

**CBD Global Sciences Inc.**  
**Management Discussion and Analysis**  
**For the year ended December 31, 2020**  
**(expressed in United States Dollars)**

**September 16, 2021**

The following discussion and analysis of the Company's financial condition and results of operations for the year ended December 31, 2020 should be read in conjunction with the consolidated financial statements and related notes. The requisite financial data presented for the relevant periods has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

CBD Global Sciences Inc. is classified as a "venture issuer" for the purposes of National Instrument 51-102.

## **Forward-looking statements**

Certain statements in this Management Discussion and Analysis ("MD&A") are forward-looking statements which reflect management's expectations regarding future growth, results of operations, performance, business prospects and opportunities, the Company's ability to meet financial commitments and its ability to raise funds when required. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations or intentions regarding the future. Such statements are subject to risks and uncertainties that may cause actual results, performance or developments to differ materially from those contained in the statements. No assurance can be given that any of the events anticipated by the forward-looking statements will occur or, if they do occur, what benefits the Company will obtain from them. These forward-looking statements reflect management's current views and are based on certain assumptions and speak only as of the date of this report. These assumptions, which include management's current expectations, the global economic environment, and the Company's ability to manage its operating costs, may prove to be incorrect.

A number of risks and uncertainties could cause actual results to differ materially from those expressed or implied by the forward-looking statements, including but not limited to:

- the Company has a limited history of operations and has incurred losses since inception;
- there is no certainty that the Company will continue as a going concern;
- the Company may not be able to service its debt or meet other cash requirements;
- the need for additional financing;
- the outcome of ongoing bankruptcy proceedings and the resulting impact upon ongoing business relationships are uncertain;
- Federal laws concerning cannabis currently conflict with state laws in states that have legalized cannabis or possession of cannabis;
- State cannabis laws are not uniform from state to state and can, and do, change constantly;
- there remain several considerations and uncertainties regarding the cultivation, sourcing, production and distribution of Industrial Hemp and products containing hemp derivatives, and applicable laws remain subject to change as there are different interpretations among federal, state and local regulatory agencies;

- significant economic disruptions caused by global health risks (such as COVID-19);
- changes in product costs and supply channels, including disruption of the Company's supply chain resulting from COVID-19;
- heightened competition, whether from current competitors or new entrants, to the marketplace;
- failure to realize anticipated results, including revenue growth, anticipated cost savings or operating efficiencies associated with the Company's major initiatives;
- claims by others that the Company has infringed upon intellectual property rights that could increase the Company's expenses and delay the development of the Company's business;
- the Company's operations are subject to environmental regulation, including the maintenance of air and water quality standards and land reclamation; and
- the Company relies heavily on key personnel and advisors.

Refer to the Company's Final Prospectus dated October 17, 2019 for a comprehensive discussion of the Company's risk factors.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time. The reader should not place undue reliance on any forward-looking statements included herein. There is a significant risk that such forward-looking statements will not prove to be accurate. Investors are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future results. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## Nature of business

CBD Global Sciences Inc. (the "Company") is in the business of producing and selling industrial hemp derived cannabidiol ("CBD") infused consumable and topical products, including but not limited to CBD oil tincture drops, CBD hydration beverages, and CBD topicals.

The Company markets and sells its own brand of CBD oil and byproducts under the Aethics and CannaOil brands (collectively "Products"). More information about the Aethics brand can be found at <https://aethics.com/>. The Company plans to continue to expand its range of CBD oil and byproducts; refer to "Outlook" below.

All Industrial Hemp produced and sold by the Company constitutes Industrial Hemp under the 2018 and 2014 Farm Bills, as well as the laws of the states in which it produces and sells such Industrial Hemp and its Products.

The Products will be legal as a matter of federal law because they will constitute hemp as defined in the Agriculture Improvement Act of 2018 ("2018 Farm Bill"). As a result, the Products may be legally shipped and transported in interstate commerce as a matter of federal law. The Products will be legal as a matter of the laws of Colorado for the same reason and may be legally offered for retail sale in Colorado.

It is noted, however, that topical and ingestible products containing CBD fall within the regulatory jurisdiction of the U.S. Food and Drug Administration (“FDA”) under the federal Food, Drug, and Cosmetic Act (21 U.S.C. 301 *et seq.*) (“Food and Drug Act”). Accordingly, because they will contain CBD, certain of the Products, including the Company’s nutraceuticals and food and body care Products, may be subject to enhanced scrutiny or enforcement action by FDA.

