WeedMD Inc.

Form 51 – 102 F1

Management Discussion & Analysis

Third Quarter Ended September 30, 2019

Effective Date – November 29, 2019

INTRODUCTION

The following Management Discussion & Analysis ("MD&A") of WeedMD Inc.'s (the "Company" or "WeedMD") financial condition and results of operations, prepared for the three and nine months ended September 30, 2019 ("Q3 2019"), should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2019, and the Company's consolidated financial statements and accompanying notes for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards and are incorporated by reference herein and form an integral part of this MD&A. All dollar amounts are in Canadian Dollars unless stated otherwise. These documents can be found under the Company's profile on the SEDAR website at www.sedar.com.

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

This MD&A, and the financial data within, is based on the Interim Financial Statements of the Company for Q3 2019 and were prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34") of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") unless otherwise stated.

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

Forward-looking statements involve significant risk, uncertainties and assumptions. Many factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully, and readers should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and the Company assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including: general economic and market segment conditions, competitor activity, product capability and acceptance, regulatory matters, rising energy costs and technology changes. More detailed assessment of the risks that could cause actual results to materially differ than current expectations is contained in the "Risk Factors" section of MD&A for the year ended December 31, 2018, and in the Annual Information Form dated June 21, 2019. These documents can be found under the Company's profile on the SEDAR website at www.sedar.com.

BUSINESS OVERVIEW

weedmd Inc. (TSXV: WMD) (OTCQX:WDDMF) (FSE:4WE) ("WeedMD" or "the Company") is the publicly-traded parent company of WeedMD Rx Inc., a federally-licensed producer of cannabis products for both the medical and adult-use markets. The Company owns and operates two facilities: 158-acres that houses 610,000 sq. ft. of greenhouses as well as 27 acres of licensed outdoor cultivation with further expansion potential, located in Strathroy, Ontario; and CX Industries ("CX"), a wholly-owned subsidiary of WeedMD Inc. operating out of the Company's fully-licensed 26,000 sq. ft. Aylmer, Ontario production facility which specializes in cannabis extraction and processing. WeedMD has a multi-channeled distribution strategy that includes selling directly to medical patients, strategic relationships across the seniors' market and a supply agreement with Shoppers Drug Mart, as well as six provincial distribution agencies where WeedMD's adult-use brand Color Cannabis is sold.

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. WeedMD Rx Ltd. and WMD Ventures Inc. are currently dormant. The registered and head office of WeedMD is located at 250 Elm Street, Aylmer, Ontario, N5H 2M8.

RECENT HIGHLIGHTS

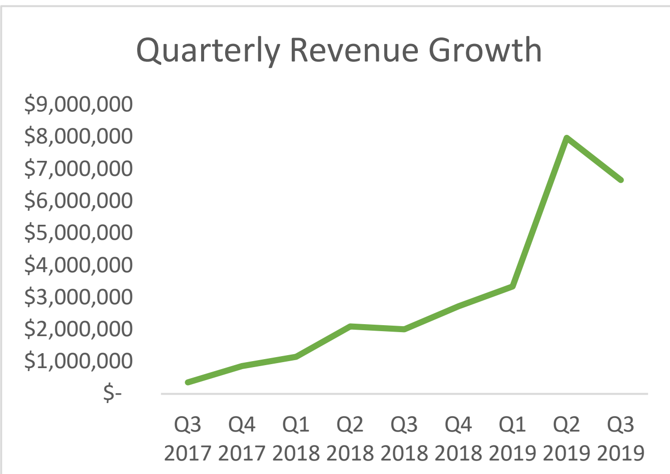
- Net revenue for Q3 2019 was $6,654,311, representing an increase of $4,652,942 or 232% year over year.
- Q3 2019 gross profit before changes in fair value was $1,902,485, a 29% Gross Margin in Q3 compared to 46% in the prior quarter.
- The Company holds $22,864,696 of inventory and biological assets as of September 30, 2019.
- On October 16, 2019, the Company received a licence amendment for a newly built 50,000 sq. ft. purpose-built facility designed for its current and future outdoor cannabis operations on its 158-acre Strathroy property. This facility will allow for drying, processing and storing of cannabis. The facility is now fully operational and is the location for the processing and storage of WeedMD's 2019 outdoor harvest.
- On September 25, 2019, the Company completed a previously announced bought-deal convertible debenture financing which resulted in 12,000 Convertible Debenture Units and an additional 1,115 over-allotment units being issued at a price of $1,000 per Convertible Debenture Unit for aggregate gross proceeds of $13,115,000.
- Between September 23 and November 4, 2019, the Company completed the first ever harvest of its 27-acre outdoor cannabis cultivation. The harvest is estimated to yield over 8 tons of finished product for pre-roll and extraction at a cost to harvest of approximately $0.16 per gram.
- On August 14, 2019, TruTrace Technologies, an investment of WeedMD, alongside Shoppers Drug Mart, announced the completion of Phase 1 of its cannabis verification pilot project, using 40 of WeedMD's core genetics. Phase 2 is expected to be completed in partnership with Deloitte Canada LLP and Shoppers Drug Mart later this year.
- On August 2, 2019, Pioneer Cannabis, an investee company of WeedMD, opened its doors to the public at 1200 Brant Street, Burlington, Ontario becoming its first operating franchise.
- On August 2, 2019, WeedMD secured Health Canada's approval for an additional twenty cannabis cultivation and processing rooms. The amendment licenses another ten 10,000 sq. ft. cultivation rooms to be utilized along with ten more processing and drying rooms.
- On July 24, 2019 WeedMD launched CX Industries Inc. ("CX Industries" or "CX"), a wholly-owned subsidiary that will specialize in extraction, toll processing and third-party product formulation from WeedMD's fully-licensed Aylmer, Ontario facility. On November 5, 2019 the Company announced that its first extractor had been commissioned, moving CX Industries into commercial operations.

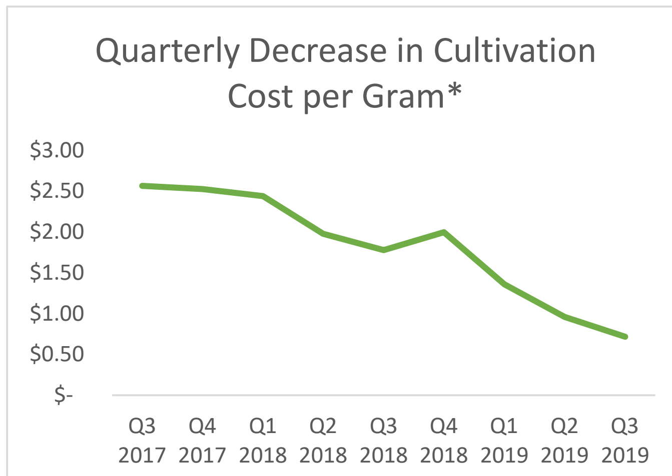
KEY FINANCIAL HIGHLIGHTS

The third quarter of 2019 represented a ramp up period for WeedMD with the licensing of an additional ten 10,000 sq. ft. cultivation rooms and ten additional processing rooms in early August 2019, increasing WeedMDs greenhouse production space to 220,000 sq. ft. The first harvests from these rooms will begin in Q4 2019, with the economies of scale from this increase in licensed production area being realized in the upcoming quarters.

Due to the timing of harvests in Q3, WeedMD harvested 3,079 kgs in Q3 2019 compared to 3,617 kgs in Q2. Coupled with lower realized pricing in its B2B sales to other LPs, sales were down 17% in Q3 versus Q2.

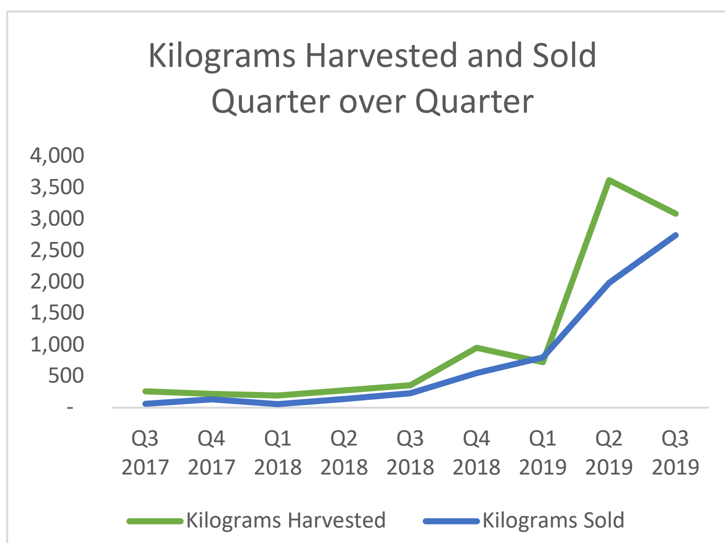
The weighted average cost per gram, inclusive of all costs, direct and indirect, continued to improve in Q3. Costs to produce and package a gram of cannabis in Q3 2019 fell to $1.42, compared to $1.84 for Q2 2019 and $3.14 in Q3 2018. Included in the cost to produce is a declining cost of cultivation of $0.72 for indoor cultivation, a decrease from $0.96 in Q2 2019 and $1.78 in Q3 2018. This is a direct result of the Company achieving economies of scale as it expands its capacity.





* Cultivation cost per gram represents the cost of cultivation from clone to point of harvest

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



NATURE OF BUSINESS

WeedMD is a Canadian federally licensed producer of cannabis under the Cannabis Act, permitting the Company to buy, sell, process and produce cannabis, cannabis plants and certain derivative products such as cannabis extracts for both the medical and adult-use markets.

History of WeedMD

WeedMD secured its first licence to cultivate cannabis in April 2016 at its 26,000 sq. ft. facility in Aylmer, Ontario. Following this, the Company secured the licence to sell dried cannabis to medical patients in April 2017. In late 2017, the Company secured additional licences to produce and sell cannabis extracts. Late in 2017, the Company also announced its expansion to the now licensed and operational state-of-the-art hybrid greenhouse in Strathroy. Operations in the Strathroy facility began six months later, in June 2018, with continued expansion in 2019 and expected into 2020 and beyond.

