CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

WEEDMD INC.

For the three and nine months ended
September 30, 2019 and 2018
(Unaudited - Expressed in Canadian Dollars)

WeedMD Inc.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2019 and 2018

(Unaudited)

CONTENTS

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 condensed interim consolidated 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.

/s/ Keith Merker

Keith Merker, Director
November 29, 2019

WeedMD Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	September 30, 2019	December 31, 2018
		(Unaudited)	*(Audited)*
Assets			
Current:			
Cash and cash equivalents		**$ 13,703,225**	$ 21,223,641
Restricted cash	8	**3,112,650**	100,000
Trade and other receivables		**7,985,137**	2,100,957
Investments	4	**1,040,146**	1,593,251
Prepaid expenses and deposits		**1,970,139**	2,101,028
Commodity tax receivable		**1,171,343**	5,712,320
Inventory	5	**13,259,514**	5,834,051
Biological assets	5	**9,605,182**	2,150,076
		51,847,336	40,815,324
Deposit on property		**-**	5,892,350
Right of use asset	3(b)	**1,668,773**	-
Property, plant and equipment	6	**101,644,072**	41,360,983
Total assets		**$ 155,160,181**	$ 88,068,657
Liabilities			
Current:			
Accounts payable and accrued liabilities		**$ 15,770,329**	$ 10,976,340
Deposit payable	21	**6,500,000**	-
Current portion of lease liability	3(b)	**1,103,861**	-
Current portion of loans and borrowings	8	**1,008,750**	-
		24,382,940	10,976,340
Lease liability	3(b)	**564,912**	-
Loans and borrowings	8	**34,486,847**	-
Unsecured convertible debentures	7	**8,273,613**	-
Total liabilities		**67,708,312**	10,976,340
Shareholders' equity			
Common shares	9	**$ 84,725,155**	$ 79,692,641
Warrants reserve	10	**10,660,529**	8,073,109
Conversion feature	7	**1,673,804**	-
Contributed surplus	11	**10,860,962**	6,613,513
Deficit		**(20,468,581)**	(17,286,946)
Total equity		**87,451,869**	77,092,317
Total liabilities and equity		**$ 155,160,181**	$ 88,068,657

See accompanying notes to condensed interim consolidated financial statements

Commitments (Note 18)

Subsequent events (Note 21)

Approved:

Director *"Keith Merker"*
Signed

Director *"Michael Pesner"*
Signed

WeedMD Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Note	For the three months ended September 30, 2019	2018	For the nine months ended September 30, 2019	2018
Revenue	15	**$ 7,178,110**	$ 2,001,369	**$ 19,439,517**	$ 5,232,873
Excise taxes		**(523,799)**	-	**(1,469,671)**	-
Revenue, net		**6,654,311**	2,001,369	**17,969,846**	5,232,873
Cost of goods sold		**4,751,826**	714,329	**11,915,178**	1,742,831
Gross profit before changes in fair value		**1,902,485**	1,287,040	**6,054,668**	3,490,042
Realized fair value amounts included in inventory sold		**3,459,001**	428,856	**7,515,164**	2,108,052
Unrealized loss (gain) on changes in fair value of biological assets	5	**6,264,425**	(1,931,441)	**(16,142,440)**	(4,062,775)
Gross profit (loss)		**(7,820,941)**	2,789,625	**14,681,944**	5,444,765
General and administrative expenses		**3,927,863**	1,984,577	**11,940,823**	6,207,265
Total share based compensation		**1,035,059**	775,622	**4,392,948**	1,488,900
Finance costs		**217,371**	142,796	**351,627**	1,099,427
Amortization		**297,490**	7,588	**785,346**	39,970
Loss before other income		**(13,298,724)**	(120,958)	**(2,788,800)**	(3,390,797)
Unrealized gain (loss) on investments	4	**(158,300)**	764,574	**(557,633)**	618,741
Interest income		**54,636**	84,509	**164,798**	388,740
Other gains		**-**	237,259	**-**	237,259
Government grants		**-**	113,540	**-**	140,477
Gain on termination of Arrangement Agreement	16	**-**	8,825,736	**-**	8,825,736
Income (loss) and comprehensive income (loss)		**(13,402,388)**	9,904,660	**(3,181,635)**	6,820,156
Basic earnings (loss) per share	13	**$ (0.12)**	$ 0.09	**$ (0.03)**	$ 0.07
Diluted earnings (loss) per share	13	**$ (0.12)**	$ 0.09	**$ (0.03)**	$ 0.06

See accompanying notes to condensed interim consolidated financial statements

WeedMD Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the nine months ended September 30, 2019 and 2018

	Note	Number of Shares	Share Capital	Warrants	Conversion Feature	Contributed Surplus	Deficit	Total
Balance, December 31, 2017 (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	10,166,666	11,752,398	-	(2,120,803)	-	-	9,631,595
Units issued upon Prospectus Offering (restated)*	9(a)	16,046,511	29,352,724	5,147,275	-	-	-	34,499,999
Unit issue cost (restated)*	9(a)	-	(2,627,835)	(460,815)	-	807,000	-	(2,281,650)
Shares issued on broker warrants exercise		142,500	238,293	(67,293)	-	-	-	171,000
Shares issued on warrants exercise		2,347,102	2,111,908	(340,761)	-	-	-	1,771,147
Shares issued on option exercise		800,416	825,017	-	-	(242,382)	-	582,635
Share based compensation		-	-	-	-	1,488,900	-	1,488,900
Net income		-	-	-	-	-	6,820,156	6,820,156
Balance, September 30, 2018 (Unaudited)/(Restated)*		**107,753,417**	**$ 75,682,043**	**$ 8,073,109**	**$ 486,743**	**$ 3,146,097**	**$ (9,571,662)**	**$ 77,816,330**
Balance, December 31, 2018 (Audited)		**111,270,564**	**$ 79,692,641**	**$ 8,073,109**	**$ -**	**$ 6,613,513**	**$ (17,286,946)**	**$ 77,092,317**
Units issued upon property purchase	9(b)	2,500,000	4,251,692	772,469	-	-	-	5,024,161
Shares issued on option exercise	11(i)	434,551	406,232	-	-	(145,499)	-	260,733
Shares issued on warrants exercise	10(e)	225,000	374,590	(104,590)	-	-	-	270,000
Share based compensation	11	-	-	-	-	4,392,948	-	4,392,948
Broker warrants issued for Unscured Convertible Debentures	10(f),(g)	-	-	587,293	-	-	-	587,293
Warrants issued on Unsecured Convertible Debentures	7(b)	-	-	1,551,069	-	-	-	1,551,069
Warrant issue costs	7(b)	-	-	(218,821)	-	-	-	(218,821)
Conversion feature	7(b)	-	-	-	1,948,727	-	-	1,948,727
Conversion feature issue costs	7(b)	-	-	-	(274,923)	-	-	(274,923)
Net income		-	-	-	-	-	(3,181,635)	(3,181,635)
Balance, September 30, 2019 (Unaudited)		**114,430,115**	**$ 84,725,155**	**$ 10,660,529**	**$ 1,673,804**	**$ 10,860,962**	**$ (20,468,581)**	**$ 87,451,869**