Refer to the Company’s Final Prospectus dated October 17, 2019 for a comprehensive discussion of the Company’s regulatory environment in the United States with respect to hemp and CBD.

## Outlook

Subsequent to the year ended December 31, 2020, two of the Company’s subsidiaries, Global NV Corp. (“Global NV”) and Strasburg Pharms, LLC, filed for protection under Chapter 7 of the Bankruptcy Code as a result of claims against Global NV by a former landlord during the year ended December 31, 2020. Prior to filing for bankruptcy, the Company’s position was to defend these claims; however the landlord became an aggressive creditor. As at December 31, 2020, the balance of lease liabilities includes the amounts claimed by the landlord pursuant to a terminated lease agreement. In connection with the bankruptcy, a trustee has been appointed on behalf of the Company to liquidate assets and discharge the outstanding liabilities of Global NV and Strasburg Pharms LLC. This liquidation process is ongoing.

The net realizable value of assets controlled by these subsidiaries is considered to be negligible as reflected in the carrying values of the assets presented in the Company’s consolidated statement of financial position as at December 31, 2020.

The carrying value of lease liabilities, amounts due to related parties and customer deposit and approximately 70% of the carrying value of accounts payable and other liabilities presented in the Company’s consolidated statement of financial position represent obligations of Global NV and Strasburg Pharms, LLC to be discharged pursuant to Chapter 7 of the Bankruptcy Code. The Company has agreed to settle substantially all convertible debentures outstanding with preferred shares of the Company to be issued. Notes payable are not subject to discharge on the basis that these financial instruments are the obligation of CBD Global Sciences Inc.

The bankruptcy process will potentially allow the Company to implement operational and commercial plans to re-position the Company for future growth. These plans include the incorporation of the following wholly-owned subsidiaries during fiscal 2021: Global Sciences Holdings Inc., Dog Unleashed CBD, LLC, Legacy Distribution Group LLC, and Energy Unleashed LLC. Through these new subsidiaries, the Company is expanding its distribution and adding new CBD and non-CBD products to enhance diversity of product offerings.

In conjunction with the bankruptcy liquidation process, the Company purchased certain assets of Aethics and CannaOil from the courts securing brand names, trademarks, websites and all product lines and formulations.

## Harvesting summary

The Company’s primary sources of income have been from the production and sale of biomass and CBD products. The Company first plants seedlings each winter and harvests the following October.

During the year ended December 31, 2019, the Company completed its 2019 crop harvest of 230,400 plants for a total of 288,000 plants harvested during the year.

During the year ended December 31, 2020, the Company abandoned its 2020 crops due to the cost to harvest versus the impaired value of biomass as the price of CBD continued to decrease due to large scale farming of industrial hemp in the United States. Because of this the Company decided to scale back farming and extraction operations and focus on expanding the distribution of its CBD infused finished products.

## Selected annual information

| Year ended December 31,                 | 2020          | 2019          | 2018          |
|-----------------------------------------|---------------|---------------|---------------|
| Sales                                   | \$305,400     | \$2,317,138   | \$592,207     |
| Loss                                    | \$(8,927,702) | \$(8,956,222) | \$(2,652,814) |
| Loss per share – basic and diluted      | \$(0.28)      | \$(0.53)      | \$(0.22)      |
| Total assets                            | \$472,477     | \$6,148,380   | \$6,000,983   |
| Total non-current financial liabilities | \$5,199,584   | \$1,531,744   | \$ -          |
| Dividends                               | \$ -          | \$ -          | \$ -          |

### *Sales*

For the year ended December 31, 2020, the Company had sales of \$305,400 (2019 - \$2,317,138, 2018 - \$592,207) which included sales of biomass of \$Nil (2019 - \$1,360,000, 2018 - \$534,775), CBD oil and products \$305,400 (2019 - \$723,084, 2018 - \$57,432), and processing and extraction of \$Nil (2019 - \$234,054, 2018 - \$Nil).

The fluctuations in sales are primarily explained by the change in composition of sales and hemp pricing year-over-year. Prices per pound of raw hemp vary depending on the CBD potency of the product and the market price of hemp. The changes in the price of raw hemp are reflected through the fair valuing of biological assets (hemp crop) and subsequent transfer to inventory once the hemp is harvested.

### *Loss*

Loss for the year ended December 31, 2019 increased to \$8,956,222 from \$2,652,814 for the prior year primarily as a result of a non-cash items including a listing expense, accretion expense, impairment losses and fair value adjustments as well as the overall increase in operations.

