WeedMD Inc.

Management Discussion & Analysis

Year Ended December 31, 2019

Effective Date – June 10, 2020

INTRODUCTION

The following Management Discussion & Analysis ("MD&A") of WeedMD Inc.'s (the "Company" or "WeedMD") financial condition and results of operations, prepared for the year ended December 31, 2019, should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the years ended December 31, 2019 and 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are incorporated by reference herein and form an integral part of this MD&A. All dollar amounts are in Canadian Dollars unless stated otherwise. These documents can be found under the Company's profile on the SEDAR website at www.sedar.com.

Our MD&A is intended to enable readers to gain an understanding of WeedMD's current results and financial position. To do so, we provide information and analysis comparing the results of operations and financial position for the current year to those of the preceding comparable year. We also provide analysis and commentary that we believe is required to assess the Company's future prospects. Accordingly, certain sections of this report contain forward-looking statements that are based on current plans and expectations. These forward-looking statements are affected by risks and uncertainties that are discussed in this document and that could have a material impact on future prospects. Readers are cautioned that actual results could vary.

The financial information in this MD&A contains certain financial performance measures that are not defined by and do not have any standardized meaning under IFRS; and are used by management to assess the financial and operational performance of the Company. These include, but are not limited to, the following:

Yield per plant (in grams); Plants per room; Target production capacity; Cost per gram; Dried equivalent flower; Adjusted gross margin (excluding fair value adjustments); and Adjusted EBITDA.

The Company has no operations in the U.S. and does not engage in any unlawful U.S. marijuana-related activities.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking statements, which reflect management's expectations regarding the Company's results of operations, performance, growth, and business prospects and opportunities.

Statements about the Company's future plans and intentions, results, levels of activity, performance, goals or achievements or other future events constitute forward-looking statements. Wherever possible, words such as "may", "will", "should", "could", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", or "potential" or the negative or other variations of these words, or similar words or phrases, have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management as at the date hereof.

Forward-looking statements involve significant risk, uncertainties and assumptions. Many factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully, and readers should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and the Company assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including: general economic and market segment conditions, competitor activity, product capability and acceptance, regulatory matters, rising energy costs and technology changes. More detailed assessment of the risks that could cause actual results to materially differ than current expectations is contained in the "Risk Factors" section of this MD&A.

BUSINESS OVERVIEW

weedmd Inc. (TSXV: WMD) (OTCQX:WDDMF) (FSE:4WE) ("WeedMD" or "the Company") is the publicly-traded parent company of WeedMD Rx Inc. and Starseed Medicinal Inc., both of which are Canadian federally licensed producers and distributors of cannabis products under the Cannabis Act. This permits the Company to buy, sell, process and produce cannabis, cannabis plants and certain derivative products such as cannabis extracts for both the medical and adult-use markets. The Company owns and operates three facilities: a 158-acre property in Strathroy, Ontario with up to 550,000 sq. ft. of greenhouse footprint and up to 100 acres of outdoor cultivation area ("Strathroy

Facility"), a 26,000 square feet ("sq. ft.") indoor facility in Aylmer, Ontario ("Aylmer Facility") and specializes in cannabis extraction and processing, and a 14,850 sq. ft. indoor facility in Bowmanville, Ontario that focuses on product research, processing and fulfillment ("Bowmanville Facility").

The consolidated financial statements of WeedMD Inc. as at December 31, 2019, are comprised of WeedMD Inc. and its wholly-owned subsidiaries: WeedMD Capital Corp., WeedMD Rx Inc. ("WeedMD Rx") along with its wholly-owned subsidiaries WeedMD Rx Ltd., WMD Ventures Inc., 2686912 Ontario Limited and 2686913 Ontario Inc., and Starseed Holdings Inc. ("Starseed Holdings") along with its wholly-owned subsidiaries Starseed Medicinal Inc. ("Starseed Medicinal") and North Star Wellness Inc. ("NSW") (collectively, "WeedMD" or the "Company"). WeedMD Capital Corp, WeedMD Rx Ltd. and WMD Ventures Inc. are currently dormant.

History of WeedMD

WeedMD secured its first licence to cultivate cannabis in April 2016 at its 26,000 sq. ft. facility in Aylmer, Ontario. Following this, the Company secured the licence to sell dried cannabis to medical patients in April 2017. In late 2017, the Company secured additional licences to produce and sell cannabis extracts. Late in 2017, the Company also announced its expansion to the now licensed and operational cultivation hub in Strathroy Ontario. Operations at the Strathroy Facility began six months later, in June 2018, with continued expansion in 2019 and expected into 2020 and beyond. As WeedMD scaled its cultivation operations, the Company recognized the need to further vertically integrate and expand on its ability to produce a larger array of products at scale for a growing cannabis market. As such, in early 2019, the Company began retrofitting its Aylmer Facility to become a leading cannabis extraction and processing platform to enable the production and sale of next-generation cannabis products.

Starseed Acquisition and Private Placement

On November 29, 2019, WeedMD entered into an acquisition agreement (the "Acquisition Agreement") to effect an all-share acquisition of Starseed Holdings (the "Acquisition"). Pursuant to the Acquisition Agreement, WeedMD issued 71.8 million common shares to the shareholders of Starseed Holdings and the Acquisition was completed on December 20, 2019. Concurrent with closing of the Acquisition, Starseed Holdings' cornerstone investor, the Labourers' Pension Fund of Central and Eastern Canada ("LPF"), made a direct equity investment into WeedMD through the purchase of subscription receipts (the "Subscription Receipts") for aggregate gross proceeds of $25,000,000 (the "Private Placement"). The Private Placement and the exercise of Subscription Receipts were subsequently approved by WeedMD shareholders on February 4, 2020.

The Company's decision to pursue the Acquisition and Private Placement followed extensive deliberation by the Company's Board and management. The foremost factors driving the process were the slower than expected ramp-up of the Canadian legal cannabis market, particularly in the adult-use segment, and the scarcity of capital for Canadian cannabis companies. The Acquisition provides WeedMD with access to Starseed Medicinal's unique and high-margin medical channel that is built around the sale high-quality cannabis products to captive customer groups with paid benefits coverage for medical cannabis. Further, through its preexisting ownership in Starseed Holdings and the Private Placement, LPF has become an anchor strategic investor in the Company while being subject to an 18-month lock-up and leak-out schedule along with certain shareholders of Starseed Holdings. The Acquisition brought no additional debt to the Company's balance sheet, and a non-material amount of dilutive securities.

WeedMD Today

Leading Cultivation Platform – Strathroy Facility

The Strathroy Facility is WeedMD's cannabis cultivation hub and currently operates 215,000 sq. ft. of licensed cultivation and processing space in the hybrid greenhouse, in addition to 27 acres of licensed outdoor cultivation area on the property. The greenhouse production footprint is expandable by an additional 335,000 sq. ft. that can be brought online relatively quickly. WeedMD's outdoor cultivation program, licensed in May 2019, was one of Canada's first legal outdoor cannabis cultivation operations in 2019, and can be increased to up to 100 acres on the same property. The Company will continue to monitor the relevant market conditions and expand its operations when appropriate to do so.

WeedMD maintains a comprehensive catalogue of world-class genetics which the Company believes is monetizable through the sale, licensing and development of cannabis strains domestically and internationally. A total of 40 active cannabis strains from the Company's genetics bank are able to be cross-referenced as verifiable strains in the TruTrace Technologies ("TruTrace") database.

As one of the first Canadian LPs to cultivate cannabis outdoors, the Company is positioned as a leader in this new production modality. The WeedMD cultivation team has designed its own proprietary strains of cannabis for Canadian outdoor production which gives the Company a strategic edge as the industry looks to reduce the domestic cost of cannabis. The Company has made significant discoveries in the viability of certain strains in the Canadian climate allowing it to both capture high yields but maintain high potency. The Company planted 38 strains outdoors and is now in the process of planning its 2020 outdoor project.

<u>Extraction and Processing Centre of Excellence – Aylmer Facility and CX Industries</u>

Efforts are underway to transform the Aylmer Facility into a state-of-the-art extraction and processing platform to take advantage of the increasing adoption of extracts-based products by cannabis consumers. The Aylmer Facility will be operated under the banner of CX Industries Inc. ("CX Industries" or CX), a newly established business unit focusing on the production of next-generation cannabis products (commonly referred to as Cannabis 2.0 products) and business-to-business ("B2B") sales.

CX Industries plans to supply input products such as crude resin, winterized resin, cannabis-derived terpenes and distillate in bulk to other licensed producers or brand partners without adequate inhouse extraction capabilities. In addition, CX Industries is expected to offer a wide range of services such as formulation, white labelling, tolling and co-packing services to business customers seeking to manufacture and distribute cannabis products in Canada.

Initially, CX Industries plans introduce a number of new cannabis vaping products in 2020 across internal and third-party brands. Coupled with WeedMD's low-cost outdoor biomass as extraction input materials, the Company believes CX Industries' operations will deliver superior margins over those of traditional cannabis products and provide meaningful growth for WeedMD as the market for Cannabis 2.0 products continues to expand.

<u>Medical Fulfilment and Product Research – Bowmanville Facility</u>

Through the acquisition of Starseed Holdings, WeedMD added 10,000 sq. ft. of licensed production area and 4,850 sq. ft. of office space at the Bowmanville Facility. The site has full extraction and processing capabilities, and currently houses Starseed Medicinal's customer service, patient administration and medical fulfillment functions. A Health Canada Cannabis Research Licence was granted to the Bowmanville Facility in February 2020, allowing for ongoing product development and evaluation to be conducted at the facility.

Our Brands

Adult-use	Adult-use	Medical Direct-to-Patient (benefits coverage)	Medical Direct-to-Patient (traditional)

Adult-use

WeedMD launched Color Cannabis® in 2019 for the Canadian provincial wholesale channel. The brand currently specializes in the whole flower category exclusively and is known for its quality and maintains a strong following amongst adult use consumers. During Q4, unit sell through for Color Cannabis® products remained strong within the major markets Color Cannabis® has listings in (British Columbia, Alberta and Ontario).

In December 2019, the Saturday® Brand was added to WeedMD's portfolio via the Acquisition. Saturday's strategy has been centered around leveraging a pre-exiting brand equity of relaxation, enjoyment and freedom. The brand also leverages Starseed's medical heritage that advocates the safe and responsible consumption of cannabis and segments its products into time-of-day usage categories according to cannabinoid content (Saturday Morning, Afternoon and Night). To-date, Saturday's revenues have been predominately generated from the sale of pre-rolls, which well complements WeedMD's adult-use product portfolio and provides WeedMD with immediate access to Saturday's existing listings and markets in this category (British Columbia, Alberta, Saskatchewan, Manitoba and Ontario).

Medical Direct-to-Patient

The Company distributes its medical products directly to medical patients across the country under the Starseed and WeedMD brands.

In the medical channel, Starseed Medicinal has developed a unique platform that targets captive customer bases with paid benefits covering medical cannabis. It formed an industry-first, exclusive partnership with Laborers' International Union of North America ("LiUNA"), along with exclusive or preferred partnerships with other employers and union groups, to provide medical cannabis to thousands of covered lives while offering direct-imbursement from benefits plans as a payment option. For its medical products, Starseed has developed the Starseed System™ that simplifies the dialogue around strength and dosage by categorizing medical cannabis according to THC and CBD levels. This allows health care professionals and Starseed's client service teams to communicate with patients and recommend products with greater effectiveness and ease.

Licences

WeedMD currently holds licences at its three facilities operated by the Company in Aylmer, Strathroy and Bowmanville. Between the Aylmer and Strathroy locations, the Company holds standard cultivation, standard processing and sales for medical purposes, for all cannabis products, which include cannabis plants and seeds, dried cannabis, cannabis oil, edibles, extracts and topicals. The Bowmanville location holds licences for standard cultivation, standard processing, sales for medical purposes and research (received in February 2020).

On April 22, 2016, WeedMD Rx was licensed to produce cannabis under the federal Access to Cannabis for Medical Purposes Regulations ("ACMPR"). After securing this licence, the Company commenced operations and successfully ramped up production, with its first plants being harvested in October of 2016. WeedMD then satisfied its regulator, Health Canada, that its growing processes resulted in finished product that met the strict quality control standards and the Good Production Practices ("GPP") set out in the ACMPR.

