CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

WEEDMD INC.

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

WeedMD Inc.

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MANAGEMENT'S RESPONSIBILITY STATEMENT

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

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

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

Keith Merker, CEO

November 29, 2018

WeedMD Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	**September 30, 2018**	December 31, 2017
		(Unaudited)	(Audited)
Assets			
Current:			
Cash and cash equivalents		**$ 36,059,767**	$ 24,692,678
Cash held in trust	19	**1,369,892**	2,474
Restricted cash		**100,000**	-
Trade and other receivables		**488,694**	30,962
Investments	4	**2,026,791**	-
Prepaid expenses and deposits		**1,014,690**	210,404
Commodity tax receivable		**3,996,161**	844,035
Inventory	5	**5,395,080**	2,694,133
Biological assets	5	**1,994,243**	360,089
		52,445,318	28,834,775
Deposit on property		**5,892,350**	5,892,350
Property, plant and equipment	6	**29,360,620**	4,878,062
Total assets		**$ 87,698,288**	$ 39,605,187
Liabilities			
Current:			
Accounts payable and accrued liabilities		**$ 7,476,586**	$ 2,875,383
Unearned revenue		**19,118**	245,585
		7,495,704	3,120,968
Unsecured convertible debentures	7	**2,360,984**	11,351,671
Total liabilities		**9,856,688**	14,472,639
Shareholders' equity			
Common shares	8	**73,413,182**	34,029,538
Warrants reserve	9	**10,735,240**	3,794,703
Conversion feature	7	**486,743**	2,607,546
Contributed surplus	10	**2,778,097**	1,092,579
Deficit		**(9,571,662)**	(16,391,818)
Total equity		**77,841,600**	25,132,548
Total liabilities and equity		**$ 87,698,288**	$ 39,605,187

See accompanying notes to the condensed interim consolidated financial statements

Approved:

Director *"Keith Merker"*
signed

Director *"Kevin McGovern"*
signed

WeedMD Inc.

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

(Unaudited)	Note	For the three months ended September 30, 2018	For the three months ended September 30, 2017 Restated (Note 3c)	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017 Restated (Note 3c)
Sales	18	**$ 2,001,369**	$ 356,479	**$ 5,232,873**	$ 592,138
Cost of goods sold		**714,329**	185,372	**1,742,831**	206,508
Gross profit (loss) before changes in fair value		**1,287,040**	171,107	**3,490,042**	385,630
Realized fair value amounts included in inventory sold	5	**428,856**	(185,372)	**2,108,052**	(206,508)
Unrealized loss (gain) on changes in fair value of biological assets	5	**(1,931,441)**	168,223	**(4,062,775)**	391,192
Gross profit		**2,789,625**	188,256	**5,444,765**	200,946
General and administrative		**2,760,199**	749,640	**7,696,165**	4,281,164
Listing expenses		**-**	-	**-**	1,234,852
Finance costs		**142,796**	-	**1,099,427**	1,209,500
Amortization	6	**7,588**	5,181	**39,970**	16,746
Income (loss) before other income		**(120,958)**	(566,565)	**(3,390,797)**	(6,541,316)
Unrealized gain on investment	4	**764,574**	-	**618,741**	-
Interest income		**84,509**	8,758	**388,740**	31,190
Other gains		**237,259**	-	**237,259**	-
Government grants		**113,540**	-	**140,477**	-
Gain on termination of Arrangement Agreement	19	**8,825,736**	-	**8,825,736**	-
Income (loss) and comprehensive income (loss)		**$ 9,904,660**	$ (557,807)	**$ 6,820,156**	$ (6,510,126)
Basic income (loss) per share	12	**$ 0.09**	$ (0.01)	**$ 0.07**	$ (0.13)
Diluted income (loss) per share	12	**$ 0.09**	$ (0.01)	**$ 0.06**	$ (0.13)

See accompanying notes to the condensed interim consolidated financial statements

WeedMD Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the nine months ended September 30, 2018 and 2017