As WeedMD scaled its cultivation operations, the Company recognized the need to vertically integrate and expand on its ability to produce a larger array of products at scale for a growing cannabis consumer market. As such, in early 2019, the Company began retrofitting its fully-licensed 26,000 sq. ft. flagship Aylmer facility to become a leading cannabis extraction and processing operation. This facility is now operational under the name CX Industries Inc.

WeedMD Today

WeedMD currently operates in 220,000 sq. ft. of cultivation and processing space at its state-of-the-art hybrid greenhouse in Strathroy. The Company also has licensed and cultivates 27 acres of outdoor land on the property, and operates a 50,000 sq. ft. newly built and licensed processing facility adjacent to the outdoor cultivation area. The outdoor cultivation, licensed in May 2019, represented one of Canada's first legal outdoor cannabis cultivation operations in 2019.

The Strathroy property is capable of increasing its greenhouse production footprint with the addition of a further 308,000 sq. ft. that can be brought online within three months. The outdoor cultivation platform can also be increased to up to 100 acres on the same property as early as spring 2020. The Company will continue to monitor the Canadian and international markets and is able to bring more cultivation online quickly when it feels that the timing is appropriate.

In the 26,000 sq. ft. Aylmer facility, WeedMD currently completes finished goods packaging for dried cannabis and cannabis extracts. In addition, subsequent to Q3 2019, the first phase of CX Industries became operational, with annualized capacity of 26,000 kg of throughput. The remaining planned phases of CX will increase the annual throughput to 200,000 kg, with the current plan being to complete this project in the second half of 2020.

Licences

WeedMD currently holds licences at two facilities owned by the Company in Aylmer and Strathroy. Between both of these locations, the Company holds standard cultivation, standard processing and sales for medical purposes, for all cannabis products, which include cannabis plants and seeds, dried cannabis, cannabis oil, edibles, extracts and topicals.

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

On April 28, 2017, the Company's licence was renewed for a one-year term and amended to add the activity of sale of dried cannabis and the sale of live cannabis plants. Under the amended licence, the amount of cannabis that WeedMD is permitted to produce and store is limited only by the capacity of the vault that it has built at its facility.

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

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

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

On December 23, 2018, WeedMD secured its cultivation licence for the next six grow rooms, or 66,000 sq. ft. of cultivation space, in the Strathroy facility, bringing total licensed cultivation space to 110,000 sq. ft.

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

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

On August 2, 2019, WeedMD secured Health Canada's approval for an additional 20 cannabis cultivation and processing rooms expanding its indoor cultivation space to over 220,000 sq. ft.

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

	Extraction & Packaging	Cultivation & Packaging	WeedMD
Location	Aylmer, ON	Strathroy, ON	
Facility Type	Indoor	Hybrid Greenhouse & Outdoor	Multi-modal
Product Categories	Processing & sale of oil, topicals, edibles & extracts	Cultivation and processing of flower	All required licensing
Lot Size	4 acres	158 acres	162 acres
Currently Licensed	26,000 sq. ft.**	Indoor – 270,000 sq. ft. Outdoor - 1.1M sq. ft. (27 acres)	1.4M sq. ft.
Development Potential*	100,000 sq. ft.	Indoor – 550,000 sq. ft. Outdoor – 4.5M sq. ft. (102 acres)	5.2M sq. ft.

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

CORPORATE STRATEGY

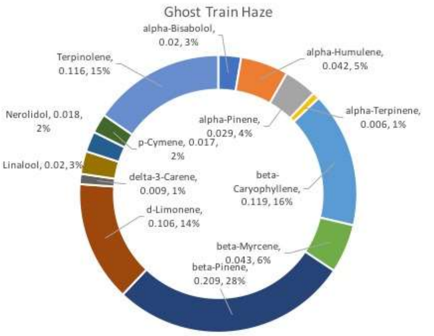
WeedMD is a vertically integrated cannabis company focused on supplying medical and adult-use customers with top quality cannabis products. The Company is focused on the cultivation and extraction of cannabis containing high levels of THC and CBD. The Company is committed to using a disciplined capital approach to build an industry leading production and distribution platform.

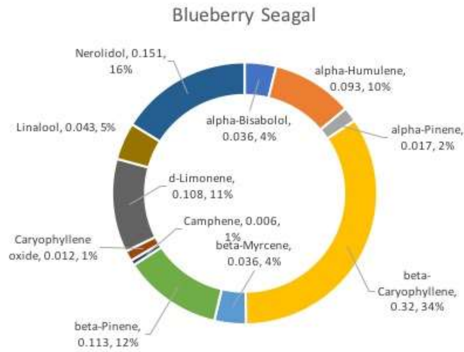
The Company operates two cannabis facilities each with specific business objectives.

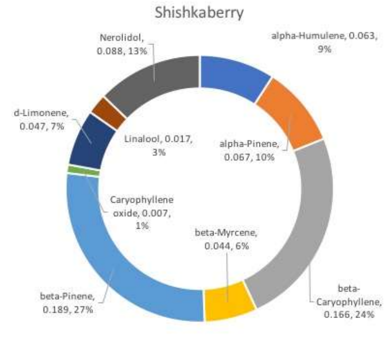
WeedMD's Leading Cultivation Platform

WeedMD's cultivation facility is located in Strathroy, Ontario and contains both a hybrid greenhouse as well as an outdoor cultivation operation. The Company is set to deliver steady production increases into 2020 and currently has 220,000 sq. ft. of licensed greenhouse production area and 27 acres of licensed outdoor production area. The Company has the ability to increase its cultivation footprint to over 500,000 sq. ft. of greenhouse and 100 acres of outdoor production.

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







As one of the first Canadian LPs to cultivate cannabis outdoors, the Company is positioned as a leader in this new production modality. The WeedMD cultivation team has designed its own proprietary strains of cannabis for Canadian outdoor production which gives the Company a strategic edge as the industry looks to reduce the domestic cost of cannabis. The Company has made significant discoveries in the viability of certain strains in the Canadian climate allowing it to both capture high yields but maintain high potency. The Company planted 37 strains outdoors and is now in the process of planning its 2020 outdoor project.

WeedMD's Extraction Centre of Excellence

The Company's second facility is located in Aylmer, Ontario and is a fully licensed 26,000 sq. ft. warehouse. It is fully licensed to cultivate, process and sell cannabis and cannabis extracts, topicals and edibles. The sales licence permits the sale of these products to the medical and adult-use markets, as well as to other licensed producers.

In 2020, the Company expects the Aylmer facility to fully transition to CX Industries, a pure extraction processing facility with all R&D, white labelling, tolling and packaging of derivatives to be produced in Aylmer. WeedMD intends to co-pack and manufacture products for other LPs and brands at its Aylmer facility.

At full capacity the facility will operate four extraction lines with the ability to process over 200,000 kgs of biomass annually.

CX will offer formulation capabilities, white labelling and tolling agreements to WeedMD and other LPs and brands seeking to manufacture and distribute in Canada. Initially, CX Industries will be introducing a number of new cannabis vaping products in early 2020 across WeedMD, Color Cannabis and other internal and third-party brands.

CX Industries plans to supply input products such as crude resin and distillate in bulk to other LPs or brand partners looking to manufacture products outside of CX Industries.

Coupled with WeedMD's low-cost outdoor biomass, the Company believes its extraction operations will deliver some of the best margins in the industry and provide a very competitive offering to product manufacturers and other LPs looking for resin, distillate and other concentrate products.

The Company plans to opportunistically add another 174,000 kg of biomass throughput capacity in 2020 for the Cannabis 2.0 market.

Brands

WeedMD currently supports two brands: WeedMD, which is exclusively available to its medical patients, and Color Cannabis, which is sold across its adult-use channels in Canada. Both brands strive to offer Canadians leading quality cannabis products at fair prices.

Demand has been strong for both brands, often times resulting in WeedMD being unable to keep up with demand in its adult-use and medical channels. With the increase in production capacity in Q4 2019, WeedMD expects to be able to deliver significantly more product to its current distribution channels in 2020.

In 2020, under the WeedMD and Color Cannabis brands, the Company will offer flower, oil tinctures, pre-rolls, gel capsules, vapes and new concentrate formats while also unveiling two new internally created brands in Q1 2020 allowing WeedMD to appeal to a wider proportion of consumers.

Overall, WeedMD aims to continue to offer cannabis at price points that incentivize illegal market consumers to switch to legal sources.

Distribution

As of September 30, 2019, WeedMD held distribution agreements with the following provinces and companies:

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

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

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

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

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

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

Shoppers Drug Mart: One of a few selected LPs to secure a supply agreement with Canada's largest retail pharmacy chain

Wholesale

Under these agreements WeedMD is supplying its high-quality, branded cannabis for distribution across Canada in both the medical and adult-use markets. Upon federal legalization, the Company was positioned to be amongst the first companies receiving and delivering purchase orders and remains successful in providing a steady supply of cannabis to meet its provincial obligations.

In 2018, WeedMD signed a multi-year retail sales distribution agreement with Lifford Cannabis Solutions to represent WeedMD's brands and products for the adult-use retail markets in British Columbia and Alberta.

Medical – Direct to Patient & Wholesale

On June 20, 2018, the Company entered into an agreement to become a medical cannabis supplier to Shoppers Drug Mart ("Shoppers"). On September 25, 2018, Shoppers received a cannabis production licence from Health Canada, allowing it to launch its medical cannabis platform. WeedMD began shipments to Shoppers in early 2019. WeedMD products are currently available through this channel.

The Company also distributes its medical products directly to medical patients across the country.

Retail - Pioneer Cannabis

On January 10, 2019, WeedMD formed Pioneer Cannabis Corp ("Pioneer"), in partnership with Pita Pit Canada, a privately-owned Canadian fast casual franchise eatery with over 600 stores worldwide. The Company owns 9.9% with the option to own up to 50.1%.

