CONSOLIDATED FINANCIAL STATEMENTS

WEEDMD INC.

December 31, 2018 and 2017
(Expressed in Canadian Dollars)

WeedMD Inc.

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

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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, 2018 and December 31, 2017 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, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and December 31, 2017 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.

Other Information

Management is responsible for the other information. The other information comprises Management's discussion and analysis.

Our opinion on the consolidated financial statements does not cover the other information and we 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.

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.

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
April 30, 2019
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 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.

(signed) "Keith Merker"

Keith Merker, Director
April 30, 2019

WeedMD Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,	Note	**2018**	2017
Assets			
Current:			
Cash and cash equivalents		**$ 21,223,641**	$ 24,695,152
Restricted cash		**100,000**	-
Trade and other receivables		**2,100,957**	30,962
Investments	5	**1,593,251**	-
Prepaid expenses and deposits		**2,101,028**	210,404
Commodity tax receivable		**5,712,320**	844,035
Inventory	7	**5,834,051**	2,694,133
Biological assets	7	**2,150,076**	360,089
		40,815,324	28,834,775
Deposit on property	6	**5,892,350**	5,892,350
Property, plant and equipment	8	**41,360,983**	4,878,062
Total assets		**$ 88,068,657**	$ 39,605,187
Liabilities			
Current:			
Accounts payable and accrued liabilities		**$ 10,971,369**	$ 2,875,383
Unearned revenue		**4,971**	245,585
		10,976,340	3,120,968
Unsecured convertible debentures	9	**-**	11,351,671
Total liabilities		**10,976,340**	14,472,639
Shareholders' equity			
Common shares	10	**$ 79,692,641**	$ 34,029,538
Warrants reserve	11	**8,073,109**	3,794,703
Conversion feature	9	**-**	2,607,546
Contributed surplus	12	**6,613,513**	1,092,579
Deficit		**(17,286,946)**	(16,391,818)
Total equity		**77,092,317**	25,132,548
Total liabilities and equity		**$ 88,068,657**	$ 39,605,187

See accompanying notes to consolidated financial statements

Commitments (Note 21)

Subsequent events (Note 25)

Approved:

Director *"Keith Merker"*
Signed

Director *"Michael Pesner"*
Signed

WeedMD Inc.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended December 31,	Note		2018		2017
					Amended (Note 3(d))
Sales	18	**$**	**8,203,273**	$	1,451,062
Excise taxes			**(248,063)**	$	-
Sales, net			**7,955,210**		1,451,062
Cost of sales:					
Cost of goods sold			**4,721,399**		1,020,039
Gross profit (loss) before changes in fair value			**3,233,811**		431,023
Realized fair value amounts included in inventory sold	7		**2,177,532**		424,100
Unrealized loss (gain) on changes in fair value of biological assets	7		**(3,577,760)**		(242,975)
Gross profit			**4,634,039**		249,898
General and administrative expenses	14		**15,062,222**		5,983,607
Finance costs	15		**459,508**		1,655,288
Amortization	8		**104,337**		23,797
Listing expense	4		**-**		1,465,666
Loss before other income			**(10,992,028)**		(8,878,460)
Unrealized gain on investments	5		**185,408**		-
Interest income			**513,281**		73,238
Other gains			**448,891**		-
Government grants			**195,687**		-
Gain on termination of Arrangement Agreement	19		**8,753,633**		-
Loss and comprehensive loss before income tax recovery			**(895,128)**		(8,805,222)
Income tax recovery	13		**-**		-
Loss and comprehensive loss		**$**	**(895,128)**	$	(8,805,222)
Basic loss per share	16	**$**	**(0.01)**	$	(0.15)
Diluted loss per share	16	**$**	**(0.01)**	$	(0.15)