On April 28, 2017, the Company's licence was renewed for a one-year term and amended to add the activity of sale of dried cannabis and the sale of live cannabis plants. Under the amended licence, the amount of cannabis that

WeedMD is permitted to produce and store is limited only by the capacity of the vault that it has built at its facility.

On June 16, 2017 WeedMD also received a further amendment to its licence allowing for the production of cannabis oil. After this event, the Company successfully produced, packaged and tested several batches of oil. On October 5, 2017, Health Canada performed an inspection related to WeedMD's application for the licence amendment to allow for the sale of cannabis oil and was granted a licence to sell cannabis oil on December 1, 2017.

On June 8, 2018, WeedMD secured its cultivation licence for the first 44,000 sq. ft. of space at the Strathroy Facility and successfully commenced operations with the first harvests completed in early September 2018.

On November 9, 2018, WeedMD secured its licence under the Cannabis Act for both of its locations. The new licensing regime permitted the same activities as under the previous Access to Cannabis for Medical Purposes Regulations ("ACMPR") and additionally permitted the Strathroy Facility to sell product in bulk to other Licensed Producers ("LPs") for distribution to the medical and adult-use markets.

On December 23, 2018, WeedMD secured its cultivation licence for the next six grow rooms, or 66,000 sq. ft. of cultivation space, in the Strathroy Facility, bringing total licensed cultivation space to 136,000 sq. ft.

On April 12, 2019, the Strathroy Facility was granted a Standard Processing Licence.

On May 31, 2019, WeedMD secured an outdoor cultivation licence from Health Canada to grow on 27 acres at its Strathroy Facility.

On August 1, 2019, WeedMD secured Health Canada's approval for an additional 20 cannabis cultivation and processing rooms expanding its indoor cultivation space to over 215,000 sq. ft.

On October 16, 2019, the Company received its licence amendment allowing it to dry, process and store cannabis in its 50,000 sq. ft. purpose-built facility designed for its current and future outdoor cannabis operations on its 158-acre Strathroy property. The facility is now fully operational and is now processing and storing WeedMD's 2019 outdoor harvest.

On February 7, 2020, the Company's Bowmanville Facility received a cannabis research licence from Heath Canada allowing for the testing of cannabis concentrates pertaining specifically to vaporization (vape) products in development testing.

Location	Aylmer, ON	Strathroy (Mount Brydges), ON	Bowmanville, ON
Facility Type	Indoor	Indoor & Outdoor	Indoor
Licence Type(s)	Standard Cultivation, Standard Processing, Sale for Medical Purposes	Standard Cultivation, Standard Processing	Standard Cultivation, Standard Processing, Sale for Medical Purposes, Research
Authorized Activities under the Licence(s)	Cultivation (indoor), Processing and Sale of Cannabis and Cannabis Products, Medical sale of Cannabis Product;	Cultivation (indoor, outdoor), Processing and Sale of Cannabis and Cannabis Products;	Cultivation (indoor), Processing and Sale of Cannabis and Cannabis Products, Medical sale of Cannabis Product;
Cannabis	cannabis plants; cannabis plant seeds; dried cannabis; fresh cannabis; cannabis oil; cannabis topicals; cannabis extracts; and edible cannabis;	cannabis plants; cannabis plant seeds; dried cannabis; fresh cannabis; cannabis oil	cannabis plants; cannabis plant seeds; dried cannabis; fresh cannabis; cannabis oil; cannabis topicals; cannabis extracts; and edible cannabis, other cannabis (for R&D purposes)
Cannabis Products	cannabis plants; cannabis plant seeds; dried cannabis; fresh cannabis; cannabis oil; cannabis topicals; cannabis extracts; and edible cannabis;	cannabis plants; cannabis plant seeds;	cannabis plants; cannabis plant seeds; dried cannabis; fresh cannabis; cannabis oil; cannabis topicals; cannabis extracts; and edible cannabis;
Main activities and specialization	Production of cannabis oil and cannabis extracts; Packaging, labelling, sale and distribution of cannabis products	Cultivation and production of dried cannabis; Bulk sale and distribution of cannabis;	Production of cannabis oil and cannabis extracts; Packaging, labelling and sale of cannabis products for medical purposes

	for non-medical and medical purposes		
Total Area Size	4 acres	158 acres	14,850 sq. ft.
Currently Licensed	26,000 sq. ft.**	Indoor – 265,000 sq. ft. Outdoor - 1.1M sq. ft. (27 acres)	10,000 sq. ft.
Development Potential*	100,000 sq. ft.	Indoor – 550,000 sq. ft. Outdoor – 4.5M sq. ft. (102 acres)	N/A

* Pending regulatory approval, includes cultivation expansion for both greenhouse and outdoor cultivation.
** Currently being retrofitted to house CX Industries' extraction facility.

2020 INDUSTRY OUTLOOK

Despite the presence of COVID-19 pandemic, we see the fundamentals of the Canadian cannabis industry strengthening as retail momentum accelerates, build-outs of retail locations in provinces such as Quebec, Saskatchewan, and Alberta advance and new Cannabis 2.0 products go into production.

As retail restrictions begin to ease across Canada, access to legal cannabis, and therefore demand, is expected to increase for Canadians. However, due to COVID-19 restrictions on the opening of retail stores, it remains uncertain as to the timing. Some of the changes expected are: Alberta is targeting an additional 500 retail stores over the next two years; Ontario indicating its plans to investigate moving to a more open market and including LP participation in physical stores; Quebec plans to double its store footprints by March 2020: and Saskatchewan removing the retail store ceiling.

We anticipate that growth expectations for the Canadian cannabis market and WeedMD will continue to improve as we move into the second half of 2020 and beyond.

2019 KEY DEVELOPMENTS

- On November 29, 2019, WeedMD announced the acquisition of Starseed Holdings Inc. as well as a $25 million equity investment from LPF. The acquisition transaction was completed on December 20, 2019, with the strategic investment completed, subsequent to year end, on February 4, 2020.
- Net revenue for the year ended December 31, 2019 was $20,820,180, representing an increase of $12,864,970 or 162% year over year.
- 2019 gross profit before changes in fair value was $4,048,839 a 19% Gross Margin compared to 41% in the prior year.
- The Company holds $38,952,777 of inventory and biological assets as at December 31, 2019, an increase of 388% over the prior year.
- On October 16, 2019, the Company received a licence amendment for a newly built 50,000 sq. ft. purpose-built facility designed for its current and future outdoor cannabis operations on its 158-acre Strathroy property. The facility is now fully operational and allows for drying, processing, and storing of cannabis, and is the location for the processing and storage of WeedMD's 2019 outdoor harvest.
- On September 25, 2019, the Company completed a previously announced bought-deal convertible debenture financing which resulted in 12,000 Convertible Debenture Units and an additional 1,115 over-allotment units being issued at a price of $1,000 per Convertible Debenture Unit for aggregate gross proceeds of $13,115,000.
- Between September 23 and November 4, 2019, the Company completed the first ever harvest of its 27-acre outdoor cannabis cultivation.
- On August 14, 2019, TruTrace Technologies, an investment of WeedMD, alongside Shoppers Drug Mart, announced the completion of Phase 1 of its cannabis verification pilot project, using 40 of WeedMD's core genetics. Phase 2 is expected to be completed in partnership with Deloitte Canada LLP and Shoppers Drug Mart later this year.

- On August 1, 2019, Pioneer Cannabis, an investee company of WeedMD, opened its doors to the public at 1200 Brant Street, Burlington, Ontario becoming its first operating franchise.
- On August 2, 2019, WeedMD secured Health Canada's approval for an additional twenty cannabis cultivation and processing rooms. The amendment licenses another ten 10,000 sq. ft. cultivation rooms to be utilized along with ten more processing and drying rooms.
- On July 24, 2019 WeedMD launched CX Industries Inc., a business unit that will specialize in extraction, toll processing and third-party product formulation from WeedMD's Aylmer facility. On November 5, 2019 the Company announced that its first extractor had been commissioned, moving CX Industries into commercial operations.
- On June 5, 2019, the Company launched Color Cannabis, a dedicated premium adult-use brand exclusively available to distributors and select retailers across Canada.
- On May 31, 2019, WeedMD secured the addition of an outdoor cultivation area to its standard cultivation licence from Health Canada to grow on 27-acres at its Strathroy Facility. The Company completed the planting of more than 20,000 clones in June using over 30 strains from its genetic library harvested in the fall of 2019.
- On May 29, 2019, the Company announced its plans to convert and optimize its Aylmer Facility into a focused extraction and processing hub. This business unit was to be renamed CX Industries and focused on B2B sales to other LPs and brands.
- On May 24, 2019, Health Canada approved a licence amendment to allow an additional processing area, equipped with semi-automated packaging lines at its facility in Aylmer, Ontario.
- On April 15, 2019, the Company secured a standard processing licence from Health Canada for its Strathroy Facility, authorizing the sale and distribution of cannabis plants and seeds, the first phase in obtaining a licence authorizing the sale of other classes of cannabis products.
- On April 10, 2019, the Company purchased the 60-acre property that is adjacent to its Strathroy property, which allows the Company to increase its Phase 2 outdoor cultivation to 100 acres in 2020.
- On March 29, 2019, the Company purchased the 98-acre property in Strathroy where its 610,000 sq. ft. greenhouse facility and associated infrastructure reside. The Company funded the transaction with a $39 million credit facility from BMO.

KEY FINANCIAL HIGHLIGHTS

2019 represented a ramp up period for WeedMD with the licensing of an additional ten 10,000 sq. ft. cultivation rooms and ten additional processing rooms in early August 2019, doubling WeedMD's greenhouse production space to 215,000 sq. ft. The first harvests from these rooms began in Q4 2019, and continue into early 2020, with the planned economies of scale from this increase in licensed production area expected to be realized in the upcoming quarters.

The introduction of the 27-acre outdoor crop, with a successful harvest being completed in November of 2019, will provide the Company with a strong foundation for growing outdoors on a go forward basis to provide high quality cannabis at a minimal cost per gram.

WeedMD harvested 17,988 kgs in 2019 compared to 1,762 kgs in 2018, an increase of 921% year over year. Of the 17,988 kgs harvested in 2019, 8,950 kgs are attributable to the Company's harvest of outdoor crops.

Given the large amount of biomass harvested from its outdoor operation in Q4, the commissioning of CX Industries' supercritical CO_2 extractors and the licensing of 18 greenhouse flowering rooms at the Strathroy Facility, the Company anticipates an increasing sales trend in 2020 and beyond. The Company also anticipates improvement in gross margins over the upcoming quarters due to the impact from lower cost outdoor production, improved economies of scale from the greenhouse operation as well as cost improvements on the packaging of finished goods.

OPERATIONAL PERFORMANCE & OUTLOOK

WeedMD remains committed to being opportunistic when adding further capacity from either the 335,000 sq. ft. greenhouse expansion space or the remaining 73 acres of outdoor area that are available. Packaging and processing initiatives to move more finished goods into the medical and adult-use channels are key priorities, whether flower or Cannabis 2.0 products. In the event the cannabis industry in Canada continues to add more capacity without sufficient increases in demand, WeedMD is comfortable deferring cultivation capacity additions until such time as when new markets open domestically or internationally.

Cultivation

As of December 31, 2019, the Company has secured cultivation licences for Phase 1, Phase 2, and Phase 3 of its Strathroy Greenhouse, providing 215,000 sq. ft. of production space that includes 18 hybrid-greenhouse flowering rooms. In addition, the Company secured licences for Phase 1 of its Strathroy outdoor cultivation, providing 27 acres of cultivation space. Harvest of the over 20,000 plants began in late September 2019 and lasted until October 30, 2019.

Outdoor Cultivation

In June 2019, the Company completed planting more than 20,000 cannabis clones on its 27-acre Phase 1 outdoor grow. The first phase of the outdoor operation was licensed in May with all plants in the ground as of June 25, 2019. The majority of the outdoor project was comprised of WeedMD's core strains, with a small area dedicated to several other proprietary strains.

The purchase of the adjacent property on April 9, 2019 now allows the Phase 2 outdoor expansion the ability to increase to a total of up to 100 acres of outdoor cultivation. The Company's cost to harvest for its outdoor grown cannabis was significantly lower than the cost to harvest of its indoor grown product, costing approximately $0.11 per gram compared to $0.69 per gram of indoor achieved in 2019, a 84% reduction in costs.