Pioneer provides a platform for Canadians with an entrepreneurial spirit and the goal of owning and operating their own cannabis retail store. Pioneer will provide retailers with a variety of services including, but not limited to: identifying locations, providing assistance with licensing and security processes, point of sales and payment systems, marketing services, and training platforms that will include cannabis educational programs – each in accordance with the unique regulatory environment in each province and municipality.

On August 2, 2019, Pioneer along with an Ontario licence holder and operator, opened the first Pioneer store in Burlington, Ontario. Pioneer's business model involves offering franchise services for a fixed portion of top line sales by the store. In the case of the Burlington location, Pioneer collects 6% on all sales from this location.

By focusing on low cost, high quality inputs and utilizing a vertically integrated model, WeedMD intends to be a leader in the production and sale of cannabis and cannabis derivative products both for its in-house and third-party brands.

THE CANADIAN REGULATORY ENVIRONMENT FOR CANNABIS

In 2001, Canada implemented the Medical Marihuana Access Regulations ("MMAR"), a government-run program that provided access to medical cannabis. To replace the government supply and home-grown medical cannabis of the MMAR with highly secure and regulated commercial operations, Health Canada replaced this regulatory framework with the Marihuana for Medical Purposes Regulations ("MMPR") in June of 2013. The MMPR allowed for the production and sale of dried cannabis flowers by commercial cultivators known as LPs. A court injunction in early 2013 preserved the MMAR for those who had been granted access prior to the injunction.

On July 8, 2015, Health Canada permitted LPs to apply for a supplemental licence to produce and sell cannabis oil and fresh cannabis buds and leaves, in addition to dried cannabis. In response to a federal court decision made on February 24, 2016, which related to the court injunction described above, on August 24, 2016, the Government of Canada introduced the Access to Cannabis for Medical Purposes Regulations ("ACMPR") to replace the MMPR.

On April 13, 2017, the Canadian federal government introduced Bill C-45, known as the Cannabis Act, which is legislation providing for the legalization of adult-use, or recreational cannabis. Following three readings in the House of Commons, the bill was successfully approved, passing by a vote of 200-82, on November 27, 2017. Bill C-45 was then introduced in the Senate and given first reading on November 28, 2017. It was then adopted at second reading in the Senate on March 22, 2018 and was referred to the Committee Stage. The Committee's report was adopted on May 30, 2018 and Bill C-45 as amended was adopted at third reading on June 7, 2018. On June 19, 2018 a motion was adopted to inform the House of Commons that the Senate would not insist on amendments with which the House of Commons had disagreed. Bill C-45 received Royal Ascent on June 21, 2018. The Cannabis Act came into force on October 17, 2018.

Regulations vary from province to province. The regulations include:

- Allowing outdoor cultivation
- Enabling a wide range of licences to support market diversity
- Reducing the regulations around industrial hemp
- Relaxing some security requirements
- Stringent standards for marketing, packaging and labelling

As of October 17, 2019, The Cannabis Act grants authorization to LPs who have been approved by Health Canada, including WeedMD, to produce and sell “edibles containing cannabis” and “cannabis concentrates” no earlier than December 17, 2019. In June of this year, amended Cannabis Regulations were published outlining changes to the Cannabis Act that came into force October 17, 2019. The new rules stipulate the addition of three new product classes: edibles, extracts and topicals.

The Company expects provinces to begin selling derivative products in late December, 2019, as federal licence holders will need to obtain the necessary authorizations for new classes of cannabis and activities with such under their licence and provide 60-days prior notice to Health Canada of their intent to sell any new products. On October 25, 2019, Health Canada amended WeedMD’s licence to allow the sale of Edibles, Extracts and Topicals both recreationally and medically, making WeedMD one of the 48 Licensed Producers to receive the amendment. WeedMD expects to commence delivery of Cannabis 2.0 products in early 2020.

In the United States of America (“U.S.”), multiple legislative reforms related to cannabis are currently being considered by the federal government. On December 20, 2018, the Farm Bill or the Agriculture and Nutrition Act, H.R. 2 legalized the cultivation of Hemp for CBD and other cannabinoid products, excluding the federal mandate of high THC products. Currently, the U.S. has no law allowing for the sale of cannabis federally, however, many states have independently set rules for which cannabis is governed at a state level.

INDUSTRY OUTLOOK

As we move into 2020, we see the fundamentals of the Canadian cannabis industry strengthening as retail momentum accelerates, build-outs of retail locations in provinces like Quebec, Saskatchewan, and Alberta advance and new cannabis products (widely known as Cannabis 2.0) go into production. We anticipate that growth expectations for the Canadian cannabis market and WeedMD will continue to improve as we move into 2020.

Overall, WeedMD is encouraged by a number of trends in the Canadian marketplace that align with its core business. Demand for Color Cannabis, WeedMD’s adult-use brand continues to accelerate as consumers become more aware of quality, value and consistency in products. Retail sales continue to grow double digits month over month across the majority of provinces while total Canadian retail store sales increased 19% month over month to $127.4 million in sales in August. In the month of August, Statistics Canada released that Canada’s cannabis sector added $7.92 billion to the country’s GDP which included both the legal and illegal markets – representing a 12.8% increase since legalization. While GDP growth may appear modest, black market cannabis output has declined by 22% over the same period and allowed the legal market to increase 116% in the first 11 months of legal adult-use.

On November 5th, 2019, the province of Ontario proposed changes to retail distribution in the province including:

- Allowing licensed producers to establish retail locations and sell directly to consumers;
- Private retailers offering online or by phone ordering and pickup at physical stores, and;
- Allowing more private retail stores to open to match demand.

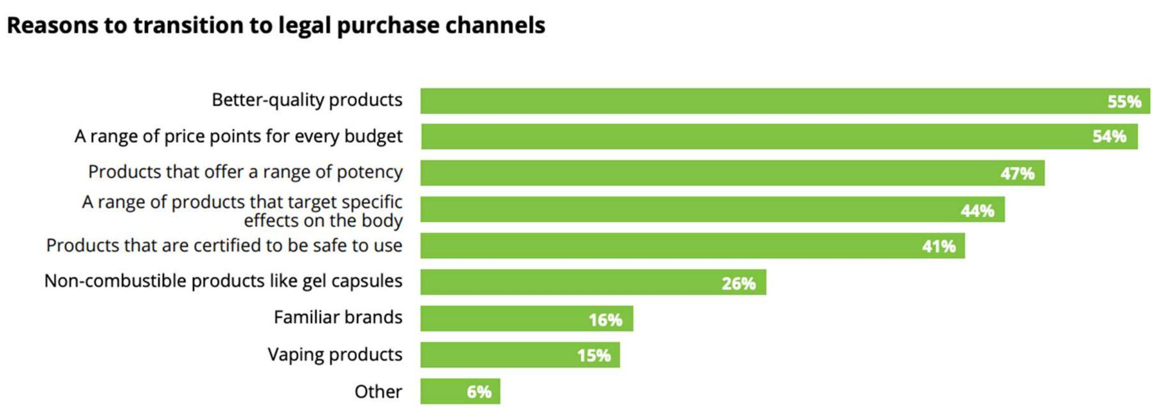
The timeline for implementation of these new mandates was not provided.

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

According to Statistics Canada, in Q3 2019, the average price per gram of legal cannabis in Canada was $10.23 ($10.65 in Q2 2019) compared to $5.59 ($5.93 in Q2 2019) found in the black market. As a result, WeedMD remains focused on offering high quality cannabis at prices that allow consumers to see the value of WeedMD cannabis compared to other competitors in the space, both legal and illegal.

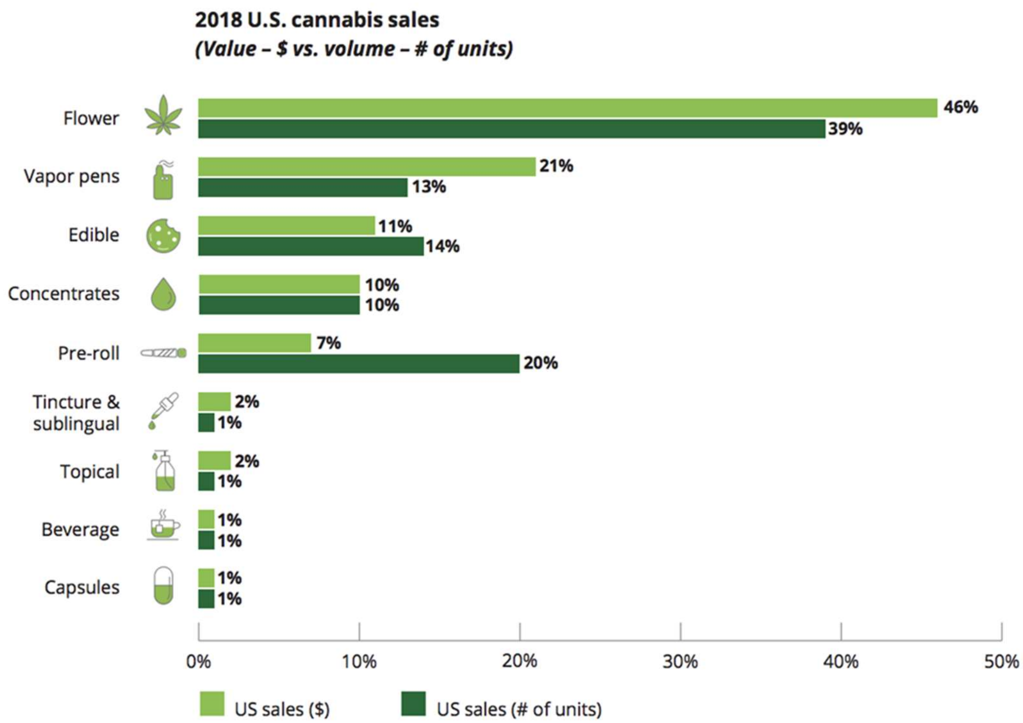
There are a variety of reasons driving consumer adoption to purchase legally in Canada. The primary reason for purchase through legal channels is quality (55%), followed closely by a variety of price points (54%) and potency ranges (47%). Quality assurance is also a key theme, with 41% of consumers believing that product certification would be a key driver in their legal-market purchase decision.