See accompanying notes to consolidated financial statements

WeedMD Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Number of Shares	Share Capital	Warrants	Conversion Feature	Contributed Surplus	Deficit	Total
Balance, December 31, 2016		**36,728,573**	**$ 9,031,463**	**$ 1,071,743**	**$ 181,217**	**$ 385,000**	**$ (7,586,596)**	**$ 3,082,827**
Conversion of debentures		10,133,328	7,781,217	-	(181,217)	-	-	7,600,000
Increase in shares due to share split 1:1.25		11,715,477	-	-	-	-	-	-
Fair value of equity issued in reverse takeover		1,939,682	1,163,809	506,000	-	56,711	-	1,726,520
Share issuance		1,241,667	1,048,750	-	-	-	-	1,048,750
Share issue cost		-	(1,785)	-	-	-	-	(1,785)
Share based compensation		-	-	-	-	1,021,110	-	1,021,110
Share issue on compensation options exercise		616,000	700,700	-	-	(269,500)	-	431,200
Share issue on warrants exercise		12,532,864	10,674,640	(550,366)	-	-	-	10,124,274
Share issue on option exercise		323,400	314,738	-	-	(100,742)	-	213,996
Share issuance for deposit on property		3,000,000	3,299,341	-	-	-	-	3,299,341
Share issuance for branding agreement		19,231	16,665	-	-	-	-	16,665
Conversion feature		-	-	-	2,607,546	-	-	2,607,546
Warrant issuance for deposit on property		-	-	2,593,009	-	-	-	2,593,009
Broker warrants issued for Unsecured Convertible Debentures		-	-	174,317	-	-	-	174,317
Loss		-	-	-	-	-	(8,805,222)	(8,805,222)
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(b)	12,500,000	14,620,666	-	(2,607,546)	-	-	12,013,120
Units issued upon Prospectus Offering	10(d)	16,046,511	29,352,724	5,147,275	-	-	-	34,499,999
Unit issue cost	10(d)	-	(2,627,835)	(460,815)	-	807,000	-	(2,281,650)
Shares issued on broker warrants exercise	11(g)	142,500	238,293	(67,293)	-	-	-	171,000
Shares issued on warrants exercise	11(h)	2,347,102	2,111,908	(340,761)	-	-	-	1,771,147
Shares issued on option exercise	12(l)	1,808,229	1,767,147	-	-	(579,824)	-	1,187,323
Share issue on compensation options exercise	12(m)	176,000	200,200	-	-	(77,000)	-	123,200
Share based compensation	12	-	-	-	-	5,370,758	-	5,370,758
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**

See accompanying notes to consolidated financial statements

WeedMD Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,	Note	**2018**	2017
			Amended (Note 3(d))
Cash flows provided by (used in):			
Operating			
Loss		**$ (895,128)**	$ (8,805,222)
Adjustments for:			
Amortization	8	**104,337**	366,103
Share based compensation	14	**5,370,758**	1,994,860
Non-cash amalgamation costs	4	**-**	1,801,478
Shares issued for branding agreement		**-**	16,665
Accretion and interest expense	15	**442,132**	1,654,838
Fair value changes in biological assets included in inventory sold	7	**2,177,532**	424,100
Unrealized gain on changes in fair value of biological assets and inventory	7	**(3,577,760)**	(242,975)
Miscellaneous gains		**(422,667)**	-
		$ 3,199,204	$ (2,790,153)
Change in non-cash working capital	17	**(3,814,718)**	(196,775)
		(615,514)	(2,986,928)
Investing			
Loans receivable collections		**-**	39,200
Purchase of investments	5	**(1,270,584)**	-
Acquisition of plant and equipment	8	**(36,475,749)**	(3,569,085)
		(37,746,333)	(3,529,885)
Financing			
Proceeds from loans and borrowings, net of issue costs	9	**-**	13,884,395
Proceeds from issuance of share capital, net of issue costs	10(d)	**32,218,349**	-
Proceeds from exercise of warrants	11(g),(h)	**1,942,147**	10,126,283
Proceeds from exercise of stock options	12(l)	**1,187,323**	213,996
Proceeds from exercise of compensation options	12(m)	**123,200**	431,200
Interest paid	9,15	**(480,683)**	(196,650)
Cash issue costs		**-**	(1,785)
		34,990,336	24,457,439
Increase (decrease) in cash		**(3,371,511)**	17,940,626
Foreign exchange		**-**	(450)
Cash, beginning of year		**24,695,152**	6,754,976
Cash, end of year		**$ 21,323,641**	$ 24,695,152
Cash and cash equivalents		**21,223,641**	24,695,152
Restricted Cash		**100,000**	-
		$ 21,323,641	$ 24,695,152