*Restatement is for Q4 2018 correction to allocation of unit proceeds all within Equity between Share Capital, Warrants and Contributed Surplus.
See accompanying notes to condensed interim consolidated financial statements

WeedMD Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

For the nine months ended September 30,	Note		2019		2018
Cash flows provided by (used in):					
Operating					
Income (loss)		$	**(3,181,635)**	$	6,820,156
Adjustments for:					
Amortization			**785,346**		162,752
Share based compensation	11		**4,392,948**		1,488,900
Finance costs	7		**351,627**		1,099,427
Fair value changes in biological assets included in inventory sold			**7,515,164**		2,108,052
Unrealized gain on changes in fair value of biological assets and inventory	5		**(16,142,440)**		(4,062,775)
Unrealized loss (gain) on investments			**557,633**		(618,741)
Gain on acquisition of shares			**-**		(137,259)
Gain on future service discounts			**-**		(100,000)
Gain on termination of Arrangement Agreement			**-**		(8,825,736)
		$	**(5,721,357)**	$	(2,065,224)
Change in non-cash working capital	14		**4,987,714**		(2,312,810)
			(733,643)		(4,378,034)
Investing					
Purchase of investments	4		**-**		(1,270,915)
Acquisition of property, plant and equipment	6		**(50,483,193)**		(24,812,941)
Gain on termination of Arrangement Agreement			**-**		8,825,736
			(50,483,193)		(17,258,120)
Financing					
Proceeds from issuance of share capital, net of issue costs	9(a)		**-**		32,243,628
Proceeds from loan financing, net of transaction costs	8		**35,431,472**		-
Proceeds from exercise of warrants	10(e)		**270,000**		1,942,147
Proceeds from exercise of stock options	11(i)		**260,733**		582,635
Proceeds from warrant issue, net of issue costs			**1,919,541**		-
Convertible debentures, net of issue costs			**9,932,517**		-
Interest paid			**(1,105,193)**		(297,749)
			46,709,070		34,470,661
Increase (decrease) in cash			**(4,507,766)**		12,834,507
Cash, beginning of period			**21,323,641**		24,695,152
Cash, end of period		$	**16,815,875**	$	37,529,659
Cash and cash equivalents			**13,703,225**		37,529,659
Restricted Cash			**3,112,650**		-
		$	**16,815,875**	$	37,529,659

See accompanying notes to the condensed interim consolidated financial statements

1. Nature of Operations

WeedMD Inc. is the publicly-traded parent company of WeedMD Rx Inc., a federally-licensed producer and distributor of cannabis products for both the medical and adult-use markets. The Company owns and operates two facilities: CX Industries (“CX”), a wholly-owned subsidiary of WeedMD Inc. operating out of the Company’s 26,000 sq. ft. indoor facility in Aylmer, Ontario (“Aylmer Facility”) which specializes in cannabis extraction and processing and a 158-acre property with up to 550,000 square feet (“sq. ft.”) of state-of-the-art greenhouses and up to 100 acres of outdoor facility located in Strathroy, Ontario. As at September 30, 2019, the Company has 296,000 sq. ft. of indoor (warehouse and hybrid greenhouse) licensed production space and 27 acres of outdoor licensed production space across both sites. WeedMD has a multi-channeled distribution strategy that includes selling directly to medical patients, strategic relationships across the seniors’ market and supply agreements with Shoppers Drug Mart as well as six provincial distribution agencies.

The condensed interim consolidated financial statements of WeedMD Inc. for the three and nine months ended September 30, 2019, are comprised of WeedMD Inc. and its wholly-owned subsidiaries: WeedMD Capital Corp., 2686912 Ontario Limited, 2686913 Ontario Limited, and WeedMD Rx Inc. (“WeedMD Rx”) along with its wholly-owned subsidiaries WeedMD Rx Ltd. and WMD Ventures Inc. (collectively, “WeedMD” or the “Company”). WeedMD Rx Ltd. and WMD Ventures Inc. are currently dormant.

WeedMD Inc., is a publicly listed company on the TSX Venture Exchange (“TSXV”) that trades under the ticker symbol “WMD”. WeedMD Inc. is also listed on the OTCQX under the ticker symbol “WDDMF” and on the Frankfurt Stock Exchange under the ticker symbol “4WE”. The registered and head office of the Company is located at 250 Elm Street, Aylmer, Ontario, N5H 2M8.

Effective October 17, 2018, and subsequently amended on May 31, 2019 to include the outdoor production area, the Company is licensed to produce and sell cannabis under the Cannabis Act, with licences effective to April 24, 2020 and June 8, 2021 for the Company’s two facilities.

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 consolidated 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 consolidated financial statements of WeedMD Inc. for the years ended December 31, 2018 and 2017, which have been prepared in accordance with IFRS. The accounting polices applied are consistent with those applied in the annual consolidated financial statements except for those described in Note 3.

