CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

# WEEDMD INC.

For the three and six months ended June 30, 2018 and 2017
(Unaudited - Expressed in Canadian Dollars)

# WeedMD Inc.

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2018 and 2017

(Unaudited)

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## MANAGEMENT'S RESPONSIBILITY STATEMENT

The management of WeedMD Inc. is responsible for preparing the condensed interim consolidated financial statements, the notes to the condensed interim consolidated financial statements and other financial information contained in these financial statements.

Management prepares the condensed interim consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). The condensed interim consolidated financial statements are considered by management to present fairly the company's financial position and results of operations.

The management, in fulfilling its responsibilities, has developed and maintains a system of internal accounting controls designed to provide reasonable assurance that management assets are safeguarded from loss or unauthorized use, and that the records are reliable for preparing the condensed interim consolidated financial statements.

Keith Merker, CEO

August 27, 2018

## WeedMD Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Note | June 30, 2018 | December 31, 2017 |
|---|---|---|---|
| | | (Unaudited) | (Audited) |
| **Assets** | | | |
| Current: | | | |
| Cash and cash equivalents | | **$ 39,503,944** | $ 24,692,678 |
| Cash held in trust | | **237,141** | 2,474 |
| Investments | 4 | **604,167** | - |
| Trade and other receivables | | **225,719** | 30,962 |
| Prepaid expenses and deposits | | **639,575** | 210,404 |
| Commodity tax receivable | | **2,533,922** | 844,035 |
| Inventory | 5 | **3,514,051** | 2,694,133 |
| Biological assets | 5 | **916,228** | 360,089 |
| | | **48,174,747** | 28,834,775 |
| Deposit on property | | **5,892,350** | 5,892,350 |
| Property, plant and equipment | 6 | **19,698,932** | 4,878,062 |
| Total assets | | **$ 73,766,029** | $ 39,605,187 |
| **Liabilities** | | | |
| Current: | | | |
| Accounts payable and accrued liabilities | | **$ 4,601,324** | $ 2,875,383 |
| Unearned revenue | | **73,299** | 245,585 |
| | | **4,674,623** | 3,120,968 |
| Unsecured convertible debentures | 7 | **2,274,586** | 11,351,671 |
| Total liabilities | | **6,949,209** | 14,472,639 |
| **Shareholders' equity** | | | |
| Common shares | 8 | **72,917,296** | 34,029,538 |
| Warrants reserve | 9 | **10,742,571** | 3,794,703 |
| Conversion feature | 7 | **486,743** | 2,607,546 |
| Contributed surplus | 10 | **2,146,532** | 1,092,579 |
| Deficit | | **(19,476,322)** | (16,391,818) |
| Total equity | | **66,816,820** | 25,132,548 |
| Total liabilities and equity | | **$ 73,766,029** | $ 39,605,187 |

See accompanying notes to the interim condensed consolidated financial statements

Approved:

Director *"Keith Merker"*
signed

Director *"Kevin McGovern"*
signed

**WeedMD Inc.**

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

| (Unaudited) | | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|---|
| | Note | **2018** | 2017 | **2018** | 2017 |
| Sales | 18 | **$ 2,089,163** | $ 235,659 | **$ 3,231,504** | $ 235,659 |
| Cost of sales: | | | | | |
| Cost of goods sold | | **169,887** | - | **368,769** | - |
| Production costs | | **716,838** | 692,602 | **1,368,877** | 1,234,495 |
| Gross profit (loss) before changes in fair value | | **1,202,438** | (456,943) | **1,493,858** | (998,836) |
| Fair value loss on changes in biological assets included in inventory sold | 5 | **1,231,640** | - | **2,338,929** | - |
| Unrealized gain on changes in fair value of biological assets | 5 | **(2,044,529)** | (326,536) | **(3,500,211)** | (1,011,526) |
| Gross profit | | **2,015,327** | (130,407) | **2,655,140** | 12,690 |
| General and administrative | | **3,380,747** | 3,008,386 | **4,935,966** | 3,531,524 |
| Listing expenses | | **-** | 1,234,852 | **-** | 1,234,852 |
| Finance costs | | **309,516** | 391,338 | **956,631** | 1,209,500 |
| Amortization | 6 | **16,742** | 6,227 | **32,382** | 11,565 |
| | | **3,707,005** | 4,640,803 | **5,924,979** | 5,987,441 |
| Other income: | | | | | |
| Unrealized loss on investment | 4 | **270,833** | - | **145,833** | - |
| Interest income | | **(199,504)** | (11,365) | **(331,168)** | (22,432) |
| | | **71,329** | (11,365) | **(185,335)** | (22,432) |
| Loss before income tax recovery | | **(1,763,007)** | (4,759,845) | **(3,084,504)** | (5,952,319) |
| Loss and comprehensive loss | | **$ (1,763,007)** | $ (4,759,845) | **$ (3,084,504)** | $ (5,952,319) |
| Basic and diluted loss per share | 12 | **$ (0.02)** | $ (0.08) | **$ (0.03)** | $ (0.13) |

See accompanying notes to the interim condensed consolidated financial statements