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 two facilities: a 26,000 sq. ft. indoor facility in Aylmer, Ontario and a 158-acre state-of-the-art greenhouse (“Hybrid Greenhouse”) and outdoor facility located in Strathroy, Ontario (the “Greenhouse Expansion”). The Company currently has 136,000 square feet of licensed production space across its facilities and is expected to have a total footprint of more than 550,000 square feet of indoor and greenhouse production in addition to more than 25 acres of outdoor cultivation space online in the first half of 2019. 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, 2018 are comprised of WeedMD Inc. and its wholly-owned subsidiaries: WeedMD Capital Corp and WeedMD Rx Inc. (“WeedMD Rx”) along with its wholly-owned subsidiaries WeedMD Rx Ltd. and WMD Ventures Inc. (collectively, “WeedMD” or the “Company”). WeedMD Rx Ltd. and WMD Ventures Inc. are currently dormant.

WeedMD Inc., is a publicly listed company on the TSX Venture Exchange (“TSXV”) that trades under the ticker symbol “WMD”. WeedMD Inc. is also listed on the OTCQX under the ticker symbol “WDDMF”. 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 license 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 license 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 (the "Transaction") (Note 4).

On June 16, 2017 WeedMD received an amendment to its license 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 license to allow for the sale of cannabis oil and was subsequently granted a license to sell cannabis oil on December 1, 2017.

On June 8, 2018, WeedMD received its first license to begin cultivation in 44,000 sq. ft. at the Strathroy site. On December 23, 2018, this license was amended to include another 66,000 sq. ft., bringing the total licensed operational capacity to 136,000 sq. ft. between both locations. Subsequent to December 31, 2018, the Company secured a standard processing license for the Hybrid Greenhouse license on April 12, 2019.

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.

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 April 30, 2019.

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 (d), (e) 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 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, 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.

2. **Basis of preparation** (Cont'd)

d) Accounting estimates and judgments (Cont'd)

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 the Qualifying Transaction (Note 4), and the valuation of biological assets and inventory (Note 7). 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

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
Intangible assets	10 years	Straight-line

Amortization began on one acre of the Greenhouse for six months of the year. Assets in use have been amortized rateably over this period.

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.

Intangible assets are recorded at cost less accumulated amortization.

3. Significant Accounting Policies (Cont'd)

c) 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 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.

d) Biological Assets

During the year ended December 31, 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 was applied retrospectively and 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. 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.

3. Significant Accounting Policies (Cont'd)

d) Biological Assets (Cont'd)

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, loss and comprehensive loss, basic and diluted loss 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 fair value loss (gain) on changes in biological assets 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.

	Original accounting policy	New accounting policy	Original accounting policy	New accounting policy
For the year ended	December 31, 2018		December 31, 2017	
Statement of Loss and Comprehensive Loss				
Sales	8,203,273	8,203,273	1,451,062	1,451,062
Less: Excise taxes	248,063	248,063	-	-
	7,955,210	7,955,210	1,451,062	1,451,062
Cost of sales:				
Cost of goods sold	1,557,336	4,721,399	272,835	1,020,039
Production costs	4,899,646	-	2,391,049	-
	6,456,982	4,721,399	2,663,884	1,020,039
Gross profit (loss) before changes in fair value	1,498,228	3,233,811	(1,212,822)	431,023
Realized fair value amounts included in inventory sold	5,341,595	2,177,532	1,171,304	424,100
Unrealized loss (gain) on changes in fair value of biological assets and other	(8,477,406)	(3,577,760)	(2,634,024)	(242,975)
Gross profit	4,634,039	4,634,039	249,898	249,898

For the year ended	December 31, 2018		December 31, 2017	
Statement of cash flows				
Operating activities				
Realized fair value amounts included in inventory sold	5,341,595	2,177,532	1,171,304	424,100
Unrealized loss (gain) on changes in fair value of biological assets and other	(8,477,406)	(3,577,760)	(2,634,024)	(242,975)
	(3,135,811)	(1,400,228)	(1,462,720)	181,125
Change in non-cash working capital	(2,079,136)	(3,814,719)	1,447,070	(196,775)
Net effect on cash flows used in operating activities	(5,214,947)	(5,214,947)	(15,650)	(15,650)

3. Significant Accounting Policies (Cont'd)

e) 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. 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.

f) 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. For provincial customers control is transferred when goods have been delivered. The point at which control transfers is also when the performance obligations have been fulfilled under the terms of the related sales contract. Revenues are recorded net of discounts and incentives but inclusive of freight. Excise taxes are a production tax which become payable when a cannabis product is delivered to the customer and are not directly related to the value of revenue. Excise taxes are netted against gross revenue on the Statement of Loss and Comprehensive Loss.