These condensed interim consolidated financial statements were approved by the Board of Directors for issue on November 29, 2019.

b) Basis of presentation:

The condensed interim consolidated financial statements have been prepared on an 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 condensed interim consolidated financial statements.

c) Accounting estimates and judgments

The preparation of these condensed interim 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 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, and the valuation of biological assets and inventory (Note 5). 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 condensed interim consolidated financial statements are reasonable.

3. Significant Accounting Policies

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 Income (Loss) and Comprehensive Income (Loss).

b) New Standards Adopted in Current Year

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, 2018, except for:

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	$	3,098,659
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 September 30, 2019 are disclosed in Note 18. The Company has expensed $605,034 for leases with less than 12 months of lease term at transition for the period ended September 30, 2019.

For the nine months ended September 30, 2019, the Company recognized $68,963, as depreciation on right of use assets. The Company also recognized $23,371 as interest cost on lease liabilities during the three and nine months ended September 30, 2019. The Company had cash outflows of $92,334 related to lease liabilities. Right of use assets held by the Company are classified as buildings, with leases expiring in 2024. In the nine months ended September 30, 2019, the Company recognized additions of $814,158 to right of use assets and corresponding lease liabilities. For the three months ended September 30, 2019 the Company recognized additions of $923,578 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 the three and nine months ended September 30, 2019.

4. Investments

(a) On March 14, 2018, a subsidiary of the Company purchased 1,666,667 common shares of Scorpion Resources Inc., renamed to Blockstrain Technology Corp. and subsequently renamed to TruTrace Technologies Inc. ("TruTrace"), for a total subscription price of $500,000. TruTrace delivers a secure and immutable blockchain platform to establish global certainty for cannabis strains and their ownership. For the nine months ended September 30, 2019, the Company recorded the investment at Fair Value Through Profit and Loss ("FVTPL") resulting in an unrealized gain of $116,667 (nine months ended September 30, 2018: $50,000) being recorded on the Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). For the three months ended September 30, 2019, the Company recorded an unrealized gain of $nil (three months ended September 30, 2018: $83,333). As at September 30, 2019, the Company valued the Shares at $333,334 (December 31, 2018: $216,667). This investment has been classified as level 1 in the fair value hierarchy.

(b) 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 nine months ended September 30, 2019, the Company recorded the investment at FVTPL resulting in an unrealized loss of $25,000 (nine months ended September 30, 2018: $25,000) being recorded on the Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). For the three months ended September 30, 2019, the Company recorded an unrealized loss of $25,000 (three months ended September 30, 2018: unrealized gain of $87,500). As at September 30, 2019, the Company valued the Shares at $100,000 (December 31, 2018: $125,000). This investment has been classified as level 1 in the fair value hierarchy.

(c) On July 3, 2018, the Company was granted 860,000 shares of 3 Sixty Secure Corporation, renamed to 3 Sixty Risk Solutions Ltd. at a fair value of $137,259. The Company has recorded the shares at September 30, 2019, at $81,700 (December 31, 2018: $731,000) resulting in an unrealized loss of $649,300 (nine months ended September 30, 2018: unrealized gain of $593,741) being recorded on the Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss). For the three months ended September 30, 2019, the Company recorded an unrealized loss of $133,300 (three months ended September 30, 2018: unrealized gain of $593,741). This investment has been classified as level 1 in the fair value hierarchy. During the nine months ended September 30, 2019, the Company moved the investment from level 2 to level 1, due to there being quoted prices in active markets for the shares effective January 10, 2019.

(d) As a condition of holding an excise tax licence issued by the CRA, the Company is required to maintain adequate financial security for the duration of the licence. The amount of the security must be sufficient to cover the estimated duty liability for one month under the Excise Act, 2001. On July 18, 2018, the Company purchased 520,000 Government of Canada bonds settled on September 1, 2019 for $524,549 (December 31, 2018: $520,584). The bonds have a yield of 1.59% and matured on September 3, 2019.

On September 3, 2019, the Company purchased Government of Canada Treasury Bills with a face value $525,174 for $524,549. The Treasury Bills have a yield of 1.45% and mature on October 3, 2019. On September 30, 2019, the carrying value of the Treasury Bills was $525,112.

(e) On January 10, 2019, the Company entered into an agreement with Pita Pit Canada and a private company, to form Pioneer Cannabis Corp. ("Pioneer"), a cannabis retail services provider and franchise operation. The Company holds 9.9% with the option to purchase an additional 40.2% if permitted by applicable laws. On April 17, 2019 Pioneer announced that it had signed an agreement to open the first Pioneer store in Ontario. At September 30, 2019, $2,537,850 (December 31, 2018: $462,265) was included in Trade and Other Receivables owing from Pioneer Cannabis Corp. The note bears interest at 6% per annum, calculated daily and compounded monthly.

5. Biological Assets and Inventory

The Company's biological assets consist of cannabis plants.

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

Carrying amount, January 1, 2018	**$**	**360,089**
Changes in fair value less costs to sell due to biological transformation		3,577,760
Biological assets sold		(1,719,620)
Production costs capitalized		4,899,646
Transferred to inventory upon harvest		(4,967,799)
Carrying amount, December 31, 2018	**$**	**2,150,076**
Changes in fair value less costs to sell due to biological transformation		16,142,440
Biological assets sold		(25,902)
Production costs capitalized		7,021,718
Transferred to inventory upon harvest		(15,683,150)
Carrying amount, September 30, 2019	**$**	**9,605,182**

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 fifteen weeks from harvest (December 31, 2018: one and fifteen weeks) and the life cycle is estimated to be one hundred eight to one hundred seventy seven days (December 31, 2018: eighty-one to one hundred thirty-two days). The Company did not hold plants to be sold as live plants as at September 30, 2019 (December 31, 2018: zero to two weeks away from sale).

