CONSOLIDATED FINANCIAL STATEMENTS

WEEDMD INC.

December 31, 2019 and 2018
(Expressed in Canadian Dollars)

WeedMD Inc.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

CONTENTS

	Page
Auditor's Report	
Management's Responsibility Statement	4
Consolidated Statements of Financial Position	5
Consolidated Statements of Loss and Comprehensive Loss	6
Consolidated Statements of Changes in Shareholders' Equity	7
Consolidated Statements of Cash Flows	8
Notes to the Consolidated Financial Statements	9-48

RSM

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of WeedMD Inc.

Opinion

We have audited the consolidated financial statements of WeedMD Inc., (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of $10,392,361 during the year ended December 31, 2019. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises of Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mark Jakovcic.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
June 10, 2020
Toronto, Ontario

MANAGEMENT'S RESPONSIBILITY STATEMENT

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

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

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

Angelo Tsebelis, Director
June 10, 2020

WeedMD Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31,	Note		**2019**		2018
Assets					
Current:					
Cash and cash equivalents		**$**	**8,183,744**	$	21,223,641
Restricted cash	10		**3,112,650**		100,000
Trade and other receivables			**3,346,425**		1,638,692
Current portion of promissory note receivable	5(f)		**490,177**		462,265
Investments	5		**438,000**		1,593,251
Prepaid expenses and deposits			**2,953,651**		2,101,028
Commodity tax receivable			**2,289,252**		5,712,320
Inventory	6		**31,286,901**		5,834,051
Biological assets	6		**7,665,876**		2,150,076
			59,766,676		40,815,324
Deposit on property			**-**		5,892,350
Promissory note receivable	5(f)		**473,740**		-
Prepaid expenses and deposits			**347,259**		-
Right of use asset	3(v)		**3,316,738**		-
Intangible assets	8		**20,998,911**		372,377
Property, plant and equipment	7		**108,771,816**		40,988,606
Goodwill	4		**16,123,601**		-
Total assets		**$**	**209,798,741**	$	88,068,657
Liabilities					
Current:					
Accounts payable and accrued liabilities		**$**	**23,298,678**	$	10,971,369
Unearned revenue	19		**2,512,967**		4,971
Current portion of lease liabilities	3(v)		**1,466,008**		-
Current portion of loans and borrowings	10		**1,870,414**		-
			29,148,067		10,976,340
Lease liabilities	3(v)		**2,186,487**		-
Accrued liabilities			**125,801**		-
Loans and borrowings	10		**33,958,081**		-
Unsecured convertible debentures	9		**8,321,120**		-
Total liabilities			**73,739,556**		10,976,340
Shareholders' equity					
Common shares	11	**$**	**137,646,156**	$	79,692,641
Warrants reserve	12		**10,597,563**		8,073,109
Conversion feature	9		**1,514,025**		-
Contributed surplus	13		**13,980,748**		6,613,513
Deficit			**(27,679,307)**		(17,286,946)
Total equity			**136,059,185**		77,092,317
Total liabilities and equity		**$**	**209,798,741**	$	88,068,657

See accompanying notes to consolidated financial statements

Going concern (Note 2)

Commitments (Note 22)

Subsequent events (Note 25)

Approved:

Directors: *"Angelo Tsebelis"* Signed *"Michael Pesner"* Signed

WeedMD Inc.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended December 31,	Note		2019		2018
Revenue	19	$	**23,081,359**	$	8,203,273
Excise taxes			**(2,261,179)**		(248,063)
Revenue, net			**20,820,180**		7,955,210
Cost of goods sold			**16,771,341**		4,721,399
Gross profit before changes in fair value			**4,048,839**		3,233,811
Realized fair value amounts included in inventory sold			**9,742,965**		2,177,532
Unrealized gain on changes in fair value of biological assets	6		**(20,566,094)**		(3,577,760)
Gross profit			**14,871,968**		4,634,039
General and administrative expenses	15		**18,193,028**		9,691,464
Total share-based compensation	13		**4,762,758**		5,370,758
Finance costs	16		**1,249,822**		459,508
Amortization			**279,560**		104,337
Loss before other income (loss)			**(9,613,200)**		(10,992,028)
Unrealized gain (loss) on investments	5		**(867,167)**		185,408
Interest income			**222,156**		513,281
Other gains (losses)			**(144,150)**		448,891
Government grants			**10,000**		195,687
Gain on termination of Arrangement Agreement	20		**-**		8,753,633
Loss and comprehensive loss			**(10,392,361)**		(895,128)
Basic loss per share	17	$	**(0.09)**	$	(0.01)
Diluted loss per share	17	$	**(0.09)**	$	(0.01)

See accompanying notes to consolidated financial statements

WeedMD Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2019 and 2018

	Note	Number of Shares	Share Capital	Warrants	Conversion Feature	Contributed Surplus	Deficit	Total
Balance, December 31, 2017		**78,250,222**	**$ 34,029,538**	**$ 3,794,703**	**$2,607,546**	**$ 1,092,579**	**$ (16,391,818)**	**$ 25,132,548**
Conversion of debentures	9(a)	12,500,000	14,620,666	-	(2,607,546)	-	-	12,013,120
Units issued upon Prospectus Offering	11(a)	16,046,511	29,352,724	5,147,275	-	-	-	34,499,999
Unit issue cost	11(a)	-	(2,627,835)	(460,815)	-	807,000	-	(2,281,650)
Shares issued on broker warrants exercise	12(c)	142,500	238,293	(67,293)	-	-	-	171,000
Shares issued on warrants exercise	12(d)	2,347,102	2,111,908	(340,761)	-	-	-	1,771,147
Shares issued on option exercise	13(h)	1,808,229	1,767,147	-	-	(579,824)	-	1,187,323
Shares issued on compensation option exercise	13(g)	176,000	200,200	-	-	(77,000)	-	123,200
Share based compensation	13	-	-	-	-	5,370,758	-	5,370,758
Net loss		-	-	-	-	-	(895,128)	(895,128)
Balance, December 31, 2018		**111,270,564**	**$ 79,692,641**	**$ 8,073,109**	**$ -**	**$ 6,613,513**	**$ (17,286,946)**	**$ 77,092,317**
Units issued upon property purchase	11(b)	2,500,000	4,251,692	597,892	-	-	-	4,849,584
Shares issued on option exercise	13(h)	434,551	406,232	-	-	(145,479)	-	260,753
Shares issued on warrants exercise	12(e)	232,500	387,078	(108,090)	-	-	-	278,988
Share based compensation	13	-	-	-	-	4,762,758	-	4,762,758
Broker warrants issued for Unsecured Convertible Debentures	9(b)	-	-	587,293	-	-	-	587,293
Warrants issued on Unsecured Convertible Debentures	9(b)	-	-	1,685,087	-	-	-	1,685,087
Warrant issue costs	9(b)	-	-	(237,728)	-	-	-	(237,728)
Conversion feature on convertible debentures issued	9(b)	-	-	-	1,814,709	-	-	1,814,709
Conversion feature issue costs	9(b)	-	-	-	(256,015)	-	-	(256,015)
Conversion of debentures	9(b)	218,750	266,115	-	(44,669)	-	-	221,446
Shares issued on acquisition	4	71,833,194	52,642,398	-	-	-	-	52,642,398
Options issued on acquisition	4	-	-	-	-	2,109,911	-	2,109,911
Shares to be issued for services	13(p)	-	-	-	-	583,581	-	583,581
Deferred stock units issued	13(o)	-	-	-	-	15,730	-	15,730
Restricted stock units issued	13(n)	-	-	-	-	40,734	-	40,734
Net loss		-	-	-	-	-	(10,392,361)	(10,392,361)
Balance, December 31, 2019		**186,489,559**	**$ 137,646,156**	**$ 10,597,563**	**$1,514,025**	**$ 13,980,748**	**$ (27,679,307)**	**$ 136,059,185**

See accompanying notes to consolidated financial statements

WeedMD Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,	Note		2019		2018
Cash flows provided by (used in):					
Operating					
Net loss		**$**	**(10,392,361)**	$	(895,128)
Adjustments for:					
Amortization			**279,560**		104,337
Share based compensation	13		**4,762,758**		5,370,758
Deferred and restricted shares issued for service	13		**56,463**		-
Shares to be issued for services	13		**583,581**		-
Finance costs	16		**1,230,159**		442,132
Loss on disposal of property, plant and equipment			**25,730**		-
Loss on modification of lease liability			**83,434**		-
Bad debt expense			**1,951,888**		-
Fair value changes in biological assets included in inventory sold			**9,742,965**		2,177,532
Unrealized gain on changes in fair value of biological assets and inventory	6		**(20,566,094)**		(3,577,760)
Unrealized loss (gain) on investments			**867,167**		(185,408)
Gain on acquisition of shares			**-**		(137,259)
Gain on future service discounts			**-**		(100,000)
Gain on termination of Arrangement Agreement	20		**-**		(8,825,736)
		$	**(11,374,750)**	$	(5,626,532)
Change in non-cash working capital	18		**4,214,144**		(3,814,718)
			(7,160,606)		(9,441,250)
Investing					
Advances on promissory note			**(2,237,255)**		-
Acquisition of property, plant and equipment	7		**(55,291,375)**		(36,475,749)
Purchase of intangible assets	8		**(1,201,336)**		-
Cash acquired on Acquisition	4		**9,249,560**		-
Disposal of investments			**520,584**		-
Purchase of investments			**-**		(1,270,584)
Gain on termination of Arrangement Agreement	20		**-**		8,825,736
			(48,959,822)		(28,920,597)
Financing					
Proceeds from loan financing, net of transaction costs	10		**35,731,389**		-
Proceeds from exercise of warrants	12		**278,988**		1,942,147
Proceeds from exercise of stock options	13(h)		**260,733**		1,187,323
Proceeds from convertible debentures, net of issue costs	9(b)		**11,852,059**		-
Proceeds from exercise of compensation options			**-**		123,200
Proceeds from issuance of share capital, net of issue costs			**-**		32,218,349
Payment of lease liabilities			**(116,874)**		-
Deposits paid on right of use asset			**(161,792)**		-
Interest paid			**(1,751,322)**		(480,683)
			46,093,181		34,990,336
Decrease in cash			**(10,027,247)**		(3,371,511)
Cash, beginning of period			**21,323,641**		24,695,152
Cash, end of period		**$**	**11,296,394**	$	21,323,641
Cash and cash equivalents			**8,183,744**		21,223,641
Restricted Cash			**3,112,650**		100,000
		$	**11,296,394**	$	21,323,641