During the years ended December 31, 2020 and 2019, total losses of \$8,927,702 and \$8,956,222, respectively, relate to operating expenses for the year. Refer to “Discussion of operations” below for further details and comparisons for the years ended December 31, 2020 and 2019.

### *Total assets*

Total assets as at December 31, 2019 and 2018 remained consistent year over year at \$6,148,380 and \$6,000,983, respectively, with inventory and property and equipment comprising more than 90% of the balances at each year-end date.

As at December 31, 2020, total assets decreased to \$472,477 or by \$5,675,903 compared to the prior year. The decrease in total assets during the year ended December 31, 2020 is explained by impairment losses recorded related to inventory and property and equipment which is explained further in “Discussion of operations” below.

#### *Total non-current financial liabilities*

The increases in the balance of non-current financial liabilities for each year-end since December 31, 2018 is explained by the recognition of lease liabilities upon adoption of IFRS 16, Leases on January 1, 2019, additional amounts advanced by related parties each year to fund operations, and the extension of the maturity date of convertible debt resulting in non-current presentation as of December 31, 2020.

## Discussion of operations

### *Year ended December 31, 2020*

The Company incurred a loss of \$8,927,702 during the year ended December 31, 2020 compared to a loss of \$8,956,222 for the prior year, representing an decrease of \$28,520. The decrease in net loss is described in detail below.

Sales for the year ended December 31, 2020 amounted to \$305,400 compared to \$2,317,138 for the prior year. The decrease in revenue of \$2,011,738 is explained by the change in composition of sales to solely CBD infused finished goods during the year ended December 31, 2020 as it began to scale back farming and extraction operations. During the prior year, the Company’s sales included biomass (\$1,360,000), CBD oil (\$437,275), CBD infused finished goods (\$285,809), and process and extraction (\$234,054).

The Company incurred cost of sales of \$481,534 (2019 - \$1,579,188) which decreased by \$1,097,654 compared to the prior year as a result of changes in the amount and composition of sales, and scaling back farming and extraction operations.

The changes in the price of raw hemp are reflected through the fair valuing of biological assets (hemp crop) and subsequent transfer to inventory once the hemp is harvested. Gross profit (loss) for the years ended December 31, 2020 and 2019 included unrealized gains on the fair value of biological assets of \$Nil and \$2,188,895, respectively, and realized losses on the fair value of inventory sold of \$10,927 and \$1,493,599, respectively. During the year ended December 31, 2020, the Company impaired its biological assets to \$Nil on the basis that the potency of CBD in the harvested biomass continued to be degraded as it sat in storage while the cost to extract the biomass was prohibitive at large scale.

General and administrative costs totaled \$1,381,869 for the year ended December 31, 2020 representing a decrease of \$1,752,688 compared to the prior year. The decrease in general and administrative costs is explained by decreases in salaries (\$1,424,516) due to staff reductions, bad debt expense (\$442,958) explained by decreases and changes in the composition of sales, office expenses (\$142,919) due to office closures and staff reductions, travel (\$28,328) due to travel restrictions, and small tools and equipment (\$45,564) due to scaling back certain operations. These decreases in general and administrative costs were partially offset by increases in investor relations (\$204,200) for consultants engaged subsequent to the Company becoming publicly listed and share-based payments related thereto, professional fees (\$76,287) in connection with increased regulatory costs of a public entity, and rent and other services (\$51,110).

The Company recorded accretion expense of \$554,705 for the year ended December 31, 2020 (2019 - \$1,491,341) related to the carrying value of outstanding convertible debt and notes payable. The decrease in accretion expense is due to decreasing amounts recognized as the debt instruments reach maturity. The Company also recorded interest expense of \$586,720 (2019 - \$519,061) related to convertible debt and notes payable.

During the year ended December 31, 2020, the Company recorded share-based payments expense of \$423,755 (2019 - \$Nil) related to the fair value of stock options granted during the year. There were no stock options issued or outstanding during the year ended December 31, 2019.

Marketing, sales and distribution expenses for the year ended December 31, 2020 amounted to \$377,153 (2019 - \$639,048). The decrease in marketing, sales and distribution expenses of \$261,895 compared to the prior year is directly attributable in the decrease in sales for the year, as previously discussed.

The Company incurred consulting fees during the year ended December 31, 2020 of \$362,431 (2019 - \$221,667) in connection with services obtained in connection with the Company becoming publicly listed at the end of fiscal 2019.