By late-June 2019, WeedMD had completed construction and planting of its licensed outdoor space. The project included:

- Completed fencing around perimeter of 27 acres
- Installed perimeter cameras
- Installed motion sensors throughout fencing perimeter
- Installed irrigation systems
- Planted over 20,000 clones onsite using over 30 of the Company's strains

Given the large quantity of biomass in Q4 2019 and to prepare for 2020, the Company constructed extra drying, processing and storage capacity on its existing Strathroy property. When not in use for outdoor harvesting, this facility has the potential to be utilized by the Company as well as other LPs in need of short term drying, processing and storage solutions.

As of October 30, 2019, WeedMD completed the harvest of its outdoor cultivation area, producing one of the first legal cannabis crops grown outdoors. The 2019 outdoor harvest yielded 8,950 kgs of cannabis biomass suitable for pre-roll and extraction at a cost to harvest of approximately $0.11 per gram.

With the addition of its outdoor cultivation operation, WeedMD was able to test the suitability of 38 unique strains and determine appropriate cultivation methods relating to each strain for future outdoor cultivation. Given the success of its outdoor project in 2019, the Company is confident it has the appropriate portfolio of genetics to increase its outdoor yields substantially in 2020 and the future.

During the month of November, the Company was in the process of drying, curing and trimming the harvest. As WeedMD uses the technique of dry trimming, the entire plant is dried and then trimmed, allowing for improved quality and potency of the cannabis. As the harvest and trimming process was ongoing at quarter end, based on early estimates the Company anticipates eight tons of dried flower and biomass to be produced for the first year of outdoor cultivation.

Greenhouse Cultivation

During Q4 2019, WeedMD harvested 1,649 kgs of cannabis compared to 3,056 kgs in Q3, representing a 46% decrease quarter over quarter. The lower production was a result of the cultivation and harvest schedule in Q3 and Q4. With the ten 10,000 sq. ft. newly licensed rooms commencing cultivation throughout Q3 2019, the quarter was a ramp up period. Kilograms harvested from the greenhouse operations are expected to increase in Q1 2020, with the harvests from these newly licensed rooms.

WeedMD averaged 206 kg per harvest in its 10,000 sq. ft. grow rooms in Q4, down 39% quarter over quarter. Yield per plant varied between 51 and 93 grams per plant over 8 harvests in Q4, with an average yield per plant of 63 grams. Throughout 2019, the Company harvested 9,039 kgs from its greenhouse operations over 81 harvests. Yield per plant varied from 29 to 149 grams per plant over these harvests.

The next phase for the greenhouse expansion is for the remaining 335,000 sq. ft. of traditional greenhouse cultivation space, bringing the total greenhouse production footprint to more than 500,000 sq. ft. Although this expansion was targeted for the first half of 2020, with the recent oversupply of extraction grade cannabis, WeedMD has decided to postpone this project until market conditions are appropriate.

Extraction

During Q1 2019, the Aylmer Facility began its transformation into a cannabis extraction and processing centre of excellence. As of 2019, the Company invested $1.8 million in Aylmer to construct, install and calibrate its first Vitalis CO_2 extractors which allowed CX Industries to enter commercial operations in Q1 2020. CX Industries is currently equipped to extract up to 26,000 kg, annually, of high-cannabinoid biomass which will be sold as bulk distillate or converted into finished products including vape cartridges for WeedMD's medical and adult-use brands.

Distribution

Adult-Use Market

In early June 2019, WeedMD launched its first adult-use focused brand, Color Cannabis, which was sold across the majority of provinces that have signed supply agreements with WeedMD. Product sold to the adult-use market increased by 46% from Q3 2019. With the addition of the ten greenhouse cultivation rooms in Q3 2019, WeedMD anticipates more Grade A premium dried flowers being available for sale throughout 2020 and beyond.

WeedMD continues to see increased sales momentum in its Color Cannabis brand which was launched in June 2019. In Q4 2019, Color Cannabis® built on its Q3 momentum. The OCRC (Ontario Cannabis Retail Corp) reported that 4.24% of Q4 whole flower KGs sold were from Color Cannabis® products. The results represent an increase in volume market share of 28.5% quarter over quarter (up from 3.3% in Q3). Further gains were made in share of dollars as Color Cannabis® products represented 4.1% of OCRC whole flower sales in Q4 (up from 3% in Q3 – a 35.5% increase).Given the success and user demand for Color Cannabis flower, WeedMD plans to maximize its allocation of flower to this channel which will result in higher realized prices and wider distribution across Canada.

WeedMD and CX Industries is currently in the development of new flower and Cannabis 2.0 products including pre-rolls, shredded flower (Ready to Roll™), gel capsules, THC & CBD distillate vapes, as well as other concentrate products. WeedMD intends to launch its new products in 2020 with the introduction of Cannabis 2.0 regulations from Health Canada and individual provinces.

As of December 31, 2019, WeedMD held adult-use distribution agreements in the following provinces:

Ontario Cannabis Retail Corporation: Purchase agreement with the province of Ontario to supply cannabis for the adult-use market

Alberta Gaming and Liquor-Commission: Supply agreement with the province of Alberta to supply adult-use cannabis product

BC Liquor Distribution Branch: Supply agreement with the province of British Columbia to supply adult-use cannabis product

Nova Scotia Liquor Corporation: Purchase agreement with the province of Nova Scotia to supply cannabis for the adult-use market

Manitoba Liquor & Lotteries Corporation: Distribution agreement with the province of Manitoba to supply cannabis for the adult-use market

Saskatchewan Liquor & Gaming Authority: Authorization to supply cannabis directly to private retail and wholesale markets in the province of Saskatchewan

Medical Market

WeedMD is deeply committed to its medical cannabis roots. Launched as a medical cannabis company with the ability to sell to patients in 2017, patients will always be at the core of WeedMD's value system. The Company is committed to the science behind the cannabis plant and the quality of life it returns to medical cannabis patients.

WeedMD's continued support of the medical market and dedication to improved access is demonstrated in its offer of free shipping on all orders over $99, its absorption of the government-imposed excise tax as well as offering both seniors' discounts and compassionate pricing. The Company carries a full range of unique WeedMD strains available for purchase on its medical website.

On June 6, 2018, the Company entered into an agreement to become a medical cannabis supplier to Shoppers Drug Mart ("Shoppers"). On September 25, 2018, Shoppers received a cannabis production licence from Health Canada, allowing it to launch its medical cannabis platform. WeedMD began shipments to Shoppers in early 2019. WeedMD's medical products are currently available through this channel.

Q4 FINANCIAL RESULTS

Summary of Quarterly Results

	Q4-19	Q3-19	Q2-19	Q1-19
Net revenue	$ 2,850,334	$ 6,654,311	$ 7,979,747	$ 3,335,788
Gross margin %	-70%	29%	46%	15%
Increase (decrease) in biological assets and inventory	16,088,081	(6,606,041)	15,615,988	5,870,622
Adjusted EBITDA	(8,190,706)	(1,970,742)	(662,822)	(3,087,793)
Net income (loss) and comprehensive income (loss)	(7,210,726)	(13,402,388)	12,624,640	(2,403,887)

	Q4-18	Q3-18	Q2-18	Q1-18
Net revenue	$ 2,722,337	$ 2,001,369	$ 2,089,163	$ 1,142,341
Gross margin %	-9%	64%	70%	64%
Increase (decrease) in biological assets and inventory	594,804	2,959,044	959,834	416,223
Adjusted EBITDA	(3,560,679)	(499,488)	(1,035,292)	(653,226)
Net income (loss) and comprehensive income (loss)	(7,715,284)	9,904,660	(1,763,007)	(1,321,497)

Results of Operations

Three months ended	**31-Dec-19**	30-Sep-19	31-Dec-18
Net revenue	**$2,850,334**	$6,654,311	$2,722,337
Gross profit before fair value adjustments	**(2,005,829)**	1,902,485	1,287,040
Gross profit (loss)	**190,024**	(7,820,941)	2,789,625
Income (loss) and comprehensive income (loss)	**(7,210,726)**	(13,402,388)	9,904,660
Cash provided by (used in) operations	**(6,336,438)**	(175,504)	(1,076,709)
Basic income (loss) per share	**(0.06)**	(0.12)	0.09

As at	**31-Dec-19**	30-Sep-19	30-Sep-18
Total Assets	**$209,798,741**	$155,160,181	$88,068,657
Total Liabilities	**73,739,556**	67,708,312	10,976,340
Cash and cash equivalents	**8,183,744**	13,703,225	21,223,641
Working Capital	**30,618,609**	27,464,396	29,838,984

Revenues

WeedMD's revenues consist of the sale of dried cannabis, live cannabis plants, cannabis seeds and cannabis extracts sold either directly to medical patients ("Direct to Patient") or via our wholesale distribution channels to provincial buyers and federal license holders ("Wholesale"). The table below summarizes revenue by channel and product category, presented net of excise tax.

	Q4 2019	Q3 2019	Q2 2019	Q4 2018
Direct to patient				
Dried cannabis	**$ 496,573**	$ 277,197	$ 275,528	$ 240,036
Cannabis plants and seeds	**-**	12,279	2,380	25,726
Cannabis extracts	**148,641**	101,068	102,684	161,890
Other	**7,731**	11,322	422	16,773
	$ 652,945	$ 401,866	$ 381,014	$ 444,425
Wholesale				
Provincial				
Dried cannabis	**$ 2,197,388**	$ 1,656,950	$ 1,883,387	$ 372,977
	$ 2,197,388	$ 1,656,950	$ 1,883,387	$ 372,977
Licence holders				
Dried cannabis	**$ -**	$ 4,523,205	$ 5,272,131	$ 1,740,731
Cannabis plants and seeds	**-**	70,000	-	149,021
Cannabis extracts	**-**	-	437,325	-
Other	**-**	2,290	5,890	15,183
	$ -	$ 4,595,495	$ 5,715,346	$ 1,904,935
	$ 2,197,388	$ 6,252,445	$ 7,598,733	$ 2,277,912
	$ 2,850,333	$ 6,654,311	$ 7,979,747	$ 2,722,337

WeedMD recorded net revenues, defined as gross revenue less excise taxes, of $2,850,333 in Q4 2019, representing an 57% decrease from the three months ended September 30, 2019 (“Q3 2019”) and a 4% or $127,997 increase over the three months ended December 31, 2018 (“Q4 2018”). The decrease from Q3 2019 to Q4 2019 is the direct result of the timing of sales in Q4, not meeting the requirements to be reported in the current period. These deferred sales of approximately $5 million will be reported in the first quarter of 2020. Total grams harvested in Q4 increased by 238% from Q3 2019 to 10,535 kgs.

In Q4 2019 WeedMD recorded net revenues to the provincial distribution channel of $2,197,388 a quarter over quarter increase of $540,438 or 32% (Q4 2018: $372,977). Q4 2019 revenue to provincial distribution channel accounts for 77% of net revenues, a 63% increase from Q4 2018 where sales to provincial distribution channel represented 14% of net revenues. The increase in net sales to the provincial distribution channel is a result of increased volume resulting from the timing and availability of finished packaged product due to the completion and licensing of additional cultivation rooms, partially offset by lower realized pricing.

With the decision in Q1 2019, to move forward with the Aylmer Optimization Plan (CX Industries), and while the Aylmer Facility is under construction, during the remainder of 2019 the Company released a large amount of extract-grade cannabis to the LP market. This allowed the Company to conserve storage space for more premium (Grade A) products to be held in inventory and to continue to drive revenues during the transition.

Year ended December 31,	**2019**	2018
Direct to patient		
Dried cannabis	**$ 1,296,692**	$ 1,087,336
Cannabis plants and seeds	**20,858**	87,264
Cannabis extracts	**459,006**	362,191
Other	**19,971**	43,054
	$ 1,796,527	$ 1,579,845
Wholesale		
Provincial		
Dried cannabis	**$ 6,290,656**	$ 534,012
	$ 6,290,656	$ 534,012
Licence holders		
Dried cannabis	**$ 12,021,344**	$ 3,517,728
Cannabis plants and seeds	**70,000**	2,166,513
Cannabis extracts	**633,473**	18,429
Other	**8,180**	138,683
	$ 12,732,997	$ 5,841,353
	$ 19,023,653	$ 6,375,365
	$ 20,820,180	$ 7,955,210

For the year ended December 31, 2019, the company recorded net revenues of $20,820,180 representing a 162% increase over fiscal 2018 (year ended December 31, 2018: $7,955,210). The increase is a function of increased sales to LPs and the provincial distribution channel for the adult-use market that was legalized in October 2018.