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

To determine 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:

- Expected yield by plant adjusted for expected wastage – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each cannabis plant;
- Percentage of costs incurred to date compared to the total expected costs to be incurred per stage of growth and over the life of the plant are used to estimate the fair value of an in-process plant at each stage;
- Expected weighted average selling price per gram of harvested cannabis – calculated as the weighted average historical selling price for all strains of cannabis sold by the Company, which is expected to approximate future selling prices;
- Expected number of days remaining in each stage of growth and over the life of the plant; and
- Expected number of days from harvest to sell the yield from biological assets

The Company estimates harvest yields for the plants at various stages of growth. As of September 30, 2019, it is expected that the Company's biological assets that are to be harvested from its greenhouse facility will yield approximately 4,168,400 grams (December 31, 2018: 1,378,941 grams) with a value of $4,031,801 (December 31, 2018: $2,150,076), based on the current stage of growth. The weighted average selling price used in the valuation is $3.20 (December 31, 2018: $5.16 per gram) and is based on a normalized historical average selling price, adjusted based on expected future sales mix, of all dried cannabis sales and can vary based on the different strains produced. Weighted average historical selling price is expected to approximate future selling prices based on the expected mix of future medicinal, adult-use retail and bulk sales. The Company estimates percentage of costs incurred based on the stage of growth, as costs are not incurred evenly throughout the grow cycle. Plants on hand at September 30, 2019, have incurred an average of 32% of costs to harvest (December 31, 2018: 42%).

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 inputs to the fair value methodology. The following table quantifies each significant unobservable input, and also provides the impact of a reasonable increase/decrease that each input would have on the fair value of the Company's greenhouse biological assets.

	September 30, 2019 Valuation inputs	December 31, 2018 Valuation inputs	Percentage change used in sensitivity analysis	Change resulting from reasonable variance as at September 30, 2019	Change resulting from reasonable variance as at December 31, 2018
Selling price	$3.20	$3.41 – 6.33	10%	$1,124,941	$568,863
Yield by plant	85 grams	39 grams	15%	$624,936	$345,600
Average life cycle	108 days	96 days	10%	$121,367	$63,768
Percentage of costs to harvest incurred to date	32%	42%	10%	$132,534	$141,786
Average days to sell	155 days	344 days	15%	$77,072	$61,203

As of September 30, 2019, it is expected that the Company's biological assets that are to be harvested from its outdoor production will yield approximately 7,031,549 grams (December 31, 2018: nil) with a value of $5,573,381 (December 31, 2018: nil), based on the current stage of growth. Selling prices used in the valuation are based on a normalized historical average selling price for cannabis produced in the greenhouse, adjusted based on expected future sales mix of $1.50 of all dried cannabis sales and can vary based on the different strains produced. Plants on hand at September 30, 2019, have incurred an average of 90% of costs to harvest.

The following table quantifies each significant unobservable input, and also provides the impact of a reasonable increase/decrease that each input would have on the fair value of the Company's outdoor biological assets.

	September 30, 2019 Valuation inputs	Percentage change used in sensitivity analysis	Change resulting from reasonable variance as at September 30, 2019
Selling price	$1.50	10%	$888,633
Yield by plant	346 grams	15%	$835,706
Average life cycle	163 days	10%	$135,066
Percentage of costs to harvest incurred to date	90%	10%	$100,735
Average days to sell	274 days	15%	$123,923

Inventory is comprised of the following and is valued at the lower of cost and net realizable value:

	September 30, 2019		December 31, 2018	
	$	**Weight**	$	Weight
Dried cannabis	**$ 6,113,829**	**2,252,090 g**	$ 3,168,767	747,971 g
Harvested work in progress	**738,332**	**335,870 g**	863,903	322,225 g
Extracts				
Resin	**3,840,274**	**78,127 g**	1,000,880	15,446 g
Crude oil	**930,859**	**86,578 g**	229,159	32,750 g
Finished oil	**1,367,509**	**1,161,158 g**	571,342	488,789 g
	6,138,642	**1,325,863 g**	1,801,381	536,985 g
Non-cannabis inventory	**268,711**		-	
	$ 13,259,514		$ 5,834,051	

6. Property, Plant and Equipment

Cost

	Balance at December 31, 2018	Additions	Transfers	Balance at September 30, 2019
Security equipment	$ 1,825,961	$ 1,446,376	$ -	**$ 3,272,337**
Equipment	2,477,185	7,878,197	1,443,976	**11,799,358**
Furniture & fixtures	167,367	158,926	-	**326,293**
Fence & Signage	17,033	408,536	238,079	**663,648**
Software	372,377	933,857	-	**1,306,234**
Intangible assets	-	18,490	-	**18,490**
Land	140,000	1,219,002	2,449,000	**3,808,002**
Building	2,227,907	43,106,655	37,699,437	**83,033,999**
Leasehold improvement and greenhouse	35,034,986	7,082,946	(42,001,354)	**116,578**
	$ 42,262,816	$ 62,252,985	$ (170,862)	**$ 104,344,939**

Accumulated Amortization

	Balance at December 31, 2018	Additions	Transfers	Balance at September 30, 2019
Security equipment	$ (328,638)	$ (399,774)	$ -	**$ (728,412)**
Equipment	(335,430)	(842,387)	-	**(1,177,817)**
Furniture & fixtures	(53,623)	(46,984)	-	**(100,607)**
Fence & Signage	(2,401)	(29,808)	-	**(32,209)**
Software	-	(27,928)	-	**(27,928)**
Land	-	-	-	**-**
Building	(111,133)	(521,952)	-	**(633,085)**
Leasehold improvement and greenhouse	(70,608)	(101,063)	170,862	**(809)**
	$ (901,833)	$ (1,969,896)	$ 170,862	**$ (2,700,867)**
Net book value	$ 41,360,983	$ 60,283,089	$ -	**$ 101,644,072**

Cost

	Balance at December 31, 2017	Additions	Transfers	Balance at December 31, 2018
Security equipment	$ 521,954	$ 1,304,007	$ -	**$ 1,825,961**
Equipment	552,961	1,924,224	-	**2,477,185**
Furniture & fixtures	84,952	82,415	-	**167,367**
Fence & Signage	11,407	5,626	-	**17,033**
Software	-	372,377		**372,377**
Land	-	140,000	-	**140,000**
Building	-	1,507,436	720,471	**2,227,907**
Leasehold improvement and greenhouse	4,368,711	31,839,664	(1,173,389)	**35,034,986**
	$ 5,539,985	$ 37,175,749	$ (452,918)	**$ 42,262,816**