	Note	Number of Shares	Share Capital	Warrants	Conversion Feature	Contributed Surplus	Deficit	Total
Balance, January 1, 2017 (Audited)		**36,728,573**	**$ 9,031,463**	**$ -**	**$ 181,217**	**$ 1,456,743**	**$ (7,586,596)**	**$ 3,082,827**
Conversion of debentures	7(a)	10,133,328	7,600,000	-	(181,217)	181,217	-	7,600,000
Increase in shares due to share split 1:1.25		11,715,477	-	-	-	-	-	-
Fair value of shares issued in reverse takeover		1,939,682	1,163,809	-	-	-	-	1,163,809
Share issuance	8(f),(g)	1,241,667	1,048,750	-	-	-	-	1,048,750
Share issue cost		-	(1,804)	-	-	-	-	(1,804)
Warrant issuance		-	-	583,220	-	-	-	583,220
Share based compensation		-	-	-	-	947,553	-	947,553
Net loss		-	-	-	-	-	(6,510,126)	(6,510,126)
Balance, September 30, 2017 (Unaudited)		**61,758,727**	**$ 18,842,218**	**$ 583,220**	**$ -**	**$ 2,585,513**	**$ (14,096,722)**	**$ 7,914,229**
Balance, January 1, 2018 (Audited)		**78,250,222**	**$ 34,029,538**	**$ 3,794,703**	**$ 2,607,546**	**$ 1,092,579**	**$ (16,391,818)**	**$ 25,132,548**
Conversion of debentures	7(c)	10,166,666	11,752,398	-	(2,120,803)	-	-	9,631,595
Shares issued upon Prospectus Offering	8(j)	16,046,511	26,533,999	7,966,000	-	-	-	34,499,999
Share issue cost	8	-	(2,077,971)	(617,409)	-	439,000	-	(2,256,380)
Shares issued on broker warrants exercise	8,9(g)	142,500	238,293	(67,293)	-	-	-	171,000
Shares issued on warrants exercise	9(a),(h)	2,347,102	2,111,908	(340,761)	-	-	-	1,771,147
Shares issued on option exercise	10(l)	800,416	825,017	-	-	(242,382)	-	582,635
Share based compensation	10	-	-	-	-	1,488,900	-	1,488,900
Net Income		-	-	-	-	-	6,820,156	6,820,156
Balance, September 30, 2018 (Unaudited)		**107,753,417**	**$ 73,413,182**	**$ 10,735,240**	**$ 486,743**	**$ 2,778,097**	**$ (9,571,662)**	**$ 77,841,600**

See accompanying notes to the condensed interim consolidated financial statements

WeedMD Inc.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

For the nine months ended September 30,	Note	2018	2017
			Restated (Note 3c)
Cash flows provided by (used in):			
Operating			
Income (loss)		**$ 6,820,156**	$ (6,510,126)
Adjustments for:			
Amortization		**162,752**	252,317
Stock based compensation		**1,488,900**	1,996,303
Finance costs		**1,099,427**	1,209,050
Listing expenses		**-**	1,234,852
Unrealized gain on investment	4	**(618,741)**	-
Gain on acquisition of shares		**(137,259)**	-
Gain on future service discounts		**(100,000)**	-
Realized fair value amounts included in inventory sold	5	**2,108,052**	(206,508)
Unrealized gain on changes in fair value of biological assets	5	**(4,062,775)**	391,192
Gain on termination of Arrangement Agreement		**(8,825,736)**	-
Cash generated by (used in) operations before changes in non-cash working capital		**$ (2,065,224)**	$ (1,632,920)
Change in non-cash working capital	13	**(2,312,810)**	(2,362,315)
		(4,378,034)	(3,995,235)
Investing			
Loans receivable collections		**-**	39,200
Investments		**(1,270,915)**	-
Acquisition of property, plant and equipment	6	**(24,812,941)**	(586,277)
Gain on termination of Arrangement Agreement		**8,825,736**	-
		(17,258,120)	(547,077)
Financing			
Proceeds from issuance of share capital, net of issue costs	8,9	**32,243,628**	(1,804)
Proceeds from exercise of warrants	9	**1,942,147**	-
Proceeds from exercise of stock options	10	**582,635**	-
Interest paid	7	**(297,749)**	-
Cash acquired through reverse takeover		**-**	535,246
		34,470,661	533,442
Increase (decrease) in cash		**12,834,507**	(4,008,870)
Foreign exchange		**-**	-
Cash, beginning of period		**24,695,152**	6,754,976
Cash, end of period		**$ 37,529,659**	$ 2,746,106
Cash and cash equivalents		**$ 36,159,767**	$ 2,746,106
Cash held in trust		**1,369,892**	-
		$ 37,529,659	$ 2,746,106

See accompanying notes to the condensed interim consolidated statements

1. Nature of Operations

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

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

WeedMD Rx was licensed to produce and sell cannabis under the federal Access to Cannabis for Medical Purposes Regulations ("ACMPR"). Effective October 17, 2018, the Company is licensed to produce and sell cannabis under the Cannabis Act, with licenses effective to April 24, 2020 and June 8, 2021 for the Company's two facilities.

These condensed interim consolidated statements were approved by the board of directors for issue on November 29, 2018.

2. Basis of preparation

a) Statement of Compliance:

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

b) Basis of preparation:

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

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

c) 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 of when property, plant and equipment are available for use as well as their useful lives, valuation and recoverability of deferred taxes, and impairment of its financial and non-financial assets. The Company is subject to a number of risks and uncertainties associated with the going concern assumption and exercises judgment to assess the uncertainties relating to the determination of the Company's ability to continue as a going concern.

The most significant estimates and assumptions include those related to the inputs used in accounting for share-based payment transactions and in the valuation of warrants, including volatility, the fair value of financial instruments, the valuation of net assets acquired in qualifying transactions, and the valuation of biological assets and inventory. In calculating the value of the biological assets, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plants. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost versus net realizable value. Management has determined that judgments, estimates and assumptions reflected in these consolidated financial statements are reasonable.