Service revenue, new in 2018, is recognized over time as performance obligations are completed. The adoption of this new standard had no impact on the amounts recognized in its consolidated financial statements.

g) 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.

3. Significant Accounting Policies (Cont'd)

h) 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 statements of loss and comprehensive loss.

i) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. As of December 31, 2018, and 2017, the Company did not have any finance leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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.

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.

3. Significant Accounting Policies (Cont'd)

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.

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 statement of loss and comprehensive loss for the periods presented comprises current and deferred tax. Income tax is recognized in the Consolidated Statement 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.

3. Significant Accounting Policies (Cont'd)

q) Financial instruments

IFRS 9 was issued by the IASB on July 24, 2014 and replaced IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39.

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.

Consistent with IAS 39, all financial liabilities held by the Company under IFRS 9, are initially measured at fair value and subsequently measured at amortized cost.

3. Significant Accounting Policies (Cont'd)

q) Financial instruments (Cont'd)

The following table summarizes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities:

	IAS 39	**IFRS 9**
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Investments – equity (Note 5(a),(b),(c))	Not applicable	FVTPL
Investments – bond Note 5(d)	Not applicable	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Unearned revenue	Other liabilities	Amortized cost
Unsecured convertible debentures	Amortized cost	Amortized cost

r) 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. The Company has assessed the impairment of its accounts receivable using the expected credit loss model, and did not note any material differences. As a result, no incremental impairment loss has been recognized upon transition.

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.

3. Significant Accounting Policies (Cont'd)

s) 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, 2018 and December 31, 2017, the Company operated in one segment, the production and sale of cannabis in Canada.

t) 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 purchaser, and collectability is reasonably assured, 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.

The Company adopted IFRS 15 using the modified retrospective approach, where the cumulative impact of adoption was required to be recognized in retained earnings as of January 1, 2018 and comparatives were not required to be restated.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue, at a point in time or over time, the assessment of which requires judgment. The model features the following five-step contract-based analysis of transactions to determine whether, how much and when revenue is recognized:

1. Identify the contract with a customer;
2. Identify the performance obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s) in the contract; and
5. Recognize revenue when or as the Company satisfies the performance obligation(s).

3. Significant Accounting Policies (Cont'd)

u) Recently issued standards to be adopted in the future

IFRS 16, Leases ("IFRS 16"), was issued in January 2016, and supersedes IAS 17, Leases. This standard introduces a single lessee accounting model. The new standard will reflect the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the Statement of Financial Position, including for most leases which are currently accounted for as operating leases. The Standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of the application of this standard.

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 consolidated financial statements of the Company.

4. Qualifying Transaction

On April 13, 2017, the Company completed the Qualifying Transaction (the "Transaction"), where the Company acquired all of the issued and outstanding securities in the capital of WeedMD Rx via the Amalgamation of a wholly-owned subsidiary of the Company with WeedMD Rx.

Pursuant to the Transaction, each WeedMD Rx shareholder received 1.25 Shares in the capital of the Company for each WeedMD Rx common share held, resulting in the issuance of an aggregate of 58,577,378 Shares of the Company to shareholders of WeedMD Rx. As part of the Transaction, warrants, compensation options and stock options of WeedMD Rx were replaced with share purchase warrants, compensation options and stock options of the Company with adjustments to their exercise or conversion terms to reflect the exchange ratio for the WeedMD common shares under the Transaction, resulting in the issuance of: (i) share purchase warrants exercisable to purchase up to 14,888,486 common shares at an exercise price of $0.80 per share; (ii) stock options exercisable to purchase up to 3,312,500 Shares at an exercise price of $0.60 per share; and (iii) 440,000 compensation options exercisable into units at an exercise price of $0.60 per unit, with each unit comprised of a Share and one half of one warrant, with each whole warrant exercisable into a Share at an exercise price of $0.80.