Depreciation for the year ended December 31, 2020 decreased by \$140,968 compared to the prior year as a result of recording an impairment loss on right of use assets and ceasing depreciating the asset thereafter.

During the year ended December 31, 2020, research and development costs decreased to \$35,917 from \$71,985 for the prior year as a direct result of the Company changing its focus to CBD infused finished goods.

The Company recorded finance fees for the year ended December 31, 2020 totaling \$73,170 (2019 - \$60,989) which relate to costs incurred for amending financing terms. The amount and timing of finance fees fluctuates based on the fair value of equity instruments issued and the underlying vesting and maturity terms of the instruments.

During the year ended December 31, 2020, the Company recorded an impairment of inventory of \$3,400,862 (2019 - \$1,975,512) in connection with insufficient yields and spoilage of \$518,578 (2019 - \$1,975,512) and concerns and uncertainty with respect to pending bankruptcy proceedings of \$2,882,284 (2019 - \$nil).

During the year ended December 31, 2020, the Company recorded an impairment of property and equipment of \$1,231,322 related to abandoned assets (\$707,766) and concerns and uncertainty with respect to pending bankruptcy proceedings (\$523,556). The Company also recorded a loss on disposal of property and equipment of \$88,265. There was no impairment losses recorded with respect to property and equipment during the year ended December 31, 2019.

During the years ended December 31, 2020 and 2019, the Company recorded gains on settlement of debt of \$16,146 and \$259,044, respectively, related to issuing common shares for outstanding amounts payable and the resulting difference in the fair value of the common shares compared to the carrying values of the amounts payable.

The Company recorded a loss on debt extinguishment for the year ended December 31, 2020 of \$216,841 (2019 – \$81,875) as a result of amendments to convertible debt agreements which were accounted for as debt extinguishments of the original debt agreements.

For the year ended December 31, 2020, loss on lease modification of \$159,973 relates to a lease which was terminated and the resulting revision to amounts which remain due under the contract. No such loss was recorded for the year ended December 31, 2019.

During the year ended December 31, 2019, a listing expense of \$2,410,796 was recorded in connection with the reverse takeover transaction completed.

## Summary of quarterly results

Historical quarterly results of operations and loss per share data do not reflect any recurring expenditure patterns or predictable trends. The Company's expenditures are driven by availability of financing to fund continued operations.

The table below sets forth selected results of operations for the Company's eight most recently completed quarters. All figures are in accordance with IFRS.

| Period ending      | Quarter | Sales (\$)  | Income (loss) (\$) | Earnings/(loss) per share (\$) |
|--------------------|---------|-------------|--------------------|--------------------------------|
| December 31, 2020  | Q4      | (157,114)   | (5,157,358)        | Basic and diluted:<br>(0.15)   |
| September 30, 2020 | Q3      | 17,870      | (1,775,696)        | Basic and diluted:<br>(0.06)   |
| June 30, 2020      | Q2      | 296,550     | (1,292,813)        | Basic and diluted:<br>(0.04)   |
| March 31, 2020     | Q1      | 148,094     | (701,835)          | Basic and diluted:<br>(0.02)   |
| December 31, 2019  | Q4      | (2,588,021) | (11,165,327)       | Basic and diluted:<br>(0.74)   |
| September 30, 2019 | Q3      | 1,799,572   | (2,341,819)        | Basic and diluted:<br>(0.21)   |
| June 30, 2019      | Q2      | 1,842,227   | 5,912,586          | Basic: 0.55<br>Diluted: 0.42   |
| March 31, 2019     | Q1      | 1,263,360   | (1,361,662)        | Basic and diluted:<br>(0.13)   |

### Sales

The fluctuations in sales can be explained by the changes in composition of sales and hemp pricing. Prices per pound of raw hemp varies depending on the CBD potency of the product and the market price of

hemp. In addition, sales for the year ended December 31, 2020 reflect the negative impact of the global pandemic on the US economy, retailers and the Company. Due to the global pandemic and economic shutdown, the Company experienced a cancellation of a \$2.4M purchase order for its CBD infused finished products that was set to go into production in the second quarter of fiscal 2020. Its largest and fastest growing retailer in airports saw the loss of 96% of its foot traffic due to the travel restrictions enforced at all major US airports. Most stores remained closed throughout the duration of the year ceasing all orders for new product in fiscal 2020. During the year ended December 31, 2019, the Company completed sales of biomass as well as secured processing contracts which did not occur during the year ended December 31, 2020.