3. Significant Accounting Policies

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

a) Financial Instruments

Investments

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

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

b) 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, labeling 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. 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.

c) Biological assets

During the three months ended September 30, 2018, the Company made a voluntary change in accounting policy to capitalize the direct and indirect costs attributable to the biological asset transformation. The previous accounting policy was to expense these costs as production costs. The new accounting policy is as follows:

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. 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 Income (Loss) and Comprehensive Income (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 Income (Loss) and Comprehensive Income (loss).

The new accounting policy provides more reliable and relevant information to users as the gross profit before fair value adjustments only considers the costs incurred on inventory sold during the year, and excludes costs incurred on the biological transformation until the related harvest is sold. There is no impact of this policy change on gross profit, Income (loss) and comprehensive income (loss), basic and diluted earnings per share, the statements of financial position, or the statements of changes in shareholders' equity on the current or any prior period, as the changes in cost of goods sold and production costs are offset by the changes in realized fair value amounts included in inventory sold and unrealized loss (gain) on changes in fair value of biological assets. The following demonstrates the change for each prior period presented.

	Three months ended September 30, 2018		Three months ended September 30, 2017	
	Original accounting policy	New accounting policy	Original accounting policy	New accounting policy
Statement of Income (Loss) and Comprehensive Income (Loss)				
Sales	2,001,369	2,001,369	356,479	356,479
Cost of sales:				
Cost of goods sold	107,957	714,329	-	185,372
Production costs	1,512,475	-	576,874	-
	1,620,432	714,329	576,874	185,372
Gross profit (loss) before changes in fair value	380,937	1,287,040	- 220,395	171,107
Realized fair value amounts included in inventory sold	1,035,228	428,856	-	(185,372)
Unrealized loss (gain) on changes in fair value of biological assets and other	(3,443,916)	(1,931,441)	(408,651)	168,223
Gross profit	2,789,625	2,789,625	188,256	188,256

	Nine months ended September 30, 2018		Nine months ended September 30, 2017	
	Original accounting policy	New accounting policy	Original accounting policy	New accounting policy
Statement of Income (Loss) and Comprehensive Income (Loss)				
Sales	5,232,873	5,232,873	592,138	592,138
Cost of sales:				
Cost of goods sold	468,995	1,742,831	-	206,508
Production costs	2,881,352	-	1,811,369	-
	3,350,347	1,742,831	1,811,369	206,508
Gross profit (loss) before changes in fair value	1,882,526	3,490,042	- 1,219,231	385,630
Realized fair value amounts included in inventory sold	3,381,888	2,108,052	-	(206,508)
Unrealized loss (gain) on changes in fair value of biological assets and other	(6,944,127)	(4,062,775)	(1,420,177)	391,192
Gross profit	5,444,765	5,444,765	200,946	200,946

	Nine months ended September 30, 2018		Nine months ended September 30, 2017	
	Original accounting policy	New accounting policy	Original accounting policy	New accounting policy
Statement of cash flows				
Operating activities				
Realized fair value amounts included in inventory sold	3,381,888	2,108,052	-	(206,508)
Unrealized loss (gain) on changes in fair value of biological assets and other	(6,944,127)	(4,062,775)	(1,420,177)	391,192
	(3,562,239)	(1,954,723)	(1,420,177)	184,684
Change in non-cash working capital	(705,294)	(2,312,810)	(757,454)	(2,362,315)
Net effect on cash flows used in operating activities	(4,267,533)	(4,267,533)	(2,177,631)	(2,177,631)

d) New Standards Adopted in Current Year

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

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

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

e) New Accounting Standards to be Adopted in the Future

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

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

- IFRIC 23 'Uncertainty over income tax treatments' clarifies the application of recognition and measurement requirement in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Company is currently assessing and still evaluating what impact the application of this standard will have on the condensed interim consolidated financial statements of the Company.

4. Investments

On March 14, 2018, a subsidiary of the Company purchased 1,666,667 common shares of Scorpion Resources Inc., to be renamed Blockstrain Technology Corp. ("Blockstrain"), for a total subscription price of $500,000. Blockstrain delivers a secure and immutable blockchain platform to establish global certainty for cannabis strains and their ownership. For the nine months ended September 30, 2018, the Company recorded the investment at FVTPL resulting in an unrealized gain of $50,000 being recorded on the Interim Condensed Consolidated Statements of Income (Loss) and Other Comprehensive Income (Loss). This investment has been classified as level 1 in the fair value hierarchy.

On March 16, 2018, a subsidiary of the Company purchased 2,500,000 common shares of Snipp Interactive Inc. for a total subscription price of $250,000. For the nine months ended September 30, 2018, the Company recorded the investment at FVTPL resulting in an unrealized loss of $25,000 being recorded on the Interim Condensed Consolidated Statements of Income (Loss) and Other Comprehensive Income (Loss). This investment has been classified as level 1 in the fair value hierarchy.