As new Cannabis 2.0 products come online, surveys from Deloitte suggest safety is a top priority for Canadians when choosing whether to buy products from the black market. Prices have continued to fall quarter after quarter as illegal participants continue to discount price to win market share. The introduction of new product formats with intensified health standards, for example in the vaping market where extensive third-party testing is required, is believed to eventually move more participants to the legal market.



While the pace of growth in legal cannabis sales has been slower than expected, a recent report from Canaccord Genuity suggests that retail sales can more than double in 2020. Canaccord forecasts adult-use revenues of $2.80 billion (versus estimates for $1.18 billion in 2019) and medical revenues of $0.36 billion (versus $0.28 billion in 2019) for 2020, or a total of $3.16 billion.

In a June report titled "Nurturing new growth; Canada gets ready for Cannabis 2.0", Deloitte forecasted derivative cannabis products would represent $2.7 billion in sales. According to BDS Analytics, the concentrate and vaping segment of the US cannabis market is expected to see the largest growth with expected vape sales reaching over $6.5 billion. In Canada, with legalization of derivative products approaching in December 2019, WeedMD anticipates the vaping category to be one of the fastest growth markets in Canadian cannabis consumption.



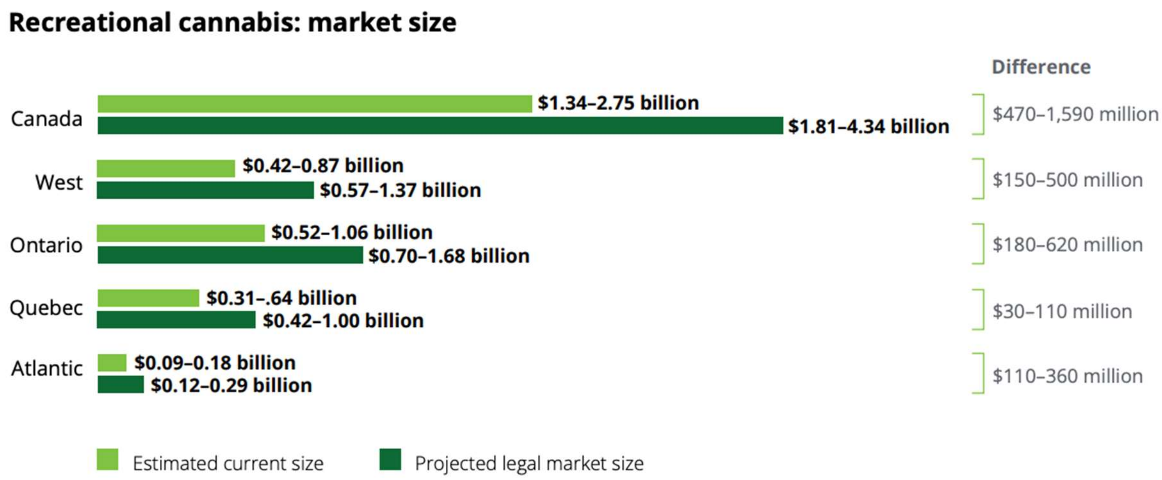
Source: Deloitte "Nurturing new growth; Canada gets ready for Cannabis 2.0"

Given the inability to sell Cannabis 2.0 products at this time, WeedMD believes the current US markets that allow for the sale of more differentiated products are a reasonable comparable when looking at the potential product demand for new cannabis products in 2020. Flower, vape pens, concentrates and pre-rolls dominate the US market, together accounting for 84% of US cannabis sales in 2018, according to Deloitte.

The majority of new product information submissions for provincial product calls to date have been in the vape category rather than other formats such as edibles and beverages. Given the anticipated strong demand for vaping products, CX Industries plans to focus heavily on this category. In a recent report co-authored by Ernst & Young and Lift & Co, vape pens, hash and keif scored the highest as products desired by regular and social consumers of cannabis. While Health Canada has allowed for the sale of Cannabis 2.0 products as early as December 17, 2019, WeedMD anticipates the majority of provinces to begin selling these new products in early 2020.

Consumption in the Canadian Market

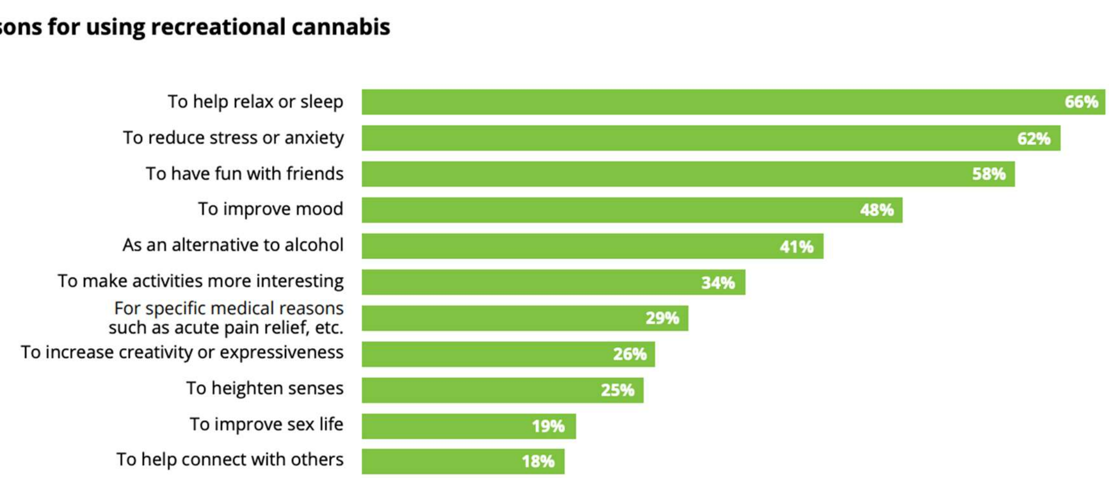
Deloitte's most recent projections for 2019 have estimated the value of the total Canadian cannabis market, including medical, illegal and legal adult-use products at $7.17 billion, of which $4.34 billion will come from the legal adult-use market. In August, Statistics Canada reported that the combined legal and illegal cannabis space contributed $7.92 billion to Canada's GDP, up from $7.02 billion in October 2018 when adult-use cannabis was legalized. While not only are a larger proportion of cannabis sales being captured by legal channels, the increased GDP contribution demonstrates the cannabis sector as a whole is growing on a top line basis.



Source: Deloitte analysis

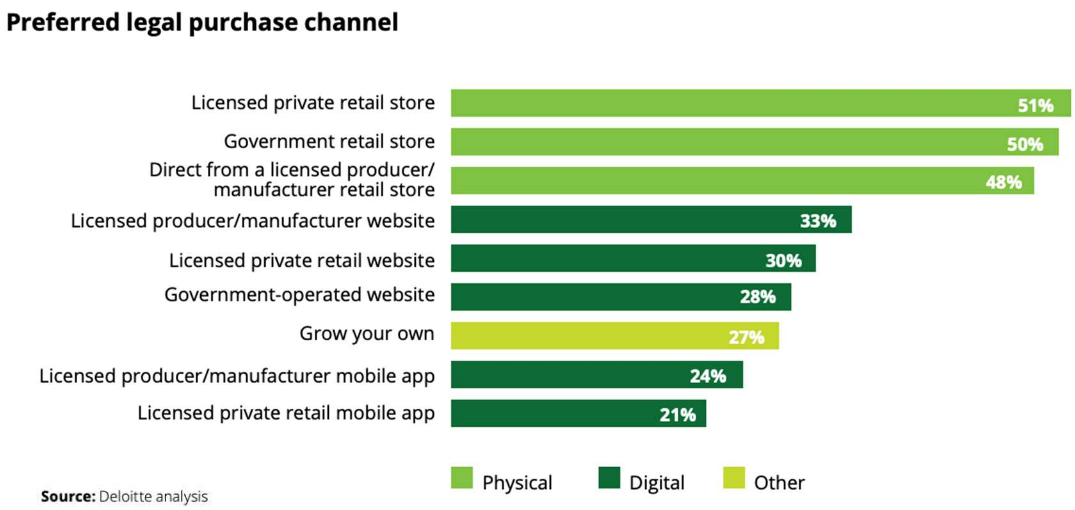
According to Statistics Canada's third quarter 2019 report, nearly 5.2 million (17%) of Canadian's reported using cannabis. While the national rates were stable quarter over quarter, certain age groups, including seniors and those 25-44 years of age reported increased usage. In the same study, of the 578,000 estimated new cannabis users in Q3, more than one-quarter (27%) were aged 65 and older. East coast provinces including Nova Scotia, PEI, Newfoundland & Labrador and New Brunswick reported the highest percentage of resident consumption (24-33%) in Q3 2019 whereas Quebec (11%) remained below the national average (17%).

Adult-use cannabis consumption usage is being driven by a number of factors, with roughly two-thirds of adult-use consumers stating that they purchase cannabis to relax, sleep, or reduce stress and anxiety. Women over-index in these categories, with 74% claiming that they use cannabis for relaxation and sleep in comparison with men at 59%. Additionally, consumers are claiming they use cannabis to improve social settings (58%).



