain acceptable operating margins. There can be no assurance that advertising and promotional expenditures will result in revenues in the future or will generate awareness of the Company's technologies, products or services. In addition, no assurance can be given that the Company will be able to manage its advertising and promotional expenditures on a cost-effective basis.

Maintaining and Promoting Brands

Management believes that maintaining and promoting the Company's brands is critical to expanding its customer base. Maintaining and promoting the brands will depend largely on the Company's ability to continue to provide quality, reliable and innovative products, which we may not be successful. The Company may introduce new products that customers do not like, which may negatively affect the brands and reputation. Maintaining and enhancing the Company's brands may require substantial investments, and these investments may not achieve the desired goals. If the Company fails to successfully promote and maintain its brand or if there are excessive expenses in this effort, the business and financial results from operations could be materially adversely affected.

Changing Consumer Preferences

As a result of changing consumer preferences, many nutraceutical and other innovative products attain financial success for a limited period of time. Even if the Company's products find retail success, there can be no assurance that any of the products will continue to see extended financial success. The Company's success will be dependent upon its ability to price, develop new, and improve product lines. Even if the Company is successful in introducing new products or further developing current products, a failure to continue to properly price or update products with compelling content could cause a decline in the products' popularity that could reduce revenues and harm the business, operating results and financial condition. Failure to introduce new features and product line, or failure to achieve and sustain market acceptance, could result in the Company being unable to meet consumer preferences and generate revenue, which could have a material adverse effect on profitability and financial results from operations.

Product Returns

Product returns are a customary part of the business. Products may be returned for various reasons, including expiration dates or lack of sufficient sales volume. Any increase in product returns could reduce the results of operations.

Obtaining Insurance

Due to the Company's involvement in the industrial hemp industry, it may have a difficult time obtaining the various insurances at normal industry rates that are desired to operate the business, which may expose the Company to additional cost, risk and financial liability. Insurance that is otherwise readily available, such as general liability, and directors and officer's insurance, may be more difficult to find, and more expensive because of the regulatory regime applicable to the industry. There are no guarantees that the Company will be able to find such insurances in the future, or that the cost will be affordable. If the Company is forced to go without such insurances, it may prevent it from entering into certain business sectors, may inhibit growth, and may expose the Company to additional risk and financial liabilities.

Global Economic Uncertainty

Demand for the Company's products and services is influenced by general economic and consumer trends and regulatory environments beyond the Company's control. There can be no assurance that the Company's business and corresponding financial performance will not be adversely affected by general regulatory economic or consumer trends. In particular, global economic conditions are still tight, and if such conditions continue, recur or worsen, there can be no assurance that they will not have a material adverse effect on the Company's business, financial condition and results of operations.

Furthermore, such economic conditions have produced downward pressure on stock prices and on the availability of credit for financial institutions and corporations. If these levels of market disruption and volatility continue, the Company might experience reductions in business activity, increased funding costs and funding pressures (as applicable), a decrease in the market price of its shares, a decrease in asset values, additional write-downs and impairment charges and lower profitability.

Additional Financings

If the Company is not able to sustain profitability or if it requires additional capital to fund growth or other initiatives, it may require additional equity or debt financing. There can be no assurances that the Company will be able to obtain additional financial resources on favorable commercial terms or at all. Failure to obtain such financial resources could affect the Company’s plan for growth or result in the Company being unable to satisfy its obligations as they become due, either of which could have a material adverse effect on the business, results of operations and the financial condition of the Company.

Line of Credit

From time to time, the Company relies on debt financing for some of its business activities, including capital and operating expenditures. There are no assurances that the Company will be able to comply at all times with the covenants applicable under its current borrowings; nor are there assurances that the Company will be able to secure new financing that may be necessary to finance its operations and capital growth program. Any failure of the Company to secure refinancing, to obtain new financing or to comply with applicable covenants under its borrowings could have a material adverse effect on the Company's financial results. Further, any inability of the Company to obtain new financing may limit its ability to support future growth.

Inability to Protect Intellectual Property

The Company’s success is heavily dependent upon its intangible property and technology. The Company relies upon copyrights, trade secrets, unpatented proprietary know-how and continuing innovation to protect the intangible property, technology and information that is considered important to the development of the business. The Company relies on various methods to protect its proprietary rights, including confidentiality agreements with consultants, service providers and Management that contain terms and conditions prohibiting unauthorized use and disclosure of confidential information. However, despite efforts to protect intangible property rights, unauthorized parties may attempt to copy or replicate intangible property, technology or processes. There can be no assurances that the steps taken by the Company to protect its intangible property, technology and information will be adequate to prevent misappropriation or independent third-party development of the Company’s intangible property, technology or processes. It is likely that other companies can duplicate a production process similar to the Company’s. Other companies may also be able to materially duplicate the Company’s proprietary plant strains. To the extent that any of the above would occur, revenue could be negatively affected, and in the future, the Company may have to litigate to enforce its intangible property rights, which could result in substantial costs and divert Management’s attention and other resources.