On July 3, 2018, the Company was granted 860,000 shares of 3 Sixty Corporation at a fair value of $137,259. The Company has recorded the shares at September 30, 2018 at $731,000 based on the issue price of $0.85 per share of the Private Placement announced on September 20, 2018, resulting in an unrealized gain of $593,741. This investment has been classified as level 3 in the fair value hierarchy. A 15% increase or decrease in the share price would result in the change of the valuation of $109,650.

As a condition of holding a 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 which have a carrying value of $520,791. The bonds have a yield of 1.59% and mature on September 1, 2019.

5. Biological Assets and Inventory

The Company's biological assets consists of cannabis plants.

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

Carrying amount, January 1, 2017	**$ 598,755**
Changes in fair value less costs to sell due to biological transformation*	242,975
Biological assets sold	(242,003)
Production costs capitalized*	2,391,049
Transferred to inventory upon harvest	(2,630,687)
Carrying amount, December 31, 2017	**$ 360,089**
Changes in fair value less costs to sell due to biological transformation	4,062,775
Biological assets sold	(1,722,361)
Production costs capitalized	2,881,352
Transferred to inventory upon harvest	(3,587,612)
Carrying amount, September 30, 2018	**$ 1,994,243**

*Costs have been reallocated between production costs capitalized and changes in fair value less costs to sell due to biological transformation for the year ended December 31, 2017.

All of the plants are to be harvested as agricultural produce or to be sold as live plants. All of the plants that are to be harvested are between one and sixteen weeks from harvest and life cycle is estimated to be 96 – 114 days. Plants to be sold as live plants are zero to two weeks away from sale. The carrying value of plants to be harvested is $1,943,505 and the carrying value of plants to be sold as live plants is $50,738

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

To determine the fair value the Company:

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

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

- 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; and
- Expected number of days remaining in each stage of growth and over the life of the plant; and
- Expected number of days from harvest to sell the yield from biological assets.

The Company estimates harvest yields for the plants at various stages of growth. As of September 30, 2018, it is expected that the Company's biological assets that are to be harvested will yield approximately 924,572 grams (December 31, 2017: 228,883 grams). Selling prices used in the valuation are based on the historical weighted average selling price of $5.15 (December 31, 2017: $5.51 per gram) of all dried cannabis sales and can vary based on the different strains produced. Weighted average historical selling price is expected to approximate future selling prices based on the expected mix of future medicinal and recreational sales. The valuation of biological assets is not sensitive to the expected number of days from harvest to sale, and a reasonable variance in days to sale has an insignificant impact on the biological assets. The Company estimates percentage of costs incurred based on the stage of growth, as costs are not incurred evenly throughout the grow cycle. Plants on hand at September 30, 2018 have incurred an average of 47% of costs to harvest.

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

	September 30, 2018	December 31, 2017	Percentage change used in sensitivity analysis	Change resulting from reasonable variance as at September 30, 2018	Change resulting from reasonable variance as at December 31, 2017
Selling price	$3.41 - $6.82	$2.71 - $5.41	10%	$386,601	$56,458
Yield by plant	41 – 52 grams	38 grams	15%	$294,948	$32,293
Average life cycle	96 – 114 days	95 days	10%	$40,697	$979
Percentage of costs to harvest incurred to date	47%	60%	10%	$35,128	$6,806

Inventory is comprised of $4,697,566 of harvested finished goods, $110,606 of harvested work-in-progress and $586,908 of cannabis extracts. Inventory is valued at the lower of cost and net realizable value.

6. Property, plant and Equipment

Total amortization for the nine months ended September 30, 2018 was $330,383 (September 30, 2017 - $303,920), of which $290,413 (September 30, 2017 - $287,174) has been capitalized in inventory, and $39,970 (September 30, 2017 - $16,746) is included in amortization expense.

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

As at September 30, 2018, building improvement additions with a carrying value of $21,565,560 (September 30, 2017: nil), were not yet available for use. As such, the cost of the assets has been capitalized but not yet amortized.

During the nine months ended September 30, 2018, the Company incurred other capital expenditures totalling $1,747,381 (September 30, 2017: $586,277).