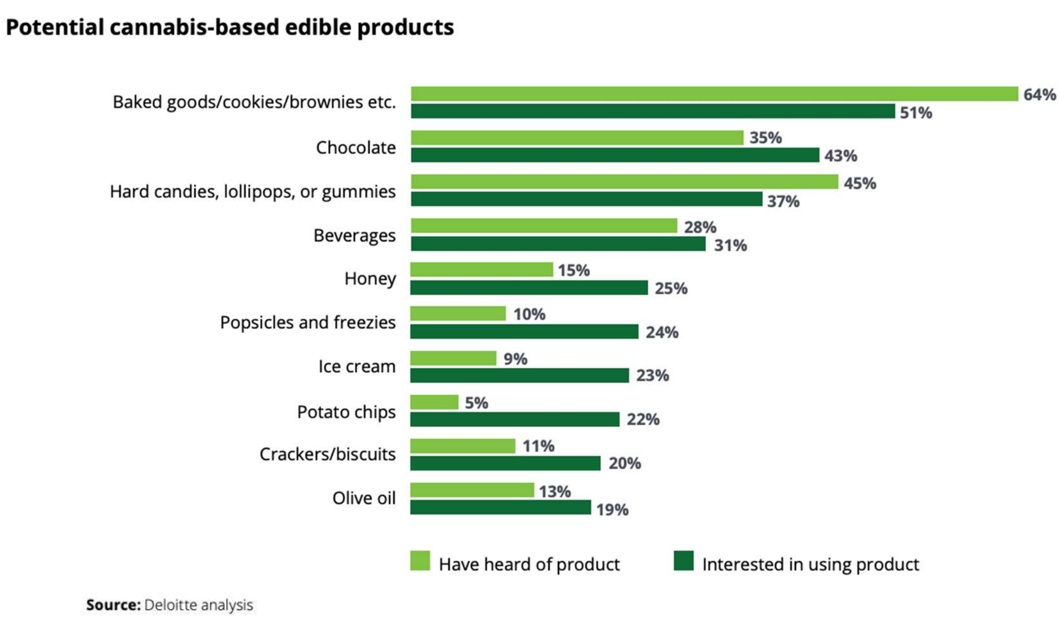
Source: Deloitte analysis

Canadian consumers have reported the highest interest in physical 'bricks and mortar' private retail channels, with 51% of Canadians surveyed saying that a licensed private retail store would be their preference to purchase legal cannabis. This was followed directly by government retail stores (50%), and a direct channel from LPs or a manufacturer-owned retail store (48%). E-commerce channels were the second choice for consumers, followed by home-grow options and mobile applications. The slow rollout of retail locations in certain regions is believed to be a major contributor to slower than expected growth in the legal consumption of cannabis in Canada.



New products and product innovation will be a key factor for LPs as the Canadian cannabis landscape continues to evolve. Cannabis vaping is expected to be the largest Cannabis 2.0 category while over 50% of the Canadian cannabis users surveyed are interested in baked goods, followed closely by other confectionary items such as chocolate and hard candies. The cannabis beverage category will also be a key market, with 31% of those surveyed stating that they would be interested in using these products in the future.

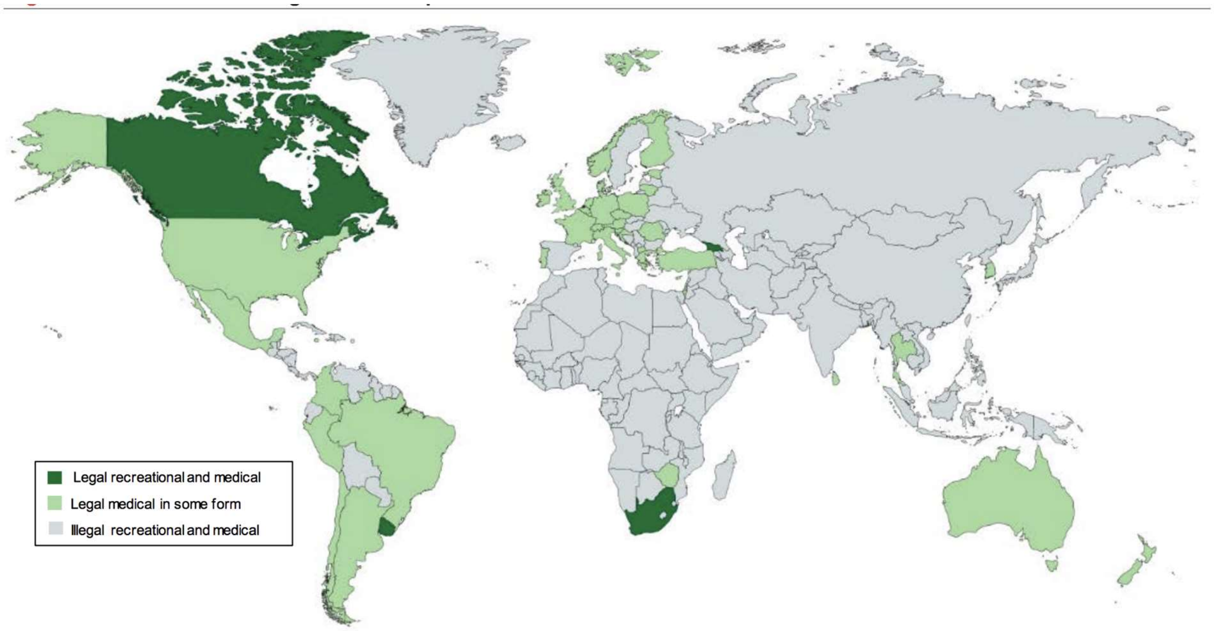
Deloitte estimates that once new product formats are legalized on October 17, 2019, that a further $2.7 billion will be spent annually on things such as edibles/vapes ($1.6 billion), cannabis-infused beverages ($529 million), topicals ($174 million), concentrates ($140 million), tinctures ($116 million), and capsules ($114 million). The global market for alternative cannabis products is expected to nearly double over the next five years, to US$194 billion.



According to Desjardins & Health Canada, the number of registered medical patients using cannabis will reach 500,000 by 2020 (or a market size of approximately $2 billion). At the end of June 2019, Statista estimated there were roughly 364,000 registered medical cannabis users in Canada. It is estimated that the number of users and grams used per occasion are the biggest growth drivers for the medical market and could be in excess of $3 billion.

According to a report by the United Nations, Canada and the United States have some of the highest rates of cannabis consumption prevalence in the world at 15% and 17%, respectively. In total, National Bank estimates Canadians will consume 750 tonnes of cannabis annually. Furthermore, the report suggests the Canadian cannabis user base "has room to grow to potentially 25% (from 16%) of its legal-age population for an additional approximately 2.5 million users."

Currently, there are only four countries who have legalized the use of cannabis recreationally: Canada, Georgia, South Africa and Uruguay. There are currently 37 countries that have legalized the use of cannabis medically.



Source: Cannabis Business Times, Thrillist.com, UN, Government website, NBF

OPERATIONAL PERFORMANCE & OUTLOOK

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

Cultivation

As of September 30, 2019, the Company has secured cultivation licences for Phase 1, Phase 2, and Phase 3 of its Strathroy Greenhouse, providing 220,000 sq. ft. of production space that includes 18 hybrid-greenhouse flowering rooms. In addition, as of September 30, 3019, The Company had secured licences for Phase 1 of its Strathroy Outdoor cultivation, providing 27 acres of cultivation space. Harvest of the over 20,000 plants began just prior to quarter end and lasted until November 4, 2019.

Strathroy Cultivation Expansion Schedule

Indoor	Production Type	Expected Construction Completion	Licence Issue (or expected) Date	Production Space (Sq. Ft.)	Measurement	# of Rooms	Licences
Phase 1	Hybrid GH	Complete	June 2018	44,000	Sq. Ft.	4	Cultivation, Sale
Phase 2	Hybrid GH	Complete	December 2018	66,000	Sq. Ft.	6	Cultivation, Sale
Phase 3	Hybrid GH	Complete	August 2019	110,000	Sq. Ft.	10	Cultivation, Sale
Phase 4	Standard GH	Flexible*	Flexible*	308,000	Sq. Ft.	2	Amendment to existing licence
Total Indoor/Greenhouse				**528,000**		**22**	
Outdoor		**Expected Construction Completion**	**Licence Issue (or expected) Date**	**Cultivation Space (Sq. Ft.)**	**Cultivation Space (Acres)**	**Cultivation Zones**	**Licences**
Phase 1	Outdoor	Complete	June 2019	1,100,000	27	1	Cultivation, Sale
Phase 2	Outdoor	Flexible*	Flexible*	3,200,000	73	3	Amendment to existing licence
Total Outdoor				**4,300,000**	**100**	**4**	
Consolidated				**4,828,000**	**112**		

* WeedMD remains committed to being opportunistic when adding further capacity from either the next seven acres of greenhouse or the remaining seventy-three acres of outdoor that are available.

Outdoor Cultivation

In June 2019, the Company completed planting more than 20,000 cannabis clones on its 27-acre Phase 1 outdoor grow. The first phase of the outdoor operation was licensed in May with all plants in the ground as of June 17, 2019. The majority of the outdoor project is comprised of WeedMD's core strains, with a small area dedicated to several other proprietary strains.

The purchase of the adjacent property on April 10, 2019 will allow the Phase 2 outdoor expansion the ability to increase to a total of up to 100 acres of outdoor cultivation. The Company's cost to harvest for its outdoor grown cannabis was significantly lower than the cost to harvest of its indoor grown product, costing approximately $0.16 per gram compared to $0.72 per gram of indoor achieved in Q3 2019, a 78% reduction in costs.

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

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

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

As of November 4, 2019, WeedMD completed the harvest of its outdoor cultivation area, producing one of the first legal cannabis crops grown outdoors.

With the addition of its outdoor cultivation operation, WeedMD was able to test the suitability of 37 unique strains and determine appropriate cultivation methods relating to each strain for future outdoor cultivation. Given the success of its outdoor project in 2019, the Company is confident it has the appropriate portfolio of genetics to increase its outdoor yields substantially in 2020 and the future.

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

Greenhouse Cultivation

During Q3 2019, WeedMD harvested 3,056 kgs of cannabis compared to 3,617 kgs in Q2, representing a 16% decrease quarter over quarter. The lower production was a result of the cultivation and harvest schedule in Q3. With the ten 10,000 sq. ft. newly licensed rooms commencing cultivation throughout Q3 2019, the quarter was a ramp up period. Kilograms harvested from the greenhouse operations are expected to increase in Q4 2019 and Q1 2020, with the first harvests from these newly licensed rooms.