Accumulated Amortization

	Balance at December 31, 2017	Additions	Transfers	Balance at December 31, 2018
Security equipment	$ (119,246)	$ (209,392)	$ -	**$ (328,638)**
Equipment	(100,510)	(234,920)	-	**(335,430)**
Furniture & fixtures	(40,465)	(13,158)	-	**(53,623)**
Fence & Signage	(1,141)	(1,260)	-	**(2,401)**
Software	-	-	-	**-**
Land	-	-	-	**-**
Building	-	(111,133)	-	**(111,133)**
Leasehold improvement and greenhouse	(400,561)	(122,965)	452,918	**(70,608)**
	$ (661,923)	$ (692,828)	$ 452,918	**$ (901,833)**
Net book value	$ 4,878,062	$ 36,482,921	$ -	**$ 41,360,983**

Total amortization for the nine months ended September 30, 2019 was $1,969,896 (nine months ended September 30, 2018: $330,383), of which $160,236 (nine months ended September 30, 2018: $71,251) has been capitalized in inventory, $1,024,314 has been capitalized to biological assets (nine months ended September 30, 2018: $219,162) and $785,346 (nine months ended September 30, 2018: $39,970) is included in amortization expense.

Total amortization for the three months ended September 30, 2019 was $896,564 (three months ended September 30, 2018: $122,347), of which $25,722 (three months ended September 30, 2018: $35,171) has been capitalized in inventory, $573,352 has been capitalized to biological assets (three months ended September 30, 2018: $79,588) and $297,490 (three months ended September 30, 2018: $7,588) 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 $5 million was satisfied by the issuance of 2.5 million units ("Units") in the capital of WeedMD.

As at September 30, 2019, properties and improvements with a carrying value of $50,634,876 (December 31, 2018: $32,115,404), were not yet available for use. As such, the cost of these assets has been capitalized but not yet amortized. Included in the properties and improvements are capitalized borrowing costs in the amount of $1,532,591 (December 31, 2018: $700,000).

As of September 30, 2019, software with a carrying value of $933,857 (December 31, 2018 – $372,377), was not yet available for use. As such, the cost of the asset has been capitalized but not yet amortized.

7. Convertible Debentures

	Debentures	Warrants	Conversion Feature	Total
Balance, December 31, 2017	**$ 11,351,671**	**$ -**	**$ 2,607,546**	**$ 13,959,217**
Conversion of debentures	(12,013,120)	-	(2,607,546)	(14,620,666)
Accretion of debentures	661,449	-	-	661,449
Balance, December 31, 2018	**$ -**	**$ -**	**$ -**	**$ -**
Issuance - September 25, 2019	8,258,713	1,332,248	1,673,804	11,264,765
Accretion of debentures	14,900	-	-	14,900
Balance, September 30, 2019	**$ 8,273,613**	**$ 1,332,248**	**$ 1,673,804**	**$ 11,279,665**

a) *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.

On October 22, 2018, the Company elected to exercise its right to force conversion of all of the outstanding principal amount of the Unsecured Convertible Debentures and unpaid accrued interest for the conversion into common shares at the conversion price of $1.20 which resulted in 2,333,334 common shares being issued. The Company became entitled to force conversion of the Unsecured Convertible Debentures on September 17, 2018 on the basis that no Event of Default had occurred and the Volume Weighted Average Price ("VWAP") of the common shares on the TSXV for 10 consecutive trading days equalled or exceeded $2.00. For the 10 consecutive trading days preceding September 17, 2018, the VWAP of the common shares was $2.22.

b) *2019 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 $1,948,727 to the conversion option and $1,551,069 to the warrants.

The fair value of the conversion feature has been estimated as $4,997,189 using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 76.74%; (iii) risk-free interest rate of 1.52%; (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 (Note 10(f)) 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 (Note 10(g)). 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.

8. Loans & 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 September 30, 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 September 30, 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 September 30, 2019, the Company has drawn $2,700,000 from Facility 3.

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 nine months ended September 30, 2019, the Company was compliant with the applicable covenants.

9. Share Capital

Authorized
Unlimited common shares

	Note	Number of Shares	Amount
Balance as at January 1, 2018		**78,250,222**	**$34,029,538**
Conversion of debentures	7	12,500,000	14,620,666
Shares issued upon prospectus offering	9(a)	16,046,511	29,352,724
Shares issued for stock options exercised	11(i)	1,808,229	1,767,147
Shares issued for broker compensation option exercise	11(g)	176,000	200,200
Shares issued for warrants exercised	10(d)	2,347,102	2,111,908
Shares issued for compensation warrants exercised	10(c)	142,500	238,293
Share issuance costs	9(a)	-	(2,627,835)
Balance as at December 31, 2018		**111,270,564**	**$79,692,641**
Shares issued for stock options exercised	11(i)	434,551	406,232
Shares issued for property purchase	9(b)	2,500,000	4,251,692
Shares issued for warrants exercised	10(e)	225,000	374,590
Balance as at September 30, 2019		**114,430,115**	**$84,725,155**

a) 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 $34,499,999 (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. The Company has recognized $29,352,724 as the value of the Shares issued, and $5,147,275 as the value of the warrants issued (see Note 10(b)).

As consideration for its services, the Underwriters received a cash commission equal to 6% of the gross proceeds of the Prospectus Offering. The Company also issued a total of 470,890 compensation options to the Underwriters (Note 11(a)). Each compensation option is exercisable into one Unit at the Issue Price until January 11, 2020 (see Note 11(a)). In relation to the short-term prospectus the Company has incurred total unit issuance costs of $3,088,650, of which $2,627,835 has been allocated to shares, and $460,815 has been allocated to warrants.

b) On March 29, 2019, the Company exercised its option to purchase the 98-acre Strathroy property. 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 $5 million was satisfied by the issuance of 2.5 million units (“Units”) in the capital of WeedMD. Each Unit was comprised of one WeedMD common share at a price of $1.98 and one-quarter (1/4) of a warrant (for 625,000 total warrants), with each whole warrant exercisable into a WeedMD common share at an exercise price of $2.50 per share for five years. The units were valued as $5,024,161 of which the shares and warrants were valued at $4,251,692 and $772,469 respectively.