# WeedMD Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended June 30, 2018 and 2017

| | Note | Number of Shares | Share Capital | Warrants | Conversion Feature | Contributed Surplus | Deficit | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2017 (Audited)** | | **36,782,573** | **$ 9,031,463** | **$ -** | **$ 181,217** | **$ 1,456,743** | **$ (7,586,596)** | **$ 3,082,827** |
| Conversion of debentures | 7(a) | 10,133,333 | 7,600,000 | - | (181,217) | 181,217 | - | 7,600,000 |
| Increase in shares due to share split 1:1.25 | | 11,715,477 | - | - | - | - | - | - |
| Fair value of shares issued in reverse takeover | | 1,939,682 | 1,163,809 | - | - | - | - | 1,163,809 |
| Share issuance | 8(f),(g) | 1,241,667 | 1,048,750 | - | - | - | - | 1,048,750 |
| Share issue cost | | - | (1,804) | - | - | - | - | (1,804) |
| Warrant issuance | | - | - | 583,220 | - | - | - | 583,220 |
| Share based compensation | | - | - | - | - | 898,759 | - | 898,759 |
| Net loss | | - | - | - | - | - | (5,952,319) | (5,952,319) |
| **Balance, June 30, 2017 (Unaudited)** | | **61,812,732** | **$18,842,218** | **$ 583,220** | **$ -** | **$ 2,536,719** | **$(13,538,915)** | **$ 8,423,242** |
| | | | | | | | | |
| **Balance, January 1, 2018 (Audited)** | | **78,250,222** | **$34,029,538** | **$ 3,794,703** | **$2,607,546** | **$ 1,092,579** | **$(16,391,818)** | **$ 25,132,548** |
| Conversion of debentures | 7(c) | 10,166,666 | 11,752,398 | - | (2,120,803) | - | - | 9,631,595 |
| Shares issued upon Prospectus Offering | 8 | 16,046,511 | 26,533,999 | 7,966,000 | - | - | - | 34,499,999 |
| Share issue cost | 8 | - | (2,077,971) | (617,409) | - | 439,000 | - | (2,256,380) |
| Shares pending to be issued at December 31, 2017 | 9(a) | 124,975 | - | - | - | - | - | - |
| Shares issued on broker warrants exercise | 8,9(g) | 129,000 | 214,762 | (59,962) | - | - | - | 154,800 |
| Shares issued on warrants exercise | 9(h) | 2,222,127 | 2,111,908 | (340,761) | - | - | - | 1,771,147 |
| Shares issued on option exercise | 10 | 354,916 | 352,662 | - | - | (98,325) | - | 254,337 |
| Share based compensation | 10 | - | - | - | - | 713,278 | - | 713,278 |
| Net loss | | - | - | - | - | - | (3,084,504) | (3,084,504) |
| **Balance, June 30, 2018 (Unaudited)** | | **107,294,417** | **$72,917,296** | **$10,742,571** | **$ 486,743** | **$ 2,146,532** | **$(19,476,322)** | **$ 66,816,820** |

See accompanying notes to the interim condensed consolidated financial statements

## WeedMD Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| For the six months ended June 30, | Note | 2018 | 2017 |
|---|---|---|---|
| Cash flows provided by (used in): | | | |
| **Operating** | | | |
| Loss | | **$ (3,084,504)** | $ (5,952,319) |
| Adjustments for: | | | |
| Amortization | | **171,956** | 174,509 |
| Stock based compensation | | **713,278** | 1,947,509 |
| Finance costs | | **956,631** | 1,209,050 |
| Listing expenses | | **-** | 1,234,852 |
| Unrealized loss on investment | 4 | **145,833** | - |
| Fair value changes in biological assets included in inventory sold | 5 | **2,338,929** | - |
| Unrealized gain on changes in fair value of biological assets and inventory | 5 | **(3,500,211)** | (1,011,526) |
| Cash used in operations before changes in non-cash working capital | | **$ (2,258,088)** | $ (2,397,925) |
| Change in non-cash working capital | 13 | **(1,043,237)** | (580,902) |
| | | **(3,301,325)** | (2,978,827) |
| **Investing** | | | |
| Loans receivable collections | | **-** | 39,200 |
| Investments | | **(750,000)** | - |
| Acquisition of property, plant and equipment | 6 | **(15,028,906)** | (379,705) |
| | | **(15,778,906)** | (340,505) |
| **Financing** | | | |
| Proceeds from issuance of share capital, net of issue costs | 8,9 | **32,243,628** | - |
| Proceeds from exercise of warrants | 9 | **1,925,947** | - |
| Proceeds from exercise of stock options | 10 | **254,336** | - |
| Interest paid | 7 | **(297,749)** | - |
| Cash acquired through reverse takeover | | **-** | 535,246 |
| | | **34,126,162** | 535,246 |
| Increase in cash | | **15,045,931** | (2,784,086) |
| Foreign exchange | | **2,476** | (2,519) |
| Cash, beginning of period | | **24,692,678** | 6,754,976 |
| **Cash, end of period** | | **$ 39,741,085** | $ 3,968,371 |
| Cash and cash equivalents | | **$ 39,503,944** | $ 3,968,371 |
| Cash held in trust | | **237,141** | - |
| | | **$ 39,741,085** | $ 3,968,371 |

See accompanying notes to the interim condensed consolidated statements

## 1. Nature of Operations

WeedMD Inc. is a publicly listed company on the TSX Venture Exchange ("TSXV") that trades under the ticker symbol "WMD". The registered and head office of the Company is located at 250 Elm Street, Aylmer, Ontario, N5H 2M8.

The condensed consolidated interim financial statements of WeedMD Inc. as at June 30, 2018 are comprised of WeedMD Inc. and its wholly-owned subsidiaries: WeedMD Rx Inc. ("WeedMD Rx"), WeedMD Rx Ltd., WMD Ventures Inc. and WeedMD Capital Corp. (collectively, "WeedMD" or the "Company"). WeedMD Rx Ltd. and WMD Ventures Inc. are currently dormant.

WeedMD Rx is licensed to produce and sell cannabis under the federal Access to Cannabis for Medical Purposes Regulations ("ACMPR"). On June 16, 2017, the Company's license was extended to April 24, 2020.

These condensed interim consolidated statements were approved by the board of directors for issue on August 27, 2018.

## 2. Basis of preparation

a) Statement of Compliance:

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34"). The condensed interim financial statements do not include all of the information required for full annual financial statements and therefore should be read in conjunction with the audited annual financial statements of WeedMD for the years ended December 31, 2017 and 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

b) Basis of preparation:

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and biological assets, which are measured at fair value and inventory which is recorded at the lower of cost and net realizable value.

The functional currency of the Company and its subsidiaries is the Canadian Dollar, which is also the presentation currency of the consolidated financial statements.

c) Accounting estimates and judgements

The preparation of these 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, valuation and recoverability of deferred taxes, and impairment of its financial and non-financial assets. The Company is subject to a number of risks and uncertainties associated with the going concern assumption and exercises judgment to assess the uncertainties relating to the determination of the Company's ability to continue as a going concern.

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, valuation of net assets acquired in qualifying transaction, and the valuation of biological assets and inventory. In calculating the value of the biological assets, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plants. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost versus net realizable value. Management has determined that judgments, estimates and assumptions reflected in these consolidated financial statements are reasonable.

## 3. Significant Accounting Policies

The accounting policies applied by the Company in these condensed interim consolidated financial statements are the same as those applied by the Company in its consolidated financial statements for the year ended December 31, 2017, except for:

a) Financial Instruments

Investments

Investments without significant influence are classified and measured as fair value through profit and loss (“FVTPL”).