Grams sold	**Q4 2019**	Q3 2019	Q2 2019	Q4 2018
Dried Cannabis				
Provincial	**532,350**	395,570	411,957	95,932
Licensed Producers	**-**	2,295,215	1,525,410	409,011
Direct to patient	**70,300**	49,432	41,261	40,550
	602,650	2,740,217	1,978,628	545,493

Total dried cannabis sold in Q4 2019 was 602,650 grams (Q3 2019: 2,740,217 grams) at a weighted average selling price, net of excise taxes, of $4.47 per gram (Q3 2019: $2.36). The decrease in weighted average selling price, net of excise taxes, was due to the price compressed bulk wholesale market.

Average selling price net of excise taxes broken down by distribution channel is represented in the chart below:

Average selling price (net of excise)	**Q4 2019**	Q3 2019	Q2 2019	Q4 2018
Dried Cannabis				
Provincial	**$ 4.13**	$ 4.19	$ 4.57	$ 3.89
Federal licence holders	**$ -**	$ 1.97	$ 3.46	$ 4.26
Direct to patient	**$ 7.06**	$ 5.61	$ 6.68	$ 5.92
Weighted average selling price	**$ 4.47**	$ 2.36	$ 3.76	$ 4.31

The provincial adult-use distribution channel price per gram remained relatively consistent quarter over quarter. The Company expects this price to rise on a go forward basis as it introduces new SKUs into the market under its adult use brands. The average selling price to federal licence holders is dependent on the mix of premium flower (Grade A) and extraction grade cannabis. In Q4 2019, sales to other licence holders was exclusively extraction grade dried cannabis. As mentioned above, the increase was a direct result of releasing extract grade cannabis while the Aylmer Facility is under transformation into a focused extraction and processing hub (CX Industries).

Grams sold	2019	2018
Dried Cannabis		
Provincial	**1,480,311**	134,487
Licensed Producers	**4,435,358**	676,727
Direct to patient	**172,820**	148,125
	6,088,489	959,339

Average selling price (net of excise)		2019		2018
Dried Cannabis				
Provincial	**$**	**4.23**	$	3.97
Federal licence holders	**$**	**2.72**	$	5.20
Direct to patient	**$**	**7.50**	$	7.34
Weighted average selling price	**$**	**3.20**	$	5.36

Total dried cannabis sold for 2019 was 6,088,489 grams (year ended December 31, 2018: 959,339 grams) at a weighted average selling price net of excise taxes of $3.34 per gram (year ended December 31, 2018: $5.36). The decrease in average selling price compared to 2018 is due to the implementation of the excise tax, which is being absorbed by the Company, lower price per gram in the wholesale adult-use market, as well as the Company selling a larger proportion of lower priced extract-grade product to federal licence holders.

Gross Profit Before Changes in Fair Value

Gross profit before changes in fair value represents the revenue on products that were sold in the period, less the cost of those products sold, with the cost representing the actual costs in the period it was produced.

Gross profit as a percentage of sales ("Gross Margin") for the quarter was -70%, a decrease from the 29% reported in the quarter ending September 30, 2019. The decrease in Gross Margin is the direct result of the Company ramping up production as it brought ten newly licensed cultivation rooms online, similar to phase 2 when six new cultivation rooms, were brought online in Q1 2019. The increase in gross profit is attributable to improved cost, as described below and the increase in sales volumes, partially offset by a decrease in selling prices explained above.

As WeedMD continues to scale the remaining production capacity at its Strathroy Facility, with additional greenhouse and outdoor grow, the Company expects further improvements in Gross Margin as the per gram costs continue to decrease. Initiatives including packaging automation and optimizing operations at each of its Aylmer, Strathroy, and Bowmanville sites are anticipated to have further benefits to WeedMD's Gross Margin.

Gross Profit

Gross profit is the actual revenue generated from sales, less cost of sales including adjustments in fair value for the products sold in the period and fair value adjustments for the biological assets in production. Gross profit increased by $8,010,854 or 104% from Q3 2019 and decreased by $1,000,750 or 123% from Q4 2018.

The increase from Q3 2019 is primarily attributable to:

- An increase in the volume of dried cannabis sold during the period resulting in an increase of $686,552 or 35%, more than offset by the timing of the sale of approximately $5 million of dried cannabis to Licence holders, which will be reported in the first quarter or 2020; and
- a net $2,195,853 gain arising from adjustments relating to the valuation of inventory and biological assets

General and Administrative Expenses

General and administrative expenses increased by $2,324,342 to $6,252,205 in Q4 2019 from Q3 2019 and increased as a percentage of sales from 59% to 82%.

The increases in general and administrative expenses quarter over quarter were primarily driven by increases in Professional fees and Selling, marketing and promotion expenses, as discussed further below.

The Company's general and administrative expenses consist of the following:

For the year ended December 31,		2019		2018
Salaries and benefits	$	**5,107,193**	$	2,589,647
Consulting fees		**1,800,751**		1,400,618
Rent and occupancy costs		**771,911**		205,618
Office and administration		**2,125,865**		2,579,542
Professional fees		**1,097,783**		1,034,743
Travel and accommodation		**741,973**		512,836
Selling, marketing and promotion		**4,648,147**		1,229,511
Research and develoment		**54,760**		138,949
Impairment of receivables		**1,844,645**		-
	$	**18,193,028**	$	9,691,464

Salaries and benefits
Salaries and benefits have increased slightly from Q3 2019, but increased by 97% or $2,517,546 to $2,589,647 for the year ended December 31, 2018 to $5,107,193 for the year ended December 31, 2019. The main driver of this increase is the growth in headcount year over year to support the company's planned growth.

As at December 31, 2019, the Company employed a total of 212 people (December 31, 2018: 135 people), of which 17% (December 31 2018: 20%) were employed in support service departments reflected in general and administrative expenses, such as human resources, finance, information technology, customer service and sales & marketing.

Selling, marketing and promotion
Included in marketing and business development expenses are brand development, marketing campaigns, and conference costs. Marketing and related business development expenses increased by 278%, from $1,229,511 for the year ended December 31, 2018 to $4,648,147 for the year ended December 31, 2019 as the Company began to develop its adult use brands, in particular Color Cannabis, that was launched in June 2019.

Rent and occupancy costs
Rent and occupancy costs for Q4 2019 have remained relatively flat from Q3 2019. The Company incurred $771,911 of rent and occupancy expenses (2018: $205,618), representing increased costs mainly attributable to the costs incurred in the Strathroy Facility as the footprint increased during the year.

Office & administrative
Office and Administrative expenses include general office expenses, subscriptions, and memberships as well as other overhead costs not directly related to production. Q4 2019 office and administrative expenses, including consulting fees, increased by $576,530, or 66% from $871,006 in Q3 2019 to $1,447,536 in Q4 2019, mainly resulting from increased costs from the acquisition of Starseed.

For the year ended December 31, 2019, the Company incurred office and administrative expenses, including consulting fees, in the amount of $3,926,616, a decrease of $53,544 from the prior year of $3,980,160.

Share based compensation
Share based compensation contains the non-cash cost associated with the options granted to directors, officers, employees and consultants for services rendered. Share based compensation has decreased by $665,249, from $1,035,059 in Q3 2019 to $369,810 in Q4 2019 as a result of the number of options granted and the timing of option grant vesting conditions. Share based compensation decreased by $4,631,138 from Q4 2018 to Q4 2019 as a result of both the number of options granted as well as the timing of vesting conditions.

Amortization
Total amortization expensed for Q4 2019 was ($505,786) (Q4 2018: $64,367). Amortization has decreased by $549,051 from Q3 2019 as a result of increased absorption of amortization in biological assets and inventory as

productivity at the Strathroy location increases, this is partially offset by the Aylmer Facility optimization stopping amortization absorption into biological assets.

For the year ended December 31, 2019 total amortization recorded in amortization expense was $279,560 (2018: $104,337). The change is mainly attributable to the increase in production capacity resulting in increased property, plant and equipment. In addition, as a result of the Aylmer Facility optimization, amortization has not been absorbed into the cost of biological assets.

Adjusted EBITDA

Adjusted EBITDA is not a recognized measurement under IFRS and this data may not be comparable to data presented by other companies. Management believes Adjusted EBITDA to be an important measure of the Company's day-to-day operations, by excluding interest, tax, depreciation and amortization, stock-based compensation, fair value changes and other non-cash items, and non-recurring items. This measurement is useful in assessing the results of operating and strategic decisions.

	For the three months ended December 31,		For the year ended December 31,	
	2019	2018	**2019**	2018
Income (loss) and comprehensive income (loss)	**$ (7,210,726)**	$ (7,715,284)	**$ (10,392,361)**	$ (895,128)
Add (Deduct):				
Unrealized losses (gains) on investments	**309,534**	433,333	**867,167**	(185,408)
Finance costs	**898,195**	(639,919)	**1,249,822**	459,508
Amortization	**(505,786)**	64,547	**279,560**	104,337
Share based compensation	**369,810**	3,881,858	**4,762,758**	5,370,758
Realized fair value	**2,227,801**	69,480	**9,742,965**	2,177,532
Unrealized fair value	**(4,423,654)**	485,015	**(20,566,094)**	(3,577,760)
Other (gains) losses	**144,150**	(211,632)	**144,150**	(448,891)
Gain on termination of Arrangement Agreement	**-**	72,103	**-**	(8,753,633)
Adjusted EBITDA	**$ (8,190,676)**	$ (3,560,499)	**$ (13,912,033)**	$ (5,748,685)

Adjusted EBITDA loss was $8,190,676 and $13,912,033, for the three and twelve months ended December 31, 2019, representing an increase of $4,630,177 and $8,163,348, respectively, when compared to the same periods from 2018. The year over year increases are primarily a result of a $8,501,564 increase in general and administrative expenses and a $815,028 increase in gross profit before changes in fair value. Adjusted EBITDA loss for Q4 2019 increased by $4,630,207 from an adjusted EBITDA loss of $3,560,499 in 2018. This is largely the result of a decrease in gross profit before changes in fair value of $2,005,829, and an increase in general and administrative expenses of $6,252,205, which included a write-down of a receivable.

Other income (expenses)

Other income (expenses) have increased by $386,326 in Q4 2019 from $103,664 in Q3 2019 and increased by $272,273 compared to $114,053 in Q4 2018. The increase in 2019 is the direct result of the unrealized loss recorded in Q4 2019 on the investments held by the Company. The increase in other income (expenses) compared to Q4 2018 is mainly driven by the result of other losses experienced in 2019, the direct result of terminating one of the Company's office space leases.

Other income (expenses) have decreased by $10,876,061 to an expense of $779,161 for the year ended December 31, 2019 from income of $10,096,900 in the year ended December 31, 2018. The change is primarily due to the termination of the Arrangement Agreement and other gains recognized in 2018 discussed above, significant unrealized losses on the investments held by the Company in 2019, as well as lower interest earned in 2019 due to a comparatively lower cash and cash equivalent position.

Net income (loss) for the period

The Company reported a net loss and comprehensive loss of $7,210,726 for Q4 2019 (Q4 2018: $7,715,284). For the year ended December 31, 2019, the Company reported a net loss of $10,392,361 (2018: $895,128). The decrease in net income (loss) and comprehensive income (loss) is primarily a result of the gain on termination of the Arrangement Agreement, increases in general and administrative expenses, share based compensation and amortization, write-down of a receivable, partially offset by an increase in sales and unrealized gains on changes in fair value of biological assets.

Net adjusted operating income (loss)

Net adjusted operating income (loss) is not a recognized measurement under IFRS and this data may not be comparable to data presented by other companies. Net adjusted operating income excludes realized fair value amounts included in inventory and the unrealized gain on changes in fair value of biological assets from income (loss) before other income. The Company believes the net adjusted operating income (loss) provides a better interpretation of the periods operating results.

Net adjusted operating income	**Q4 2019**	Q3 2019	Q2 2019	Q4 2018
Income (loss) before other income	**$ (6,824,400)**	$ (13,298,724)	$ 12,973,812	$ (7,601,231)
Realized fair value amounts included in inventory sold	**2,227,801**	3,459,001	3,448,531	69,480
Unrealized gain on changes in fair value of biological assets	**(4,423,654)**	6,264,425	(18,976,077)	485,015
	$ (9,020,253)	$ (3,575,298)	$ (2,553,734)	$ (7,046,736)

Net adjusted operating loss for Q4 2019 has increased to $9,020,253 from $3,575,298 in Q3 2019 and decreased from $7,046,736 in Q4 2018. The increase in 2019 was the result of the decrease in gross profit before changes in fair value of $3,908,314, driven by lower sales and a decreased gross margin, which is mainly due to timing of sales given a significant sales transaction approximating $4.8 million was not recorded in the period, but deferred to the first quarter of 2020, to align with accounting revenue recognition criteria.