7. Convertible Debentures

	Debentures	Warrants (Contributed surplus)	Conversion Feature	Total
Balance, December 31, 2016	**$ 6,390,951**	**$ 325,744**	**$ 181,217**	**$ 6,897,912**
Accrued interest on debentures	266,520	-	-	266,520
Accretion of debentures	942,529	-	-	942,529
Conversion of debentures	(7,600,000)	(325,744)	(181,217)	(8,106,961)
Balance of 2016 issuance	-	-	-	-
Issuance – November 2, 2017	12,147,121	-	2,852,879	15,000,000
Less: Issuance Costs:				
Cash commisions and transaction costs	(903,426)	-	(212,179)	(1,115,605)
Fair value of compensation warrants	(141,163)	-	(33,154)	(174,317)
Total, net of issuance costs	11,102,532	-	2,607,546	13,710,078
Accretion of debentures	249,139	-	-	249,139
Accrued interest	196,650	-	-	196,650
Cash payment of interest	(196,650)	-	-	(196,650)
Balance, December 31, 2017	**$ 11,351,671**	**$ -**	**$ 2,607,546**	**$ 13,959,217**
Conversion into shares	(9,631,594)	-	(2,120,803)	(11,752,397)
Accretion of debentures	640,907	-	-	640,907
Balance, September 30, 2018	**$ 2,360,984**	**$ -**	**$ 486,743**	**$ 2,847,727**

a) *2016 convertible debentures:*

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

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

b) *2017 convertible debentures:*

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

The Unsecured Convertible Debentures bear interest at a rate of 8.0% per annum from the date of issue, payable semi-annually in arrears on June 30 and December 31 of each year. The Unsecured Convertible Debentures have a maturity date of November 1, 2019 (the “Maturity Date”).

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

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

c) *Conversion of debentures:*

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

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

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

8. Share Capital

Authorized
Unlimited common shares

	Note	Number of Shares	Amount
Balance as at January 1, 2017		**36,728,573**	**9,031,463**
Conversion of debentures	7(a)	10,133,328	7,781,217
Balance before completion of Qualifying Transaction		**46,861,901**	**16,812,680**
Shares split 1:1.25		11,715,477	-
Fair value of shares issued in reverse take over		1,939,682	1,163,809
Shares issued for services	8(f),(g)	1,241,667	1,048,750
Shares issued for convertible debenture warrants exercise	9(a)	11,674,735	9,792,984
Shares issued for 2016 debenture financing warrants exercise	9(b)	858,129	881,656
Shares issued for broker compensation option exercise	9,10	616,000	700,700
Shares issued for stock option exercise	10	323,400	314,738
Shares issued as down payment to the Greenhouse Expansion	8(h)	3,000,000	3,299,341
Shares issued for branding agreement	8(i)	19,231	16,665
		78,250,222	**34,031,323**
Less: share issue costs			(1,785)
Balance as at December 31, 2017		**78,250,222**	**$34,029,538**
Conversion of debentures	7(c)	10,166,666	11,752,398
Shares issued upon prospectus offering	8(j)	16,046,511	26,533,999
Shares issued for stock options exercise	10(l)	800,416	825,017
Shares issued for warrants exercised	9(a),(h)	2,347,102	2,111,908
Shares issued for compensation warrants exercise	9(g)	142,500	238,293
Share issuance cost			(2,077,971)
Balance as at September 30, 2018		**107,753,417**	**$73,413,182**

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

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

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

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

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

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

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

h) On November 21, 2017, the Company entered into a purchase option agreement for the potential purchase of the land and buildings leased for the Greenhouse Expansion. The Company issued 3,000,000 Shares from treasury as down payment at a price of $1.56 per share, with the Shares subject to four-month regulatory hold in addition to a 36-month lock-up and leak-out agreement with monthly releases. A discount for trading restrictions has been applied for the Shares, 19% applied to Shares released within twelve months, 34% for twenty-four months, and 44% for three years. The resulting fair value of the Shares is $3,299,341. The Company also issued 3,000,000 share purchase warrants, with each warrant exercisable into a common share of the Company at an exercise price $1.56 per share for a period of five years (Note 9). The fair value of the property to be received is not reliably measured, thus the transaction has been measured by reference to the fair value of equity instruments granted.

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

   In connection with the agreement, the Company has agreed to issue to Tokyo Smoke 76,923 Shares of the Company to be distributed in tranches, of which the first tranche of 19,231 Shares of the Company have been issued. Effective October 14, 2018 Tokyo Smoke elected to terminate the agreement with Tokyo Smoke paying the Company a breakage fee of $200,000. As a result of the termination of the agreement, no further tranches will be issued.

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

   As consideration for its services, the Underwriters received a cash commission equal to 6% of the gross proceeds of the Offering. The Company also issued a total of 470,890 compensation options to the Underwriters. Each compensation option is exercisable into one Unit at the Issue Price until January 11, 2020 (see Note 10(h)). The company has recorded share issuance costs in the amount of $2,077,971 related to the short form prospectus.