The Company classifies its fair value measurements by reference to the following fair value measurement hierarchy:
1. Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
2. Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
3. Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Investments are classified as level 1 in the fair value hierarchy.

b) Inventory

Inventories of harvested finished goods are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell at harvest, which becomes deemed cost. Any subsequent post-harvest costs, direct and indirect, are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. “Cost of goods sold” on the consolidated statements of loss and comprehensive income includes the direct and indirect costs capitalized to inventory that are expensed upon the sale of inventory.

Plants that are in pre-harvest are considered biological assets and are recorded at fair value less cost to sell at their point of harvest. As they continue to grow through the pre-harvest stages, a corresponding non-cash unrealized gain on changes in fair value of biological assets is recognized. At harvest, the biological assets are transferred to inventory at their fair value less cost to sell which becomes the deemed cost of inventory. Inventory is later expensed as Fair value changes in biological assets included in inventory sold. Production costs includes all direct and indirect pre-harvest production costs. Cost of goods sold includes all post-harvest direct and indirect costs that were expensed in the period.

c) Biological assets

Biological assets consisting of cannabis plants are measured at fair value less costs to sell up to the point of harvest. Determination of the fair values of the biological assets requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the cannabis plants up to the point of harvest, costs to convert the harvested plants to finished goods, sales price, risk of loss and expected remaining future yields for the plants. The valuation of biological assets at the point of harvest is the cost basis for all cannabis-based inventory and thus any critical estimates and judgements related to the valuation of biological assets are also applicable for inventory. Unrealized gains or losses arising from growth or changes in fair value less costs to sell during the period are included in the gross profit in the statement of loss and other comprehensive loss in “Unrealized gain on changes in fair value of biological assets”. Realized gains or losses arising from the fair value changes in biological assets included in inventory sold are included in gross profit in the statement of loss and other comprehensive loss in “Fair value losses on changes in biological assets included in inventory sold”. These realized gains or losses include the component of costs of finished goods inventory sold during the period which originally arose by virtue of the fair value accounting of biological assets. “Production costs” on the consolidated statements of loss and comprehensive income includes the direct and indirect costs pertaining to the production of biological assets which are expensed as incurred.

d) New Standards Adopted in Current Year

IFRS 2 ‘Share-based Payment’ was issued by the IASB in June 2016. These amendments provide clarification on how to account for certain types of share-based transaction. The amendments are effective for the Company on January 1, 2018. The adoption of this amendment did not have a material impact on the Company’s condensed interim consolidated financial statements.

IFRS 9 ‘Financial Instruments: Classification and Measurement’, introduces new requirements for the classification and measurement of financial instruments, a single forward-looking expected loss impairment model and a substantially reformed approach to hedge accounting. IFRS 9 is effective for the Company on January 1, 2018. The adoption of this amendment did not have a material impact on the Company’s condensed interim consolidated financial statements.

IFRS 15 ‘Revenue from Contracts with Customers’ was issued by the IASB in June 2014. The objective of IFRS 15 is to provide a single, comprehensive revenue recognition model for all contracts with customers. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. It also contains new disclosure requirements. Under IFRS 15, revenue from the sale of medicinal cannabis is recognized at a point in time when control over the goods have been transferred to the customer. The Company transfers control and satisfied its performance obligation upon delivery and acceptance by the customer, which is consistent with the Company’s previous revenue recognition policy under IAS 18. IFRS 15 is effective for the Company on January 1, 2018. The adoption of this amendment did not have a material impact on the Company’s condensed interim consolidated financial statements. Note that as a result of IFRS 15, the disaggregated revenue has been disclosed in Note 18.

e) New Accounting Standards to be Adopted in the Future

At the date of authorization of these condensed interim consolidated financial statements, the IASB and IFRIC has issued the following new and revised Standards which are not yet effective for the relevant reporting periods and which the Company has not early adopted.

- IFRS 16 'Leases' was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Company is currently assessing and still evaluating what impact the application of this standard will have on the condensed interim consolidated financial statements of the Company.

## 4. Investments

On March 14, 2018, a subsidiary of the Company purchased 1,666,667 common shares of Scorpion Resources Inc., to be renamed Blockstrain Technology Corp. ("Blockstrain"), for a total subscription price of $500,000. Blockstrain delivers a secure and immutable blockchain platform to establish global certainty for cannabis strains and their ownership. For the six months ended June 30, 2018, the Company recorded the investment at FVTPL resulting in an unrealized loss of $33,333 being recorded on the Interim Condensed Consolidated Statements of Loss and Other Comprehensive Loss.

On March 16, 2018, a subsidiary of the Company purchased 2,500,000 common shares of Snipp Interactive Inc. for a total subscription price of $250,000. For the six months ended June 30, 2018, the Company recorded the investment at FVTPL resulting in an unrealized loss of $112,500 being recorded on the Interim Condensed Consolidated Statements of Loss and Other Comprehensive Loss.

## 5. Biological Assets and Inventory

The Company's biological assets consists of cannabis plants.

The change in the carrying value of the Company's biological assets are as follows:

| | |
|---|---|
| **Carrying amount, January 1, 2017** | **$ 598,755** |
| Changes in fair value less costs to sell due to biological transformation | 2,634,024 |
| Biological assets sold | (242,003) |
| Transferred to inventory upon harvest | (2,630,687) |
| **Carrying amount, December 31, 2017** | **$ 360,089** |
| Changes in fair value less costs to sell due to biological transformation | 3,500,211 |
| Biological assets sold | (1,572,870) |
| Transferred to inventory upon harvest | (1,371,202) |
| **Carrying amount, June 30, 2018** | **$ 916,228** |

All of the plants are to be harvested as agricultural produce or to be sold as live plants. All of the plants that are to be harvested are between one and thirteen weeks from harvest. Plants to be sold as live plants are zero to two weeks away from sale. The carrying value of plants to be harvested is $907,370 and the carrying value of plants to be sold as live plants is $8,858.

Biological assets are classified as level 3 in the fair value hierarchy. There have been no transfers between levels.

To determine the fair value the Company:

- Multiplies the expected yield in grams per plant and the expected selling price per gram;
- Deducts selling costs and remaining costs to be incurred in order to complete the harvest and bring the harvested product to finished inventory from the expected selling price; and
- Applies a discount rate based on the number of days that the Company expects it will take to sell the yield from the biological assets.