See accompanying notes to the consolidated financial statements

1. Nature of Operations

WeedMD Inc. is the publicly-traded parent company of WeedMD Rx Inc., a federally-licensed producer and distributor of cannabis products for both the medical and adult-use markets. The Company owns and operates three facilities: CX Industries ("CX"), a wholly-owned subsidiary of WeedMD Inc. operating out of the Company's 26,000 square feet ("sq. ft.") indoor facility in Aylmer, Ontario ("Aylmer Facility") which specializes in cannabis extraction and processing, Starseed Medicinal Inc. ("Starseed"), a wholly owned subsidiary of WeedMD Inc. operating out of the Company's 14,850 sq. ft. indoor facility in Bowmanville, Ontario which specializes in cannabis processing and packaging and a 158-acre property with up to 550,000 sq. ft. of state-of-the-art greenhouses and up to 100 acres of outdoor facility located in Strathroy, Ontario. As at December 31, 2019, the Company has 310,850 sq. ft. of indoor (warehouse and hybrid greenhouse) licensed production space and 27 acres of outdoor licensed production space across its sites. WeedMD has a multi-channeled distribution strategy that includes selling directly to medical patients, strategic relationships across the seniors' market and supply agreements with Shoppers Drug Mart as well as six provincial distribution agencies.

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

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

WeedMD Rx was incorporated on March 26, 2013, under the Canada Business Corporations Act as 8472106 Canada Inc. On January 7, 2014, the Company filed its articles of amendment, changed its name to WeedMD Rx Inc. and commenced operations. On April 22, 2016, WeedMD obtained its first licence to produce cannabis under the federal Access to Cannabis for Medical Purposes Regulations ("ACMPR") for its Aylmer facility. On April 28, 2017, WeedMD satisfied 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. At this time the Company's licence was renewed and amended to add the activity of sale of dried cannabis and the sale of live cannabis plants.

On April 13, 2017, the Company completed a transaction by way of a three-cornered amalgamation (the "Amalgamation") among WeedMD Rx, Aumento, and a wholly-owned subsidiary of Aumento.

On June 16, 2017 WeedMD received an amendment to its licence allowing for the production of cannabis oil. Subsequent to this event, the Company successfully produced, packaged and tested several batches of oil. On October 5, 2017, Health Canada once again amended the Company's licence to allow for the sale of cannabis oil and was subsequently granted a licence to sell cannabis oil on December 1, 2017.

On June 8, 2018, WeedMD received its first licence to begin cultivation in 44,000 sq. ft. at the Strathroy site. On December 23, 2018, this licence was amended to include another 66,000 sq. ft., bringing the total licensed operational capacity to 136,000 sq. ft. between both locations. On April 12, 2019, the Company secured a standard processing licence for the Hybrid Greenhouse. On August 2, 2019, the Strathroy licence was further amended to increase the licensed production area to 215,000 sq. ft. On October 16, 2019, WeedMD secured a Health Canada licence for its 50,000 sq. ft. purpose built cannabis processing facility on the Strathroy property.

Effective October 17, 2018, and subsequently amended on May 31, 2019 to include the outdoor production area, the Company is licensed to produce and sell cannabis under the Cannabis Act, with licences effective to October 24, 2020, June 8, 2021 and October 31, 2022 for the Company's three facilities; Aylmer, Strathroy, and Bowmanville, respectively.

On December 20, 2019, through the acquisition of Starseed Holdings, WeedMD acquired 10,000 sq. ft. of indoor licensed production area at the Bowmanville facility. The license is for standard cultivation (indoor), standard processing, and sale of cannabis products for medical purposes.

2. Basis of preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS as adopted by the International Accounting Standards Board ("IASB") and their interpretations issued by the IFRS Interpretations Committee ("IFRIC").

These consolidated financial statements were approved by the Board of Directors for issue on June 10, 2020.

b) Basis of presentation

The consolidated financial statements have been prepared on an historical cost basis except for certain financial instruments and biological assets, which are measured at fair value and inventory which is recorded at the lower of cost and net realizable value, as explained in the accounting policies set out in Note 3 (e), (f) and (q).

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

c) Basis of consolidation

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

Intercompany balances and transactions, and unrealized gains arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

d) Accounting estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The most significant judgments include those related to the ability of the Company to continue as a going concern, the determination that acquisitions meet the definition of a business combination under IFRS 3 and identification of intangible assets acquired, 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 met for revenue recognition, including bill and hold arrangements, and

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

The most significant estimates and assumptions include those related to the inputs used in accounting for share-based payment transactions, the valuation of warrants, and the conversion feature included in convertible debt, including volatility, the fair value of financial instruments, the discount rate used to determine the present value of the debt component of convertible debt, and the valuation of net assets acquired in the Acquisition (Note 4). In calculating the value of the biological assets and the net realizable value of inventory (Note 6), management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plants. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost versus net realizable value. The company also exercises judgment in determining the incremental borrowing rate when the interest rate is not implicit in the lease. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. Management has determined that judgments, estimates and assumptions reflected in these consolidated financial statements are reasonable.

e) Going concern

These consolidated financial statements have been prepared on a going concern basis which presumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of its operations. As of December 31, 2019, the Company had working capital of $30,618,609 (December 31, 2018 - $29,838,984) and an accumulated deficit of $27,679,307 (December 31, 2018 - $17,286,946). The Company used cash in operating activities of $7,160,606 (year ended December 31, 2018 - $9,441,250), resulting primarily from the net loss of $10,392,361 (year ended December 31, 2018 - $895,128) offset by items not affecting cash such as depreciation, amortization, stock based compensation and write downs. The Company has insufficient cash to fund its planned capital investments and operations for the next twelve months. The Company's ability to continue as a going concern is dependent upon its ability to obtain sufficient additional funding and to generate sufficient revenues and positive cash flows from its operating activities to meet its obligations and fund its planned investments and operations.

The Company will need further financing in the form of debt, equity or a combination thereof for the next twelve months. There can be no assurance that additional funding will be available to the Company, or, if available, that this financing will be on acceptable terms. If adequate financing is not available, the Company may be required to delay or reduce the scope of any or all of its projects. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The Conversion Date of June 30, 2020 on the Company's Credit Facilities, increases the financial covenants placed upon the Company. The Company is not currently in breach of the financial covenants and continues to be in active dialogue with its lenders to extend the Conversion Date in order to allow the Company sufficient time to generate net income and be onside with the financial covenants. Any failure or delay in extending the Conversion Date will likely result in a breach of the covenants. A breach would cause the Credit Facilities to be due immediately and would have a negative impact on the Company's liquidity and further impact the Company's ability to operate as a going concern. If for any reason the Company is unable to continue as a going concern, then this could have an impact on the Company's ability to realize assets at their recognized values, in particular goodwill and other intangible assets, and to extinguish liabilities in the normal course of business at the amounts stated in the consolidated financial statements.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to generate sufficient cash flow from financing and operating activities, the carrying value of the Company's assets could be subject to material adjustments and other adjustments may be necessary to these financial statements should such events impair the Company's ability to continue as a going concern.

3. Significant Accounting Policies

a) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks, in unrestricted trust accounts, and on hand, and short-term money market instruments, which are readily convertible into a known amount of cash.

b) Plant and equipment

Plant and equipment is recorded at cost less accumulated amortization. The Company provides for amortization using the following methods at rates designed to amortize the cost of the plant and equipment over their estimated useful lives. The annual amortization rates and methods are as follows:

Building	20 years	Straight-line
Equipment	20%	Declining balance
Fence and signage	10%	Declining balance
Furniture and fixtures	20%	Declining balance
Leasehold improvements including Greenhouse	20 years	Straight-line
Security equipment	20%	Declining balance

The estimated residual value and useful lives of assets are reviewed by management annually at each reporting date and adjusted if necessary.

Borrowing costs and construction costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized.

Assets are not depreciated until they become available for use, which is when they are in the location and condition necessary to be capable of operating in the manner intended by management.

c) Intangible assets

Finite-lived intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. The annual amortization rates and methods are as follows:

Software	5 years	Straight-line
Health Canada Licenses	Useful life of Facility	Straight-line
Customer relationships	7 years	Straight-line
Brands and Trademarks	10 years	Straight-line

The estimated useful life and amortization method are reviewed at the end of each reporting year, with the effect of any changes in estimate being accounted for on a prospective basis.

d) Impairment of long-lived assets

Long-lived assets are reviewed at each reporting date to determine whether there is any indication of impairment. The Company tests for impairment whenever indications of impairment exist by calculating an estimate of the asset's recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statement of loss and comprehensive loss for the period.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the cash generating unit ("CGU"). A CGU is the smallest group of assets for which there are separate identifiable cash flows.

Goodwill is assessed for indicators of impairment at each reporting date and is tested annually or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount.

With the exception of Goodwill, where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount up to the point that the amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in income for the period.