9. Warrants

	Note	Number of Warrants	Exercise Price
Balance as at January 1, 2017	9(a)	10,130,800	
Increase in warrants due to share split 1:1.25		2,532,700	
Warrants issued (April 13, 2017)	9(b)	2,224,986	$ 0.80
Broker warrants issued (November 2, 2017)	7,9(c)	375,000	$ 1.20
Greenhouse Expansion warrants issued	8(h),9(d)	3,000,000	$ 1.56
Debenture warrants exercised	9(a),8	(11,674,735)	
Broker compensation warrants issued	10(f)	308,000	$ 0.80
Broker compensation warrants exercised		(308,000)	
April 13, 2017 warrants exercised	9(b)	(858,129)	
Warrant exercise, shares to be issued	9(a)	(124,975)	
Balance as at December 31, 2017		5,605,647	
Debenture warrants expired	9(e)	(8,521)	
Warrants issued (January 11, 2018) on prospectus offering	9(f)	8,023,256	$ 2.90
Broker compensation warrants exercised	9(g)	(142,500)	
Warrants exercised	9(h)	(2,222,127)	
Balance as at September 30, 2018		11,255,755	

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

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

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

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

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

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

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

f) On January 11, 2018, in connection with the Prospectus Offering (Note 8(j)) the Company issued a total of 8,023,256 warrants. Each warrant is exercisable into one Share at $2.90 until January 11, 2020. The fair value of the warrants was estimated to be $7,966,000 with reference to the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 76.4%; (iii) risk-free rate of 1.84%; (iv) unit price of $2.90; (v) forfeiture rate of 0; (vi) expected life of two years. The company recognized $617,409 as warrant issue costs related to this transaction.

g) For the nine months ended September 30, 2018, 142,500 broker compensation warrants were exercised for proceeds of $171,000.

h) For the nine months ended September 30, 2018, 2,222,127 shares issued upon exercise of warrants for proceeds of $1,771,147.

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

10. Contributed Surplus

Balance as at January 1, 2017	**$ 385,000**
Stock options issued and vested	1,021,110
Fair value stock options RTO	56,711
Compensation options exercised	(269,500)
Stock options exercised	(100,742)
Balance as at December 31, 2017	**1,092,579**
Stock options issued and vested	1,488,900
Stock options exercised	(242,382)
Compensation options issued	439,000
Balance as at September 30, 2018	**$ 2,778,097**

Stock options

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

At September 30, 2018, 9,236,816 Shares have been reserved for stock and broker options as follows:

Exercise Price	Number of options outstanding	Number of options exercisable	Weighted average remaining life (years)	Weighted average exercise price
$ 0.60	132,000	132,000	0.53	
$ 0.60	2,823,426	2,502,266	2.54	
$ 0.80	62,500	39,063	0.53	
$ 2.15	470,890	470,890	1.28	
$ 2.36	3,013,000	753,250	4.28	
$ 1.80	500,000	62,500	4.63	
$ 1.74	130,000	16,250	4.72	
$ 2.07	2,105,000	-	4.94	
	9,236,816	3,976,219	3.69	$ 1.67

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

	Note	Number of options	Fair Value
Balance as at January 1, 2017		**352,000**	**$ 385,000**
Increase in broker compensation options due to share split 1:1.25		88,000	-
Stock options granted in reverse takeover		184,832	56,711
Stock options granted	10(a)	3,000,000	789,413
Stock options granted	10(b)	312,500	60,393
Stock options granted	10(c)	400,000	125,671
Stock options granted	10(d)	112,500	45,633
Stock options exercised	10(e)	(323,400)	(100,742)
Broker compensation options exercised	10(f)	(308,000)	(269,500)
Balance as at December 31, 2017		**3,818,432**	**$ 1,092,579**
Stock options granted	10(g)	3,013,000	1,276,076
Stock options exercised	10(l)	(800,416)	(242,382)
Stock options cancelled		(90)	-
Broker compensation options granted	10(h)	470,890	439,000
Stock options granted	10(i)	500,000	80,552
Stock options granted	10(j)	130,000	19,411
Stock options granted	10(k)	2,105,000	-
Stock based compensation		-	112,861
Balance as at September 30, 2018		**9,236,816**	**$ 2,778,097**

a) On April 14, 2017, the Company granted 3,000,000 stock options to management, employees, directors and consultants of the Company. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 75.45%; (iii) risk-free interest rate of 0.94%; (iv) share price of $0.60; forfeiture rate of nil; and (v) expected life of 48 months. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. 2,143,574 of the options granted vested immediately, and 856,426 of the options vest over 24 months. The total fair value of the options is $1,004,478, of which $789,413 has been recorded as share-based compensation expense in the year ended December 31, 2017. The Company has recorded $107,532 as share based compensation expense in the nine months ended September 30, 2018.

b) On April 14, 2017, the Company granted 312,500 options to consultants. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 85.17%; (iii) risk-free interest rate of 0.74%; (iv) share price of $0.60; forfeiture rate of nil; and (v) expected life of 24 months. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. 250,000 of the options granted vested immediately, and 62,500 of the options vest over 24 months. The total fair value of the options is $71,050, of which $60,393 has been recorded as share-based compensation expense in the year ended December 31, 2017. The Company has recorded $5,329 as share based compensation expense in the nine months ended September 30, 2018.