The significant assumptions used in determining the fair value of cannabis plants are as follows:

- Wastage of plants based on their various stages;
- Yield by plant;
- Percentage of costs incurred to date compared to the total costs to be incurred are used to estimate the fair value of an in-process plant;
- Expected selling price per gram of harvested cannabis; and
- Percentage of costs incurred for each stage of plant growth was estimated.

The Company estimates harvest yields for the plants at various stages of growth. As of June 30, 2018, it is expected that the Company's biological assets that are to be harvested will yield approximately 687,040 grams (December 31, 2017: 228,883 grams), with a selling price ranging from $3.28 to $6.56 per gram (December 31, 2017 $2.71 to $5.41 per gram). Selling prices used in the valuation are based on the historical weighted average selling price of $5.04 (December 31, 2017: $5.51 per gram) of all dried cannabis sales and can vary based on the different strains produced. The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the gain or loss on biological assets. The Company performed a sensitivity analysis on the fair value of biological assets using the most sensitive input to the fair value methodology and notes that a 10% decrease or increase in selling prices would result in a $269,345 decrease or increase (December 31, 2017: $56,458 decrease or increase) in the fair value of the biological assets. Similarly, the Company performed a sensitivity analysis to determine a 15% decrease or increase in yield by plant. The decrease or increase in yield would result in a $138,526 decrease or increase (December 31, 2017: $32,293 decrease or increase) in the fair value of biological assets.

Inventory is comprised of $3,208,090 of harvested finished goods, $46,600 of harvested work-in-progress and $259,361 of cannabis extracts. Inventory is valued at the lower of cost and net realizable value.

## 6. Property, plant and Equipment

Total amortization for the six months ended June 30, 2018 was $208,036 (June 30, 2017 - $210,620), of which $36,080 (June 30, 2017 - $36,111) has been capitalized in inventory, $139,574 (June 30, 2017 - $162,944) is included within production costs, and $32,382 (June 30, 2017 - $11,565) is included in amortization expense.

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

As at June 30, 2018, building improvement additions with a carrying value of $12,684,467 (December 31, 2017: $2,758,780), were not yet available for use. As such, the cost of the assets has been capitalized but not yet amortized.

During the six months ended June 30, 2018, the Company incurred other capital expenditures totalling $844,439 (December 31, 2017: $810,305).

## 7. Convertible Debentures

| | Debentures | Warrants (Contributed surplus) | Conversion Feature | Total |
|---|---|---|---|---|
| **Balance, December 31, 2016** | **$ 6,390,951** | **$ 325,744** | **$ 181,217** | **$ 6,897,912** |
| Accrued interest on debentures | 266,520 | - | - | 266,520 |
| Accretion of debentures | 942,529 | - | - | 942,529 |
| Conversion of debentures | (7,600,000) | (325,744) | (181,217) | (8,106,961) |
| *Balance of 2016 issuance* | - | - | - | - |
| Issuance – November 2, 2017 | 12,147,121 | - | 2,852,879 | 15,000,000 |
| Less: Issuance Costs: | | | | |
| Cash commisions and transaction costs | (903,426) | - | (212,179) | (1,115,605) |
| Fair value of compensation warrants | (141,163) | - | (33,154) | (174,317) |
| Total, net of issuance costs | 11,102,532 | - | 2,607,546 | 13,710,078 |
| Accretion of debentures | 249,139 | - | - | 249,139 |
| Accrued interest | 196,650 | - | - | 196,650 |
| Cash payment of interest | (196,650) | - | - | (196,650) |
| **Balance, December 31, 2017** | **$ 11,351,671** | **$ -** | **$ 2,607,546** | **$ 13,959,217** |
| Conversion into shares | (9,631,594) | - | (2,120,803) | (11,752,397) |
| Accretion of debentures | 554,509 | - | - | 554,509 |
| **Balance, June 30, 2018** | **$ 2,274,586** | **$ -** | **$ 486,743** | **$ 2,761,329** |

a) *2016 convertible debentures:*

On November 8, 2016, WeedMD closed a $7,600,000 convertible debenture unit financing (the "Convertible Debenture Financing") with a syndicate of agents (the "Agents"). Pursuant to the Convertible Debenture Financing, WeedMD issued 7,600 units (the "Units"), with each Unit comprised of one debenture (a "Debenture") with a principal amount of $1,000 and a term of six months, and 1,333 Share purchase warrants (the "Warrants").

On April 13, 2017, the Debentures were fully converted into 10,133,328 Shares of the Company (Note 8) and no interest was required to be paid.

b) *2017 convertible debentures:*

On November 2, 2017 the Company closed a private placement of 15,000 convertible unsecured debentures (the “Unsecured Convertible Debentures”) at a price per Unsecured Convertible Debenture of $1,000 for gross proceeds of $15,000,000 (the “Offering”) with a syndicate of underwriters led by Eight Capital and including Haywood Securities Inc. and Mackie Research Capital Corporation (together with Eight Capital, the “Underwriters”).

The Unsecured Convertible Debentures bear interest at a rate of 8.0% 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 November 1, 2019 (the “Maturity Date”).

The Unsecured Convertible Debentures will be convertible at the option of the holder into Shares of the Company at any time prior to the close of business on the Maturity Date at a conversion price of $1.20 per Share (the “Conversion Price”). At any time after March 3, 2018, the Company may force the conversion of all of the principal amount of the then outstanding Unsecured Convertible Debentures if the volume-weighted average price of the Common Shares on the TSXV for 10 consecutive trading days equals or exceeds $2.00.

The Company also issued to the Underwriters 375,000 compensation warrants with a fair value of $174,317. Each compensation warrant is exercisable into one Share at an exercise price of $1.20 per share for a period of up to 24 months following the close of the Offering (Note 9(c)). The Company paid $1,115,605 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 and conversion feature components in proportion to their initial carrying amounts.

c) *Conversion of debentures:*

On March 8, 2018, $4,000,000, of the Unsecured Convertible Debentures with a carrying value of $3,104,966, were converted into 3,333,333 Shares at a conversion price of $1.20 per Share.

On April 17, 2018, $1,000,000, of the Unsecured Convertible Debentures with a carrying value of $788,485, were converted into 833,333 Shares at a conversion price of $1.20 per Share.

On May 14, 2018, $7,200,000, of the Unsecured Convertible Debentures with a carrying value of $5,738,140, were converted into 6,000,000 Shares at a conversion price of $1.20 per Share.