The Company has assessed the assets of its operating entities and has determined that there is no indication of impairment of its long-lived assets.

e) Biological assets

The Company measures biological assets consisting of cannabis plants not yet harvested at fair value less costs to sell up to the point of harvest. Seeds included in inventory are recorded at cost which was determined to be nil. While the Company's biological assets are within the scope of IAS 41 *Agriculture*, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 *Inventories.* Production costs related to the transformation of biological assets to the point of harvest, which include direct costs such as growing materials as well as indirect costs such as utilities and supplies used in the growing process, are capitalized. Indirect labour for individuals involved in the growing and quality control process is also included, as well as depreciation on production equipment and overhead costs such as rent to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred. Biological assets are measured at their fair value less costs to sell on the Statements of Financial Position.

Agricultural produce consisting of cannabis is measured at fair value less costs to sell at the point of harvest, which becomes the basis for the cost of inventory after harvest. Gains or losses arising from changes in fair value less costs to sell, excluding capitalized production costs, are included in "unrealized loss (gain) on changes in fair value of biological assets" on the Statements of Loss and Comprehensive Loss.

When inventory is sold, costs capitalized to biological assets and inventory are expensed through "Cost of goods sold" and the fair value adjustment to biological assets included in inventory sold is

expensed through "Realized fair value amounts included in inventory sold" on the Statements of Loss and Comprehensive Loss.

f) Inventory

Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell at the time of harvest, which becomes deemed cost. Any subsequent direct and indirect post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. The direct costs capitalized to inventory subsequent to harvest include materials, and indirect costs capitalized include labour and depreciation expense on equipment involved in packaging, labelling and inspection, as well as overhead costs such as rent to the extent it is associated with the post-harvest production, quality control and storage space. In the case of oil inventory, direct costs capitalized to inventory also include costs associated with the extraction process. Inventory purchased from other licensed producers is recognized at the price paid on purchase of the inventory, plus any subsequent costs capitalized if further processed or packaged. Inventory is measured at the lower of cost and net realizable value on the Statements of Financial Position. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis.

g) Revenue recognition

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 Consolidated Statements of Loss and Comprehensive Loss.

Revenue is recognized, for bill-and-hold arrangements, before delivery but only upon transfer of ownership and control of the goods to the customer. Control of the goods is transferred to the customer when the substance of the bill-and-hold arrangement is substantive, the Company cannot sell the goods to another customer, the goods can be identified separately, and are ready for physical transfer to the customer.

Unearned revenue is recognized when cash is received from customers before all revenue recognition criteria have been met.

h) Share-based compensation

Where equity-settled share payments are awarded to management, employees and consultants, the fair value of the equity instruments at the date of grant is charged to the Consolidated Statements of Loss and Comprehensive Loss. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of shares that eventually vest. Non-vesting conditions are factored into the fair value of the common shares ("Shares") and/or options granted. The cumulative expense is not adjusted where a non-vesting condition is not satisfied. Where the terms and conditions are modified before they vest, any increase in the fair value of the Shares, measured immediately before and after the modification, is also charged to the Consolidated Statements of Loss and Comprehensive Loss.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received unless that fair value cannot be estimated reliably in which case they are measured at the fair value of the equity instruments granted. Amounts related to the issuance of Shares are recorded as a reduction of share capital. If the fair value of the goods or services received cannot be estimated reliably, the goods or services received, and the corresponding increase in equity are measured, indirectly, by reference to the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders service.

i) Foreign currency translation

Transactions denominated in foreign currencies are initially recorded in the functional currency using exchange rates in effect at the dates of the transactions. At the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using exchange rates prevailing at the end of the reporting period. All exchange gains and losses are included in the Consolidated Statements of Loss and Comprehensive Loss.

j) Loss per share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of Shares outstanding. Diluted loss per share is calculated in a similar manner, except that the weighted average number of Shares outstanding is increased to include potentially issuable Shares from the assumed exercise of Share purchase options and warrants, if dilutive. The diluted loss per share calculation excludes any potential conversion of options, warrants, and convertible debt that would increase earnings per share or decrease loss per share.

k) Compound financial instruments

Compound financial instruments issued by the Company comprise units that consist of unsecured convertible debentures and share purchase warrants. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component, which consists of the conversion feature related to the convertible debentures and the share purchase warrants, is recognized as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. The equity component is allocated to the conversion feature and the share purchase warrants based on their relative fair values. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest rate method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition. Upon conversion, the liability component and conversion feature are reclassified to share capital.

In situations where the Company issues warrants, the fair value of warrants as calculated as of the date of issue using the Black-Scholes pricing model, or Monte Carlo method for warrants with accelerated vesting terms, is included in the Company's warrants reserve, as reported on the Consolidated Statements of Changes in Shareholders' Equity.

In situations where the Company issues units, the proceeds are allocated among equity components using the relative fair value method in which the proceeds are allocated to each component on a pro-rata basis, based on the fair value of the components calculated independently of one another.

l) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating

decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions are measured at the amounts agreed upon by the parties.

m) Share issuance costs

Costs incurred in connection with the issuance of share capital are netted against the proceeds received net of tax. Costs related to the issuance of share capital and incurred prior to issuance are recorded as deferred share issuance costs and subsequently netted against proceeds when they are received.

n) Warrants

In situations where the Company issues warrants, the fair value of warrants, as calculated as of the date of issue using the Black-Scholes pricing model, or Monte Carlo method for warrants with accelerated vesting terms, is included in the Company's warrants reserve, as reported on the Consolidated Statements of Changes in Shareholders' Equity.

o) Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

p) Income taxes

Income tax on the Consolidated Statements of Loss and Comprehensive Loss for the periods presented is comprised of current and deferred tax. Income tax is recognized in the Consolidated Statements of Loss and Comprehensive Loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable income; nor differences relating to investments to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of each financial reporting period.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance.

q) Financial instruments

Under IFRS 9, in the case of a financial asset not at fair value through profit and loss ("FVTPL"), financial assets are initially measured at fair value plus transaction costs. Financial assets are subsequently measured at:

i) FVTPL;
ii) amortized cost;
iii) equity investments designated at FVOCI; or
iv) debt measured at fair value through other comprehensive income ("FVOCI")

The classification is based on whether the contractual cash flow characteristics represent "solely payment of principal and interest" (the "SPPI test") as well as the business model under which the financial assets are managed. Financial assets are required to be reclassified only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

The Company has elected to classify investments in equity instruments of Block Strain Technology, Snipp Interactive and 3 Sixty Corporation at FVTPL on transition or initial recognition. These equity instruments are included in Investments on the Consolidated Statement of Financial Position,

Debt investments are recorded at amortized cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI test.

The assessment of the Company's business models for managing the financial assets was made as of the date of initial application of January 1, 2018 or on initial recognition. The assessment of whether contractual cash flows on debt instruments meet the SPPI test was made based on the facts and circumstances as at the initial recognition of the financial assets.

All financial liabilities held by the Company under IFRS 9, are initially measured at fair value and subsequently measured at amortized cost.

r) Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. Goodwill is carried at cost less accumulated impairment losses.

s) Impairment of financial assets

Under IFRS 9, the Company is required to apply an expected credit loss ("ECL") model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the date of Statement of Financial Position. For trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or reorganization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the Consolidated Statement of Loss and Comprehensive Loss.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the Consolidated Statement of Loss and Comprehensive Loss for the period to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

t) Segments

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Throughout the years ended December 31, 2019 and December 31, 2018, the Company operated in one segment, the production and sale of cannabis in Canada.

u) Business combinations

Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. In determining the allocation of the purchase price in a business combination, estimates including market based and appraisal values are used.

The Company measures all assets acquired and liabilities assumed at their acquisition-date fair values. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess of the aggregate of the consideration transferred to obtain control over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

v) New Standards Adopted in Current Year

IFRS 16, Leases ("IFRS 16")

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 16, 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 has applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for the previous period has not been restated.

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 cost of the right-of-use asset consists of the lease liability, any lease payments made, less any lease incentives and any direct costs incurred by the lessee. The lease liability includes the net present value of the following lease payments: i) fixed payments less any lease incentive receivables; ii) variable lease payments that are based on an index or rate; iii) expected payments by the lessee under residual value guarantees; iv) exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and v)

payments of penalties for terminating the lease if the lease term reflects the lessee exercising an option to terminate the lease. 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.

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

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

As at December 31, 2019, the amount expensed related to variable lease payments not included in lease liabilities is $59,778.

Total future minimum lease payments as at December 31, 2019 are disclosed in the lease commitment schedule below. The Company has expensed $605,034 for leases with less than 12 months of lease term at transition for the period ended December 31, 2019.

For the year ended December 31, 2019, the Company recognized $183,316, as depreciation on right of use assets. The Company also recognized $94,552 as interest cost on lease liabilities during the year ended December 31, 2019. The Company had cash outflows of $278,666 related to lease liabilities and an additional $59,778 in variable lease payments. Right of use assets held by the Company are classified as buildings, office leases and equipment, with leases expiring between 2020 and 2024, and are held for the purposes of vehicle rentals, office space and cannabis processing. For the year ended December 31, 2019 the Company recognized additions of $4,783,141 to right of use assets and corresponding lease liabilities.

The following is a breakdown of the carrying amount of the Right-of-Use assets as at December 31, 2019.

Right of use asset		December 31, 2019	Amortization
Building	$	2,785,412	20 years
Office leases		528,984	Term of lease
Equipment		2,342	Term of lease
	$	3,316,738	

As at December 31, 2019, one of the Company's leases included an option to extend the lease term which the Company considers as not reasonably certain to be exercised. If exercised, the Company would be exposed to additional cash outflows in the form of future lease payments for the extended lease term.

As at December 31, 2019, the Company had committed to an office space lease which had not yet commenced. The total future cash outflow for this lease is $1,258,863.