WeedMD averaged 340 kg per harvest in its 10,000 sq. ft. grow rooms in Q3, down 14% quarter over quarter. Yield per plant varied between 45 and 149 grams per plant over 9 harvests in Q3, with an average yield per plant of 104 grams.

The next phase for the greenhouse expansion is for the remaining 308,000 sq. ft. of traditional greenhouse cultivation space, bringing the total greenhouse production footprint to more than 500,000 sq. ft. Although this expansion was targeted for the first half of 2020, with the recent oversupply of extraction grade cannabis, WeedMD has decided to postpone this project until market conditions are appropriate.

Extraction

During Q1 2019, the Aylmer facility began its transformation into a cannabis extraction and processing centre of excellence. As of Q3 2019, the Company invested $1.9 million in Aylmer to construct, install and calibrate its first Vitalis CO_2 extractor which allowed CX Industries to enter commercial operations subsequent to Q3 2019. CX Industries is currently equipped to extract up to 26,000 kg, annually, of high-cannabinoid biomass which will be sold as bulk distillate or converted into finished products including vape cartridges for WeedMD's medical and adult-use brands. WeedMD expects to double the annual capacity to 52,000 kg with the investment of an additional $1 million in Q4 2019.

Distribution

Adult-Use Market

In early June, WeedMD launched its first adult-use focused brand, Color Cannabis, which was sold across the majority of provinces that have signed supply agreements with WeedMD. Product sold to the adult-use market decreased by 4% from Q2 2019, representing a decrease of 12% in net revenue due to more product availability in Q2. With the addition of the ten greenhouse cultivation rooms in Q3 2019, WeedMD anticipates more Grade A flower being available for sale in Q4 and beyond.

WeedMD continues to see increased sales momentum in its Color Cannabis brand which was launched in June 2019. Measured against other consolidated LP brands, WeedMD sold 3.3% of all flower kilograms sold in Ontario in Q3, while its ranking measured by dollar sales moved from 17th place in Q2 to 7th place in Ontario in Q3. Given the success and user demand for Color Cannabis flower, WeedMD plans to maximize its allocation of flower to this channel which will result in higher realized prices and wider distribution across Canada.

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

Medical Market

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

WeedMD's continued support of the medical market and dedication to improved access is demonstrated in its offer of free shipping on all orders over $99, its absorption of the government-imposed excise tax as well as offering both seniors' discounts and compassionate pricing. The Company carries multiple unique WeedMD strains available for purchase on its medical website, including Pedro's Sweet Sativa, Blueberry Seagal, Cold Creek Kush, Ghost Train Haze, Green Kush, Mango Haze, Shishkaberry and White Shark.

Q3 FINANCIAL RESULTS

Summary of Quarterly Results

	Q3-19	Q2-19	Q1-19	Q4-18
Net revenue	$ 6,654,311	$ 7,979,747	$ 3,335,788	$ 2,722,337
Gross margin %	29%	46%	15%	-9%
Increase (decrease) in biological assets and inventory	(6,606,041)	15,615,988	5,870,622	594,804
Adjusted EBITDA	(1,970,742)	(662,822)	(3,087,793)	(3,560,679)
Net income (loss) and comprehensive income (loss)	(13,402,388)	12,624,640	(2,403,887)	(7,715,284)

	Q3-18	Q2-18	Q1-18	Q4-2017
Net revenue	$ 2,001,369	$ 2,089,163	$ 1,142,341	$ 858,924
Gross margin %	64%	70%	64%	5%
Increase (decrease) in biological assets and inventory	2,959,044	959,834	416,223	(170,339)
Adjusted EBITDA	(499,488)	(1,035,292)	(653,226)	(3,353,612)
Net income (loss) and comprehensive income (loss)	9,904,660	(1,763,007)	(1,321,497)	(2,295,096)

Results of Operations

Three months ended	**30-Sep-19**	30-Jun-19	30-Sep-18
Net revenue	**$6,654,311**	$7,979,747	$2,001,369
Gross profit before fair value adjustments	**1,902,485**	3,663,089	1,287,040
Gross profit (loss)	**(7,820,941)**	19,190,635	2,789,625
Income (loss) and comprehensive income (loss)	**(13,402,388)**	12,624,640	9,904,660
Cash provided by (used in) operations	**(175,504)**	6,630,366	(1,076,709)
Basic income (loss) per share	**(0.12)**	0.11	0.09

As at	**30-Sep-19**	30-Jun-19	30-Sep-18
Total Assets	**$155,160,181**	$147,794,492	$87,698,288
Total Liabilities	**67,708,312**	51,591,245	9,856,688
Cash and cash equivalents	**13,703,225**	11,349,687	36,059,767
Working Capital	**27,464,396**	38,322,049	44,949,614

Revenues

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

	Q3 2019	Q2 2019	Q3 2018
Direct to patient			
Dried cannabis	**$ 277,197**	$ 275,528	$ 309,736
Cannabis plants and seeds	**12,279**	2,380	27,058
Cannabis extracts	**101,068**	102,684	109,998
Other	**11,322**	422	1,976
	$ 401,866	$ 381,014	$ 448,768
Wholesale			
Provincial			
Dried cannabis	**$ 1,656,950**	$ 1,883,387	$ 161,035
	$ 1,656,950	$ 1,883,387	$ 161,035
Licence holders			
Dried cannabis	**$ 4,523,205**	$ 5,272,131	$ 1,029,264
Cannabis plants and seeds	**70,000**	-	362,302
Cannabis extracts	**-**	437,325	-
Other	**2,290**	5,890	-
	$ 4,595,495	$ 5,715,346	$ 1,391,566
	$ 6,252,445	$ 7,598,733	$ 1,552,601
	$ 6,654,311	$ 7,979,747	$ 2,001,369

WeedMD recorded net revenues, defined as gross revenue less excise taxes, of $6,654,311 in Q3 2019, representing a 17% decrease from the three months ended June 30, 2019 (“Q2 2019”) and a 232% or $4,652,942 increase over the three months ended September 30, 2018 (“Q3 2018”). The decrease from Q2 2019 to Q3 2019 is a result of a decrease in kilograms harvested and processed for sale in Q3. The Strathroy facility harvested 3,056 kgs during Q3 2019, a decrease of 16% from Q2 2019. The decrease in kilograms harvested quarter over quarter was attributed to staggering harvests to optimize future labour and the commissioning of the ten newly licensed grow rooms in August. In addition, sales in the wholesale bulk market fell quarter over quarter, resulting in a net price of $1.97 versus $3.46 in Q2.

In Q3 2019 WeedMD recorded net revenues to the provincial distribution channel of $1,656,950 a quarter over quarter decrease of $226,437 or 12% (Q3 2018: $161,035). Q3 2019 revenue to provincial distribution channel accounts for 25% of net revenues, a 1% increase from Q2 2019 where sales to provincial distribution channel represented 24% of net revenues. The decrease in net sales to the provincial distribution channel is a result of both lower realized pricing and slightly lower grams sold as it related to timing and availability of finished packaged product. The Company expects the availability of product to improve going forward with the completion and licensing of its ten new cultivation rooms.

In Q3 2019 WeedMD recorded net revenues to federal licence holders of $4,595,495 accounting for 69% of net revenues, down by 3% in comparison to Q2 2019, where sales to licence holders represented 72% of net revenues.

With the decision in Q1 2019, to move forward with the Aylmer Optimization Plan (CX Industries), and while the Aylmer facility is under construction, during Q2 2019 and Q3 2019 the Company released a large amount of extract-grade cannabis to the LP market. This allowed the Company to conserve storage space for more premium (Grade A) products to be held in inventory and to continue to drive revenues during the transition.

For the nine months ended September 30, 2019 (“Q3 2019 YTD”) WeedMD recorded net revenues of $17,969,846 representing a 243% increase over the same period in fiscal 2018 (nine months ended September 30, 2018 (“Q3 2018 YTD”): $5,232,873). The year to date increase is a function of increased sales to LPs and the provincial distribution channel for the adult-use market that was legalized in October 2018.

Grams sold	Q3 2019	Q2 2019	Q3 2018
Dried Cannabis			
Provincial	**395,570**	411,957	38,430
Licensed Producers	**2,295,215**	1,525,410	147,567
Direct to patient	**49,432**	41,261	40,020
	2,740,217	1,978,628	226,017

Total dried cannabis sold in Q3 2019 was 2,740,217 grams (Q2 2019: 1,978,628 grams) at a weighted average selling price, net of excise taxes, of $2.36 per gram (Q2 2019: $3.76). The decrease in weighted average selling price, net of excise taxes, was due to the price compressed bulk wholesale market.

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

Average selling price (net of excise)	Q3 2019	Q2 2019	Q3 2018
Dried Cannabis			
Provincial	**$ 4.19**	$ 4.57	$ 4.19
Federal licence holders	**$ 1.97**	$ 3.46	$ 6.97
Direct to patient	**$ 5.61**	$ 6.68	$ 7.74
Weighted average selling price	**$ 2.36**	$ 3.76	$ 6.64

Both the provincial adult-use distribution channel and the direct to patient channel saw a quarter over quarter decrease of 8% and 16%, in price per gram respectively. The decrease in the average selling price in the provincial adult-use channel is attributed to adding certain product SKUs at lower price points. The average selling price to federal licence holders is dependent on the mix of premium flower (Grade A) and extraction grade cannabis. In Q3 2019, WeedMD sold an increased amount of extraction grade dried cannabis. As mentioned above, the increase was a direct result of releasing extract grade cannabis while the Aylmer facility is under transformation into a focused extraction and processing hub (CX Industries).

Total dried cannabis sold for Q3 2019 YTD was 5,511,848 grams (Q3 2018 YTD: 414,546 grams) at an average selling price net of excise taxes of $3.07 per gram (Q3 2018 YTD: $6.72). The decrease in average selling price compared to the same period in 2018 is due to the implementation of the excise tax, which is being absorbed by the Company, lower price per gram in the wholesale adult-use market, as well as the Company selling a larger proportion of lower priced extract-grade product to federal licence holders.