As part of the Transaction, the Company changed its name from "Aumento Capital V Corporation" to "WeedMD Inc."

Prior to the Transaction, Aumento Capital V Corporation was a Capital Pool Company (as defined under the policies of the TSXV, had not commenced commercial operations and had no assets other than cash. The Transaction constituted Aumento Capital V Corporation 's "Qualifying Transaction", as such term is defined in Policy 2.4 of the TSXV.

4. Qualifying Transaction (Cont'd)

Following the completion of the Transaction (on a post-acquisition basis), the Company had a total of 60,517,060 Shares outstanding, as well as: (i) common share purchase warrants exercisable to purchase up to 14,888,486 Shares at an exercise price of $0.80 per share; (ii) stock options exercisable to purchase up to 3,497,332 Shares at exercise prices ranging from $0.60 - $0.80 per share; (iii) 440,000 compensation options exercisable into units at an exercise price of $0.60 per unit, with each unit comprised of a Share and one warrant, with each warrant exercisable into a Share at an exercise price of $0.80; and (iv) 1,125,000 Shares issuable to certain officers of the Company upon WeedMD receiving the Sales License (the "Compensation Shares").

As a result of the Transaction, 58,577,378 (post share split of 1:1.25) Shares were held by previous shareholders of WeedMD RX and 1,939,682 Shares were held by shareholders of Aumento. This resulted in WeedMD Rx shareholders owning 96.8% of the Company, and consequently, obtaining control of Aumento.

The substance of the Transaction is a reverse takeover. The Transaction does not constitute a business combination under IFRS 3, thus there is no goodwill recognized, and the difference between consideration and fair value of net assets acquired results in a listing expense.

WeedMD Rx was identified as the acquirer for accounting purposes, and Aumento, the legal parent, is the subsidiary for accounting purposes. Since WeedMD Rx is the acquirer, its assets, liabilities and operations since incorporation are consolidated, and since Aumento is the subsidiary, its operations have only been consolidated since the date of the reverse takeover.

At the time of the completion of the Transaction, an aggregate of 23,388,441 Shares were subject to escrow pursuant to TSXV escrow requirements (not including the Compensation Shares which also became subject to escrow upon issuance).

The fair value of the consideration issued for the net assets of Aumento Capital V Corporation and warrants issued on liquidity event is as follows:

Shares outstanding prior to share consolidation		1,939,682
Price per share	$	0.60
Fair value of shares	$	1,163,809
Other listing fees		176,323
Fair value of existing options of the Company		56,711
Sponsorship fees		75,000
Fair value of warrants issued on liquidity event (Note 11 (b))		506,000
Fair value of net assets, including cash of $535,246		(512,177)
Listing expense	$	1,465,666

The listing expense of $1,465,666 was recorded in the statement of loss and comprehensive loss.

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. ("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 year ended December 31, 2018, the Company recorded the investment at FVTPL resulting in an unrealized loss of $283,333 being recorded on the Consolidated Statements of Loss and Other Comprehensive Loss. As at December 31, 2018, the Company valued the Shares at $216,667. This investment has been classified as level 1 in the fair value hierarchy.

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

(c) On July 3, 2018, the Company was granted 860,000 shares of 3 Sixty Secure Corporation at a fair value of $137,259. The Company has recorded the shares at December 31, 2018, at $731,000 resulting in an unrealized gain of $593,741 being recorded on the Consolidated Statements of Loss and Comprehensive Loss. This investment has been classified as level 2 in the fair value hierarchy. The valuation technique used to arrive at the fair value at December 31, 2018, uses the most recent private placement of 3 Sixty Secure Corporation which took place in October 2018 at $0.85 per share. A 25% shift in value would have increased or decreased the valuation at December 31, 2018 by $182,750. There were no transfers between levels during 2018 or 2017.

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

6. Deposit on Property

On November 21, 2017, the Company issued 3,000,000 Shares and 3,000,000 warrants as a deposit pursuant to a purchase option agreement for the potential purchase of land and buildings leased for the Hybrid Greenhouse (Note 21). The Shares and warrants were valued at $3,299,341 and $2,593,009 respectively, for a total valuation of $5,892,350 (Note 10(c) and Note 11(d)).