The decrease from Q4 2018 is the result of increases in operating costs required to successfully scale up the organization.

Net adjusted operating income	**Year ended December 31, 2019**	Year ended December 31, 2018
Income (loss) before other income	**$ (9,613,200)**	$ (10,992,028)
Realized fair value amounts included in inventory sold	**9,742,965**	2,177,532
Unrealized gain on changes in fair value of biological assets	**(20,566,094)**	(3,577,760)
	$ (20,436,329)	$ (12,392,256)

Net adjusted operating loss for the year ended December 31, 2019 increased to $20,436,329 from $12,392,256 for the year ended December 31, 2018. The increase is mainly a result of increases in cost of good sold, general and administrative expenses, and Financing costs of $12,049,942, $8,501,564, and $790,314, respectively.

Liquidity and Capital Resources

As at December 31, 2019, the Company had cash of $8,183,744 (December 31, 2018: $21,223,641). Total current assets were $59,766,676 (December 31, 2018: $40,815,324), including inventory and biological assets of $38,952,777 (December 31, 2018: $7,984,127), with current liabilities of $29,148,067 (December 31, 2018: $10,976,340) resulting in working capital of $30,618,609 (December 31, 2018: $29,838,984). The Company's current ratio at December 31, 2019 was 2.05 (December 31, 2018: 3.72). The Company's current assets increased as a result of the movement in inventory and biological assets, primarily driven by the increase in cultivation capacity at the greenhouse expansion as well as the outdoor grow.

The Company plans to access further working capital through equity and/or debt financings to finance its growth plans.

Inventory

	December 31, 2019		September 30, 2019		December 31, 2018	
	Value	**Grams**	Value	Grams	Value	Grams
Dried cannabis	**$18,032,160**	**12,583,351**	$ 6,113,829	2,252,090 g	$3,168,767	747,971 g
Harvested work in progress	**910,087**	**562,055**	738,332	335,870 g	863,903	322,225 g
Extracts						
Resin	**8,321,073**	**253,461 g**	3,840,274	78,127 g	1,000,880	15,446 g
Crude oil	**569,672**	**55,160 g**	930,859	86,578 g	229,159	32,750 g
Finished oil	**2,524,711**	**1,585,781**	1,367,509	1,161,158 g	571,342	488,789 g
	11,415,456	**1,894,402**	6,138,642	1,325,863 g	1,801,381	536,985 g
Non-cannabis inventory	**929,198**		268,711		-	
	$31,286,901		$13,259,514		$5,834,051	

Total inventory increased by $18,027,387 to $31,286,901 quarter over quarter, with the increases and decreases to cannabis inventory as follows:

- Harvested Finished Goods increased by $11,918,331 to $18,032,160
- Harvested Work in Progress increased by $171,755 to $910,087 and
- Cannabis extracts increased by $5,276,814 to $11,415,456

Property, plant and equipment

Total amortization for the year ended December 31, 2019 was $3,074,719 (year ended December 31, 2018: $692,828), of which $957,079 (year ended December 31, 2018: $128,110) has been capitalized in inventory, $1,838,080 has been capitalized to biological assets (year ended December 31, 2018: $460,381) and $279,560 (year ended December 31, 2018: $104,337) is included in amortization expense.

On March 5, 2018, the Company purchased the land and building of the Aylmer Facility for $1,500,000.

On March 29, 2019, the Company exercised its option to purchase the 98-acre Strathroy property. The property includes 610,000 sq. ft. of greenhouses and 100,000 sq. ft. of ancillary structures. The Company entered into a lease agreement with the option to purchase the property on November 21, 2017. As a deposit the Company issued 3,000,000 shares and 3,000,000 warrants, which were valued at $3,299,341 and $2,593,009 respectively, for a total valuation of $5,892,350. The balance due upon the exercise of the option to purchase was $22.6 million, of which $17.6 million was paid in cash and $4.8 million was satisfied by the issuance of 2.5 million units ("Units") in the capital of WeedMD.

On April 9, 2019, the Company purchased the 60-acre adjacent property to its 98-acre Strathroy property for $1.2 million.

Cumulative spend on the Strathroy property to date is outlined in the table below:

Balance as at	**December 31, 2019**	**September 30, 2019**	**June 30, 2019**	**March 31, 2019**	**December 31, 2018**
Improvements	**$ 55,610,859**	$ 51,305,650	$ 45,707,826	$ 42,001,254	$ 35,034,986
Property purchase	**27,343,363**	27,343,363	27,343,363	27,343,363	-
Cumulative total	**$ 82,954,222**	$ 78,649,013	$ 73,051,189	$ 69,344,617	$ 35,034,986

Included in the spend noted above is the purchase of the Strathroy property and the existing facility as well as the adjoining property which occurred in Q1 and Q2 of 2019. Improvements include the retrofitting of the existing greenhouse facility to be licensed to grow and process cannabis as well as construction of additional ancillary structures needed to support operations. In Q3 2019 WeedMD also constructed a 50,000 sq. ft. purpose-built facility designed to support the drying, processing and storage of the Company's outdoor operations.

Cumulative additions to property plant and equipment for 2019 year to date, excluding assets acquired in the Acquisition of Starseed, total $67,291,642. Included in this total are:

- $46,230,657 of additions to the buildings and facilities owned by the Company
- $10,759,841 of additions to equipment as the Company continues to scale up production
- $7,019,000 on leasehold improvements in the current year, the majority of which were transferred to buildings upon the purchase of the Strathroy Facility
- $1,491,572 to increase security at its Strathroy Facility for both the indoor and outdoor operations
- $408,536 on additional fencing, the majority for the outdoor operations

Loans and borrowings

On March 29, 2019, the Company entered into combined secured credit agreements totalling $39.1 million (collectively, "Credit Facilities"). The Credit Facilities are comprised of the following:

(i) Facility 1: $3,000,000 committed Revolving Credit Facility (the "Revolver");
(ii) Facility 2: $33,150,000 committed term loan;
(iii) Facility 3: $3,000,000 committed term loan.

The Credit Facilities mature March 29, 2022 ("Maturity Date") and bear an interest rate on a tier rate based on total funded debt to EBITDA. The Interest rate will range from approximately 1% to 2% above Canadian prime rate. Total borrowing costs for the Credit Facilities were $0.4 million. Under the terms of the Credit Facilities, the Company is also subject to certain customary financial and non-financial covenants and restrictions. In addition, the Credit Facilities are secured by a first priority lien on substantially all of the Company's personal and real property and assets. In addition, Facility 2 and 3 require $3.0 million of the proceeds to be held as a debt service reserve and will be released in eighteen months upon satisfactory review or when the Company's twelve-month trailing EBIDTA less cash taxes and unfunded capital expenditures exceed $10 million.

Facility 1 requires interest only payments with the balance due on the Maturity Date. The outstanding balance at any point shall not exceed the Borrowing Base. As at December 31, 2019, the Revolver has not been drawn.

Facility 2 requires interest only payments until June 30, 2020 or such later date agreed upon ("Conversion Date"), at which point the principal will become payable and will amortize over ten years with the remaining due upon the Maturity Date. As at December 31, 2019, the Company has drawn $33,150,000 from Facility 2.

Facility 3 requires interest only payments until the Conversion Date, at which point the principal will become payable and will amortize over five years with the remaining due upon the Maturity Date. As at December 31, 2019, the Company has drawn $3,000,000 from Facility 3.

	December 31, 2019
Facility 1	-
Facility 2	33,150,000
Facility 3	3,000,000
Unamortized issue costs	(321,505)
	35,828,495
Current portion of loans and borrowings	1,870,414
Long term portion of loans and borrowings	33,958,081

Under the Credit Facilities until the Conversion Date the Company must maintain a total funded debt to tangible net worth ratio of not more than 1:1. At or after the Conversion Date the Company must maintain a minimum fixed charge coverage ratio of 1.25:1, a senior funded debt to EBITDA of not more than 3:1, and maintain a total funded debt to EBITDA ratio of not more than 4:1.

The Company is also required to maintain $100,000 as security for the Company's corporate credit cards. Both the credit card security and the debt service reserve are recorded as restricted cash.

For the year ended December 31, 2019, the Company was compliant with the applicable covenants.

Convertible Debenture

On September 25, 2019, the Company closed a bought-deal short-form prospectus offering of 13,115 convertible unsecured debentures units (the "Unsecured Convertible Debentures") at a price per Unsecured Convertible Debenture of $1,000 for gross proceeds of $13,115,000 (the "Offering") with a syndicate of underwriters. The Unsecured Convertible Debentures bear interest at a rate of 8.5% per annum from the date of issue, payable semi-annually in arrears on June 30 and December 31 of each year. The Unsecured Convertible Debentures have a maturity date of September 25, 2022 (the "Maturity Date"). The Unsecured Convertible Debentures are convertible at the option of the holder into Shares of the Company at any time prior to the earlier of (i) close of business on the Maturity Date, and (ii) the business day immediately preceding the date specified by the Company for redemption of the Unsecured Convertible Debentures upon a change in control at a conversion price of $1.60 per Share (the "Conversion Price").

The Company may force the conversion of the principal amount of the then outstanding Convertible Debentures at the Conversion Price on not more than 60 days' and not less than 30 days' notice should the daily volume weighted average trading price of the Common Shares on the TSXV be greater than $3.20 for the consecutive 20 trading days preceding the notice.

Upon a Change of Control of the Company, holders of the Convertible Debentures will have the right to require the Company to repurchase their Convertible Debentures, in whole or in part, on the date that is 30 days following the giving of notice of the Change of Control, at a price equal to 104% of the principal amount of the Convertible Debentures then outstanding plus accrued and unpaid interest thereon (the "Offer Price"). If 90% or more of the principal amount of the Convertible Debentures outstanding on the date of the notice of the Change of Control have been tendered for redemption, the Company will have the right to redeem all of the remaining Convertible Debentures at the Offer Price.

The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the Unsecured Convertible Debentures assuming a market interest rate of 20.92%, which was the estimated rate for the Unsecured Convertible Debentures without the equity component of the conversion feature. The effective interest rate of the Unsecured Convertible Debentures after reflecting issuance costs was 26.67%. The residual of the principal less the present value of the liability component was allocated to the conversion option and the warrants based on their relative fair value, resulting in an allocation of $1,814,709 to the conversion option and $1,685,087 to the warrants.

The fair value of the conversion feature has been estimated as $4,283,419 using the Monte Carlo pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 76.74%; (iii) risk-free interest rate of 1.53%; (iv) share price of $1.33; forfeiture rate of nil; and (v) expected life of three years. Expected volatility is based on the historical volatility of other companies that the Company considers comparable.

In connection with the Company's Unsecured Convertible Debenture, the Company issued 8,196,875 warrants to the holders of the Unsecured Convertible Debentures. Each warrant is exercisable into one Share at the Conversion Price ($1.80) for a period of 36 months following the closing of the Offering. The fair value of the warrants was estimated as $3,977,461 with reference to the Monte Carlo option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 76.74%; (iii) risk-free rate of 1.53%; (iv) unit price of $1.33; (v) forfeiture rate of 0; (vi) expected life of three years. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. The Monte Carlo option pricing model was deemed applicable to these warrants as they have accelerated vesting terms based on the volume weighted average trading price of the outstanding common shares on the TSX Venture Exchange. The Black Scholes option pricing model does not address the accelerated vesting terms, and potential change in the time to the warrant's expiry.

The Company also issued to the Underwriters 983,624 compensation warrants with a fair value of $587,293. 491,812 of the compensation warrants are exercisable into one Share at an exercise price of $1.60 per share for a period of up to 36 months following the close of the Offering and 491,812 of the compensation warrants are exercisable into one Share at an exercise price of $1.80 per share for a period of up to 36 months following the close of the Offering. The Company paid $1,262,942 in cash for transaction and commission costs. The cash transaction costs and compensation warrants are directly attributable transaction costs and have been allocated to the liability, warrants and conversion feature components in proportion to their initial carrying amounts.