#### *Income (loss)*

The fluctuations in income (loss) result from non-cash items, including unrealized gains and losses on the change in fair value of biological assets (June 30, 2019 and September 30, 2019), listing expense related to a reverse takeover transaction (December 31, 2019), impairment of inventory (December 31, 2019 and 2020), impairment of property and equipment (December 31, 2020), and share-based payments (June 30, 2020, September 30, 2020 and December 31, 2020).

### Fourth quarter

The Company incurred a loss of \$5,157,358 during the three month period ended December 31, 2020 compared to a loss of \$11,162,327 for the same period of the prior year, representing a decrease of \$6,007,969 which reflects the Company's shift to online sales of CBD infused finished goods in fiscal 2020 versus the sale of both biomass and CBD infused finished goods in fiscal 2019. In addition, the Company completed a reverse takeover transaction during the three month period ended December 31, 2019 which resulted in a listing expense of \$2,410,796 recorded for the period. Additionally, operations were curtailed in the three month period ended December 31, 2020 due to limited availability of working capital which is reflected in decreased general and administrative and marketing, sales and distribution expenses attributable to staff reductions and office closures.

### Liquidity and capital resources

As at December 31, 2020 the Company had a working capital deficit of \$3,240,196 as compared to \$2,002,973 as at December 31, 2019, an increase of \$1,237,223. Working capital decreased due to decreases in trade receivables and inventory as a result of impairment losses and disposals recorded, increases in trade payables and accrued liabilities and obligations to issue shares, and increased lease liabilities related to the termination of a lease. These decreases to working capital were partially offset by the modification of convertible debt which extended the maturity date resulting in the balance classified as non-current and excluded from working capital.

The Company's ability to continue its operations is dependent upon its ability to raise financing and generate profits and positive cash flows from operations in order to cover its operating costs. From time to time, the Company generates working capital to fund its operations by raising additional capital through equity and/or debt financing. However, there is no assurance it will be able to continue to do so in the future.



Subsequent to the year ended December 31, 2020, two of the Company's subsidiaries, Global NV and Strasburg Pharms, LLC, filed for protection under Chapter 7 of the Bankruptcy Code. Refer to "Outlook" for additional detail on the bankruptcy proceedings and plans actioned by the Company thereafter.

These factors, including the Company's financial position, liquidity and the uncertain outcome of the matters arising from the bankruptcy proceedings, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

## Cash flows

A summary of cash flows for the years ended December 31, 2020 and 2019 is summarized in the table below.

| <b>For the year ended December 31,</b>          | <b>2020<br/>(\$)</b> | <b>2019<br/>(\$)</b> |
|-------------------------------------------------|----------------------|----------------------|
| Cash used in operating activities               | (1,339,790)          | (1,937,473)          |
| Cash provided by (used in) investing activities | 55,273               | (210,331)            |
| Cash provided by financing activities           | 1,263,460            | 1,849,071            |
| Change in cash during the year                  | (21,057)             | (298,733)            |
| Cash, beginning of the year                     | 21,598               | 320,331              |
| Cash, end of the year                           | 541                  | 21,598               |

### *Operating activities*

Cash used in operating activities adjusts loss for the year for non-cash items including, but not limited to, unrealized gains and losses from fair value changes, accretion of loans and notes payable, depreciation of property and equipment, impairment losses, accrued interest, gains and losses from debt settlements and modifications, and share-based payments. Cash used in operating activities also reflects changes in working capital items, such as amounts receivable, prepaid expenses, inventory and amounts payable, which fluctuate in a manner that does not necessarily reflect predictable patterns for the overall use of cash, the generation of which depends almost entirely on sources of external financing to fund operations.

### *Investing activities*

During the year ended December 31, 2020, cash provided by investing activities consisted of proceeds received from the sale of land of \$55,273. During the year ended December 31, 2019, the Company acquired property and equipment totaling \$210,331.

### *Financing activities*

During the year ended December 31, 2020, the Company received net cash of \$1,263,460 (2019 - \$1,849,071) from financing activities which included proceeds from the issuance of debt of \$1,240,582 (2019 - \$1,263,509), proceeds from the issuance of equity of \$112,500 (2019 - \$1,384,147 net of share issue costs) and government assistance received of \$164,795 (2019 - \$nil). Proceeds received were partially offset by the repayment of notes payable of \$226,629 (2019 - \$561,151) and lease payments of \$27,788 (2019 - \$237,434).

## Related party disclosures

Related parties and related party transactions impacting the accompanying consolidated financial are summarized below.