7. Biological Assets and Inventory

The Company's biological assets consist of cannabis plants.

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

Carrying amount, January 1, 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		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**

*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 (Note 3(d)).

All of the plants are to be harvested as agricultural produce or to be sold as live plants. All of the plants that are to be harvested are between one and fifteen weeks from harvest (December 31, 2017: one and thirteen weeks) and the life cycle is estimated to be eighty one to one hundred thirty two days (December 31, 2017: Seventy five to one hundred nineteen days). Plants to be sold as live plants are zero to two weeks away from sale (December 31, 2017: zero to two weeks).

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:

- Multiply the expected yield in grams per plant and the expected selling price per gram;
- Deduct 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
- Apply 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

7. Biological Assets and Inventory (Cont'd)

The Company estimates harvest yields for the plants at various stages of growth. As of December 31, 2018, it is expected that the Company's biological assets that are to be harvested will yield approximately 1,378,941 grams (December 31, 2017: 228,883 grams). Selling prices used in the valuation are based on the historical weighted average selling price of $5.16 (December 31, 2017: $3.66 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, adult-use retail and bulk sales. The Company estimates percentage of costs incurred based on the stage of growth, as costs are not incurred evenly throughout the grow cycle. Plants on hand at December 31, 2018, have incurred an average of 42% of costs to harvest (December 31, 2017: 48%).

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 biological assets.

	December 31, 2018 Actual	December 31, 2017 Actual	Percentage change used in sensitivity analysis	Change resulting from reasonable variance as at December 31, 2018	Change resulting from reasonable variance as at December 31, 2017
Selling price	$3.41 – 6.33	$2.71 - $5.41	10%	$568,863	$56,458
Yield by plant	39 grams	38 grams	15%	$345,600	$32,293
Average life cycle	96 days	95 days	10%	$63,768	$16,640
Percentage of costs to harvest incurred to date	42%	48%	10%	$141,786	$38,426
Average days to sell	344 days	509 days	15%	$61,203	$6,260

Inventory is comprised of $3,168,767 of harvested finished goods (December 31, 2017: $2,656,245), $863,903 of harvested work-in-progress (December 31, 2017: $36,532) and $1,801,381 of cannabis extracts (December 31, 2017: $nil). Inventory is valued at the lower of cost and net realizable value.

8. Property, Plant and Equipment

Cost

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

Accumulated Amortization

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

8. Property, Plant and Equipment (Cont'd)

Cost

	Balance at December 31, 2016	Additions	Transfers	Balance at December 31, 2017
Security equipment	$ 341,650	$ 180,304	$ -	$ 521,954
Equipment	238,455	314,506	-	552,961
Furniture & fixtures	77,442	7,510	-	84,952
Fence & Signage	6,981	4,426	-	11,407
Software	-	-		-
Land	-	-	-	-
Building	-	-	-	-
Leasehold improvement and greenhouse	1,306,372	3,062,339	-	4,368,711
	$ 1,970,900	$ 3,569,085	$ -	$ 5,539,985

Accumulated Amortization

	Balance at December 31, 2016	Additions	Transfers	Balance at December 31, 2017
Security equipment	$ (34,229)	$ (85,017)	$ -	$ (119,246)
Equipment	(23,847)	(76,663)	-	(100,510)
Furniture & fixtures	(29,578)	(10,887)	-	(40,465)
Fence & Signage	(349)	(792)	-	(1,141)
Software	-	-	-	-
Land	-	-	-	-
Building	-	-	-	-
Leasehold improvement and greenhouse	(130,637)	(269,924)	-	(400,561)
	$ (218,640)	$ (443,283)	$ -	$ (661,923)
Net book value	$ 1,752,260	$ 3,125,802	$ -	$ 4,878,062

Total amortization for the year ended December 31, 2018 was $692,828 (2017: $443,283), of which $128,110 (2017: $77,180) has been capitalized in inventory, $460,381 has been capitalized to biological assets (2017: $342,306) and $104,337 (2017: $23,797) 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 December 31, 2018, leasehold improvements with a carrying value of $32,115,404 (2017: $2,758,780), were not yet available for use. As such, the cost of these assets has been capitalized but not yet amortized. Included in the additions to leasehold improvements is capitalized borrowing costs in the amount of $700,000.