The Company may be unable to obtain registrations for its intellectual property rights for various reasons, including refusal by regulatory authorities to register trademarks or other intellectual property protections, prior registrations of which it is not aware, or it may encounter claims from prior users of similar intellectual property in areas where it operates or intends to conduct operations. This could harm its image, brand or competitive position and cause the Company to incur significant penalties and costs. On April 20, 2018 the U.S. Patent and Trademark Office (“USPTO”) issued a Final Office Action refusing registration of two trademark applications submitted by the Company based on the Trademark Examiner’s interpretation that the marks were not in lawful use in commerce under Sections 1 and 45 of the United States Trademark Act and because the goods identified in the application were not in compliance with either the CSA or the FD&C Act. The Company filed a Request for Reconsideration of the refusals in March 2019. Despite USPTO’s aforementioned position and refusal for registration, the Company may rely on common law theories of trademark protection and enforcement in cases of actual or suspected trademark infringement of the trademarks it wishes to protect.

Intellectual Property Claims

Companies in the retail and wholesale consumer packaged goods industries frequently own trademarks and trade secrets and often enter into litigation based on allegations of infringement or other violations of intangible property rights. The Company may be subject to intangible property rights claims in the future and its products may not be able to withstand any third-party claims or rights against their use. Any intangible property claims, with or without merit, could be time consuming, expensive to litigate or settle and could divert Management resources and attention. An adverse determination also could prevent the Company from offering its products to others and may require that the Company procure substitute products or services for these members.

With respect to any intangible property rights claim, the Company may have to pay damages or stop using intangible property found to be in violation of a third-party's rights. The Company may have to seek a license for the intangible property, which may not be available on reasonable terms and may significantly increase operating expenses. The technology also may not be available for license at all. As a result, the Company may also be required to pursue alternative options, which could require significant effort and expense. If the Company cannot license or obtain an alternative for the infringing aspects of its business, it may be forced to limit product offerings and may be unable to compete effectively. Any of these results could harm the Company's brand and prevent it from generating sufficient revenue or achieving profitability.

Trade Secrets may be Difficult to Protect

The Company's success depends upon the skills, knowledge and experience of its scientific and technical personnel, consultants and advisors, as well as contractors. Because the Company operates in a highly competitive industry, it relies in part on trade secrets to protect its proprietary products and processes. However, trade secrets are difficult to protect. The Company enters into confidentiality or non-disclosure agreements with its corporate partners, employees, consultants, outside scientific collaborators, developers and/ other advisors. These agreements generally require that the receiving party keep confidential and not disclose to third-parties confidential information developed by the receiving party or made known to the receiving party by the Company during the course of the receiving party's relationship with the Company. These agreements also generally provide that inventions conceived by the receiving party in the course of rendering services to the Company will be its exclusive property, and the Company enters into assignment agreements to perfect its rights.

These confidentiality, inventions and assignment agreements may be breached and may not effectively assign intellectual property rights to the Company. The Company's trade secrets could also be independently discovered by competitors, in which case the Company would not be able to prevent the use of such trade secrets by its competitors. The enforcement of a claim alleging that a party illegally obtained and was using the Company's trade secrets could be difficult, expensive and time consuming and the outcome could be unpredictable. The failure to obtain or maintain meaningful trade secret protection could adversely affect the Company's competitive position.

RISKS RELATED TO THE REGULATORY ENVIRONMENT

Changes to Laws and Regulations Pertaining to Hemp

As of the date hereof, approximately forty seven states authorized hemp programs pursuant to the 2014 Farm Bill. Additionally, a handful of states and Native American tribes have had hemp regulatory plans approved under the 2018 Farm Bill. These new plans supplant any prior programs for hemp in these jurisdictions. Continued development of the hemp industry will be dependent upon new legislative authorization of hemp at the state level, and further amendment or supplementation of legislation at the federal level. Any number of events or occurrences could slow or halt progress altogether in this space. While progress within the hemp industry is currently encouraging, growth is not assured. Growth may be slowed by business failures of individuals or companies involved in supply and/or demand chains. Additionally, while there appears to be ample public support for favorable legislative action, numerous factors may impact or negatively affect the legislative process(es) within the various states where the Company has business interests or transports raw material to various processing centers for final product production. Any one of these factors could slow or halt use of hemp, which could negatively impact the business up to possibly causing the Company to discontinue operations as a whole.

Legislative and regulatory uncertainties, along with difficulties concerning potential enforcement activities by U.S. federal, state and local governments (or discretion exercised thereby), also represent significant risks concerning the Company's business activities. Possible risks include, but are not limited to:

- positions asserted by the FDA concerning products containing derivatives from Hemp;
- uncertainty surrounding the characterization of cannabinoids as a dietary ingredient by the FDA; and
- enforcement activities by state and/or local law enforcement and regulatory authorities under the auspice of individual state law, regardless of any potential conflict thereby with federal law.