**8. Share Capital**

**Authorized**
Unlimited common shares

| | Note | Number of Shares | Amount |
|---|---|---|---|
| **Balance as at January 1, 2017** | | **36,728,573** | **9,031,463** |
| Conversion of debentures | 7(a) | 10,133,328 | 7,781,217 |
| **Balance before completion of Qualifying Transaction** | | **46,861,901** | **16,812,680** |
| Shares split 1:1.25 | | 11,715,477 | - |
| Fair value of shares issued in reverse take over | | 1,939,682 | 1,163,809 |
| Shares issued for services | 8(f),(g) | 1,241,667 | 1,048,750 |
| Shares issued for convertible debenture warrants exercise | 9(a) | 11,674,735 | 9,792,984 |
| Shares issued for 2016 debenture financing warrants exercise | 9(b) | 858,129 | 881,656 |
| Shares issued for broker compensation option exercise | 9,10 | 616,000 | 700,700 |
| Shares issued for stock option exercise | 10 | 323,400 | 314,738 |
| Shares issued as down payment to the Greenhouse Expansion | 8(h) | 3,000,000 | 3,299,341 |
| Shares issued for branding agreement | 8(i) | 19,231 | 16,665 |
| | | **78,250,222** | **34,031,323** |
| Less: share issue costs | | | (1,785) |
| **Balance as at December 31, 2017** | | **78,250,222** | **$34,029,538** |
| Conversion of debentures | 7(c) | 10,166,666 | 11,752,398 |
| Shares issued upon prospectus offering | 8(j) | 16,046,511 | 26,533,999 |
| Shares issued for stock options exercise | 10(k) | 354,916 | 352,662 |
| Shares issued for warrant exercise pending at December 31, 2017 | 9(a) | 124,975 | |
| Shares issued for warrants exercised | 9(h) | 2,222,127 | 2,111,908 |
| Shares issued for compensation warrants exercise | 9(g) | 129,000 | 214,762 |
| Share issuance cost | | | (2,077,971) |
| **Balance as at June 30, 2018** | | **107,294,417** | **$72,917,296** |

a) On May 30, 2016, the Company closed a private placement equity financing of $441,749 and issued 588,999 Shares at a price of $0.75 per share.

b) On September 19, 2016, the Company closed a private placement equity financing of $803,242 and issued 1,070,990 Shares at a price of $0.75 per share.

c) On September 20, 2016, the Company issued 200,000 Shares as debt settlement of consultant fees to third parties at a fair value of $0.75 per share.

d) On September 20, 2016, the Company issued 89,001 Shares in exchange for services at a fair value of $0.75 per share.

e) On October 9, 2016, the Company engaged a consulting firm for their services to be rendered over a period of 12 months. The debt arising from this transaction of $240,000 was settled through issuance of 320,000 Shares at a fair value of $0.75 per share.

f) On April 26, 2017, the Company issued 116,667 Shares at a price of $0.60 per share for services.

g) On June 14, 2017, the Company issued 1,125,000 compensation shares at a price of $0.87 per share to its key management personnel.

h) On November 21, 2017, the Company entered into a purchase option agreement for the potential purchase of the land and buildings leased for the Greenhouse Expansion. The Company issued 3,000,000 Shares from treasury as down payment at a price of $1.56 per share, with the Shares subject to four-month regulatory hold in addition to a 36-month lock-up and leak-out agreement with monthly releases. A discount for trading restrictions has been applied for the Shares, 19% applied to Shares released within twelve months, 34% for twenty-four months, and 44% for three years. The resulting fair value of the Shares is $3,299,341. The Company also issued 3,000,000 share purchase warrants, with each warrant exercisable into a common share of the Company at an exercise price $1.56 per share for a period of five years (Note 10). The fair value of the property to be received is not reliably measured, thus the transaction has been measured by reference to the fair value of equity instruments granted.

i) On November 15, 2017, WeedMD and TS BrandCo Holdings Inc. (“Tokyo Smoke”), signed a definitive five-year agreement whereby WeedMD will distribute two strains of cannabis under the VdP brand in Canada. There are two successive automatic renewal terms of one year each.

   In connection with the agreement, the Company has agreed to issue to Tokyo Smoke 76,923 Shares of the Company to be distributed in tranches, of which the first tranche of 19,231 Shares of the Company have been issued with the remaining tranches to be distributed throughout the following fiscal year.

   In addition, the Company has agreed to issue to Tokyo Smoke 50,000 warrants with an exercise price of $1.49 per common share of the Company exercisable for two years, of which 25,000 warrants will vest and be exercisable upon the cumulative shipments of 150 kilograms of dried cannabis (or the equivalent amount of cannabis oil), and the other 25,000 warrants will vest and be exercisable upon the cumulative shipments of 300 kilograms of dried cannabis (or the equivalent amount of cannabis oil). For the six months ended June 30, 2018, no warrants have vested.

j) On January 11, 2018, the Company closed a short form prospectus offering with a total of 16,046,511 units of the Company ("Units") sold at a price of $2.15 per Unit (the "Issue Price") for aggregate gross proceeds of $34,500,000 (the "Prospectus Offering").

   Each Unit consists of one Share of the Company and one-half of one Share purchase warrant (each whole warrant a “Warrant”). Each Warrant entitles the holder thereof to purchase one Share at an exercise price of $2.90, until January 11, 2020, with early acceleration in the event the weighted average price of the Shares on the TSXV is equal to or greater than $4.20 for any 20 consecutive trading days.

   As consideration for its services, the Underwriters received a cash commission equal to 6% of the gross proceeds of the Offering. The Company also issued a total of 470,890 compensation options to the Underwriters. Each compensation option is exercisable into one Unit at the Issue Price until January 11, 2020 (see Note 10(h)).