	Office Space	Office Space	Building	Vehicle	Starseed	Total
	232 Central Ave.	Queen St.	Sprung Greenhouse	Truck	Office Space / Bowmanville Facility	
Opening lease liability, January 1, 2019	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Additions	322,139	468,341	1,653,177	7,969	-	2,451,626
Acquisition					1,408,206	1,408,206
Interest	15,973	22,015	56,413	151	-	94,552
Payments	(40,250)	(70,654)	-	(5,970)	-	(116,874)
Modification	(297,862)	-	-	-	-	(297,862)
Termination liability	112,847	-	-	-	-	112,847
Ending lease liability, December 31, 2019	**$ 112,847**	**$ 419,702**	**$ 1,709,590**	**$ 2,150**	**$ 1,408,206**	**$ 3,652,495**
Short Term Portion	$ 8,182	$ 84,995	$ 876,128	$ 2,150	$ 494,553	$ 1,466,008
Long Term Portion	$ 104,665	$ 334,707	$ 833,462	$ -	$ 913,653	$ 2,186,487

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

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

IFRIC 23 ‘Uncertainty over income tax treatments’

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

4. Acquisition

On December 20, 2019, the Company completed the acquisition of Starseed Holdings Inc. (the “Acquisition”), whereby the Company acquired all of the issued and outstanding securities in the capital of Starseed Holdings Inc. (“Starseed”).

Pursuant to the Acquisition, each Starseed shareholder received 3.0675 shares in the capital of the Company for each Starseed common share held, resulting in the issuance of an aggregate of 71,833,194 shares of the Company to shareholders of Starseed. Such shares have a fair value of $52,642,398 based on the share price of the shares on the TSX Venture Exchange on December 20,

2019. 48,853,648 Shares are subject to trading restrictions with 20% of the shares being released on each of June 20, 2020, September 20, 2020, December 20, 2020, March 20, 2021, and June 20, 2021. These restricted shares are subject to a discount for lack of marketability which was calculating using a Finnerty put model with an expected volatility of 60.88% and a risk free rate ranging from 1.66% to 1.69%. As part of the Acquisition, stock options of Starseed were replaced with stock options of the Company with adjustments to their exercise or conversion terms to reflect the exchange ratio for the Starseed common shares under the Acquisition, resulting in the issuance of: (i) stock options exercisable to purchase up to 5,674,875 Shares at an exercise price of $0.98 per share (Note 13(l)); and (ii) stock options exercisable to purchase up to 898,011 Shares at an exercise price of $3.26 per share (Note 13(m)). The options have a value of $2,109,911.

Following the completion of the Acquisition (on a post-acquisition basis), the Company had a total of 186,489,559 shares outstanding, as well as: (i) common share purchase warrants exercisable to purchase up to 19,845,130 Shares at exercise prices ranging from $1.56 to $2.90 per share; (ii) stock options exercisable to purchase up to 12,216,008 shares at exercise prices ranging from $0.60 - $3.26 per share; (iii) 470,890 compensation options exercisable into units at an exercise price of $2.15 per unit; and (iv) 983,624 broker compensation warrants exercisable into Shares at exercise prices ranging from $1.60 – $1.80 per share.

As a result of the Acquisition, 114,656,365 shares were held by previous shareholders of WeedMD Inc. and 71,833,194 shares were held by shareholders of Starseed. This resulted in WeedMD Inc. shareholders owning 61.5% of the Company.

The main factors driving the Acquisition were the slower than expected ramp-up of the Canadian legal cannabis market, particularly in the adult-use segment, and the scarcity of capital for Canadian cannabis companies. The Acquisition provides WeedMD with access to Starseed's unique and high-margin medical channel that is built around the sale of high-quality cannabis products to captive customer groups with paid benefits coverage for medical cannabis.

WeedMD Inc. was identified as the acquirer for accounting purposes, and Starseed as the subsidiary for accounting purposes. As WeedMD Inc. is the acquirer, its assets, liabilities and operations since incorporation are consolidated, and since Starseed is the subsidiary, its operations have only been consolidated since the date of the Acquisition.

The Company has finalized the purchase price allocation to the individual assets acquired and liabilities assumed using the acquisition method and has assigned the following values:

	Fair value
Cash and cash equivalents	9,249,560
Trade and other receivables	5,611,567
Commodity tax receivable	709,361
Prepaid expenses and deposits	1,986,337
Inventory	3,357,586
Property, plant and equipment	3,383,872
Right of use assets	1,175,344
Licences	15,735,600
Brands	2,169,803
Customer Relationship	1,623,278
Investments	232,500
Goodwill	16,123,601
Total assets	**61,358,409**
Accounts payable and accrued liabilities	5,189,785
Current lease liabilities	698,795
Long term lease liabilities	717,520
Total liabilities	**6,606,100**
Net assets acquired	**54,752,309**
Shares issued on Acquisition	52,642,398
Options issued on Acquisition	2,109,911
Total consideration	**54,752,309**

Goodwill is comprised of the value of expected synergies, revenue growth, and future market development resulting from combining the Company's existing business with that of the acquiree.

The Company recorded $337,761 of revenue and a $190,359 loss in the consolidated statement of comprehensive income in 2019 from the acquired operations as a result of the Acquisition. If the Acquisition had occurred as at January 1, 2019, revenue for the year ended December 31, 2019 would have been $7,283,593 and the loss would have been $28,960,649.

5. Investments

(a) On March 14, 2018, a subsidiary of the Company purchased 1,666,667 common shares of Scorpion Resources Inc., renamed to Blockstrain Technology Corp. and subsequently renamed to TruTrace Technologies Inc. ("TruTrace"), for a total subscription price of $500,000. TruTrace delivers a secure and immutable blockchain platform to establish global certainty for cannabis strains and their ownership. For the year ended December 31, 2019, the Company recorded the investment at Fair Value Through Profit and Loss ("FVTPL") resulting in an unrealized loss of $91,667 (year ended December 31, 2018: $283,333) being recorded on the Consolidated Statement of Loss and Comprehensive Loss. As at December 31, 2019, the Company valued the shares at $125,000 (December 31, 2018: $216,667). This investment has been classified as level 1 in the fair value hierarchy.

Subsequent to December 31, 2019, the Company disposed of 1,666,667 common shares for gross proceeds of $48,137.

(b) On March 16, 2018, a subsidiary of the Company purchased 2,500,000 common shares of Snipp Interactive Inc. for a total subscription price of $250,000. For the year ended December 31, 2019, the Company recorded the investment at FVTPL resulting in an unrealized loss of $87,500 (year ended December 31, 2018: $125,000) being recorded on the Consolidated Statement of Loss and Comprehensive Loss. As at December 31, 2019, the Company valued the shares at $37,500 (December 31, 2018: $125,000). This investment has been classified as level 1 in the fair value hierarchy.

Subsequent to December 31, 2019, the Company disposed of 2,500,000 common shares for gross proceeds of $25,000.

(c) On July 3, 2018, the Company was granted 860,000 common shares of 3 Sixty Secure Corporation, renamed to 3 Sixty Risk Solutions Ltd. at a fair value of $137,259. For the year ended December 31, 2019, the Company recorded the investment at FVTPL resulting in an unrealized loss of $688,000 (year ended December 31, 2018: unrealized gain of $593,741) being recorded on the Consolidated Statement of Loss and Comprehensive Loss. As at December 31, 2019, the Company valued the shares at $43,000 (December 31, 2018: $731,000) This investment has been classified as level 1 in the fair value hierarchy.

During the year ended December 31, 2019, the Company moved the investment from level 2 to level 1, due to there being quoted prices in active markets for the shares effective January 10, 2019.

Subsequent to December 31, 2019, the Company disposed of 860,000 common shares for gross proceeds of $70,470.

(d) As a result of the Acquisition (Note 4) the Company acquired 2,325,000 common shares of JDaily Inc. For the year ended December 31, 2019, the Company recorded the investment at FVTPL resulting in an unrealized gain of $nil being recorded on the Consolidated Statements of Loss and Comprehensive Loss. As at December 31, 2019, the Company valued the shares at $232,500. This investment has been classified as level 2 in the fair value hierarchy.

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

On September 3, 2019, the Company purchased Government of Canada Treasury Bills with a face value $525,174 for $524,549. The Treasury Bills had a yield of 1.45% and matured on October 3, 2019.

As at December 31, 2019, the Company has fulfilled this condition for holding an excise tax licence through a Surety Bond, and no longer holds investments to meet this requirement.

(f) On January 10, 2019, the Company entered into an agreement with Pita Pit Canada and a private company, to form Pioneer Cannabis Corp. ("Pioneer"), a cannabis retail services provider and franchise operation. The Company holds 9.9% (cost of nil) with the option to purchase an additional 40.2% if permitted by applicable laws. On April 17, 2019 Pioneer announced that it had signed an agreement to open the first Pioneer store in Ontario. At December 31, 2019, $963,917 (December 31, 2018: $462,265) was included in Promissory Notes Receivable owing from Pioneer Cannabis Corp.

Of this total receivable amount, $473,740 has been reflected in the Consolidated Statement of Financial Position as a long-term receivable and $490,177 as a current receivable. A portion of the receivable has been classified as long-term due to the write down of the receivable balance from Pioneer. The Company has negotiated a prepayment plan and has discounted the expected monthly cash flows by a rate of 24% to arrive at the receivable balance of $963,917.

6. Biological Assets and Inventory

The Company's biological assets consist of cannabis plants.