Warrant and Stock Options Exercise

For the year ended December 31, 2019, 232,500 broker compensation warrants were exercised for proceeds of $279,000. The Company recognized the fair value of the warrants of $108,090 in the value of the Shares issued.

During the year ended December 31, 2019, 434,551 stock options were exercised (year ended December 31, 2018: 1,808,229) for net proceeds of $260,733 (year ended December 31, 2018: $1,187,323). Shares issued upon exercise of options had a weighted average fair value of $1.86 (year ended December 31, 2018: $1.85) at the time of exercise.

Stock Option Grants

On January 9, 2019, the Company granted 2,868,000 options to management, employees, directors and consultants of the Company which were valued based on the value of the instruments as the value of the services was not reliably determinable. Each option is exercisable into one common share at an exercise price of $1.53, until January 10, 2024. 640,000 of the options vest over the calendar quarters of 2019, 600,000 of the options vest over 24 months, 1,490,000 of the options vest over 36 months, 100,000 of the options vest upon completion of specified milestones to be determined by the Board of Directors and 38,000 of the options vest immediately. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 85%; (iii) risk-free interest rate of 1.91%; (iv) share price of $1.53; (v) forfeiture rate of nil; and (vi) expected life of 60 months. The total fair value of the options is $2,959,634. Total share-based compensation for the year ended December 31, 2019 is $1,998,632.

On May 7, 2019, the Company granted 300,000 options to consultants of the Company which were valued based on the value of the instruments as the value of the services was not reliably determinable. Each option is exercisable into one common share at an exercise price of $2.00, until April 15, 2022. The options vest over 12 months. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 80%; (iii) risk-free interest rate of 1.55%; (iv) share price of $1.74; (v) forfeiture rate of nil; and (vi) expected life of 35 months. The total fair value of the options is $254,053. Total share-based compensation for the nine months ended December 31, 2019 is $232,196.

On July 10, 2019, the Company granted 505,000 options to management and employees of the Company which were valued based on the value of the instruments as the value of the services was not reliably determinable. Each option is exercisable into one common share at an exercise price of $1.52, until July 9, 2024 and vest quarterly over 36 months. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 76%; (iii) risk-free interest rate of 1.53%; (iv) share price of $1.52; (v) forfeiture rate of nil; and (vi) expected life of 60 months. The total fair value of the options is $477,457. Total share-based compensation for the year ended December 31, 2019 is $198,155.

On December 20, 2019, in connection with the Acquisition the Company granted 5,674,875 options to management and employees of the Company which were valued based on the value of the instruments as the value of the services was not reliably determinable. Each option is exercisable into one common share at an exercise price of $0.98, until November 3, 2022 and vest immediately. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 74%; (iii) risk-free interest rate of 1.63%; (iv) share price of $0.81; (v) forfeiture rate of nil; and (vi) expected life of 1,048 days. The total fair value of the options is $1,983,147. Total share-based compensation for the year ended December 31, 2019 is $nil.

On December 20, 2019, in connection with the Acquisition the Company granted 898,011 options to management and employees of the Company which were valued based on the value of the instruments as the value of the services was not reliably determinable. Each option is exercisable into one common share at an exercise price of $3.26, until November 1, 2023. 673,508 of the options vested immediately and 224,503 vest on May 2, 2020. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 74%; (iii) risk-free interest rate of 1.63%; (iv) share price of $0.81; (v) forfeiture rate of nil; and (vi) expected life of 1,411 days. The total fair value of the options is $126,764. Total share-based compensation for the year ended December 31, 2019 is $nil.

Warrant Issuances

On September 25, 2019, in connection with the Company's Unsecured Convertible Debenture, the Company issued to the Underwriters 491,812 compensation warrants. Each compensation warrant is exercisable into one Share at the Conversion Price ($1.60) for a period of 36 months following the closing of the Offering. The fair value of the warrants was estimated as $303,481 with reference to the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 76.74%; (iii) risk-free rate of 1.52%; (iv) unit price of $1.33; (v) forfeiture rate of 0; (vi) expected life of three years. Expected volatility is based on the historical volatility of other companies that the Company considers comparable.

On September 25, 2019, in connection with the Company's Unsecured Convertible Debenture, the Company issued to the Underwriters 491,812 compensation warrants. Each compensation warrant is exercisable into one Share at the Conversion Price ($1.80) for a period of 36 months following the closing of the Offering. The fair value of the warrants was estimated as $283,812 with reference to the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 76.74%; (iii) risk-free rate of 1.52%; (iv) unit price of $1.33; (v) forfeiture rate of 0; (vi) expected life of three years. Expected volatility is based on the historical volatility of other companies that the Company considers comparable.

Off-balance sheet arrangements

The Company has not entered into any off-balance sheet finance arrangements.

Contractual obligations

The lease commitment schedule is outlined in the below table:

Within 1 year	$	1,781,245
Within 2 years		1,728,588
Within 3 years		633,870
Within 4 years		283,117
Beyond 4 years		906,468
	$	5,333,288

Transactions with related parties

The Company's key management includes the CEO, CFO, and all directors. Transactions with related parties include salaries and service fees.

The amounts due to related parties are recorded at the exchange amounts as agreed upon by the related parties under contracts signed with them, which are non-interest bearing, unsecured, and have no fixed repayment terms.

The balances outstanding are as follows:

For the year ended December 31,		**2019**		2018
Accounts payable and accrued liabilities	**$**	**172,163**	$	119,801

For the year ended December 31, 2019 and 2018, total remuneration and service fees paid to key management is as follows:

For the year ended December 31,		2019		2018
Share based compensation	**$**	**1,636,960**	$	2,105,662
Salaries		**533,740**		690,570
Bonus		**-**		150,415
Fees		**933,740**		264,038
	$	**3,104,440**	$	3,210,685

During the year ended December 31, 2019, 1,008,625 stock options (year ended December 31, 2018: 2,300,000) were issued with fair value of $1,038,884 (year ended December 31, 2018: $3,707,537) with a recorded share-based compensation of $1,014,333 (year ended December 31, 2018: $2,105,662) to certain key management personnel.

Critical Accounting Estimates

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The most significant judgments include those related to the ability of the Company to continue as a going concern, the determination of when property, plant and equipment are available for use as well as their useful lives, the capitalization of construction costs, valuation and recoverability of deferred taxes, the determination of whether performance obligations have been meet for revenue recognition, and impairment of its financial and non-financial assets. The most significant estimates and assumptions include those related to the inputs used in accounting for share-based payment transactions and in the valuation of warrants, including volatility, the fair value of financial instruments, and the valuation of biological assets and inventory. Management has determined that judgments, estimates and assumptions reflected are reasonable as disclosed in Note 2(e) of the annual consolidated financial statements.

Changes and New Accounting Standards and Interpretations

a) Revenue recognition

The revenue recognition policy previously disclosed has been updated to include the following:

Revenue is recognized when control of the goods has transferred to the purchaser and the collectability is reasonably assured. For sales to medical customers and licensed producers, control is transferred when goods are shipped or prior to shipment when it is demonstrated the customer obtains control of the product. For provincial customers control is transferred when goods have been delivered. The point at which control transfers is also when the performance obligations have been fulfilled under the terms of the related sales contract. Revenues are recorded net of discounts and incentives but inclusive of freight. Excise taxes are a production tax which become payable when a cannabis product is delivered to the customer and are not directly related to the value of revenue. Excise taxes are netted against gross revenue on the Statement of Loss and Comprehensive Loss.

b) New Standards Adopted in Current Year

IFRS 16, Leases ("IFRS 16"), was issued in January 2016, and supersedes IAS 17, Leases. This standard introduces a single lessee accounting model. Under IFRS 16, a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS, the Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019. The Company also used the practical expedient to not recognize right-of-use assets and lease liabilities for leases, that have a remaining lease term of twelve months or less at date of adoption, as well as for leases of low value.

The Company recognizes a Right-of-Use asset and a lease liability at the lease commencement date. The Right-of-Use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest costs on the lease liability and decreased by the lease payment made. The Company has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for the previous period has not been restated.

When measuring the lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied was 5.95%.

Operating lease commitment as December 31, 2018 as disclosed in the Consolidated Financial Statements	$	3,138,937
Discounted using the incremental borrowing rate at January 1, 2019		2,932,977
Recognition exemption for leases with less than 12 months of lease term at transition		(2,118,819)
Leases that have not commenced at January 1, 2019		(814,158)
Lease liabilities recognized at January 1, 2019	$	-

Total future minimum lease payments as at December 31, 2019 are disclosed in Note 3(v) of the annual consolidated financial statements. The Company has expensed $605,034 for leases with less than 12 months of lease term at transition for the period ended December 31, 2019.

For the year ended December 31, 2019, the Company recognized $183,316, as depreciation on right of use assets. The Company also recognized $94,551 as interest cost on lease liabilities and additional $59,778 in variable lease payments during the year ended December 31, 2019. The Company had cash outflows of $278,666 related to lease liabilities. Right of use assets held by the Company are classified as buildings and equipment, with leases expiring between 2020 and 2024. For the year ended December 31, 2019 the Company recognized additions of $4,783,141 to right of use assets and corresponding lease liabilities.

IFRIC 23 'Uncertainty over income tax treatments' clarifies the application of recognition and measurement requirement in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. As the Company has no uncertain tax treatments and had no recognized tax assets or liabilities, the adoption of this policy had no impact on the financial statements for year ended December 31, 2019.

Disclosure of Outstanding Share Data

As of June 10, 2020, the following are outstanding:

Common Shares:	210,261,715
Warrants:	12,805,499
Stock and Broker Compensation Options:	15,436,793

Risk Factors

It is believed that there are numerous factors which could cause actual results to be different from expected and historical results. Other sections of this MD&A include additional factors that could have an effect on the business and financial performance of the business. The markets in which the Company currently competes are very competitive and change rapidly. New risks may emerge, and management may not be able to predict all of them or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements. If any of these risks actually occur, the Company's business may be harmed, and results of operations and financial condition may suffer.

Management defines risk as the evaluation of probability that an event might happen in the future that could negatively affect the financial condition and/or results of operations of the Company. The following section describes specific and general risks that could affect the Company. The following descriptions of risk do not include all possible risks as there may be other risks of which management is currently unaware. Moreover, the likelihood that a risk will occur or the nature and extent of its consequences if it does occur, is not possible to predict with certainty, and the actual effect of any risk or its consequences on the business could be materially different from those described below and elsewhere in this MD&A.

Reliance on Licensing

The operations of the Company require it to obtain licences for the transportation, distribution, production, packaging, storing, growing and sale of medical grade cannabis, and in some cases, renewals of existing licences from, and the issuance of permits by certain national authorities in Canada. The Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licences and permits.

The failure of the Company to obtain and maintain the applicable licences and amendments thereto would have a material adverse impact upon the Company.

In addition, the Company will apply for, as the need arises, all necessary licences and permits to carry on the activities it expects to conduct in the future. However, the ability of the Company to obtain, sustain or renew any such licences and permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions. The Cannabis Licence for the Aylmer Facility expires on October 24, 2020; the Cannabis Licence for the Strathroy Facility expires June 8, 2021; and the Cannabis Licence for the Bowmanville Facility expires on October 31, 2022. Any loss of interest in any such required licence or permit, or the failure of any governmental authority to issue or renew such licences or permits upon acceptable terms, would have a material adverse impact upon the Company.

Regulatory Risks

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company may not be able to accurately predict the impact of the compliance regime Health Canada is implementing for the Canadian medical and Adult-Use cannabis industry. Similarly, the Company may not be able to accurately predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. The impact of Health Canada's compliance regime, any delays in obtaining, or failure to obtain regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.

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

Change in Laws, Regulations and Guidelines

The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. To the knowledge of management, other than the requirement that the Company make routine corrections that may be required by Health Canada from time to time, the Company is currently in compliance with all such laws. If any changes to such laws, regulations or guidelines occur, which are matters beyond the control of the Company, the Company may incur significant costs in complying with such changes or it may be unable to comply therewith, which in turn may result in a material adverse effect on the Company's business, financial condition and results of operations.