## 9. Warrants

| | Note | Number of Warrants | Exercise Price |
|---|---|---|---|
| **Balance as at January 1, 2017** | | 10,130,800 | |
| Increase in warrants due to share split 1:1.25 | | 2,532,700 | |
| Warrants issued (April 13, 2017) | 9(b) | 2,224,986 | $ 0.80 |
| Broker warrants issued (November 2, 2017) | 7,9(c) | 375,000 | $ 1.20 |
| Greenhouse Expansion warrants issued | 8(h),9(d) | 3,000,000 | $ 1.56 |
| Debenture warrants exercised | 9(a),8 | (11,674,735) | |
| Broker compensation warrants issued | 10(f) | 308,000 | $ 0.80 |
| Broker compensation warrants exercised | | (308,000) | |
| April 13, 2017 warrants exercised | 9(b) | (858,129) | |
| Warrant exercise, shares to be issued | 9(a) | (124,975) | |
| **Balance as at December 31, 2017** | | 5,605,647 | |
| Debenture warrants expired | 9(e) | (8,521) | |
| Warrants issued (January 11, 2018) on prospectus offering | 9(f) | 8,023,256 | $ 2.90 |
| Broker compensation warrants exercised | 9(g) | (129,000) | |
| Warrants exercised | 9(h) | (2,222,127) | |
| **Balance as at June 30, 2018** | | 11,269,255 | |

a) In connection with the Convertible Debenture Financing (Note 7(a)) closed on November 8, 2016, WeedMD issued 10,130,800 warrants, exercisable into 10,130,800 Shares of WeedMD at an exercise price of $1.00 per share for a period of two years from the completion of a Liquidity Event by WeedMD. The fair value of the warrants was initially estimated as $383,128 with reference to the Black-Scholes pricing model.

   On December 5, 2017, the Company announced an acceleration of expiry date of the above warrants to January 8, 2018 as the 20 consecutive trading days volume weighted average price was greater than $1.20 as of December 4, 2017.

   In the year ended December 31, 2017, 9,339,791 warrants were exercised at the exercise ratio of 1:1.25 defined by the Qualifying Transaction, representing 11,674,735 Shares issued and proceeds of $9,439,771, which includes $98,880 for 124,975 Shares to be issued.

b) On April 13, 2017, in conjunction with the Transaction the Company issued 2,224,986 warrants to various parties that participated in the Debentures financing (Note 7), with exercise price of $0.80 and for a period of two years following the date of issuance. The fair value of the warrants was estimated as $506,000 with reference to the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 85.18%; (iii) risk-free rate of 0.74%; (iv) unit price of $0.60; (v) forfeiture rate of 0; (vi) expected life of two years. Expected volatility is based on the historical volatility of other companies that the Company considers comparable.

c) On November 2, 2017, in connection with the Company's Unsecured Convertible Debenture, the Company issued to the Underwriters 375,000 compensation warrants (Note 7(b)). Each compensation warrant is exercisable into one Share at the Conversion Price $1.20 for a period of 24 months following the closing of the Offering. The fair value of the warrants was estimated as $174,317 with reference to the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 82.21%; (iii) risk-free rate of 1.43%; (iv) unit price of $1.20; (v) forfeiture rate of 0; (vi) expected life of two years. Expected volatility is based on the historical volatility of other companies that the Company considers comparable.

d) Pursuant to a purchase option agreement the Company entered into on November 22, 2017 to acquire the land and buildings leased for the Greenhouse Expansion, the Company issued 3,000,000 share purchase warrants, with each warrant exercisable into a Share of the Company at an exercise price $1.56 per share for a period of five years. The fair value of the property to be received is not reliably measured, thus the transaction has been measured by reference to the fair value of equity instruments granted. The fair value of the warrants was estimated to be $2,593,009 with reference to the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 95.11%; (iii) risk-free rate of 1.03%; (iv) unit price of $1.56; (v) forfeiture rate of 0; (vi) expected life of five years.

e) On January 8, 2018, 8,521 warrants expired as a result of the acceleration announced on December 5, 2017.

f) On January 11, 2018, in connection with the private placement (Note 8(j)) the Company issued a total of 8,023,256 warrants. Each warrant is exercisable into one Share at $2.90 until January 11, 2020. The fair value of the warrants was estimated to be $7,966,000 with reference to the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 76.4%; (iii) risk-free rate of 1.84%; (iv) unit price of $2.90; (v) forfeiture rate of 0; (vi) expected life of two years.

g) For the six months ended June 30, 2018, 129,000 broker compensation warrants were exercised with an exercise price of $1.20.

h) For the six months ended June 30, 2018, 2,222,127 shares issued upon exercise of warrants for proceeds of $1,771,147, with a weighted average exercise price of $0.80.

Warrant pricing models require the input of subjective assumptions and changes in the input assumptions can materially affect their fair value estimated. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. The expected life in years represents the period of time that warrants issued are expected to be outstanding. The risk-free rate was based on the zero-coupon government of Canada bonds with a remaining term equal to the expected life of the warrants. The Company used the same assumptions to calculate options (Note 10).

## 10. Contributed Surplus

| | |
|---|---|
| **Balance as at January 1, 2017** | **$ 385,000** |
| Stock options issued and vested | 1,021,110 |
| Fair value stock options RTO | 56,711 |
| Compensation options exercised | (269,500) |
| Stock options exercised | (100,742) |
| **Balance as at December 31, 2017** | **1,092,579** |
| Stock options issued and vested | 713,278 |
| Stock options exercised | (98,325) |
| Compensation options issued | 439,000 |
| **Balance as at June 30, 2018** | **$ 2,146,532** |

***Stock options***

The Corporation has established a stock option plan for its directors, officers, employees and consultants under which the Corporation may grant options from time to time to acquire a maximum of 10% of the issued and outstanding Shares. The exercise price of each option granted under the plan shall be determined by the Board of Directors.

At June 30, 2018, 7,577,316 Shares have been reserved for stock and broker options as follows:

| Exercise Price | Number of options outstanding | Number of options exercisable | Weighted average remaining life (years) | Weighted average exercise price |
|---|---|---|---|---|
| $ 0.60 | 132,000 | 132,000 | 0.79 | |
| $ 0.60 | 2,893,926 | 2,465,713 | 2.79 | |
| $ 0.80 | 137,500 | 106,250 | 0.79 | |
| $ 0.70 | 200,000 | 200,000 | 1.22 | |
| $ 0.86 | 100,000 | 100,000 | 1.06 | |
| $ 2.15 | 470,890 | 470,890 | 1.53 | |
| $ 2.36 | 3,013,000 | 376,625 | 4.54 | |
| $ 1.80 | 500,000 | - | 4.88 | |
| $ 1.74 | 130,000 | - | 4.97 | |
| | 7,577,316 | 3,851,478 | 3.45 | $ 1.50 |