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

Carrying amount, December 31, 2017	**$**	**360,089**
Changes in fair value less costs to sell due to biological transformation		3,577,760
Biological assets sold		(1,719,620)
Production costs capitalized		4,899,646
Transferred to inventory upon harvest		(4,967,799)
Carrying amount, December 31, 2018	**$**	**2,150,076**
Changes in fair value less costs to sell due to biological transformation		20,566,094
Biological assets sold		(17,324)
Production costs capitalized		10,373,548
Transferred to inventory upon harvest		(25,406,518)
Carrying amount, December 31, 2019	**$**	**7,665,876**

All of the plants are to be harvested as agricultural produce. All of the plants that are to be harvested are up to fifteen weeks from harvest (December 31, 2018: up to fifteen weeks) and the life cycle is estimated to be ninety seven to one hundred seventy one days (December 31, 2018: eighty-one to one hundred thirty-two days). The Company did not hold plants to be sold as live plants as at December 31, 2019. As at December 31, 2018, plants to be sold as live plants were up to two weeks away from sale.

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

To determine fair value the Company:

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

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

- Expected yield by plant adjusted for expected wastage – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each cannabis plant;
- Percentage of costs incurred to date compared to the total expected costs to be incurred per stage of growth and over the life of the plant are used to estimate the fair value of an in-process plant at each stage;

- Expected weighted average selling price per gram of harvested cannabis – calculated as the weighted average historical selling price for all strains of cannabis sold by the Company, which is expected to approximate future selling prices;
- Expected number of days remaining in each stage of growth and over the life of the plant; and
- Expected number of days from harvest to sell the yield from biological assets.

The Company estimates harvest yields for the plants at various stages of growth. As of December 31, 2019, it is expected that the Company's biological assets that are to be harvested from its greenhouse facility will yield approximately 4,481,165 grams (December 31, 2018: 1,378,941 grams) with a value of $7,665,876 (December 31, 2018: $2,150,076), based on the current stage of growth. The weighted average selling price used in the valuation is $5.02 (December 31, 2018: $5.16 per gram) and is based on a normalized historical average selling price, adjusted based on expected future sales mix, of all dried cannabis sales and can vary based on the different strains produced and grades of cannabis. The Company estimates percentage of costs incurred based on the stage of growth, as costs are not incurred evenly throughout the grow cycle. Plants on hand at December 31, 2019, have incurred an average of 37% of costs to harvest (December 31, 2018: 42%).

The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the gain or loss on biological assets. The Company performed a sensitivity analysis on the fair value of biological assets using the most sensitive inputs to the fair value methodology. The following table quantifies each significant unobservable input, and also provides the impact of a reasonable increase/decrease that each input would have on the fair value of the Company's greenhouse biological assets.

	December 31, 2019 Valuation inputs	**December 31, 2018 Valuation inputs**	**Percentage change used in sensitivity analysis**	**Change resulting from reasonable variance as at December 31, 2019**	**Change resulting from reasonable variance as at December 31, 2018**
Selling price	$1.00 - $7.24	$3.41 – $6.33	10%	$1,816,451	$568,863
Yield by plant	86 Grams	39 grams	15%	$1,152,764	$345,600
Increase in average life cycle	110 days	96 days	10%	$172,532	$64,621
Decrease in average life cycle	110 days	96 days	10%	$149,563	$63,768
Percentage of costs to harvest incurred to date	37%	42%	10%	$187,059	$141,786
Average days to sell	370 days	344 days	15%	$188,755	$61,203

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

	December 31, 2019		December 31, 2018	
	$	**Weight**	$	Weight
Dried cannabis	**$ 18,032,160**	**12,583,351 g**	$ 3,168,767	747,971 g
Harvested work in progress	**910,087**	**562,055 g**	863,903	322,225 g
Extracts				
Resin	**8,321,073**	**253,461 g**	1,000,880	15,446 g
Crude oil	**569,672**	**55,160 g**	229,159	32,750 g
Finished oil	**2,524,711**	**1,585,781 g**	571,342	488,789 g
Non-cannabis inventory	**929,198**		-	
	$ 31,286,901		$ 5,834,051	

7. Property, Plant and Equipment

Cost

	Balance at December 31, 2018	Additions	Transfers	Acquisition	Disposals	Balance at December 31, 2019
Security equipment	$ 1,825,961	$ 1,491,572	$ -	$ -	$ (19,899)	**$ 3,297,634**
Equipment	2,477,185	10,759,841	1,443,976	1,532,310	-	**16,213,312**
Furniture and fixtures	167,367	163,034	-	65,365	-	**395,766**
Fence and signage	17,033	408,536	238,079	-	-	**663,648**
Land	140,000	1,219,002	2,449,000	-	-	**3,808,002**
Building	2,227,907	46,230,657	37,608,913	-	(3,819)	**86,063,658**
Leasehold improvements including greenhouse	35,034,986	7,019,000	(42,001,354)	1,784,690	-	**1,837,322**
	$ 41,890,439	$ 67,291,642	$ (261,386)	$ 3,382,365	$ (23,718)	**$ 112,279,342**

Accumulated Amortization

	Balance at December 31, 2018	Additions	Transfers	Acquisition	Disposals	Balance at December 31, 2019
Security equipment	$ (328,638)	$ (450,234)	$ -	$ -	$ (1,990)	**$ (780,862)**
Equipment	(335,430)	(1,239,670)	-	-	-	**(1,575,100)**
Furniture and fixtures	(53,623)	(44,833)	-	-	-	**(98,456)**
Fence and signage	(2,401)	(46,224)	-	-	-	**(48,625)**
Land	-	-	-	-	-	**-**
Building	(111,133)	(891,878)	-	-	(22)	**(1,003,033)**
Leasehold improvements including greenhouse	(70,608)	(101,703)	170,861	-	-	**(1,450)**
	$ (901,833)	$ (2,774,542)	$ 170,861	$ -	$ (2,012)	**$ (3,507,526)**
Net book value	$ 40,988,606	$ 64,517,100	$ (90,525)	$ 3,382,365	$ (25,730)	**$ 108,771,816**

Cost

	Balance at December 31, 2017	Additions	Transfers	Balance at December 31, 2018
Security equipment	$ 521,954	$ 1,304,007	$ -	**$ 1,825,961**
Equipment	552,961	1,924,224	-	**2,477,185**
Furniture & fixtures	84,952	82,415	-	**167,367**
Fence & Signage	11,407	5,626	-	**17,033**
Land	-	140,000	-	**140,000**
Building	-	1,507,436	720,471	**2,227,907**
Leasehold improvement and greenhouse	4,368,711	31,839,664	(1,173,389)	**35,034,986**
	$ 5,539,985	$ 36,803,372	$ (452,918)	**$ 41,890,439**

Accumulated Amortization

	Balance at December 31, 2017	Additions	Transfers	Balance at December 31, 2018
Security equipment	$ (119,246)	$ (209,392)	$ -	**$ (328,638)**
Equipment	(100,510)	(234,920)	-	**(335,430)**
Furniture & fixtures	(40,465)	(13,158)	-	**(53,623)**
Fence & Signage	(1,141)	(1,260)	-	**(2,401)**
Land	-	-	-	**-**
Building	-	(111,133)	-	**(111,133)**
Leasehold improvement and greenhouse	(400,561)	(122,965)	452,918	**(70,608)**
	$ (661,923)	$ (692,828)	$ 452,918	**$ (901,833)**
Net book value	$ 4,878,062	$ 36,110,544	$ -	**$ 40,988,606**

Total amortization for the year ended December 31, 2019 was $3,074,719 (year ended December 31, 2018: $692,828), of which $957,079 (year ended December 31, 2018: $128,110) has been capitalized in inventory, $1,838,080 has been capitalized to biological assets (year ended December 31, 2018: $460,381). Of the amount of amortization expensed of $279,560, $103,483 relates to amortization of intangible assets (Note 8) and $176,077 relates to the amortization of property, plant, and equipment.

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

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

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

As at December 31, 2019, properties and improvements with a carrying value of $52,173,429 (December 31, 2018: $32,115,404), were not yet available for use. As such, the cost of these assets has been capitalized but not yet amortized. Included in the properties and improvements are capitalized borrowing costs in the amount of $1,167,808 (December 31, 2018: $700,000). As at December 31, 2019 the Company included $3,910,192 in equipment which was not on-site but for which the Company bore the risks and rewards of ownership. As the equipment is not yet available for use, no depreciation has been recognized.

8. Intangible Assets

Cost

	Balance at December 31, 2018	Additions	Acquisition	Balance at December 31, 2019
Software	$ 372,377	**$ 1,182,641**	**$ -**	**$ 1,555,018**
Brands and Trademarks	-	**18,695**	**2,169,803**	**2,188,498**
Customer relationships	-	**-**	**1,623,278**	**1,623,278**
Licences	-	**-**	**15,735,600**	**15,735,600**
	$ 372,377	**$ 1,201,336**	**$ 19,528,681**	**$ 21,102,394**

Accumulated Amortization

	Balance at December 31, 2018	Additions	Acquisition	Balance at December 31, 2019
Software	$ -	**$ (51,404)**	**$ -**	**$ (51,404)**
Brands and Trademarks	-	**-**	**-**	**-**
Customer relationships	-	**-**	**-**	**-**
Licences	-	**(52,079)**	**-**	**(52,079)**
	$ -	**$ (103,483)**	**$ -**	**$ (103,483)**
Net book value	$ 372,377	**$ 1,097,853**	**$ 19,528,681**	**$ 20,998,911**

Cost

	Balance at December 31, 2017	Additions	Acquisition	Balance at December 31, 2018
Software	$ -	$ 372,377	$ -	$ 372,377

Accumulated Amortization

	Balance at December 31, 2017	Additions	Acquisition	Balance at December 31, 2018
Software	$ -	$ -	$ -	**$ -**
Net book value	$ -	$ 372,377	$ -	$ 372,377

As of December 31, 2019, software with a carrying value of nil (December 31, 2018 – $372,377), was not yet available for use. For the year ended December 31, 2018, the costs associated with intangible assets not available for use was capitalized, but not amortized.