The Cannabis Act came into effect on October 17, 2018 to create a regulated Adult-Use recreational market for cannabis in Canada. The Cannabis Act and Cannabis Regulations prohibit testimonials, lifestyle branding and packaging as well as certain other promotional activity that is appealing to youth and set out broad prohibitions on the promotion of cannabis at the federal level. Provincial or territorial governments may add an additional layer of regulations on promotion of cannabis. The federal, provincial and territorial restrictions on advertising, marketing and the use of logos and brand names may reduce the value of certain of the Company's products and brands or negatively impact its ability to compete with other companies in the cannabis market, which could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

The Cannabis Regulations were amended effective October 17, 2019, to allow for cannabis edibles to be introduced into the market and expand the use of cannabis derivatives commercially. However, they are highly restrictive, and include restrictions on adding caffeine, nicotine, or alcohol to cannabis edibles.

Additional restrictions on edible and other cannabis derivative based products may also be introduced by the provincial governments. On November 1, 2019, the Quebec government passed Bill 2 that has raised the legal age to buy recreational cannabis to 21 effective January 1, 2020. Staying on side of regularly changing rules and regulations will require ongoing time and attention from the Company's management. In addition, the Company's Cannabis 2.0 Product strategy includes vaporizable products which may be subject to negative consumer perception and may be subject to additional regulation and restriction over and above the current regulatory requirements in place under the Cannabis Act. This may include governmental restriction of the sale of such products and/or imposition of additional costs.

The governments of every Canadian province and territory have enacted and implemented their respective regulatory regimes for the distribution and sale of cannabis for Adult-Use purposes within those jurisdictions. The provincial or territorial legislation and regulatory regimes may change in ways that impact the Company's ability to continue its business as currently conducted or proposed to be conducted. There is no guarantee that provincial or territorial regulatory regimes governing the distribution and sale of cannabis for Adult-Use recreational purposes in each jurisdiction will remain as currently enacted or that any such legislation and regulation will create the growth opportunities that the Company currently anticipates. The federal and provincial or territorial legislation and regulatory regimes for cannabis products also include excise duties payable by licensed cannabis producers on Adult-Use recreational cannabis products, in addition to goods and services tax/harmonized sales tax in certain provinces and territories. The rate of the excise duties for cannabis products varies by province and territory. Any significant increase in the rate of excise duties on cannabis products in the future could reduce consumer demands for cannabis products and adversely impact the Adult-Use recreational cannabis industry and market in general. In addition, any increase in the rate of excise duties on cannabis products in the future could reduce the Company's margins and profitability in the event that the Company could not or chose not to pass along such increases to consumers. Any of the foregoing could result in a material adverse effect of the Company's business, financial condition, results of operations and prospects.

The Adult-Use recreational cannabis industry and market in Canada is also subject to certain risks that are unique to this industry, as well as the risks that are currently applicable to the medical cannabis market, which are described elsewhere in this "Risk Factors" section. If any of these shared risks occur, the Company's business, financial condition, results of operations and prospects could be adversely affected in a number of ways, including by not being able to successfully compete in the Adult-Use recreational cannabis industry and by being subject to fines, damage awards and other penalties as a result of regulatory infractions or other claims brought against the Company.
Effect of Legalization of Adult-Use Cannabis on Medical Cannabis Industry.

The effect of the legalization of Adult-Use recreational cannabis in Canada on the medical cannabis industry is unknown, and may have a significant negative effect upon the Company's medical cannabis business if its existing or future medical-use customers decide to purchase products available in the proposed Adult-Use market instead of purchasing medical use products from the Company.

The Cannabis Act became effective in October 2018 and additional regulations went into effect in October 2019. As a result, individuals who currently rely upon the medical cannabis market for the supply of their medical cannabis and cannabis-based products may instead turn to the Adult-Use market. Factors that will influence this decision include the price of medical cannabis products in relation to similar Adult-Use recreational cannabis products, the amount of active ingredients in medical cannabis products in relation to similar Adult-Use recreational cannabis products, the types of cannabis products available to adult users and limitations on access to Adult-Use recreational cannabis products imposed by the regulations under the Cannabis Act and the legislation governing distribution of cannabis enacted by the individual provinces and territories of Canada. A decrease in the overall size of the medical cannabis market as a result of the adoption of the Cannabis Act and the legal Adult-Use recreational market in Canada may reduce the Company's medical sales and revenue prospects in Canada.

Early Stage of the Cannabis Industry

As a licensed producer under the Cannabis Act, the Company is operating its business in a relatively new medical and Adult-Use cannabis industry and market. In addition to being subject to general business risks, a business involving an agricultural product and a regulated consumer product, the Company needs to continue to build brand awareness in this industry and market through significant investments in its strategy, its production capacity, quality assurance, and compliance with regulations. These activities may not promote the Company's brand and products as effectively as intended, or at all.

Competitive conditions, consumer tastes, patient requirements and spending patterns in this new industry and market are relatively unknown and may have unique circumstances that differ from existing industries and markets.

In addition, the Cannabis Act also permits patients to produce a limited amount of cannabis for their own medical purposes or to designate a person to produce a limited amount of cannabis on their behalf. This could potentially significantly reduce the market for the Company's products, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Accordingly, there are no assurances that this industry and market will continue to exist or grow as currently estimated or anticipated, or function and evolve in a manner consistent with management's expectations and assumptions. Any event or circumstance that affects the medical cannabis industry and market could have a material adverse effect on the Company's business, financial condition and results of operations.
Limited Operating History and Uncertainty of Future Revenues.

The Company has a limited operating history and, accordingly, potential investors will have a limited basis on which to evaluate its ability to achieve its business objectives. The future success of the Company is dependent on management's ability to implement its strategy. Whilst management is optimistic about the Company's prospects, there is no certainty that anticipated outcomes and sustainable revenue streams will be achieved and there is no certainty that the Company will successfully produce commercial medical grade cannabis, establish a market for its product, or maintain its Cannabis Licences. The Company faces risks frequently encountered by early-stage companies. In particular, its future growth and prospects will depend on its ability to expand its operation and gain additional revenue streams whilst at the same time maintaining effective cost controls. Any failure to expand is likely to have a material adverse effect on the Company's business, financial condition and results.

Acquisition of Registered Patients

The Company's success partly depends on its ability to attract and retain patients. There are many factors which could impact the Company's ability to attract and retain Registered Patients, including but not limited to the Company's ability to continually produce desirable and effective products, the successful implementation of the Company's patient-acquisition plan, Starseed's reliance on agreements with local labour unions, successfully entering into agreements with additional labour unions, and the continued growth in the aggregate number of Registered Patients selecting medical cannabis as a treatment option. The Company's failure to acquire and retain Registered Patients would have a material adverse effect on the Company's business, operating results and financial condition. Further, as described elsewhere in this "Risk Factors" section, it is uncertain how the development of the Adult-Use cannabis market will impact the medical cannabis market.

Competition

The Cannabis Act and the introduction of an Adult-Use model for cannabis production and distribution may impact the medical cannabis market. The impact of this development may be negative for the Company, and could result in increased levels of competition in its existing medical market and/or the entry of new competitors in the overall cannabis market in which the Company operates.

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

The Company also faces competition from illegal cannabis dispensaries that are selling cannabis to individuals despite not having a valid Cannabis Licence.

If the number of users of medical cannabis in Canada increases, and/or if the national demand for Adult-Use cannabis increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

As well, the legal landscape for medical and Adult-Use cannabis is changing internationally. More countries have passed laws that allow for the production and distribution of medical cannabis in some form or another. The Company currently has partnerships in place in Australia, where it exported cannabis genetics to Australia's Medifarm, and in Israel, where it exported cannabis genetics to Israel's Pharmocann. These partnerships, and potential future partnerships, may be affected if more countries legalize medical cannabis. Increased international competition might lower the demand for the Company's products on a global scale.

In addition, it is possible that the medical cannabis industry will undergo consolidation, creating larger companies with greater financial resources, manufacturing and marketing capabilities and product offerings than the Company's. As a result of this competition, the Company may be unable to maintain its operations or develop them as currently proposed, on terms it considers acceptable, or at all.

Indebtedness and the Credit Facility

In relation to the Credit Facility, the Company is subject to risks typically associated with secured debt financing. The Company's cash flows could be insufficient to satisfy required payments of principal and interest under the Credit Facility. Further, the Company may be exposed to increased interest rates as the interest rate under the Credit Facility is set to a margin over the Canadian dollar prime rate, or a bankers' acceptance of appropriate terms.

The Credit Facility contains covenants that require the Company to maintain certain financial ratios. If the Company does not maintain such ratios, it could have consequences for the availability of credit under the Credit Facility or result in repayment requirements that the Company may not be able to satisfy. If the Company is unable to meet any required payments under the Credit Facility, the lenders could foreclose upon the Company's facilities securing its obligations under the Credit Facility, appoint a receiver and receive an assignment of accounts or pursue other remedies generally available to secured creditors, all of which could result in a material adverse effect on the Company. The Company's ability to make scheduled payments of principal and interest on its indebtedness depends on its future cash flow, which is subject to the financial performance of the Company's business, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond the Company's control.

Risks Inherent in an Agricultural Business

The Company's business involves the growing of medical grade cannabis, an agricultural product. In addition, the Company has expanded to outdoor production. Such business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although some growing is completed indoors under climate controlled conditions, and while all growing conditions are carefully monitored with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products. Outdoor production is exposed to climate conditions and possible contamination beyond the Company's control that could have a material adverse effect on the quantity and quality of cannabis produced.

Product Development

The medical and Adult-Use cannabis industries are in their early stages of development and it is likely that the Company, and its competitors, will seek to introduce new products in the future including Cannabis 2.0 Products. In attempting to keep pace with any new market developments, the Company may need to expend significant amounts of capital in order to successfully develop and generate revenues from new products introduced by the Company. As well, the Company may be required to obtain additional regulatory approvals from Health Canada and any other applicable regulatory authority, which may take significant amounts of time. The Company may not be successful in developing effective and safe new products, bringing such products to market in time to be effectively commercialized, or obtaining any required regulatory approvals, which, together with any capital expenditures made in the course of such product development and regulatory approval processes, may have a material adverse effect on the Company's business, financial condition and results of operations.

Provincial Supply Agreements

The Company expects to derive a significant portion of its future revenues from the Adult-Use recreational cannabis industry and market in Canada, including through its agreements with the provincial wholesale distributors. For additional information regarding the Company's supply agreements, see "Description of the Business—Method of Distribution".

The agreements with the provincial wholesalers do not contain purchase commitments or otherwise obligate the purchaser to buy a minimum or fixed volume of products from the Company. The amount of cannabis that the provincial wholesalers may purchase under the Company's agreements with them may therefore vary from what the Company expects or has planned for. As a result, the Company's revenues could fluctuate materially in the future and could be materially and disproportionately impacted by the purchasing decisions of the provincial wholesalers. If any of the provincial wholesalers decide to purchase lower volumes of products from the Company than the Company expects, alters its purchasing patterns at any time with limited notice or decides not to continue to purchase the Company's cannabis products at all, the Company's revenues could be materially adversely affected, which could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Future Acquisitions

The Company has recently completed the Starseed Acquisition, which constituted a "significant acquisition" for the Company under the applicable securities laws. The Company may not be able to successfully identify and execute future acquisitions or dispositions or to successfully manage the impacts of such transactions on its operations. Material acquisitions, dispositions and other strategic transactions involve a number of risks, including: (i) the potential disruption of the Company's ongoing business; (ii) the distraction of management away from the ongoing oversight of its existing business activities; (iii) incurring additional indebtedness; (iv) the anticipated benefits and cost savings of those transactions not being realized fully, or at all, or taking longer to realize than anticipated; (v) an increase in the scope and complexity of its operations and (vi) the loss or reduction of control over certain of its assets.

The existence of one or more material liabilities of an acquired company that are unknown to the Company at the time of acquisition could result in its incurring those liabilities. A strategic transaction may result in a significant change in the nature of the Company's business, operations and strategy, and it may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into its operations.

Supply and Price Fluctuations
The Company's revenues are in a large part derived from the production, sale, and distribution of cannabis. The cost of production, sale, and distribution of cannabis is dependent on a number of key inputs and their related costs, including equipment and supplies, labour and raw materials related to the Company's growing operations, as well as other overhead costs such as electricity, water, and utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the Company's financial condition and operating results. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the Company's business, financial condition, results of operations and prospects. This includes any change in the selling price of products set by the applicable province or territory. There is currently no established market price for cannabis and the price of cannabis is affected by numerous factors beyond the Company's control. Any price decline may have a material adverse effect on the Company's business, financial condition and operations.