As at June 30, 2018, the Company's outstanding stock options consists the following:

| | Note | Number of options | Fair Value |
|---|---|---|---|
| **Balance as at January 1, 2017** | | **352,000** | **$ 385,000** |
| Increase in broker compensation options due to share split 1:1.25 | | 88,000 | - |
| Stock options granted in reverse takeover | | 184,832 | 56,711 |
| Stock options granted | 10(a) | 3,000,000 | 789,413 |
| Stock options granted | 10(b) | 312,500 | 60,393 |
| Stock options granted | 10(c) | 400,000 | 125,671 |
| Stock options granted | 10(d) | 112,500 | 45,633 |
| Stock options exercised | 10(e) | (323,400) | (100,742) |
| Broker compensation options exercised | 10(f) | (308,000) | (269,500) |
| **Balance as at December 31, 2017** | | **3,818,432** | **$1,092,579** |
| Stock options granted | 10(g) | 3,013,000 | 638,038 |
| Stock options exercised | 10(k) | (354,916) | (98,325) |
| Stock options cancelled | | (90) | - |
| Broker compensation options granted | 10(h) | 470,890 | 439,000 |
| Stock options granted | 10(i) | 500,000 | - |
| Stock options granted | 10(j) | 130,000 | - |
| Stock based compensation | | - | 75,240 |
| **Balance as at June 30, 2018** | | **7,577,316** | **$2,146,532** |

a) On April 14, 2017, the Company granted 3,000,000 stock options to management, employees, directors and consultants of the Company. 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 75.45%; (iii) risk-free interest rate of 0.94%; (iv) share price of $0.60; forfeiture rate of nil; and (v) expected life of 48 months. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. 2,143,574 of the options granted vested immediately, and 856,426 of the options vest over 24 months. The total fair value of the options is $1,004,478, of which $789,413 has been recorded as share-based compensation expense in the year ended December 31, 2017. The Company has recorded $71,688 as share based compensation expense in the six months ended June 30, 2018.

b) On April 14, 2017, the Company granted 312,500 options to consultants. 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 85.17%; (iii) risk-free interest rate of 0.74%; (iv) share price of $0.60; forfeiture rate of nil; and (v) expected life of 24 months. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. 250,000 of the options granted vested immediately, and 62,500 of the options vest over 24 months. The total fair value of the options is $71,050, of which $60,393 has been recorded as share-based compensation expense in the year ended December 31, 2017. The Company has recorded $3,552 as share based compensation expense in the six months ended June 30, 2018.

c) On September 17, 2017, the Company granted 400,000 options to consultants. The fair value of services received is not reliably measured, and thus the value of the services has been measured by reference to the fair value of equity issued. 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 78.86%; (iii) risk-free interest rate of 1.73%; (iv) share price of $0.72; forfeiture rate of nil; and (v) expected life of 60 months. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. Pursuant to the stock options agreement, 50% of the 400,000 options will be vested when the stock price reaches a weighted average price of $1.20; the remaining 50% of the 400,000 options will be vested when 50% of the total outstanding warrants of the company, or 7,443,243 warrants get exercised. The vesting condition was realized during the year and the Company has recorded the fair value of $125,671 of the options granted as share-based compensation expense in the year ended December 31, 2017.

d) On July 23, 2017, the Company granted 112,500 options to consultants. 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 78.10%; (iii) risk-free interest rate of 1.73%; (iv) share price of $0.91; forfeiture rate of nil; and (v) expected life of 60 months. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. The Options vest immediately, and the Company has recorded the fair value $45,633 of the options granted as share-based compensation expense in the year ended December 31, 2017.

e) In the year ended December 31, 2017, a total of 323,400 stock options were exercised for 323,400 Shares (Note 8) with $213,996 proceeds received. Shares issued upon exercise of options had a fair value of $2.32 at the time of exercise.

f) In the year ended December 31, 2017, 308,000 broker compensation options were exercised into one Share and one Share purchase warrant exercisable into 308,000 Shares. The share purchase warrants were issued and exercised on the same date. Total proceeds for the exercise of the broker compensation options and resulting warrants was $431,200.

g) On January 12, 2018, the Company granted 3,013,000 stock options to its directors, officers, employees, and consultants. Each option is exercisable into one common share at an exercise price of $2.36, until January 12, 2023, and vest quarterly over 24 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 93.3%; (iii) risk-free interest rate of 2.01%; (iv) share price of $2.36; forfeiture rate of nil; and (v) expected life of 60 months. The total fair value of the options is $5,104,306 of which $638,038 has been recorded as share-based compensation expense in the six months ended June 30, 2018.

h) On January 11, 2018, in connection with the private placement (Note 8(j)) the Company issued a total of 470,890 compensation options to the Underwriters. Each compensation option is exercisable into one Unit at the Issue Price until January 11, 2020. The fair value of the warrants was estimated to be $439,000 with reference to the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 76.4%; (iii) risk-free rate of 1.84%; (iv) unit price of $2.15; (v) forfeiture rate of 0; (vi) expected life of two years.

i) On May 18, 2018, the Company granted 500,000 options to consultants. Each option is exercisable into one common share at an exercise price of $1.80, until May 17, 2023, and vest quarterly over 24 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 86.4%; (iii) risk-free interest rate of 2.07%; (iv) share price of $1.80; forfeiture rate of nil; and (v) expected life of 60 months. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. The total fair value of the options is $644,418. Total share-based compensation for the six months ended June 30, 2018 is $Nil, as the options have not vested.

j) On June 18, 2018, the Company granted 130,000 options to employees. Each option is exercisable into one common share at an exercise price of $1.74, until June 17, 2023, and vest quarterly over 24 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 86.4%; (iii) risk-free interest rate of 1.90%; (iv) share price of $1.74; forfeiture rate of nil; and (v) expected life of 60 months. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. The total fair value of the options is $155,286. Total share based compensation for the six months ended June 30, 2018 is $Nil, as the options have not vested.

k) During the six months ended June 30, 2018, 354,916 stock options were exercised with a weighted average exercise price of $0.71, for net proceeds of $254,337.

## 11. Income taxes

The Company has no income tax provision due to incurring an operating loss. The Company has $13,426,057 of non-capital tax loss for which the benefit has not been recognized.