9. Convertible Debentures

	Debentures	Warrants	Conversion Feature	Total
Balance, December 31, 2017	**$ 11,351,671**	**$ -**	**$ 2,607,546**	**$ 13,959,217**
Conversion of debentures	(12,013,120)	-	(2,607,546)	(14,620,666)
Accretion of debentures	661,449	-	-	661,449
Balance, December 31, 2018	**$ -**	**$ -**	**$ -**	**$ -**
Issuance - September 25, 2019	8,258,713	1,447,359	1,558,694	11,264,766
Accretion of debentures	283,853	-	-	283,853
Conversion of debentures	(221,446)	-	(44,669)	(266,115)
Balance, December 31, 2019	**$ 8,321,120**	**$ 1,447,359**	**$ 1,514,025**	**$ 11,282,504**

a) *Conversion of 2017 debentures*

On March 8, 2018, $4,000,000, of the 2017 Unsecured Convertible Debentures with a carrying value of $3,104,966, were converted into 3,333,333 Shares at a conversion price of $1.20 per Share.

On April 17, 2018, $1,000,000, of the 2017 Unsecured Convertible Debentures with a carrying value of $788,485, were converted into 833,333 Shares at a conversion price of $1.20 per Share.

On May 14, 2018, $7,200,000, of the 2017 Unsecured Convertible Debentures with a carrying value of $5,738,140, were converted into 6,000,000 Shares at a conversion price of $1.20 per Share.

On October 22, 2018, the Company elected to exercise its right to force conversion of all of the outstanding principal amount of the 2017 Unsecured Convertible Debentures and unpaid accrued interest for the conversion into common shares at the conversion price of $1.20 which resulted in 2,333,334 common shares being issued. The Company became entitled to force conversion of the Unsecured Convertible Debentures on September 17, 2018 on the basis that no Event of Default had occurred and the Volume Weighted Average Price ("VWAP") of the common shares on the TSXV for 10 consecutive trading days equalled or exceeded $2.00. For the 10 consecutive trading days preceding September 17, 2018, the VWAP of the common shares was $2.22.

b) *2019 convertible debenture*

On September 25, 2019, the Company closed a bought-deal short-form prospectus offering of 13,115 convertible unsecured debentures units (the "2019 Unsecured Convertible Debentures") at a price per 2019 Unsecured Convertible Debenture of $1,000 for gross proceeds of $13,115,000 (the "Offering") with a syndicate of underwriters. The 2019 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 2019 Unsecured Convertible Debentures have a maturity date of September 25, 2022 (the "Maturity Date"). The 2019 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 2019 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 2019 Unsecured 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.

In connection with the Company's 2019 Unsecured Convertible Debenture, the Company issued 8,196,875 warrants to the holders of the 2019 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 nil; (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 and the conversion feature 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 and conversion feature's expiry.

The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the 2019 Unsecured Convertible Debentures assuming a market interest rate of 20.92%, which was the estimated rate for the 2019 Unsecured Convertible Debentures without the equity component of the conversion feature. The effective interest rate of the 2019 Unsecured Convertible Debentures after reflecting issuance costs was 26.67%. The residual of the principal less the present value of the liability component was allocated to the conversion option and the warrants based on their relative fair value, resulting in an allocation of $1,814,709 to the conversion option and $1,685,087 to the warrants.

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

The Company also issued to the Underwriters 983,624 compensation warrants with a fair value of $587,293. 491,812 of the compensation warrants are exercisable into one Share at an exercise price of $1.60 per share for a period of up to 36 months following the close of the Offering (Note 12(f)) and 491,812 of the compensation warrants are exercisable into one Share at an exercise price of $1.80 per share for a period of up to 36 months following the close of the Offering (Note 12(g)). The Company paid $1,262,942 in cash for transaction and commission costs. The cash transaction costs and compensation warrants are directly attributable transaction costs and have been allocated to the liability, warrants and conversion feature components in proportion to their initial carrying amounts.

During the year ended December 31, 2019, 350 of the Company's 2019 Unsecured Convertible Debentures were converted into 218,750 common shares at the option of the holder.

10. Loans & Borrowings

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

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

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

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

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

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

	Facility 1	Facility 2	Facility 3	Transaction Costs	Total
Proceeds	$ -	$ 33,150,000	$ 3,000,000	$ (418,611)	$ 35,731,389
Interest	-	1,502,285	126,466	-	1,628,751
Accretion	-	-		97,106	97,106
Interest Payments	-	(1,334,764)	(111,306)	-	(1,446,070)
Interest Payable	-	(167,521)	(15,160)	-	(182,681)
Ending Balance	**$ -**	**$ 33,150,000**	**$ 3,000,000**	**$ (321,505)**	**$ 35,828,495**

Current portion of loans and borrowings	1,870,414
Long term portion of loans and borrowings	33,958,081

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

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

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

11. Share Capital

Authorized

Unlimited common shares

	Note	Number of shares	Amount
Balance as at December 31, 2017		**78,250,222**	**$ 34,029,538**
Conversion of debentures	9	12,500,000	14,620,666
Shares issued upon prospectus offering	11(a)	16,046,511	29,352,724
Shares issued for stock options exercised	13(h)	1,808,229	1,767,147
Shares issued for broker compensation option exercise	13(g)	176,000	200,200
Shares issued for warrants exercised	12(d)	2,347,102	2,111,908
Shares issued for compensation warrants exercised	12(c)	142,500	238,293
Share issuance costs	11(a)	-	(2,627,835)
Balance as at December 31, 2018		**$ 111,270,564**	**$ 79,692,641**
Conversion of debentures	9(b)	218,750	266,115
Shares issued for stock options exercised	13(h)	434,551	406,232
Shares issued for property purchase	11(b)	2,500,000	4,251,692
Shares issued for warrants exercised	12(e)	232,500	387,078
Shares issued on acquisition	4	71,833,194	52,642,398
Balance as at December 31, 2019		**186,489,559**	**$ 137,646,156**

a) On January 11, 2018, the Company closed a short form prospectus offering with a total of 16,046,511 units of the Company ("Units") sold at a price of $2.15 per Unit (the "Issue Price") for aggregate gross proceeds of $34,499,999 (the "Prospectus Offering").

   Each Unit consists of one Share of the Company and one-half of one share purchase warrant (each whole warrant a “Warrant”). Each Warrant entitles the holder thereof to purchase one Share at an exercise price of $2.90, until January 11, 2020, with early acceleration in the event the weighted average price of the Shares on the TSXV is equal to or greater than $4.20 for any 20 consecutive trading days. The Company has recognized $29,352,724 as the value of the Shares issued, and $5,147,275 as the value of the warrants issued (see Note 12(b)).

   As consideration for its services, the Underwriters received a cash commission equal to 6% of the gross proceeds of the Prospectus Offering. The Company also issued a total of 470,890 compensation options to the Underwriters (Note 13(a)). Each compensation option is exercisable into one Unit at the Issue Price until January 11, 2020 (see Note 13(a)). In relation to the short-term prospectus the Company has incurred total unit issuance costs of $3,088,650, of which $2,627,835 has been allocated to shares, and $460,815 has been allocated to warrants.

b) On March 29, 2019, the Company exercised its option to purchase the 98-acre Strathroy property. The balance due upon the exercise of the option to purchase was $22.6 million, of which $17.6 million was paid in cash and $5 million was satisfied by the issuance of 2.5 million units (“Units”) in the capital of WeedMD. Each Unit was comprised of one WeedMD common share at a price of $1.98 and one-quarter (1/4) of a warrant (for 625,000 total warrants), with each whole warrant exercisable into a WeedMD common share at an exercise price of $2.50 per share for five years. The trading of these units were subject to certain time restrictions for a period of 4 months following the date of the transaction. The Company estimated the fair value of the units issued by taking into account the trading restrictions, and estimated the value as $4,849,584 of which the shares and warrants were valued at $4,251,692 and $597,892 (see Note 12(h)) respectively.

12. Warrants

	Note	Number of Warrants	Warrants reserve	Exercise Price
Balance as at December 31, 2017		**5,605,647**	**$ 3,794,703**	
Debenture warrants expired	12(a)	(8,521)	-	
Warrants issued (January 11, 2018) on prospectus offering	12(b)	8,023,256	5,147,275	$2.90
Warrant issue costs	12(b)	-	(460,815)	
Broker compensation warrants exercised	12(c)	(230,500)	(67,293)	
Broker compensation warrants issued	13(g)	88,000	-	$0.80
Warrants exercised	12(d)	(2,222,127)	(340,761)	
Balance as at December 31, 2018		**11,255,755**	**$ 8,073,109**	
Warrants issued on property purchase	11(b),12(h)	625,000	597,892	$2.50
Warrants issued (September 25, 2019)	9(b)	8,196,875	1,685,087	$1.80
Warrant issue costs (September 25, 2019)			(237,728)	
Broker warrants issued (September 25, 2019)	12(f)	491,812	303,481	$1.60
Broker warrants issued (September 25, 2019)	12(g)	491,812	283,812	$1.80
Broker compensation warrants exercised	12(e)	(232,500)	(108,090)	
Balance as at December 31, 2019		**20,828,754**	**$ 10,597,563**	

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

b) On January 11, 2018, in connection with the Prospectus Offering (Note 11(a)) the Company issued a total of 8,023,256 warrants. Each warrant is exercisable into one Share at $2.90 until January 11, 2020. The fair value of the warrants was estimated to be $5,147,275 with reference to the Monte Carlo option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 82%; (iii) risk-free rate of 1.73%; (iv) unit price of $2.90; (v) forfeiture rate of 0; (vi) expected life of two years. The Monte Carlo option pricing model was deemed applicable to these warrants as they have accelerated vesting terms based on the volume weighted average trading price of the outstanding common shares on the TSX Venture Exchange. The Black Scholes option pricing model does not address the accelerated vesting terms, and potential change in the time to the warrant's expiry. The Company recognized $460,815 as warrant issue costs related to this transaction.

c) For the year ended December 31, 2018, 230,500 broker compensation warrants were exercised for proceeds of $241,400. The number of broker compensation warrants included 88,000 issued and exercised from broker compensation options for proceeds of $70,400 (Note 13(g)). The Company recognized the fair value of the warrants of $67,293 in the value of the Shares issued.