10. Warrants

	Note	Number of Warrants	Warrants reserve	Exercise Price
Balance as at January 1, 2018		5,605,647	$ 3,794,703	
Debenture warrants expired	10(a)	(8,521)	-	
Warrants issued (January 11, 2018) on prospectus offering	10(b)	8,023,256	5,147,275	$2.90
Warrant issue costs	10(b)	-	(460,815)	
Broker compensation warrants exercised	10(c)	(230,500)	(67,293)	
Broker compensation warrants issued	11(g)	88,000	-	$0.80
Warrants exercised	10(d)	(2,222,127)	(340,761)	
Balance as at December 31, 2018		11,255,755	$ 8,073,109	
Warrants issued on property purchase	9(b)	625,000	772,469	$2.50
Warrants issued (September 25, 2019)	7(b)	8,196,875	1,551,069	$1.80
Warrant issue costs (September 25, 2019)			(218,821)	
Broker warrants issued (September 25, 2019)	10(f)	491,812	303,481	$1.60
Broker warrants issued (September 25, 2019)	10(g)	491,812	283,812	$1.80
Broker compensation warrants exercised	10(e)	(225,000)	(104,590)	
Balance as at September 30, 2019		20,836,254	$ 10,660,529	

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

b) On January 11, 2018, in connection with the Prospectus Offering (Note 9(a)) 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 $5,147,275 with reference to the Monte Carlo option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 82%; (iii) risk-free rate of 1.73%; (iv) unit price of $2.90; (v) forfeiture rate of 0; (vi) expected life of two years. 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 recognized $460,815 as warrant issue costs related to this transaction.

c) For the year ended December 31, 2018, 230,500 broker compensation warrants were exercised for proceeds of $241,400. The number of broker compensation warrants included 88,000 issued and exercised from broker compensation options for proceeds of $70,400 (Note 11(g)). The Company recognized the fair value of the warrants of $67,293 in the value of the Shares issued.

d) For the year ended December 31, 2018, 2,347,102 Shares were issued upon exercise of warrants for proceeds of $1,771,147. Included in the Shares issued were 124,975 Shares issued for warrants exercised in 2017. The Company recognized the fair value of the warrants of $340,761 in the value of the Shares issued.

e) For the nine months ended September 30, 2019, 225,000 broker compensation warrants were exercised for proceeds of $270,000. The Company recognized the fair value of the warrants of $104,590 in the value of the Shares issued.

f) On September 25, 2019, in connection with the Company's Unsecured Convertible Debenture, the Company issued to the Underwriters 491,812 compensation warrants (Note 7(b)). 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.

g) On September 25, 2019, in connection with the Company's Unsecured Convertible Debenture, the Company issued to the Underwriters 491,812 compensation warrants (Note 7(b)). 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.

Warrant pricing models require the input of subjective assumptions, and changes in the input assumptions can materially affect the fair value estimation. 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 11).

11. Contributed Surplus

The Company has established a stock option plan for its directors, officers, employees and consultants under which the Company 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.

As at September 30, 2019, the Company's outstanding stock options consists of the following:

	Note	Number of options	Contributed surplus	Exercise price
Balance as at January 1, 2018		**3,818,432**	**$ 1,092,579**	
Broker compensation options granted	11(a)	470,890	807,000	2.15
Stock options granted	11(b)	3,013,000	3,589,723	2.36
Stock options granted	11(c)	500,000	368,960	1.80
Stock options granted	11(d)	130,000	84,716	1.74
Stock options granted	11(e)	2,105,000	975,737	2.07
Stock options granted	11(f)	420,000	133,961	1.95
Share based compensation		-	217,661	
Stock options exercised	11(i)	(1,808,229)	(579,824)	
Broker compensation options exercised	11(g)	(88,000)	(77,000)	
Stock options cancelled		(218,840)	-	
Stock options forfeited		(318,750)	-	
Balance as at December 31, 2018		**8,023,503**	**$ 6,613,513**	
Stock options granted	11(j)	2,868,000	1,927,664	1.53
Stock options granted	11(k)	300,000	187,769	2.00
Stock options granted	11(l)	505,000	108,157	1.52
Stock options exercised	11(i)	(434,551)	(145,499)	
Share based compensation		-	2,169,358	
Stock options cancelled		(649,062)	-	
Stock options forfeited		(592,500)	-	
Stock options expired		(106,500)	-	
Balance as at September 30, 2019		**9,913,890**	**$ 10,860,962**	

At September 30, 2019, 9,913,890 (December 31, 2018: 8,023,503) Shares have been reserved for stock options as follows:

Exercise Price	Number of options outstanding	Number of options exercisable	Weighted average remaining life (years)	Weighted average exercise price
$0.60	1,349,500	1,349,500	1.54	
$2.15	470,890	470,890	0.28	
$2.36	2,070,500	1,593,500	3.28	
$1.80	500,000	312,500	3.63	
$1.74	130,000	81,250	3.72	
$2.07	1,800,000	808,333	3.94	
$1.95	220,000	112,500	4.04	
$1.53	2,593,000	639,667	4.28	
$2.00	300,000	100,000	2.54	
$1.52	480,000	-	4.78	
	9,913,890	5,468,140	3.37	$1.74

a) On January 11, 2018, in connection with the Prospectus Offering (Note 9(a)) the Company issued a total of 470,890 compensation options to the underwriters. Each compensation option is exercisable into one Unit at an exercise price of $2.15 until January 11, 2020. The fair value of the compensation options was estimated to be $807,000 with reference to the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 82%; (iii) risk-free rate of 1.76%; (iv) unit price of $3.10; (v) forfeiture rate of 0; (vi) expected life of 24 months.