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. Key management personnel comprise officers and directors of the Company.

Remuneration attributed to key management personnel for the years ended December 31, 2020 and 2019 are summarized as follows:

| <b>For the year ended December 31,</b> | <b>2020<br/>(\$)</b> | <b>2019<br/>(\$)</b> |
|----------------------------------------|----------------------|----------------------|
| Salaries                               | 300,000              | 376,263              |
| Share-based payments                   | 278,786              | 66,065               |
| Total remuneration                     | 578,786              | 442,328              |

### Other related party transactions and balances

| <b>For the year ended December 31,</b>                       | <b>2020<br/>(\$)</b> | <b>2019<br/>(\$)</b> |
|--------------------------------------------------------------|----------------------|----------------------|
| Beginning balance                                            | 453,892              | 483,587              |
| Increase to principal amount                                 | 815,582              | 333,195              |
| Discount to amortized cost                                   | (213,739)            | (589,767)            |
| Accretion                                                    | 135,273              | 177,914              |
| Interest                                                     | 64,139               | 15,227               |
| Reclassification from accounts payable and other liabilities | -                    | 33,736               |
| Ending balance                                               | 1,255,147            | 453,892              |
| Current                                                      | (43,012)             | (53,256)             |
| Long-term                                                    | 1,212,135            | 400,636              |

- a) As at December 31, 2020, a revolving promissory note due to Mac5 Mortgage, a company jointly controlled by the President of the Company, Brad Wyatt and the Chief Operating Officer of the Company, Glenn Dooley, had a carrying value of \$509,321 (2019 - \$395,638) and was included in due to related parties. As at December 31, 2020, the note had principal and accrued interest balances of \$873,685 (2019 - \$806,185) and \$57,125 (2019 - \$14,905), respectively. Accrued interest is included in the balance of due to related parties. The note is unsecured and, bears interest at 5% per annum.

The Company recorded the promissory note at amortized cost using an effective interest rate of 20% which caused the carrying amount to be lower than the principal and accrued interest with the difference recognized as a related party contribution in capital reserve. During the year ended December 31, 2020, the Company recognized an additional \$41,067 (2019 - \$461,770) as related party contributions pursuant to proceeds received during the year and recorded accretion expense of \$87,123 (2019 - \$51,340).

The interest was due monthly with the principal balance due on demand. On January 1, 2019, the Company entered into a modification agreement to amend the maturity date of the principal balance to December 31, 2024.

- b) On September 1, 2018, Mac5 Mortgage, a company jointly controlled by the President of the Company, Brad Wyatt and the Chief Operating Officer of the Company, Glenn Dooley, advanced \$7,500 to the Company in exchange for a promissory note. The note is unsecured and bears interest at 6% per annum. Payments of interest only are due monthly on the first day of every calendar month starting January 1, 2018 with payment in full at maturity on December 31, 2019. Should the Company default on an interest payment, the interest rate shall increase to 12% per annum. On January 1, 2019, the Company entered into an agreement amending the maturity date of the note to December 31, 2021.

As of December 31, 2020, the balance due on this note was \$8,177 (2019 - \$7,838), including principal balance of \$7,500 and accrued interest of \$677 (2019 - \$338) which have been included in due to related parties.

- c) On April 1, 2019, the Company entered into an unsecured promissory note with Mac5 Mortgage, a company jointly controlled by the President of the Company, Brad Wyatt and the Chief Operating Officer of the Company, Glenn Dooley, (the "Related Entity") whereby the Related Entity loaned a balance up to \$500,000 to the Company. As at December 31, 2020, the Company had a carrying value of \$623,560 (2019 - \$4,999) and was included in due to related parties. As at December 31, 2020, the note had principal and accrued interest balances of \$749,505 (2019 - \$6,312) and \$21,580 (2019 - \$Nil), respectively. Accrued interest is included in the balance of due to related parties. The note is unsecured, bears interest at 8% per annum, has payments of interest only due monthly with the principal balance due on June 30, 2022.

The Company recorded the promissory note at amortized cost using an effective interest rate of 20% which caused the carrying amount to be lower than the principal and accrued interest with the difference recognized as a related party contribution in capital reserve. During the year ended December 31, 2020, the Company recognized an additional \$172,672 (2019 - \$127,997) as related party contributions pursuant to proceeds received during the year and recorded accretion expense of \$48,150 (2019 - \$3,665).