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

e) For the year ended December 31, 2019, 232,500 broker compensation warrants were exercised for proceeds of $278,988. The Company recognized the fair value of the warrants of $108,090 in the value of the Shares issued. The weighted average fair value per share on the date of exercise was $0.47.

f) On September 25, 2019, in connection with the Company's Unsecured Convertible Debenture, the Company issued to the Underwriters 491,812 compensation warrants (Note 9(b)). Each compensation warrant is exercisable into one Share at the Conversion Price ($1.60) for a period of 36 months following the closing of the Offering. The fair value of the warrants was estimated as $303,481 with reference to the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 76.74%; (iii) risk-free rate of 1.52%; (iv) unit price of $1.33; (v) forfeiture rate of 0; (vi) expected life of three years. Expected volatility is based on the historical volatility of other companies that the Company considers comparable.

g) On September 25, 2019, in connection with the Company's Unsecured Convertible Debenture, the Company issued to the Underwriters 491,812 compensation warrants (Note 9(b)). Each compensation warrant is exercisable into one Share at the Conversion Price ($1.80) for a period of 36 months following the closing of the Offering. The fair value of the warrants was estimated as $283,812 with reference to the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 76.74%; (iii) risk-free rate of 1.52%; (iv) unit price of $1.33; (v) forfeiture rate of 0; (vi) expected life of three years. Expected volatility is based on the historical volatility of other companies that the Company considers comparable.

h) On March 29, 2019, in connection with the Company's purchase of the 98-acre Strathroy property, the company issued a total of 625,000 warrants. Each warrant is exercisable into one share at $2.50 per share for a period of 5 years. The fair value of the warrants was estimated as $597,892 with reference to the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 84%; (iii) risk-free rate of 1.52%; (iv) unit price of $1.98; (v) forfeiture rate of 0; (vi) expected life of 5 years. Expected volatility is based on the historical volatility of other companies that the Company considers comparable.

Warrant pricing models require the input of subjective assumptions, and changes in the input assumptions can materially affect the fair value estimation. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. The expected life in years represents the period of time that warrants issued are expected to be outstanding. The risk-free rate was based on the zero-coupon government of Canada bonds with a remaining term equal to the expected life of the warrants. The Company used the same assumptions to calculate options (Note 13).

13. Contributed Surplus

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

As at December 31, 2019, the Company's outstanding stock options consists of the following:

	Note	Number of options	Contributed surplus	Exercise price
Balance as at December 31, 2017		**3,818,432**	**$ 1,092,579**	
Broker compensation options granted	13(a)	470,890	807,000	2.15
Stock options granted	13(b)	3,013,000	3,589,723	2.36
Stock options granted	13(c)	500,000	368,960	1.80
Stock options granted	13(d)	130,000	84,716	1.74
Stock options granted	13(e)	2,105,000	975,737	2.07
Stock options granted	13(f)	420,000	133,961	1.95
Share based compensation		-	217,661	
Stock options exercised	13(h)	(1,808,229)	(579,824)	
Broker compensation options exercised	13(g)	(88,000)	(77,000)	
Stock options cancelled		(218,840)	-	
Stock options forfeited		(318,750)	-	
Balance as at December 31, 2018		**8,023,503**	**$ 6,613,513**	
Stock options granted	13(i)	2,868,000	1,998,632	1.53
Stock options granted	13(j)	300,000	232,196	2.00
Stock options granted	13(k)	505,000	198,155	1.52
Stock options granted on acquisition	13(l)	5,674,875	1,983,147	0.98
Stock options granted on acquisition	13(m)	898,011	126,764	3.26
Stock options exercised	13(h)	(434,551)	(145,479)	
Share based compensation		-	2,333,776	
Stock options cancelled		(802,312)	-	
Stock options forfeited		(625,000)	-	
Stock options expired		(62,500)	-	
Restricted stock units issued	13(n)	-	40,733	
Deferred stock units issued	13(o)	-	15,730	
Shares to be issued for services	13(p)	-	583,581	
Balance as at December 31, 2019		**16,345,026**	**$ 13,980,748**	

At December 31, 2019, 16,345,026 (December 31, 2018: 8,023,503) Shares have been reserved for stock options as follows:

Exercise Price	Number of options outstanding	Number of options exercisable	Weighted average remaining life (years)	Weighted average exercise price
$0.60	1,349,500	1,349,500	1.28	
$2.15	470,890	470,890	0.03	
$2.36	2,055,500	1,824,500	3.03	
$1.80	500,000	375,000	3.38	
$1.74	120,625	94,375	3.46	
$2.07	1,800,000	972,917	3.68	
$1.95	220,000	150,000	3.78	
$1.53	2,475,625	903,000	4.02	
$2.00	300,000	175,000	2.29	
$1.52	480,000	23,333	4.53	
$0.98	5,674,875	5,674,875	2.84	
$3.26	898,011	673,508	3.84	
	16,345,026	12,686,898	3.05	$1.56

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

b) On January 12, 2018, the Company granted 3,013,000 stock options to its directors, officers, employees, and consultants which were valued based on the value of the instruments as the value of the services was not reliably determinable. Each option is exercisable into one common share at an exercise price of $2.36, until January 12, 2023. 430,000 of the options vested within the year, 155,000 of the options granted vest over 12 months, and 2,428,000 of the options vest over 24 months. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 85%; (iii) risk-free interest rate of 1.97%; (iv) share price of $2.36; forfeiture rate of nil; and (v) expected life of 60 months. The total fair value of the options is $4,797,646. Total share-based compensation for the year ended December 31, 2019 is $683,761 (year ended December 31, 2018: $3,589,723).

c) On May 18, 2018, the Company granted 500,000 options to consultants which were valued based on the value of the instruments as the value of the services was not reliably determinable. Each option is exercisable into one common share at an exercise price of $1.80, until May 17, 2023, and vest quarterly over 24 months. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 85%; (iii) risk-free interest rate of 2.29%; (iv) share price of $1.80; (v) forfeiture rate of nil; and (vi) expected life of 60 months. The total fair value of the options is $609,641. Total share-based compensation for the year ended December 31, 2019 is $217,548 (year ended December 31, 2018: $368,960).

d) On June 18, 2018, the Company granted 130,000 options to employees. Each option is exercisable into one common share at an exercise price of $1.74, until June 17, 2023, and vest quarterly over 24 months. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 85%; (iii) risk-free interest rate of 2.06%; (iv) share price of $1.74; (v) forfeiture rate of nil; and (vi) expected life of 60 months. The total fair value of the options is $152,789. Total share-based compensation for the year ended December 31, 2019 is $60,570 (year ended December 31, 2018: $84,716).

e) On September 6, 2018, the Company granted 2,105,000 options to management, employees, directors and consultants of the Company which were valued based on the value of the instruments as the value of the services was not reliably determinable. Each option is exercisable into one common share at an exercise price of $2.07, until September 6, 2023. 250,000 of the options vest quarterly over 36 months, 1,455,000 of the options vest quarterly over 24 months, 150,000 of the options are fully vested as of December 31, 2018 and 250,000 vest straight-line over 36 months until milestones are approved by the board of directors. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 85%; (iii) risk-free interest rate of 2.28%; (iv) share price of $2.07; (v) forfeiture rate of nil; and (vi) expected life of 60 months. The total fair value of the options is $2,951,804. Total share-based compensation for the year ended December 31, 2019 is $1,180,061 (year ended December 31, 2018: $975,737).

f) On October 13, 2018, the Company granted 420,000 options to management and consultants of the Company which were valued based on the value of the instruments as the value of the services was not reliably determinable. Each option is exercisable into one common share at an exercise price of $1.95, until October 12, 2023. 100,000 of the options granted vest over 12 months, 300,000 of the options vest over 24 months and 20,000 of the options vest upon completion of specified performance milestones. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 85%; (iii) risk-free interest rate of 2.38%; (iv) share price of $1.95; (v) forfeiture rate of nil; and (vi) expected life of 60 months. The total fair value of the options is $555,387. Total share-based compensation for the year ended December 31, 2019 is $183,839 (year ended December 31, 2018: $133,961).

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

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

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

j) 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 year ended December 31, 2019 is $232,196.

k) 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. Each option is exercisable into one common share at an exercise price of $1.52, until July 9, 2024 and vest quarterly over 36 months. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 76%; (iii) risk-free interest rate of 1.53%; (iv) share price of $1.52; (v) forfeiture rate of nil; and (vi) expected life of 60 months. The total fair value of the options is $477,457. Total share-based compensation for the year ended December 31, 2019 is $198,155.

l) On December 20, 2019, 5,674,875 replacement options were granted as part of the consideration for the acquisition of Starseed (Note 4). Each option is exercisable into one common share at an exercise price of $0.98, until November 3, 2022 and vest immediately. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 74%; (iii) risk-free interest rate of 1.63%; (iv) share price of $0.81; (v) forfeiture rate of nil; and (vi) expected life of 1,048 days. The total fair value of the options is $1,983,147.

m) On December 20, 2019, 898,011 replacement options were granted as part of the consideration for the acquisition of Starseed (Note 4). Each option is exercisable into one common share at an exercise price of $3.26, until November 1, 2023. 673,508 of the options vested immediately and 224,503 vest on May 2, 2020. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 74%; (iii) risk-free interest rate of 1.63%; (iv) share price of $0.81; (v) forfeiture rate of nil; and (vi) expected life of 1,411 days. The total fair value of the options is $126,764.

n) On September 30, 2019 the Company granted 100,000 restricted share units ("RSUs") to George Scorsis, Chairman of the Board of Directors as part of a consulting agreement. RSUs are exercisable into one common share. As at December 31, 2019, the RSUs were not yet issued. The grant date fair value of the RSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the RSUs to be $40,733.

o) On December 31, 2019 the Company granted 18,314 deferred share units ("DSUs") to Michael Pesner, a director. DSUs are granted at the end of each quarter and are calculated by dividing a quarter of the director's remuneration by the closing price of the Company's shares on the grant date. The DSUs will be settled upon termination of the director on a date chosen by the director within the period starting the business day following the termination date and ending the last business day of the month of December of the year following the termination date. The DSUs will be settled at the discretion of the Company on the settlement date in shares, cash, or a combination of both. Management estimates the total fair value of the DSUs to be $15,730.

p) During the year ended December 31, 2019, the Company received services from a vendor in connection with the Acquisition in exchange for 692,393 common shares of the Company. The shares to be issued were valued at $583,581, based on the value of services received. As at December 31, 2019, these shares had not yet been issued. On February 4, 2020, 692,393 shares were issued to the vendor in connection with this transaction.