c) On September 17, 2017, the Company granted 400,000 options to consultants. The fair value of services received is not reliably measured, and thus the value of the services has been measured by reference to the fair value of equity issued. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 78.86%; (iii) risk-free interest rate of 1.73%; (iv) share price of $0.72; forfeiture rate of nil; and (v) expected life of 60 months. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. Pursuant to the stock options agreement, 50% of the 400,000 options will be vested when the stock price reaches a weighted average price of $1.20; the remaining 50% of the 400,000 options will be vested when 50% of the total outstanding warrants of the company, or 7,443,243 warrants get exercised. The vesting condition was realized during 2017 and the Company has recorded the fair value of $125,671 of the options granted as share-based compensation expense in the year ended December 31, 2017.

d) On July 23, 2017, the Company granted 112,500 options to consultants. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 78.10%; (iii) risk-free interest rate of 1.73%; (iv) share price of $0.91; forfeiture rate of nil; and (v) expected life of 60 months. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. The Options vest immediately, and the Company has recorded the fair value $45,633 of the options granted as share-based compensation expense in the year ended December 31, 2017.

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

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

g) On January 12, 2018, the Company granted 3,013,000 stock options to its directors, officers, employees, and consultants. Each option is exercisable into one common share at an exercise price of $2.36, until January 12, 2023, and vest quarterly over 24 months. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 93.3%; (iii) risk-free interest rate of 2.01%; (iv) share price of $2.36; forfeiture rate of nil; and (v) expected life of 60 months. The total fair value of the options is $5,104,306 of which $1,276,076 has been recorded as share-based compensation expense in the nine months ended September 30, 2018.

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

i) On May 18, 2018, the Company granted 500,000 options to consultants. Each option is exercisable into one common share at an exercise price of $1.80, until May 17, 2023, and vest quarterly over 24 months. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 86.4%; (iii) risk-free interest rate of 2.07%; (iv) share price of $1.80; forfeiture rate of nil; and (v) expected life of 60 months. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. The total fair value of the options is $644,418. Total share-based compensation for the nine months ended September 30, 2018 is $80,552.

j) On June 18, 2018, the Company granted 130,000 options to employees. Each option is exercisable into one common share at an exercise price of $1.74, until June 17, 2023, and vest quarterly over 24 months. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 86.4%; (iii) risk-free interest rate of 1.90%; (iv) share price of $1.74; forfeiture rate of nil; and (v) expected life of 60 months. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. The total fair value of the options is $155,286. Total share based compensation for the nine months ended September 30, 2018 is $19,411.

k) On September 6, 2018, the Company granted 2,105,000 options to management, employees, directors and consultants of the Company. Each option is exercisable into one common share at an exercise price of $2.07, until September 6, 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 87.7%; (iii) risk-free interest rate of 2.29%; (iv) share price of $2.07; forfeiture rate of nil; and (v) expected life of 60 months. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. The total fair value of the options is $3,014,248. No share based compensation has been recorded for the nine months ended September 30, 2018, as the options have not vested.

l) During the nine months ended September 30, 2018, 800,416 stock options were exercised for net proceeds of $582,635.

11. Income taxes

The Company has no income tax provision as non-capital tax loss carryforwards exceed taxable income. The Company has $13,426,057 of non-capital tax loss for which the benefit has not been recognized.

12. Earnings per Share

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	**September 30, 2018**	September 30, 2017
Basic Earnings per Share:				
Gain (loss) attributable to holders of shares	**$ 9,904,660**	$ (557,807)	**$ 6,820,156**	$ (6,510,126)
Weighted average number of shares outstanding	**107,579,161**	61,758,732	**102,695,255**	51,830,373
	$ 0.09	$ (0.01)	**$ 0.07**	$ (0.13)

	For the three months ended		For the nine months ended	
	September 30, 2018	September 30, 2017	**September 30, 2018**	September 30, 2017
Diluted Earnings per Share:				
Gain (loss) attributable to holders of shares	**$ 9,904,660**	$ (557,807)	**$ 6,820,156**	$ (6,510,126)
Weighted average number of shares - diluted	**110,413,846**	61,758,732	**105,529,939**	51,830,373
	$ 0.09	$ (0.01)	**$ 0.06**	$ (0.13)

13. Change in Non-cash Operating Working Capital

	September 30, 2018	September 30, 2017
Trade and other receivables	**$ (457,608)**	$ (4,181)
Prepaid expenses and deposits	**(704,286)**	6,806
Inventory and biological assets	**(2,212,747)**	(2,153,395)
Commodity tax receivable	**(3,152,126)**	(297,290)
Unearned revenue	**(226,467)**	-
Accounts payable and accrued liabilities	**4,440,424**	85,745
	$ (2,312,810)	$ (2,362,315)

14. Related Party Transactions

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

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

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

The balances outstanding are as follows:

		September 30, 2018		December 31, 2017
Accounts payable and accrued liabilities	**$**	**43,633**	$	77,399
	$	**43,633**	$	77,399

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

	Three months ended				Nine months ended			
		September 30, 2018		September 30, 2017		**September 30, 2018**		September 30, 2017
Interest paid to related parties	**$**	**-**		-	**$**	**-**		222
Share based compensation		**381,171**		-		**741,166**		978,750
Salaries		**155,132**		98,578		**466,704**		271,861
Fees		**62,767**		40,000		**159,904**		150,000
	$	**599,070**	$	138,578	**$**	**1,367,774**	$	1,400,833

2,300,000 stock options were issued in the nine months ended September 30, 2018 (nine months ended September 30, 2017 – 1,125,000) to certain key management personnel with $741,166 recorded in share-based compensation (nine months ended September 30, 2017: $987,750).