Gross Profit Before Changes in Fair Value

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

Gross profit as a percentage of sales (“Gross Margin”) for the quarter was 29%, a decrease from 46% and improvement from 15% in the quarters ending June 30, 2019 and March 31, 2019, respectively. The decrease in Gross Margin is the direct result of the Company ramping up production as it brings the ten newly licensed cultivation rooms online, similar to Q1 2019 when phase 2, which included six new cultivation rooms, was brought online. The first harvests from this increased production capacity will begin in late Q4 2019 into Q1 2020.

Gross margin decreased $1,760,604 or 48% from Q2 2019 and increased $615,445 or 48% over Q3 2018. The decrease in gross profit before changes in fair value from Q2 2019 is mainly attributable to the decrease in selling prices explained above, partially offset by an improved cost to sell described below. The increase in gross profit before changes in fair value from Q3 2018, is mainly attributable to a significant increase in sales and a decrease in the cost of sales.

The weighted average cost of sales per gram, inclusive of all costs, direct and indirect, to produce and package for Q3 2019 was $1.42, compared to $1.84 for Q2 2019 and $3.14 in Q3 2018. The quarter over quarter improvement was $0.42 per gram or 23%. The average cost per gram, from clone to harvest, sold throughout Q3 2019 ranged from $0.72 to $1.88. The harvests in the quarter achieved the lower cost of $0.72 per gram and demonstrates a significant improvement in the quarter of 25% compared to Q2 2019. This continued improvement is a result of increasing capacity and efficiency allowing the Company to achieve increased economies of scale and is expected to continue as the Strathroy facility ramps up to full capacity.

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

Gross Profit

Gross profit is the actual cost of sales including adjustments in fair value for the products sold in the period and fair value adjustments for the biological assets in production. Gross profit decreased $27,011,576 or 141% from Q2 2019 and by $10,610,566 or 380% from Q3 2018.

The decrease from Q2 2019 is attributable to:

- a decrease in net revenue of $1,325,436 coupled with the aforementioned decrease in gross profit before changes in fair value, which resulted in a decrease of gross profit of $1,760,604 and;
- a net $9,723,426 expense arising from:
    - A $6,264,425 unrealized loss on changes in fair value of biological assets resulting from the 82,026 plants (Q2 2019: 56,975 plants) in cultivation, estimated to be at 47% of their full potential as at September 30, 2019. This loss is the difference between the estimated selling price, less cost to sell, at the plants current state (47% complete) less the production costs incurred to date;
    - As well as $3,459,001 of realized fair value amounts included in inventory sold

General and Administrative Expenses

General and administrative expenses decreased by $463,876 to $3,927,863 in Q3 2019 from Q2 2019 but remained consistent as a percentage of sales increasing from 55% to 59%.

The notable decreases in general and administrative expenses quarter over quarter were in Wages & salaries of $105,569, Office & administrative of $121,598 and Rent & occupancy of $99,508, as discussed further below.

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

	For the three months ended	
	September 30, 2019	June 30, 2019
Wages & Salaries	**$ 1,378,481**	$ 1,484,050
Marketing & business development	**1,080,124**	1,132,498
Rent & occupancy	**148,348**	247,856
Insurance	**99,567**	101,238
Office & Administrative	**871,006**	992,604
Travel & accommodations	**161,343**	170,363
Professional fees	**188,994**	202,024
Aylmer optimization	**-**	61,106
Total general and administrative	**$ 3,927,863**	$ 4,391,739

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	**2019**	2018
Wages & Salaries	**$ 1,378,481**	$ 479,595	**$ 3,879,524**	$ 1,570,258
Marketing & business development	**1,080,124**	403,554	**3,161,057**	1,152,822
Rent & occupancy	**148,348**	44,263	**636,932**	82,189
Insurance	**99,567**	98,993	**321,888**	189,515
Office & Administrative	**871,006**	852,244	**2,479,080**	2,692,322
Travel & accommodations	**161,343**	117,543	**531,305**	310,191
Professional fees	**188,994**	(11,615)	**485,781**	209,968
Aylmer optimization	**-**	-	**445,256**	-
Total general and administrative	**$ 3,927,863**	$ 1,984,577	**$ 11,940,823**	$ 6,207,265

General and administrative expenses increased by $1,943,286 from Q3 2018. The increase is mainly attributable to an increase in the operations footprint and an increase in headcount to support the increase in operations. Total sq. ft. of operations increased 19 times over prior year operations and headcount increased 108%.

Wages and salaries

Wages and salaries have remained relatively consistent, decreasing by $105,569 in Q3 2019 from $1,484,050 in Q2 2019. While headcount increased to 212 employees at the end of Q3 2019 from 172 employees in Q2 2019, all of the additions to headcount were to positions directly related to the cultivation and processing of biological assets and inventory. In the three months ended September 30, 2019 the Company incurred $1,378,481 of wages and salaries expense (three months ended September 30, 2018: $479,595). The increase in wages and salaries expense is due to an increase in headcount required to successfully scale up the organization.

As at September 30, 2019, the Company employed a total of 212 people (September 30, 2018: 102 people), of which 17% (Q3 2018: 20%) were employed in support service departments reflected in general and administrative expenses, such as human resources, finance, information technology, customer service and sales & marketing. In the nine months ended September 30, 2019, wages and salaries increased by $2,309,266 from the nine months ended September 30, 2018.

Marketing and business development

Included in marketing and business development expenses are brand development, marketing campaigns, and conference costs. Marketing and related business development expenses remained consistent, decreasing 5%, from $1,132,498 in Q2 2019 to $1,080,124 in Q3 2019 as the Company continues to develop its brands, in particular Color Cannabis, that was launched in June 2019.

In three months ended September 30, 2019 the Company incurred $1,080,124 of marketing and business development expenses (three months ended September 30, 2018: $403,554). In the nine months ended September 30, 2019, the Company incurred marketing and related business development expenses in the amount of $3,161,057 (nine months ended September 30, 2018: $1,152,822).

Rent & occupancy costs

Rent and occupancy costs for Q3 2019 have decreased from Q2 2019 by $99,508, as the Company has absorbed additional costs to inventory as the Strathroy facility continues to ramp up production.

In the three months ended September 30, 2019, the Company incurred $148,348 of rent and occupancy expenses (three months ended September 30, 2018: $44,263). The increase is mainly attributable to the costs incurred in the Strathroy facility that only had one operational acre compared to five operational acres at the end of Q3 2019. Rent and occupancy expenses for the nine months ended September 30, 2019 increased by $554,743 from the nine months ended September 30, 2018.

Office & administrative

Office and Administrative expenses include general office expenses, consultant fees, subscriptions and memberships as well as other overhead costs not directly related to production. Q3 2019 office and administrative expenses decreased by $121,598, or 12% from $992,604 in Q2 2019 to $871,006 in Q3 2019.

In the nine months ended September 30, 2019, the Company incurred office and administrative expenses in the amount of $2,479,080 a decrease of $213,242 from the nine months ended September 30, 2018 of $2,692,322.

Aylmer optimization

During Q1 2019, the decision was made to optimize the Aylmer facility and convert it into a cannabis extraction and processing centre of excellence. The one-time costs incurred in relation to decommissioning of the facility totaled $445,256.

Share based compensation

Share based compensation contains the non-cash cost associated with the options granted to directors, officers, employees and consultants for services rendered. Share based compensation has decreased by $289,399, from $1,324,458 in Q2 2019 to $1,035,059 in Q3 2019 as a result of the number of options granted and the timing of option grant vesting conditions. Share based compensation increased by $259,437 from Q3 2018 to Q3 2019 as a result of both the number of options granted as well as the timing of vesting conditions.

Amortization

Total amortization expensed for Q3 2019 was $297,490 (Q3 2018: $7,588). Amortization has decreased by $82,444 from Q2 2019 as a result of increased absorption of amortization in biological assets and inventory as productivity at the Strathroy location increases, this is partially offset by the Aylmer optimization stopping amortization absorption into biological assets at the Aylmer facility.

For the nine months ended September 30, 2019 total amortization recorded in amortization expense was $785,346 (nine months ended September 30, 2018: $39,970). The increase is mainly attributable to the increase in production capacity resulting in increased property, plant and equipment. In addition, as a result of the Aylmer optimization, amortization has not been absorbed into the cost of biological assets.

Adjusted EBITDA

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	**2019**	2018
Income (loss) and comprehensive income (loss)	**$ (13,402,388)**	$ 9,904,660	**$ (3,181,635)**	$ 6,820,156
Add (Deduct):				
Unrealized losses (gains) on investments	**158,300**	(764,574)	**557,633**	(618,741)
Finance costs	**217,371**	142,796	**351,627**	1,099,427
Amortization	**297,490**	7,588	**785,346**	39,970
Share based compensation	**1,035,059**	775,622	**4,392,948**	1,488,900
Realized fair value	**3,459,001**	428,856	**7,515,164**	2,108,052
Unrealized fair value	**6,264,425**	(1,931,441)	**(16,142,440)**	(4,062,775)
Other gains	**-**	(237,259)	**-**	(237,259)
Gain on termination of Arrangement Agreement	**-**	(8,825,736)	**-**	(8,825,736)
Adjusted EBITDA	**$ (1,970,742)**	$ (499,488)	**$ (5,721,357)**	$ (2,188,006)

Adjusted EBITDA loss for the quarter was $1,970,742, an increase of $1,307,920 from $662,822 in Q2 2019. This decline largely stems from the decrease in gross profit before changes in fair value of $1,760,604, driven by the sales decrease and decrease in Gross Margin, slightly offset by a decrease in cash related general and administrative expenses of $463,876. Adjusted EBITDA loss for Q3 2019 increased by $1,471,254 from $499,488 in Q3 2018. This is largely the result of an increase in cash related general and administrative expenses of $1,943,286, partially offset by an increase in gross profit before changes in fair value of $615,445.