14. Income Taxes

Income Tax Rate Reconciliation

As at December 31,		2019		2018
Net income (loss) before income taxes	$	(10,392,361)	$	(895,128)
Combined federal and provincial statutory income tax rate		26.5%		26.5%
Expected recovery at statutory rate		(2,753,976)		(237,209)
Non-deductible expenses and other permanent differences		1,799,285		1,014,314
Change in deferred tax assets not recognized		954,691		(413,187)
Other		-		(363,918)
Expected deferred income tax expense (recovery)	**$**	**-**	**$**	**-**

Deferred Taxes

As at December 31,		2019		2018
Reserves and loss carry-forwards	$	18,650,063	$	2,769,923
Unrealized biological asset costs		(3,597,095)		(458,367)
Share issue costs		383,563		746,889
Property, plant and equipment		(2,229,854)		-
Others		159,338		(63,741)
Deferred tax asset not recognized		(13,366,015)		(2,994,704)
	$	**-**	**$**	**-**

Loss Carry Forwards

As at December 31, 2019, the Company has non-capital tax loss carry forwards of $69,954,595 expiring as follows:

As at December 31,	2019	2018
2033	$ 462,204	$ -
2034	359,966	1,752,357
2035	4,329,477	3,506,816
2036	6,080,190	2,742,579
2037	18,568,854	5,623,262
2038	25,410,044	(3,172,473)
2039	14,743,860	-
	$ 69,954,595	**$ 10,452,541**

15. General and Administrative Expenses

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

16. Finance Costs

For the year ended December 31,	2019	2018
Accretion expense (Note 9 and 10)	**$ 381,259**	$ 256,054
Interest expense	**860,747**	186,078
Foreign exchange loss	**7,816**	17,376
	$ 1,249,822	$ 459,508

17. Earnings per Share

For the year ended December 31,	2019	2018
Basic earnings (loss) per share:		
Income (loss) attributable to holders of shares	**$ (10,392,361)**	$ (895,128)
Weighted average number of shares outstanding	**116,091,008**	104,631,878
	$ (0.09)	$ (0.01)
Diluted earnings (loss) per share:		
Income (loss) attributable to holders of shares	**$ (10,392,361)**	$ (895,128)
Weighted average number of shares - diluted	**118,996,339**	106,479,881
	$ (0.09)	$ (0.01)

18. Change in Non-cash Operating Working Capital

For the year ended December 31,	2019	2018
Trade and other receivables	**$ (1,312,451)**	$ (2,069,995)
Prepaid expenses and deposits	**786,457**	(1,790,625)
Inventory and biological assets	**(13,992,778)**	(2,941,185)
Commodity tax receivable	**4,132,429**	(4,868,285)
Accounts payable and accrued liabilities	**12,087,520**	(240,614)
Unearned revenue	**2,512,967**	-
Deposit payable	**-**	8,095,986
	$ 4,214,144	$ (3,814,718)

19. Revenue

For the year ended December 31,	2019	2018
Direct to patient		
Dried cannabis	**$ 1,466,785**	$ 1,134,674
Cannabis plants and seeds	**25,415**	90,921
Cannabis extracts	**606,314**	389,655
Other	**19,971**	43,054
	$ 2,118,485	$ 1,658,304
Wholesale		
Dried cannabis	**$ 20,175,549**	$ 4,221,344
Cannabis plants and seeds	**70,000**	2,166,513
Cannabis extracts	**709,145**	18,429
Other	**8,180**	138,683
	$ 20,962,874	$ 6,544,969
	$ 23,081,359	$ 8,203,273

Total unearned revenue for the year ended December 31, 2019 is $2,512,967 (December 31, 2018: $4,971).

For the year ended December 31, 2019, 71% (December 31, 2018: 29%) of total revenue is from 2 customers (December 31, 2018: 2 customers) each representing more than 10% of the Company's

revenue.

20. Termination of Arrangement Agreement

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

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

21. Related Party Transactions

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

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

The balances outstanding are as follows:

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

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

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

During the year ended December 31, 2019, 1,008,625 stock options (year ended December 31, 2018: 2,300,000) were issued with fair value of $1,038,884 (year ended December 31, 2018: $3,707,537) with a recorded share-based compensation of $1,014,333 (year ended December 31, 2018: $2,105,662) to certain key management personnel. Share based compensation of $1,167,795 includes options granted in previous years.

22. Commitments

The commitment schedule for all future committed payments excluding lease payments recognized above is outlined in the table below:

Within 1 year	$	882,031
Within 2 years		12,689
Within 3 years		10,547
Within 4 years		9,833
Beyond 4 years		6,603
	$	921,703

23. Financial Instruments

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

(a) Fair value

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

Fair value measurement is disaggregated into three hierarchical levels: Level 1, 2 or 3. Fair value hierarchical levels are directly based on the degree to which the inputs to the fair value measurement are observable. The levels are as follows:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the asset or liability's anticipated life.

Level 3 – Inputs are unobservable and reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs in determining the estimate.

	Level 1	Level 2	Level 3	Total
Unsecured convertible debentures	$ -	$ 8,321,120	$ -	$ 8,321,120
Share purchase warrants	10,597,563	-	-	10,597,563
Investments in equity instruments	205,500	232,500	-	438,000
Debt investments	35,828,495	-	-	35,828,495
	$ 46,631,558	**$ 8,553,620**	**$ -**	**$ 55,185,178**

(b) Market risk

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates, and interest rates will affect the Company's income or the value of its financial instruments. The Company is exposed to price risk with respect to marketable securities and bonds. The Company's approach to managing equity price risk is to optimize the return from its marketable securities within acceptable parameters for equity price risk.

(c) Credit risk

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

The Company is exposed to credit risk on its trade and other receivables which has a balance of $3,346,425 (December 31, 2018: $1,638,692) and on the promissory note receivable which is owing from Pioneer Cannabis, an investee of the Company, and has a current balance of $490,177 (December 31, 2018: $462,265).

As at December 31, 2019, 45% (December 31, 2018: 76%) of the Company's trade and other receivables balance, excluding the amounts owing from Pioneer Cannabis, is owing from 2 customers (December 31, 2018: 3 customers), each representing more than 10% of trade and other receivables, excluding amounts owing from Pioneer Cannabis.

There is higher credit risk on the promissory note due to financial difficulties experienced by Pioneer Cannabis, which contributed to a write-down of the promissory note in 2019 (Note 5).

Cash is generally invested in cash accounts held in Canadian chartered banks, in short-term GICs or in-trust. Restricted cash is generally held as collateral to repay any outstanding balances related to the Company's credit cards. Management believes the risk of loss associated with these assets to be remote. Management believes that the credit risk concentration with respect to financial instruments included in assets has been reduced to the extent presently practicable.

The definition of items that are past due is determined by reference to payment terms agreed to with individual customers, which are normally within 0 to 90 days. Credit risk is low as receivables are from government bodies and participants in the cannabis industry and are received within a short period of time. As at December 31, 2019 the Company has $1,951,888 of impaired receivables (December 31, 2018: $nil). Management expects credit risk to be minimal.

(d) Foreign exchange risk

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

(e) Liquidity risk

Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate working capital to repay trade creditors as they become due. The Company has total current liabilities of $29,148,067 (December 31, 2018: $10,976,340) with cash and cash equivalents on hand of $8,183,744 (December 31, 2018: $21,223,641). In the opinion of management, the liquidity risk exposure to the Company is moderate. The Company will manage the risk exposure through increased future sales, accessing the Revolving Credit Facility, and if necessary raise additional capital through debt and/or equity.

The contractual maturities of all liabilities and lease obligations by year is as follows:

	2020	2021	2022	2023	2024
Lease liabilities	$ 1,781,245	$ 1,728,588	$ 633,870	$ 283,117	$ 906,468
Loans and borrowings	4,198,890	6,051,101	30,406,993	-	-
Convertible debt	1,070,162	1,070,162	13,567,261	-	-
Other commitments	882,031	12,689	10,547	9,833	6,601
Accounts payable	23,298,679	-	-	-	-
Accrued liabilities	-	125,801	-	-	-
Total	**$ 31,231,007**	**$ 8,988,341**	**$ 44,618,671**	**$ 292,950**	**$ 913,069**

(f) Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount, such as a debt instrument held with a floating interest rate, or investments. Floating rate debt exposes the company to fluctuations in cash flows and net earnings due to changes in market interest rates. In the opinion of management, the cash flow risk exposure to the Company is low.

24. Capital Management

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

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

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

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

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

25. Subsequent Events

(a) LiUNA Subscription

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

(b) COVID-19

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

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

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