Realization of Growth Targets
The Company's ability to continue production of cannabis, at the same pace as of the date of this MD&A or at all, is affected by a number of factors, including plant design errors, non-performance by third party contractors, increases in materials or labour costs, construction performance falling below expected levels of output or efficiency, environmental pollution, contractor or operator errors, breakdowns, aging or failure of equipment or processes, labour disputes, as well as factors specifically related to indoor agricultural practices, such as reliance on provision of energy and utilities to the facility, those specifically related to outdoor cultivation practices, such as droughts, environmental pollution and inadvertent contamination, and potential impacts of major incidents or catastrophic events on the facility, such as fires, explosions, earthquakes or storms.

Management of Growth
The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Reliance on Management
The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

Further, as a licensed producer under the Cannabis Act, certain key employees are subject to a security clearance by Health Canada. Under the Cannabis Act a security clearance cannot be valid for more than five years and must be renewed before the expiry of a current security clearance. There is no assurance that any of the Company's existing personnel who presently or may in the future require a security clearance will be able to obtain or renew such clearances or that new personnel who require a security clearance will be able to obtain one. A failure by a key employee to maintain or renew his or her security clearance, would result in a material adverse effect on the Company's business, financial condition and results of operations. In addition, if a key employee leaves the Company, and the Company is unable to find a suitable replacement that has a security clearance required by the Cannabis Act in a timely manner, or at all, there could occur a material adverse effect on the Company's business, financial condition and results of operations.

The Company is Reliant on its Facilities
The Company's activities and resources are focused on its three facilities – the Aylmer Facility, the Strathroy Facility and the Bowmanville Facility. The Company's current licences under the Cannabis Act are specific to each of these facilities. Adverse changes or developments affecting the Company's facilities, including but not limited to disease or infestation of the Company's crops, a fire, an explosion, a power failure, a natural disaster or a material failure of the Company's security infrastructure, could reduce or require it to entirely suspend its production of cannabis. A significant failure of the Company's site security measures and other facility requirements, including any failure to comply with regulatory requirements, could have an impact on its ability to continue operating under its Cannabis Licences or its

prospects of renewing its Cannabis Licences, and could also result in a suspension or revocation of the Cannabis Licences.

The Company's facilities continue to operate with routine maintenance. The Company will bear many, if not all, of the costs of maintenance and upkeep of the facilities, including replacement of components over time. The Company operations and financial performance may be adversely affected if it is unable to keep up with maintenance requirements.

Certain contemplated capital expenditures of the Company may require Health Canada approval. There is no guarantee that Health Canada will approve any contemplated expansion and/or renovation, which could adversely affect the business, financial condition and results of operations of the Company.

Clinical Research

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids. The statements made in this MD&A concerning the potential medical benefits of cannabinoids are based on published articles and reports. As a result, the statements made in this MD&A are subject to the experimental parameters, qualifications and limitations in the studies that have been completed.

Inventory and Shelf Life

The cannabis products may not have the shelf life period that is established on the basis of stability studies, in the meantime the storage period for cannabis is generally limited. The Company holds cannabis products as packaged and labelled finished goods, which includes dried cannabis flower and cannabis oil. Management regularly reviews the amount of inventory on hand on the basis of production and packaging date and estimates the time required to manufacture and sell such inventory, write-down of inventory may still be required. Any such write-down of inventory could have a material adverse effect on the Company's business, financial condition, and results of operations.

Marketing Constraints

The development of the Company's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by Health Canada. The regulatory environment in Canada limits the Company's ability to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and operating results could be adversely affected.

Moreover, the Cannabis Act imposes further packaging, labelling and advertising restrictions on producers in the Adult-Use market. If the Company fails to comply with the packaging, labelling and advertising restrictions, it will be subject to monetary penalties, required to suspend sale of noncompliant products and/or be disqualified as a vendor by government-run provincial distributors.

Brand Promotion

A critical component of the Company's future growth is its ability to promote and sustain its brands, which it believes can be achieved by providing a high-quality user experience. An important element of the Company's brand promotion strategy is establishing a relationship of trust with its consumers. In order to provide a high-quality user experience, the Company has invested and will continue to invest substantial amounts of resources in the development of products, infrastructure, fulfilment and customer service operations. If the Company's consumers are dissatisfied with the quality of the products sold to them or the customer service they receive and their overall customer experience, the Company's consumers may stop purchasing products from it.

Further Funding Requirements

The building and operation of the Company's facilities and business are capital intensive. In order to execute the anticipated growth strategy, the Company may require additional equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to support on-going operations or to fund capital expenditures or acquisitions could limit the Company's growth and may have a material adverse effect upon future profitability. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of the Common Shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

Product Liability

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

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the products produced by the Company were subject to recall, the image of that product and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Insurance and Uninsured Risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance does not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. the Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons.

Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Research and Development and Product Obsolescence

Rapidly changing markets, technology, emerging industry standards and frequent introduction of new products characterize the Company's business. The introduction of new products embodying new technologies, including new manufacturing processes, and the emergence of new industry standards may render the Company's products obsolete, less competitive or less marketable. The process of developing the Company's products is complex and requires significant continuing costs, development efforts and third party commitments. The Company's failure to develop new technologies and products and the obsolescence of existing technologies could adversely affect the business, financial condition and operating results of the Company. The Company may be unable to anticipate changes in its potential customer requirements that could make the Company's existing technology obsolete. The Company's success will depend, in part, on its ability to continue to enhance its existing technologies, develop new technology that addresses the increasing sophistication and varied needs of the market, and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of the Company's proprietary technology entails significant technical and business risks. The Company may not be successful in using its new technologies or exploiting its niche markets effectively or adapting its businesses to evolving customer or medical requirements or preferences or emerging industry standards.

Security and Privacy

Given the nature of the Company's products and the lack of legal availability of such products outside of channels approved by the Government of Canada, as well as the concentration of inventory in its facilities, despite meeting or exceeding Health Canada's security requirements, there remains a risk of shrinkage as well as theft. A security breach at the Company's facilities could expose the Company to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company's products.

In addition, the Company collects and stores personal information about its patients and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions. Theft of data for competitive purposes is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on the Company's business, financial condition and results of operations. In addition, there are a number of federal and provincial laws protecting the confidentiality of certain patient health information, including patient records, and restricting the use and disclosure of that protected information. In particular, the privacy rules under the Personal Information Protection and Electronics Documents Act (Canada) ("PIPEDA"), protect medical records and other personal health information by limiting their use and disclosure of health information to the minimum level reasonably necessary to accomplish the intended purpose. If the Company was found to be in violation of the privacy or security rules under PIPEDA or other laws protecting the confidentiality of patient health information, it could be subject to sanctions and civil or criminal penalties, which could increase its liabilities, harm its reputation and have a material adverse effect on the business, results of operations and financial condition of the Company.

Reputational Risk to Third Parties

The parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's cannabis business activities. Failure to establish or maintain business relationships could have a material adverse effect on the Company.

Holding Company

The Company is a holding company and essentially all of its assets are the capital stock of its subsidiaries. As a result, investors in the Company are subject to the risks attributable to its subsidiaries. As a holding company, the Company conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, the Company's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to the Company. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of the Company's material subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before the Company.

History of Net Losses

The Company has incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable.

Proprietary Protection

The success of the Company's business depends in part on its ability to protect its ideas and technology. The Company has no patented technology at this time nor has it registered any patents. In Canada, the Company has a registered a design trademark for its logo for WeedMD.com. In addition, the Company has registered a Canadian trademark for the word "WEEDMD" and "STARSEED".

Even if the Company moves to protect its technology with trademarks, patents, copyrights or by other means, the Company is not assured that competitors will not develop similar technology, business methods or that the Company will be able to exercise its legal rights.

Other countries may not protect intellectual property rights to the same standards as does Canada. Actions taken to protect or preserve intellectual property rights may require significant financial and other resources such that said actions have a meaningful impact on the Company's ability to successfully grow the business.

International Expansion

The Company may in the future expand its operations and business into jurisdictions outside of Canada. There can be no assurance that any market for the Company's products will develop in any such foreign jurisdiction. The Company may face new or unexpected risks or significantly increase its exposure to one or more existing risk factors, including economic instability, changes in laws and regulations and the effects of competition. These factors may limit the Company's capability to successfully expand its operations and may have a material adverse effect on the Company's business, financial condition and results of operations.

Conflicts of Interest

Certain of the directors and officers of the Company are also directors and officers of other companies or are engaged and will continue to be engaged in activities that may put them in conflict with the business strategy of the Company. Consequently, there exists the possibility for such directors and officers to be in a position of conflict. All decisions to be made by such directors and officers involving the Company are required to be made in accordance with their duties and obligations to act honestly and in good faith with a view to the best interests of the Company. In addition, such directors and officers are required to declare their interests in, and such directors are required to refrain from voting on, any matter in which they may have a material conflict of interest.

Environmental and Employee Health and Safety Regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. Changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Unfavourable Publicity or Consumer Perception

The Company believes the medical and Adult-Use cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis distributed to such consumers. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical cannabis in general, or the Company's products specifically, or associating the consumption of medical cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Share Price Volatility
The market price of the Common Shares may be subject to wide price fluctuations. The market price of the Common Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company and its subsidiaries, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company and its subsidiaries, general economic conditions, legislative changes, community support for the medical cannabis industry and other events and factors outside of the Company's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Common Shares.

Transportation Risks
Due to its direct to client shipping model for medical cannabis, the Company depends on fast and efficient courier services to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Company. Rising costs associated with the courier services used by the Company to ship its products may also adversely impact the business of the Company and its ability to operate profitably.

Due to the nature of the Company's products, security of the product during transportation to and from the Company's facilities is of the utmost concern. A breach of security during transport or delivery could have a material and adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures during transport or delivery, including any failure to comply with recommendations or requirements of Health Canada, could also have an impact on the Company's ability to continue operating under the Cannabis Licences or the prospect of renewing the Cannabis Licences.

Vulnerability to Rising Energy Costs
The Company's cannabis growing operations consume considerable energy, which make the Company vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

Reliance on Key Inputs
The Company's business is dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of the Company. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of the Company.

Dependence on Suppliers and Skilled Labour
The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure program may be significantly greater than anticipated by the Company's management, and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the financial results of the Company.

Difficulty to Forecast
The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the cannabis industry in Canada. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Need to Attract and Retain Qualified Personnel
The Company's success depends to a significant extent on its ability to identify, attract, hire, train and retain qualified personnel. Competition for such personnel may be intense and there can be no assurance that the Company will be successful in identifying, attracting, hiring and retaining such personnel in the future. If the Company is unable to identify, attract, hire and retain qualified personnel in the future, such inability could have a material adverse effect on its business, operating results and financial condition.

Litigation
The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue operating and the market price for the Common Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant resources.

Dividends
The Company has no dividend record, and does not anticipate paying any dividends on the Common Shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

Limited Market for Securities
The Common Shares are listed on the TSXV, however, there can be no assurance that an active and liquid market for the Common Shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

Subsequent Events
LiUNA Subscription

On February 4, 2020, the Company announced that its shareholders voted in favour of the resolution approving the private placement and exercise of subscription receipts with the LiUNA Pension of Central and Eastern Canada for gross proceeds of $25 million, which was completed as part of WeedMD's acquisition of Starseed Holdings Inc. With the approval the subscription receipts automatically convert into 23,079,763 WeedMD common shares and resulted in the creation of a new control person as defined under the applicable policies of the TSX Venture Exchange).

COVID-19

On March 11, 2020, the World Health Organization declared the ongoing COVID-19 outbreak as a global health emergency. This resulted in governments worldwide enacting emergency measures to combat the spread of the virus, including the closure of non-essential businesses. In Canada, the production and sale of cannabis is recognized as an essential service.

During the first quarter of 2020, the pandemic did not have a material impact on the Company's operations. During the second quarter of 2020, the Company has experienced a decline in sales relative to the first quarter of 2020 which can likely be attributed to the economic uncertainty caused by the COVID-19 pandemic. The Company has taken steps to minimize the potential impact of the pandemic. These actions include postponement of discretionary capital expenditures, reduction of general and administrative expenses, temporary staff reductions, and enhanced process optimization to increase efficiencies and reduce costs.

At this time, the duration and impact of the COVID-19 pandemic is unknown, as is the efficacy of government implemented emergency measures. Due to the uncertainty surrounding COVID-19, the Company is not able to reliably estimate the length and severity of these developments nor the impact on the financial results and condition of the Company in future periods. The Company will continue to closely monitor the impact of the pandemic on all aspects of its business.