b) On January 12, 2018, the Company granted 3,013,000 stock options to its directors, officers, employees, and consultants 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 $2.36, until January 12, 2023. 430,000 of the options vested within the year, 155,000 of the options granted vest over 12 months, and 2,428,000 of the options vest 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 85%; (iii) risk-free interest rate of 1.97%; (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 $4,797,646. Total share-based compensation for the nine months ended September 30, 2019 is $603,728 (nine months ended September 30, 2018: $1,276,076).

c) On May 18, 2018, the Company granted 500,000 options to consultants 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 $1.80, 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 85%; (iii) risk-free interest rate of 2.29%; (iv) share price of $1.80; (v) forfeiture rate of nil; and (vi) expected life of 60 months. The total fair value of the options is $609,641. Total share-based compensation for the nine months ended September 30, 2019 is $188,668 (nine months ended September 30, 2018: $80,552).

d) 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 85%; (iii) risk-free interest rate of 2.06%; (iv) share price of $1.74; (v) forfeiture rate of nil; and (vi) expected life of 60 months. The total fair value of the options is $152,789. Total share-based compensation for the nine months ended September 30, 2019 is $52,271 (nine months ended September 30, 2018: $19,411).

e) On September 6, 2018, the Company granted 2,105,000 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 $2.07, until September 6, 2023. 250,000 of the options vest quarterly over 36 months, 1,455,000 of the options vest quarterly over 24 months, 150,000 of the options are fully vested as of December 31, 2018 and 250,000 vest straight-line over 36 months until milestones are approved by the board of directors. 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 2.28%; (iv) share price of $2.07; (v) forfeiture rate of nil; and (vi) expected life of 60 months. The total fair value of the options is $2,951,804. Total share-based compensation for the nine months ended September 30, 2019 is $1,063,822 (nine months ended September 30, 2018: $nil).

f) On October 13, 2018, the Company granted 420,000 options to management 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 $1.95, until October 12, 2023. 100,000 of the options granted vest over 12 months, 300,000 of the options vest over 24 months and 20,000 of the options vest upon completion of specified performance milestones. 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 2.38%; (iv) share price of $1.95; (v) forfeiture rate of nil; and (vi) expected life of 60 months. The total fair value of the options is $555,387. Total share-based compensation for the nine months ended September 30, 2019 is $252,873 (nine months ended September 30, 2018: $nil).

g) For the year ended December 31, 2018, 88,000 broker compensation options were exercised for proceeds of $52,800 into 88,000 Shares and 88,000 compensation warrants. The 88,000 compensation warrants were issued and exercised on the same day for proceeds of $70,400, included in the total compensation warrants exercised. Shares issued upon exercise of the compensation options and compensation warrants had a weighted average fair value of $1.95 at the time of exercise.

h) During the nine months ended September 30, 2019, share based compensation in the amount of $7,996 was recorded for stock options issued prior to January 1, 2018.

i) During the nine months ended September 30, 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 $1.83 (year ended December 31, 2018: $1.85) at the time of exercise.

j) 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 nine months ended September 30, 2019 is $1,927,664.

k) 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 September 30, 2019 is $187,769.

l) 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 nine months ended September 30, 2019 is $108,157.

12. Income Taxes

The Company has no income tax provision as non-capital tax loss carry forwards exceed taxable income. Amongst other adjustments, taxable income excludes realized and unrealized gains on inventory and biological assets. The Company has $10,452,540 of non-capital tax losses for which the benefit has not been recognized.

13. Earnings per Share

	For the three months ended September 30, 2019	For the three months ended September 30, 2018	For the nine months ended September 30, 2019	For the nine months ended September 30, 2018
Basic earnings (loss) per share:				
Income (loss) attributable to holders of shares	**$ (13,402,388)**	$ 9,904,660	**$ (3,181,635)**	$ 6,820,156
Weighted average number of shares outstanding	**114,411,686**	107,579,161	**113,356,494**	102,695,255
	$ (0.12)	$ 0.09	**$ (0.03)**	$ 0.07
Diluted earnings (loss) per share:				
Income (loss) attributable to holders of shares	**$ (13,402,388)**	$ 9,904,660	**$ (3,181,635)**	$ 6,820,156
Weighted average number of shares - diluted	**115,651,791**	110,413,846	**114,596,600**	105,529,939
	$ (0.12)	$ 0.09	**$ (0.03)**	$ 0.06

14. Change in Non-cash Operating Working Capital

For the nine months ended September 30,	2019	2018
Trade and other receivables	**$ (5,888,707)**	$ (457,608)
Prepaid expenses and deposits	**130,888**	(704,286)
Inventory and biological assets	**(5,089,433)**	(2,212,747)
Commodity tax receivable	**4,540,977**	(3,152,126)
Accounts payable and accrued liabilities	**4,793,989**	4,213,957
Deposit payable	**6,500,000**	-
	$ 4,987,714	$ (2,312,810)

15. Revenue

	For the three months ended September 30, 2019	For the three months ended September 30, 2018	For the nine months ended September 30, 2019	For the nine months ended September 30, 2018
Direct to patient				
Dried cannabis	**$ 339,777**	$ 309,736	**$ 963,048**	$ 847,300
Cannabis plants and seeds	**13,988**	27,058	**25,415**	61,538
Cannabis extracts	**118,546**	109,998	**378,130**	200,301
Other	**11,322**	1,976	**12,240**	26,281
	$ 483,633	$ 448,768	**$ 1,378,833**	$ 1,135,420
Wholesale				
Dried cannabis	**$ 6,622,187**	$ 1,190,299	**$ 17,273,359**	$ 1,938,032
Cannabis plants and seeds	**70,000**	362,302	**70,000**	2,017,492
Cannabis extracts	**-**	-	**709,145**	18,429
Other	**2,290**	-	**8,180**	123,500
	$ 6,694,477	$ 1,552,601	**$ 18,060,684**	$ 4,097,453
	$ 7,178,110	$ 2,001,369	**$ 19,439,517**	$ 5,232,873

16. Termination of Arrangement Agreement

On April 19, 2018, the Company and Hiku Brands Company Ltd. (“Hiku”) (CSE: HIKU) announced that they had entered into a definitive agreement (the “Arrangement Agreement”) to merge both companies and create a vertically integrated cannabis company.