During the year ended December 31, 2019, the Company issued 1,250,000 warrants in connection with this promissory note. The fair value of the warrants of \$183,270 was initially recognized as deferred financing fees in the consolidated statements of financial position and is subsequently expensed to finance fees in the consolidated statements of loss and comprehensive loss on a straight-line basis to the maturity date of the promissory note. As at December 31, 2020, the balance of deferred financing fees amounted to \$84,372 (2019 - \$139,930) and relates to the remaining fair value of the warrants to be expensed in future periods. During the year ended December 31, 2020, finance fees recorded in the consolidated statements of loss and comprehensive loss include \$55,558 (2019 - \$43,340) related to these warrants.

- d) On December 31, 2018, the Company entered into an unsecured promissory note with TargetPath, a company controlled by Scott Hix, a director (the "Related Entity") whereby the Related Entity loaned \$33,736 to the Company. As at December 31, 2020, the Company had a balance of \$33,736 (2019 - \$33,736) and was included in due to related parties. The note is unsecured, bears interest at 6% per annum. Interest and principal were due and payable on the maturity date of December 31, 2020. As

at December 31, 2020, there was accrued interest payable of \$2,024 (2019 - \$1,011) included in accounts payable and accrued liabilities. As at December 31, 2020, the loan was in default.

- e) During the year ended December 31, 2020, the Company incurred \$100,885 (2019 - \$14,012) in professional fees to ACM Management Inc. controlled by Alex McAulay, Chief Financial Officer of the Company recorded in general and administrative expenses.
- f) During the year ended December 31, 2020, the Company incurred \$88,026 (2019 - \$nil) in professional fees to Tingle Merrett LLP controlled by Scott Reeves, a director of the Company recorded in general and administrative expenses.
- g) As at December 31, 2020, accounts payable and other liabilities included rental fees and expense reimbursements of \$41,923 (2019 - \$48,469) due to W2D Holdings, a company jointly controlled by Brad Wyatt, President and Glenn Dooley, Chief Operating Officer.
- h) As at December 31, 2020, accounts payable and other liabilities included salaries and wages of \$46,452 (2019 - \$66,048) due to Brad Wyatt, President of the Company.
- i) As at December 31, 2020, accounts payable and other liabilities included professional fees of \$126,029 (2019 - \$37,913) due to ACM Management Inc., a company controlled by Alex McAulay, Chief Financial Officer of the Company.
- j) As at December 31, 2020, accounts payable and other liabilities included professional fees of \$170,478 (2019- \$97,868) due to Tingle Merrett LLP, a company controlled by Scott Reeves, a director of the Company.
- k) As at December 31, 2020, accounts payable and other liabilities included consulting fees of \$412,943 (2019 - \$411,930) due to TargetPath, a company controlled by Scott Hix, a director of the Company.
- l) As at December 31, 2020, the Company owed \$1,776 (2019 – was owed \$3,324) to Mac5 Mortgage, a company jointly controlled by the Brad Wyatt and Glenn Dooley, related to expense reimbursements included in due to related parties.

## Financial instruments

The Company is exposed to risks that arise from its use of financial instruments. This section describes the Company's objectives, policies, and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout the accompanying consolidated financial statements.

### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as foreign currency exchange, interest rates and equity price risk.

(i) Foreign currency risk

The Company's functional and reporting currency is the United States dollar and major purchases are transacted in United States dollars. As a result, the Company's exposure to the foreign currency risk is minimal.

(ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate because of changes in market interest rates. The interest earned on cash is insignificant and the Company does not rely on interest income to fund its operations. The Company has significant debt facilities, including convertible debt and promissory notes payable. As the debt facilities are incurring a fixed rate of interest, the Company is not significantly exposed to interest rate risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company does not hold equity investments in other entities and therefore is not exposed to a significant risk.

*Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company is subject to credit risk on its cash and accounts receivable. The Company limits its exposure to credit loss on cash by placing its cash with a high-quality financial institution. The Company has concentrations of credit risk with respect to accounts receivable as large amounts of its accounts receivable are concentrated amongst a small number of customers. The Company performs credit evaluations of its customers but generally does not require collateral to support accounts receivable.

*Liquidity risk*

Liquidity risk arises from the Company's general and capital financing needs. The Company continuously monitors and reviews both actual and forecasted cash flows, and also matches the maturity profile of financial assets and liabilities, when feasible.