## 12. Earnings per Share

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **June 30, 2018** | June 30, 2017 | **June 30, 2018** | June 30, 2017 |
| **Basic and Diluted Earnings per Share:** | | | | |
| Loss attributable to holders of shares | **$ (1,763,007)** | $(4,759,845) | **$ (3,084,504)** | $ (5,952,319) |
| Weighted average number of shares outstanding | **104,248,352** | 56,878,761 | **100,213,437** | 46,859,330 |
| | **$ (0.02)** | $ (0.08) | **$ (0.03)** | $ (0.13) |

## 13. Change in Non-cash Operating Working Capital

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Trade and other receivables | **$ (194,757)** | $ 6,931 |
| Prepaid expenses and deposits | **(429,171)** | (29,941) |
| Inventory | **(178,695)** | (402,548) |
| Commodity tax receivable | **(1,689,887)** | (323,419) |
| Unearned revenue | **(172,286)** | - |
| Accounts payable and accrued liabilities | **1,621,559** | 168,075 |
| | **$ (1,043,237)** | $ (580,902) |

## 14. Related Party Transactions

The Company's key management includes CEO, CFO, Chief Scientific Officer ("CSO"), Directors and the Secretary of the Board. Transactions with related parties include:

- Salaries and service fee;
- Loans payable without bearing interest and due at demand

The amounts due to related parties are recorded at the exchange amounts as agreed upon by the related parties under contracts signed with them, non-interest bearing (except promissory notes), unsecured and with no fixed repayment terms.
The balances outstanding are as follows:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Accounts payable and accrued liabilities | **$ 9,517** | $ 77,399 |
| | **$ 9,517** | $ 77,399 |

For the three and six months ended June 30, 2018 and 2017, total remuneration/service fees paid, and interest paid to the key management is as follows:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **June 30, 2018** | June 30, 2017 | **June 30, 2018** | June 30, 2017 |
| Interest paid to related parties | **$ -** | - | **$ -** | 222 |
| Share based compensation | **359,995** | 978,750 | **359,995** | 978,750 |
| Salaries | **151,075** | 79,740 | **311,572** | 173,283 |
| Fees | **63,525** | 58,257 | **97,137** | 110,000 |
| | **$ 574,595** | $ 1,116,747 | **$ 768,704** | $ 1,262,255 |

1,700,000 stock options were issued in the six months ended June 30, 2018 (six months ended June 30, 2017 – 1,125,000) to certain key management personnel with $359,995 recorded in share-based compensation (six months ended June 30, 2017: $987,750).

## 15. Commitments

The lease commitment schedule is outlined in the below table:

| | | |
|---|---|---|
| Within 1 year | $ | 2,437,393 |
| Within 2 years | | 309,940 |
| Within 3 years | | 5,783 |
| Within 4 years | | - |
| Within 5 years | | - |
| | $ | 2,753,116 |

## 16. Financial Instruments

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of financial statements in assessing the extent of risk related to financial instruments.

a) Fair value

The fair value of current financial assets and current financial liabilities approximates their carrying value due to their short-term maturity dates. The fair value of convertible debt approximates carrying value as cash flows are discounted using a market rate of interest.

b) Market risk

Market Risk is the risk that changes in market prices, such as equity prices, foreign exchange rates, and interest rates will affect the Company's income or the value of its financial instruments. The Company is exposed to price risk with respect to marketable securities. The Company's approach to managing equity price risk is to optimize the return from its marketable securities within acceptable parameters for equity price risk. The Company estimates that if the fair value of its marketable securities as at June 30, 2018 had changed by 25%, with all other variables held constant, the unrealized gain (loss) would have decreased or increased to be $151,042.

c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Company is not exposed to any significant credit risk other than trade and other receivables. Cash is generally invested in cash accounts held in Canadian chartered banks and in short-term GICs. Management believes the risk of loss associated with these assets to be remote. Management believes that the credit risk concentration with respect to financial instruments included in assets has been reduced to the extent presently practicable.

d) Liquidity risk

Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate working capital to repay trade creditors as they become due. The Company has total liabilities of $6,949,209 with cash and cash equivalents on hand of $39,503,944. In the opinion of management, the liquidity risk exposure to the Company is low.

e) Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount, such as a debt instrument held with a floating interest rate. In the opinion of management, the cash flow risk exposure to the Company is low.

## 17. Capital Management

The Company includes equity, comprised of common shares, warrant reserve, contributed surplus and deficit, in the definition of capital. The Company’s objectives when managing capital are as follows:

(i) To safeguard the Company’s assets and ensure the Company’s ability to continue as a going concern; and

(ii) To raise sufficient capital to achieve the ongoing business objectives including funding of future growth opportunities and meeting its general and administrative expenditures.

The Company manages its capital structure and makes adjustments to it, based on general economic conditions, the Company’s short-term working capital requirements, and its planned capital requirements and strategic growth initiatives.

The Company's principal source of capital is from the issuance of common shares. In order to achieve its objectives, the Company expects to spend its working capital, when applicable, and raise additional funds as required.

The Company does not have any externally imposed capital requirements.

## 18. Sales

| | **June 30, 2018** | June 30, 2017 |
|---|---|---|
| Dried Cannabis | **$ 1,285,297** | $ 158,669 |
| Cannabis Plants and Seeds | **1,689,670** | 76,500 |
| Extracts | **108,732** | 490 |
| Other | **147,805** | - |
| | **$ 3,231,504** | $ 235,659 |

## 19. Subsequent Events

a) On August 24, 2018, the Company received its first purchase agreement with Nova Scotia to supply product for the adult-use market.

b) On August 15, 2018, the Company entered into a final definitive joint venture agreement with Phivida Holdings Inc., to develop and operate Cannabis Beverages Inc (“CanBev”) at the Strathroy facility. Both companies will be strategic partners in the development of CanBev and WeedMD will be the exclusive supplier of cannabinoid extracts to be used in cannabis infused consumer products.

c) On July 12, 2018, the Company entered into an agreement with British Columbia Liquor Distribution Branch to supply the province with high-quality, branded cannabis products for distribution in the adult-use market.

d) On July 10, 2018, the Company agreed with Hiku Brands Company Ltd. to terminate the previously announced Arrangement Agreement, dated April 19, 2018. In connection with the termination of the Arrangement Agreement, the Company has received a $10 million termination fee.

e) On July 5, 2018, the Company entered into an agreement Alberta Gaming, Liquor & Cannabis Commission to supply the province with high-quality, branded cannabis for distribution in the adult-use market.