On July 10, 2018, the Company agreed with Hiku to terminate the previously announced Arrangement Agreement. In connection with the termination of the Arrangement Agreement, the Company received a $10 million termination fee. The gain on termination of the Arrangement Agreement has been presented net of transaction fees of $1.2 million, which included an underwriter breakage fee of $1.1 million.

17. Related Party Transactions

The Company’s key management includes the CEO, CFO, Chairman of the Board, and the Chairman of the Compensation Committee. Transactions with related parties include:

- Salaries and service fees; and
- Loans payable are not interest bearing and are 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:

	September 30, 2019	December 31, 2018
Accounts payable and accrued liabilities	**$ 82,969**	$ 119,801

For the three and nine months ended September 30, 2019 and 2018, total remuneration/service fees paid, and interest paid to the key management is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Share based compensation	**$ 360,674**	$ 381,171	**$ 979,570**	$ 741,166
Salaries	**128,787**	155,132	**382,906**	466,704
Fees	**128,667**	62,767	**357,959**	159,904
	$ 618,128	$ 599,070	**$ 1,720,435**	$ 1,367,774

During the nine months ended September 30, 2019, 597,500 stock options (nine months ended September 30, 2018: 2,300,000) were issued with fair value of $616,590 (nine months ended September 30, 2018: $3,548,305) with a recorded share-based compensation of $421,858 (nine months ended September 30, 2018: $741,166) to certain key management personnel.

18. Commitments

The lease commitment schedule for all future lease payments is outlined in the table below:

Within 1 year	$	1,125,114
Within 2 years		190,594
Within 3 years		192,168
Within 4 years		195,168
Beyond 4 years		88,695
	$	1,791,739

19. 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 loans and borrowings approximate carrying values 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 and bonds. 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 September 30, 2019, had changed by 25%, with all other variables held constant, the unrealized gain (loss) would have decreased or increased to be $128,758 (September 30, 2018: $376,500).

(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 which has a balance of $7,985,137 (December 31, 2018: $2,100,957). Included in the trade and other receivables is a balance of $2,537,850 owing from Pioneer Cannabis, an investee of the Company. Cash is generally invested in cash accounts held in Canadian chartered banks, in short-term GICs or in-trust. 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.

The definition of items that are past due is determined by reference to payment terms agreed to with individual customers, which are normally within 0 to 90 days. Credit risk is low as receivables are from government bodies and participants in the cannabis industry and are received within a short period of time. As at September 30, 2019 and December 31, 2018, there are no receivables that are impaired. Management expects credit risk to be minimal.

(d) Foreign exchange risk

The Company is exposed to foreign exchange risk in United States dollars. Foreign exchange risk is the risk that the exchange rate that was in effect on the date that an obligation in a foreign currency was made to the Company by a customer or lender, or that an obligation in a foreign currency was made by the Company to a supplier or partner, is different at the time of settlement than it was at the time that the obligation was determined. The Company reduces its exposure to foreign exchange risk by carefully monitoring exchange rates on obligations that are made to the Company. The Company did not have any hedges at the time that the financial statements were issued. The Company does not utilize financial instruments to manage its foreign exchange risk.

(e) 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 current liabilities of $24,382,940 (December 31, 2018: $10,976,340) with cash and cash equivalents on hand of $13,703,225 (December 31, 2018: $21,223,641). In the opinion of management, the liquidity risk exposure to the Company is moderate. The Company will manage the risk exposure through increased future sales, accessing the Revolving Credit Facility, and if necessary raise additional capital through debt and/or equity.

(f) 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, or investments. Floating rate debt exposes the company to fluctuations in cash flows and net earnings due to changes in market interest rates. In the opinion of management, the cash flow risk exposure to the Company is low.

20. Capital Management

The Company includes equity, comprised of 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.

21. Subsequent Events

On November 29, 2019, the Company entered into a definitive agreement to acquire Starseed Holdings Inc. (“Starseed”) (the “Acquisition”). Concurrent to closing the Acquisition, The Labourers’ Pension Fund of Central and Eastern Canada (“LPF”), which owns 54% of Starseed on a basic basis, will subscribe for a $25 million private placement into WeedMD (the “Strategic Investment” and collectively the “Transaction”). No shareholder vote is anticipated for the acquisition; however, closing of the private placement is subject to WeedMD shareholder vote. Post shareholder approval and close of the Transaction, existing WeedMD shareholders will own approximately 55% of the combined company, LPF will own approximately 29%, and existing Starseed shareholders ex-LPF will own the remaining 16%, on a fully diluted in-the-money basis.

Under the terms of the Acquisition, WeedMD will issue 71,834,126 shares to Starseed shareholders. The Acquisition values Starseed at approximately $78 million based on WeedMD’s 15-day volume-weighted average share price of $1.0832 (“WeedMD VWAP”) as of close on November 27, 2019. The Strategic Investment into WeedMD will also be based on the WeedMD VWAP and result in WeedMD issuing an additional 23,079,763 shares directly to LPF. The Transaction is anticipated to close prior to February 28, 2020, subject to closing conditions.

During the quarter, the Company entered into a supply agreement with Starseed and received a deposit of $6.5 million, recorded in deposit payable in current liabilities, on the Interim Condensed Consolidated Statement of Financial Position. On September 30, 2019, the supply agreement was cancelled. Subsequent to quarter end $1.5 million was repaid and the remaining balance will be settled on or before closing of the Transaction.

The Starseed Board of Directors has unanimously approved the Acquisition, determining that it is in the best interests of Starseed and its shareholders. WeedMD’s Board of Directors have also unanimously approved the Transaction, determining that the combined transaction is in the best interests of WeedMD and its shareholders. No shareholder approval is anticipated in connection with the Acquisition. However, the Acquisition is subject to regulatory approvals, as well as other customary closing conditions.