Subsequent to the year ended December 31, 2020, two of the Company's subsidiaries, Global NV and Strasburg Pharms, LLC, filed for protection under Chapter 7 of the Bankruptcy Code, as detailed in "Outlook". A trustee has been appointed on behalf of the Company to liquidate assets and discharge the outstanding liabilities of Global NV and Strasburg Pharms LLC. This liquidation process is ongoing.

The table below summarizes the maturity profile of the Company's contractual cash flows with respect to financial liabilities.

| As at December 31, 2020                               | On demand    | Less than 1<br>year | 1 -2 years   | Later than 2<br>years | Total        |
|-------------------------------------------------------|--------------|---------------------|--------------|-----------------------|--------------|
| Trade payables                                        | \$ 1,059,411 | \$ -                | \$ -         | \$ -                  | \$ 1,059,411 |
| Loans payable to related parties and accrued interest | 37,536       | 8,177               | 771,085      | 930,810               | 1,747,608    |
| Lease liabilities                                     | 795,000      | 54,543              | 48,536       | 30,882                | 928,961      |
| Notes payable and accrued interest                    | 440,763      | 11,262              | 11,697       | 36,222                | 499,944      |
| Convertible debt and accrued interest                 | 795,241      | -                   | 4,254,686    | -                     | 5,049,927    |
| Obligation to issue shares                            | 218,515      | -                   | -            | -                     | 218,515      |
| Total liabilities                                     | \$ 3,346,466 | \$ 73,982           | \$ 5,086,004 | \$ 997,914            | \$ 9,504,366 |

## Subsequent Events

- a) The Company sold assets under construction for proceeds of \$80,000 pursuant to an asset purchase agreement.
- b) The Company received a further PPP Loan in the amount of \$135,095.
- c) The Company received subscription receipts of \$30,000 for the purchase of 100,000 units with each unit consisting of one common share and one-half of one warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$0.60 for a period of 24 months from issuance.
- d) The Company received subscription receipts of \$25,000 for the purchase of 83,333 units with each unit consisting of one common share and one-half of one warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$0.60 for a period of 24 months from issuance.
- e) Two of the Company's subsidiaries, Global NV and Strasburg Pharms, LLC, filed for protection under Chapter 7 of the Bankruptcy Code as a result of claims against Global NV by a former landlord. In connection with the bankruptcy, a trustee has been appointed on behalf of the Company to liquidate assets and discharge the outstanding liabilities of Global NV and Strasburg Pharms LLC. This liquidation process is ongoing.

Assets controlled by the subsidiaries include cash balances, trade receivables, property and equipment, biological assets and finished goods inventory. The net realizable value of these assets is negligible as reflected in the carrying values of the assets presented in the consolidated statement of financial position as at December 31, 2020.

The carrying value of lease liabilities, amounts due to related parties and customer deposit and approximately 70% of the carrying value of accounts payable and other liabilities presented in the

consolidated statement of financial position represent obligations of Global NV and Strasburg Pharms, LLC to be discharged pursuant to Chapter 7 of the Bankruptcy Code. The Company has agreed to settle substantially all convertible debentures outstanding with preferred shares of the Company to be issued. Notes payable are not subject to discharge on the basis that these financial instruments are the obligation of CBD Global Sciences Inc.

Refer to “Outlook” for additional discussion.

## Outstanding share data

The Company is authorized to issue an unlimited number of shares of common stock and preferred shares without par value.

The Company has securities outstanding as follows:

| Security Description                   | December 31, 2020 | Date of Report    |
|----------------------------------------|-------------------|-------------------|
| Common shares                          | 34,525,758        | 34,525,758        |
| Preferred shares                       | 316,784           | 316,784           |
| Stock options                          | 5,700,000         | 5,700,000         |
| Cashless options                       | 250,000           | 250,000           |
| Warrants                               | 16,871,384        | 13,832,004        |
| Debt – convertible to common shares    | 6,581,029         | 398,377           |
| Debt – convertible to preferred shares | 1,000             | 311,928           |
| <b>Fully diluted shares</b>            | <b>64,245,955</b> | <b>55,334,851</b> |

As at December 31, 2020, the Company had 3,635,484 common shares and 101,344 preferred shares held in escrow. Of the total remaining securities, 908,871 common shares and 25,341 preferred shares will be released every six months until April 7, 2022.

## Company documents

The Company files annual and interim reports, information circulars and other information with certain Canadian securities regulatory authorities. The documents filed with the Canadian securities regulatory authorities are available at <http://www.sedar.com> and the Company’s website <https://www.cbdglobalsciences.com>.

## Approval

The Board of Directors of the Company has approved the disclosure contained in this MD&A.