Adjusted EBITDA loss for the nine-months ended September 30, 2019 was $5,721,357 a $3,533,351 increase from the same period in the comparative year. This increase largely stems from the increase in general and administrative expenses of $5,733,558, partially offset by the improvement of gross profit before changes in fair value of $2,564,626 driven by the sales increase and improvement in Gross Margin.

Other income (expenses)

Other expenses have decreased by $245,508 to $103,664 in Q3 2019 from $349,172 in Q2 2019 and increased by $10,129,282 compared to other income of $10,025,618 in Q3 2018. The decrease in 2019 is the direct result of the unrealized loss recorded in Q2 2019 on the investments held by the Company. In Q3 2018, the Company recognized significant other income related to the termination of the Arrangement Agreement, along with other gains which were one-time sources of income earned by the Company. These coupled with a large unrealized gain on the Company's investment portfolio lead to higher than normal other income earned in Q3 2018.

Other expenses have increased by $10,603,788 to $392,835 for the nine months ended September 30, 2019 from income of $10,210,953 in the nine months ended September 30, 2018. The increase is due to the termination of the Arrangement Agreement and other gains recognized in 2018 discussed above, as well as lower interest earned in 2019 due to a comparatively lower cash and cash equivalent position.

Net income (loss) for the period

The Company reported a net loss and comprehensive loss of $13,402,388 for Q3 2019 (Q3 2018: net income of $9,904,660). For the nine months ended September 30, 2019, the Company reported a net loss of $3,181,635 (nine months ended September 30, 2018: net income of $6,820,156). The three-month decrease in net income (loss) and comprehensive income (loss) is a result of the gain on termination of the Arrangement Agreement, other gains and unrealized gains on investments recognized in 2018, partially offset by increased sales.

The nine-month decrease in net income and comprehensive income is a result of the gain on termination of the Arrangement Agreement, other gains, unrealized gains on investments recognized in 2018, and increases in general and administrative expenses, share based compensation and amortization, partially offset by an increase in sales and unrealized gains on changes in fair value of biological assets.

Net adjusted operating income (loss)

Net adjusted operating income (loss) is not a recognized measurement under IFRS and this data may not be comparable to data presented by other companies. Net adjusted operating income excludes realized fair value amounts included in inventory and the unrealized gain on changes in fair value of biological assets from income (loss) before other income. The Company believes the net adjusted operating income (loss) provides a better interpretation of the periods operating results. This adjustment was $9,723,426 for the three months ended September 30, 2019 and $8,627,276 for the nine-month year to date.

Net adjusted operating income		**Q3 2019**		Q2 2019		Q3 2018
Income (loss) before other income	**$**	**(13,298,724)**	$	12,973,812	$	(120,958)
Realized fair value amounts included in inventory sold		**3,459,001**		3,448,531		428,856
Unrealized gain on changes in fair value of biological assets		**6,264,425**		(18,976,077)		(1,931,441)
	$	**(3,575,298)**	$	(2,553,734)	$	(1,623,543)

Net adjusted operating loss for Q3 2019 has increased to $3,575,298 from $2,553,734 in Q2 2019 and from $1,623,543 in Q3 2018. The increase in 2019 was the result of the decrease in gross profit before changes in fair value of $1,760,604 driven by lower sales and a decreased gross margin.

The increase from Q3 2018 is the result of increases in operating costs required to successfully scale up the organization. The increase is mainly attributable to an increase in general and administrative expenses of $1,943,286, share based compensation of $259,437, and amortization expense of $289,902, partially offset by the increase in gross profit before changes in fair value of $615,445.

Net adjusted operating income	**Nine months ended September 30, 2019**	Nine months ended September 30, 2018
Income (loss) before other income	**$ (2,788,800)**	$ (3,390,797)
Realized fair value amounts included in inventory sold	**7,515,164**	2,108,052
Unrealized gain on changes in fair value of biological assets	**(16,142,440)**	(4,062,775)
	$ (11,416,076)	$ (5,345,520)

Net adjusted operating loss for the nine months ended September 30, 2019 increased to $11,416,076 from $5,345,520 for the nine months ended September 30, 2018. The increase is the result of increases in general and administrative expenses, share based compensation and amortization expense of $5,733,558, $2,904,048 and $745,376 respectively. The increase is partially offset by a decrease in finance costs of $747,800 and an increase in gross profit before changes in fair value of $2,564,626.

Liquidity and Capital Resources

As at September 30, 2019, the Company had cash of $13,703,225 (December 31, 2018: $21,223,641). Total current assets were $51,847,336 (December 31, 2018: $40,815,324), including inventory and biological assets of $22,864,696 (December 31, 2018: $7,984,127), with current liabilities of $24,382,940 (December 31, 2018: $10,976,340) resulting in working capital of $27,464,396 (December 31, 2018: $29,838,984). The Company's current ratio at September 30, 2019 was 2.13 (December 31, 2018: 3.72). The Company's current assets increased as a result of the increases in inventory and biological assets, primarily driven by the increase in cultivation capacity at the Greenhouse Expansion as well as the outdoor grow.

If required, the Company plans to access further working capital through equity and/or debt financings to finance its growth plans.

Inventory

	September 30, 2019		June 30, 2019		December 31, 2018	
	Value	**Grams**	Value	Grams	Value	Grams
Dried cannabis	**$ 6,113,829**	**2,252,090 g**	$ 6,756,171	2,091,092 g	$ 3,168,767	747,971 g
Harvested work in progress	**738,332**	**335,870 g**	1,040,406	397,780 g	863,903	322,225 g
Extracts						
Resin	**3,840,274**	**78,127 g**	2,964,738	56,430 g	1,000,880	15,446 g
Crude oil	**930,859**	**86,578 g**	599,055	64,210 g	229,159	32,750 g
Finished oil	**1,367,509**	**1,161,158 g**	736,369	729,421 g	571,342	488,789 g
	6,138,642	**1,325,863 g**	4,300,162	850,061 g	1,801,381	536,985 g
Non-cannabis inventory	**268,711**		374,214		-	
	$ 13,259,514		$ 12,470,953		$ 5,834,051	

Total inventory increased by $788,561 to $13,259,514 quarter over quarter, with the increases and decreases to cannabis inventory as follows:

- Harvested Finished Goods decreased by $642,342 to $6,113,829
- Harvested Work in Progress decreased by $302,074 to $738,332 and
- Cannabis extracts increased by $1,838,480 to $6,138,642

Property, plant and equipment

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

Balance as at	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
Improvements	**$ 51,305,650**	$ 45,707,826	$ 40,319,298	$ 35,034,986	$ 23,017,921
Property purchase	**30,325,018**	30,325,018	29,106,016	-	-
Cumulative total	**$ 81,630,668**	$ 76,032,844	$ 69,425,314	$ 35,034,986	$ 23,017,921

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

Cumulative additions to property plant and equipment for 2019 year to date total $62,252,985. Included in this total are:

- $43,106,655 of additions to the buildings and facilities owned by the Company
- $7,878,197 of additions to equipment as the Company continues to scale up production
- $7,082,946 on leasehold improvements in the current year, the majority of which were transferred to buildings upon the purchase of the Strathroy facility
- $1,446,376 to increase security at its Strathroy facility for both the indoor and outdoor operations
- $408,536 on additional fencing, the majority for the outdoor operations
- $933,857 implementing improved software systems, designed to support the growing needs of the business.

Loans and borrowings

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

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

The Credit Facilities mature March 29, 2022 ("Maturity Date") and bear an interest rate on a tier rate based on total funded debt to EBITDA. The interest rate will range from approximately 1% to 2% above Canadian prime rate. Total borrowing costs for the Credit Facilities were $0.4 million. Under the terms of the Credit Facilities, the Company is also subject to certain customary financial and non-financial covenants and restrictions. In addition, the Credit Facilities are secured by a first priority lien on substantially all of the Company's personal and real property and assets. In addition, Facility 2 and 3 required $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 (all ratios are as defined in the credit agreement).

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.

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

Warrant and Stock Options Exercise

For the 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.

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.

Stock Option Grants

On January 9, 2019, the Company granted 2,868,000 options to management, employees, directors and consultants of the Company which were valued based on the value of the instruments as the value of the services was not reliably determinable. Each option is exercisable into one common share at an exercise price of $1.53, until January 10, 2024. 640,000 of the options vest over the calendar quarters of 2019, 600,000 of the options vest over 24 months, 1,490,000 of the options vest over 36 months, 100,000 of the options vest upon completion of specified milestones to be determined by the Board of Directors and 38,000 of the options vest immediately. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 85%; (iii) risk-free interest rate of 1.91%; (iv) share price of $1.53; (v) forfeiture rate of nil; and (vi) expected life of 60 months. The total fair value of the options is $2,959,634. Total share-based compensation for the nine months ended September 30, 2019 is $1,927,664.

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.

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.

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

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

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

Contractual obligations
The lease commitment schedule is outlined in the below table:

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

Transactions with related parties

The Company's key management includes 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
	$ 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.

Critical Accounting Estimates

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

Changes and New Accounting Standards and Interpretations

a) Revenue recognition

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

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

b) New Standards Adopted in Current Year

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 of the condensed interim consolidated financial statements. The Company has expensed $605,034 for leases with less than 12 months of lease term at transition for the period ended 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.

Disclosure of Outstanding Share Data

As of November 29, 2019, the following are outstanding:

Common Shares:	114,656,364
Warrants:	20,828,754
Stock and Broker Compensation Options:	9,804,515

Risk Factors

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

The Company has identified the following risk factor in addition to those disclosed in the MD&A and the Annual Information Form for the year ended December 31, 2018. Please refer to the Risk Factors in the MD&A (effective date April 30, 2019) and the Annual Information Form (dated June 21, 2019) for the year ended December 31, 2018 for a complete discussion.

Risks Inherent in an Agricultural Business

With the expansion of the outdoor cultivation space in Q2 2019, there are additional inherent risks in addition to risks identified with indoor production. Outdoor production is exposed to climate conditions and possible contamination beyond the Company's control that could have a material adverse effect on the quantity and quality of cannabis produced.

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.