15. Commitments

The lease commitment schedule is outlined in the below table:

Within 1 year	$	1,462,393
Within 2 years		120,351
Within 3 years		2,907
Within 4 years		-
Within 5 years		-
	$	1,585,651

16. Financial Instruments

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

a) Fair value

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

b) Market risk

Market Risk is the risk that changes in market prices, such as equity prices, foreign exchange rates, and interest rates will affect the Company's income or the value of its financial instruments. The Company is exposed to price risk with respect to marketable securities. The Company's approach to managing equity price risk is to optimize the return from its marketable securities within acceptable parameters for equity price risk. The Company estimates that if the fair value of its marketable securities as at September 30, 2018 had changed by 25%, with all other variables held constant, the unrealized gain (loss) would have decreased or increased to be $376,500.

c) Credit risk

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

The Company is not exposed to any significant credit risk other than trade and other receivables which has a balance of $488,694 (December 31, 2017: $30,962). Cash is generally invested in cash accounts held in Canadian chartered banks, in short-term GICs or in-trust. Management believes the risk of loss associated with these assets to be remote. Management believes that the credit risk concentration with respect to financial instruments included in assets has been reduced to the extent presently practicable.

d) Liquidity risk

Liquidity risk is the risk that the Company cannot repay its obligations when they become due to its creditors. The Company reduces its exposure to liquidity risk by ensuring that it documents when authorized payments become due; maintains an adequate working capital to repay trade creditors as they become due. The Company has total current liabilities of $7,495,704 (December 31, 2017: $3,120,968) and convertible debentures of $2,800,000 (December 31, 2017: $15,000,000) due within two years with cash and cash equivalents on hand of $36,059,767. In the opinion of management, the liquidity risk exposure to the Company is low.

e) Cash flow risk

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

17. Capital Management

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

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

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

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

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

The Company does not have any externally imposed capital requirements.

18. Sales

	Three months ending		Nine months ending	
	September 30, 2018	September 30, 2017	**September 30, 2018**	September 30, 2017
Dried Cannabis	**$ 1,500,035**	$ 239,155	**$ 2,785,332**	$ 397,824
Cannabis Plants and Seeds	**389,360**	112,743	**2,079,030**	189,243
Extracts	**109,998**	-	**218,730**	490
Other	**1,976**	4,581	**149,781**	4,581
	$ 2,001,369	$ 356,479	**$ 5,232,873**	$ 592,138

19. Termination of Arrangement Agreement

On April 19, 2018, WeedMD and Hiku Brands Company Ltd. ("Hiku") (CSE: HIKU) announced that they had entered into a definitive 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, dated April 19, 2018. In connection with the termination of the Arrangement Agreement, the Company received a $10 million termination fee. The Gain on termination of Arrangement Agreement has been presented net of transaction fees of $1.2 million, which included a breakage fee of $1.1 million which is included in both Cash held in trust and accounts payable.

20. Subsequent Events

a) On October 2, 2018 the Company announced it had secured its Depository Trust Company eligibility for the Company's publicly traded securities. The Company also began trading on the OTCQX Best Market under the ticker symbol "WDDMF" in the United States.

b) On October 22, 2018 the Company elected to exercise its right to force conversion of all of the outstanding principal amount of the Debentures and unpaid accrued interest for the conversion into common shares at the conversion price of $1.20 which resulted in 2,333,333 common shares being issued. The Company became entitled to force conversion of the Debentures on September 17, 2018 on the basis that no Event of Default has occurred and is continuing and the VWAP of the Common Shares on the TSXV for 10 consecutive trading days equals or exceeds $2.00. For the 10 consecutive trading days preceding September 17, 2018, the VWAP of the Common Shares was $2.22.

c) On November 13, 2018 the Company announced that it had secured a licence from Health Canada to sell cannabis cultivated at its greenhouse facility in Strathroy, Ontario. The original licence, issued under the Access to Cannabis for Medical Purposes Regulations, was successfully migrated to a licence under the Cannabis Act and its regulations. The sales licence allows the Company to transport cannabis from its Strathroy greenhouse to its facility in Aylmer, Ontario for packaging and distribution.

d) Subsequent to September 30, 2018 1,007,813 options were exercised into 1,007,813 common shares of the Company. Total proceeds from the exercises was $604,687.