If the Company's operations are found to be in violation of any of such laws or any other governmental regulations, the Company may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of the Company's operations or asset seizures, any of which could adversely affect the Company's business and financial results.

Costs Associated with Numerous Laws and Regulations

The manufacture, labeling and distribution of the Company products is regulated by various federal, state and local agencies. These governmental authorities may commence regulatory or legal proceedings, which could restrict the permissible scope of the Company's product claims or the ability to sell products in the future. The FDA regulates the Company's products to ensure that the products are not adulterated or misbranded.

The Company is subject to regulation by the federal government and other state and local agencies as a result of its CBD products. The shifting compliance environment and the need to build and maintain robust systems to comply with different compliance in multiple jurisdictions increases the possibility that the Company may violate one or more of the requirements. If the Company's operations are found to be in violation of any of such laws or any other governmental regulations that apply to the Company, it may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of the Company's operations, any of which could adversely affect the ability to operate the Company's business and its financial results.

Failure to comply with FDA requirements may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions. The Company's advertising is subject to regulation by the Federal Trade Commission ("FTC") under the Federal Trade Commission Act. In recent years, the FTC has initiated numerous investigations of dietary supplement products and companies. Additionally, some states also permit advertising and labeling laws to be enforced by private attorney generals, who may seek relief for consumers, seek class-action certifications, seek class-wide damages and product recalls of products sold by the Company. Any actions against the Company by any governmental authorities (Domestic or International) or private litigants could have a material adverse effect on the Company's business, financial condition and results of operations.

Uncertainty Caused by Potential Changes to Legal Regulations

There is substantial uncertainty and different interpretations among federal, state and local regulatory agencies, legislators, academics and businesses as to the Farm Bill and the emerging regulation of cannabinoids. These different opinions include, but are not limited to, the regulation of cannabinoids by the FDA and the extent to which Farm Bill-compliant cultivators and processors may engage in interstate commerce. The uncertainties cannot be resolved without further federal, and perhaps even state-level, legislation, regulation or a definitive judicial interpretation of existing legislation and rules. If these uncertainties continue, such may have an adverse effect upon the introduction and availability of the Company's products in different markets.

Regulatory Approval and Permits

The Company may be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions where its products are licensed, although the Company does not currently anticipate that such approvals will be necessary in both the US and International markets. There can be no assurance that the Company will be able to obtain or maintain any necessary licenses, permits or approvals. Any material delay or inability to receive these items is likely to delay and/or inhibit the Company's ability to conduct its business, and could have an adverse effect on the business, financial condition and results of operations.

Data Security Breaches

The Company or its third-party service providers collect, process, maintain and use sensitive personal information relating to its customers and employees, including customer financial data (e.g., credit card information) and their personally identifiable information, and rely on third parties in connection with the operation of ecommerce and for the various social media tools and websites used as part of the Company's marketing strategy. Any perceived, attempted or actual unauthorized disclosure of customer financial data (e.g., credit card information) or personally identifiable information regarding the Company's employees, customers or website visitors could harm its reputation and credibility, reduce its e-commerce sales, impair its ability to attract website visitors, reduce its ability to attract and retain customers and could result in litigation against the Company or the imposition of significant fines or penalties.

Recently, data security breaches suffered by well-known companies and institutions have attracted a substantial amount of media attention, prompting new foreign, federal, provincial and state laws and legislative proposals addressing data privacy and security. As a result, the Company may become subject to more extensive requirements to protect the customer information that it processes in connection with the purchase of its products, resulting in increased compliance costs.

The Company's on-line activities, including its e-commerce websites, also may be subject to denial of service or other forms of cyber-attacks. While the Company has taken measures to protect against those types of attacks, those measures may not adequately protect its on-line activities from such attacks. If a denial of service attack or other cyber event were to affect the Company's e-commerce sites or other information technology systems, its business could be disrupted, it may lose sales or valuable data, and its reputation may be adversely affected.

Climate Change-Related Risks

Climate change could exacerbate certain of the risks inherent in the Company's agricultural operations. Climate change could result in increasing frequency and severity of weather-related events, resource shortages, changes in rainfall and storm patterns and intensities, water shortages and changing temperatures, and of which can damage or destroy crops, resulting in the Company having no or limited hemp to process. If the Company is unable to harvest hemp through its proprietary operations or contract farming arrangements, its ability to meet customer demand, generate sales, and maintain operations will be impacted. Furthermore, severe weather-related events may result in substantial costs to the Company, including costs to respond during the event, to recover from the event, and to possibly modify existing or future infrastructure requirements to prevent recurrence. Climate changes could also disrupt the Company's operations by impacting the availability and costs of materials needed for production and could increase insurance and other operating costs.

A number of governments or governmental bodies have introduced or are introducing regulatory changes in response to concerns about the potential impact of climate change. The Company faces the risk that its operations could be subject to government initiatives aimed at countering climate change, which could impose constraints on the Company's operations, for example due to increased costs for fossil fuels, electricity and transportation and costs associated with monitoring and reporting.