As of December 31, 2018, software with a carrying value of $372,377 (2017 – nil), was not yet available for use. As such, the cost of the asset has been capitalized but not yet amortized.

9. Convertible Debentures

	Debentures	Warrants (Contributed surplus)	Conversion Feature	Total
Balance, January 1, 2017	**$ 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 commissions 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 of debentures	(12,013,120)	-	(2,607,546)	(14,620,666)
Accretion of debentures	661,449	-	-	661,449
Balance, December 31, 2018	**$ -**	**$ -**	**$ -**	**$ -**

a) 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.

The Unsecured Convertible Debentures bore 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 had a maturity date of November 1, 2019 (the "Maturity Date").

The Unsecured Convertible Debentures were 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 was able to force the conversion of all of the principal amount of the then outstanding Unsecured Convertible Debentures at the Conversion Price on 30 days prior written notice should the (1) daily volume weighted average trading price of the Shares be greater than $2.00, for any 10 consecutive trading days, and (2) the volume traded during each weighted average price day is not less than 50,000 Shares.

9. Convertible Debentures (Cont'd)

a) 2017 convertible debentures (Cont'd)

Upon the occurrence of a Change of Control, the holders of the Unsecured Convertible Debentures had, in their sole discretion, the right to require the Company to either: (i) purchase the Unsecured Convertible Debentures at 100% of the principal amount thereof plus unpaid interest to the date of the Initial Debentures are so repurchased (the "Change of Control Purchase Option"); (ii) if the Change of Control results in a new issuer, convert the Unsecured Convertible Debentures into a replacement debenture of the new issuer in the aggregate principal amount of 101% of the principal amount of the Unsecured Convertible Debentures; or (iii) convert the Unsecured Convertible Debentures at the Conversion Price. If 90% or more of the principal amount of all Debentures outstanding on the date the Company provides notice of a Change of Control have been surrendered for purchase pursuant to the Change of Control Purchase Option, the Company has the right to redeem all the remaining outstanding initial Unsecured Convertible Debentures at the same price.

The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the Unsecured Convertible Debentures assuming a market interest rate of 20%, which was the estimated rate for the Unsecured Convertible Debentures without the equity component of the conversion feature. The effective interest rate of the Unsecured Convertible Debentures after reflecting issuance costs was 25%. The difference between the discounted cash flows for the Unsecured Convertible Debentures and the gross proceeds is recognized as the value of the conversion feature.

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 11(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.

b) Conversion of debentures

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

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

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

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

10. 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		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	10(a),(b)	1,241,667	1,048,750
Shares issued for convertible debenture warrants exercise	11(a)	11,674,735	9,792,984
Shares issued for 2016 debenture financing warrants exercise		858,129	881,656
Shares issued for broker compensation option exercise		616,000	700,700
Shares issued for stock option exercise		323,400	314,738
Shares issued as down payment to the Greenhouse Expansion	10(c)	3,000,000	3,299,341
Shares issued for branding agreement		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	9	12,500,000	14,620,666
Shares issued upon prospectus offering	10(d)	16,046,511	29,352,724
Shares issued for stock options exercised	12(l)	1,808,229	1,767,147
Shares issued for broker compensation option exercise	12(m)	176,000	200,200
Shares issued for warrants exercised	11(h)	2,347,102	2,111,908
Shares issued for compensation warrants exercised	11(g)	142,500	238,293
Share issuance costs	10(d)		(2,627,835)
Balance as at December 31, 2018		**111,270,564**	**$79,692,641**

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

b) 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.

c) On November 21, 2017, the Company entered into a purchase option agreement for the potential purchase of the land and buildings leased for the Hybrid Greenhouse (Note 6). 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 11(d)). 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.

10. Share Capital (Cont'd)

d) 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 11(f)).

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 12(f)). 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 (Note 11(f)).

11. Warrants

	Note	Number of Warrants	Exercise Price
Balance as at January 1, 2017		10,130,800	
Increase in warrants due to share split 1:1.25		2,532,700	
Warrants issued (April 13, 2017)	11(b)	2,224,986	$ 0.80
Broker warrants issued (November 2, 2017)	11(c)	375,000	$ 1.20
Greenhouse Expansion warrants issued	10(c),11(d)	3,000,000	$ 1.56
Debenture warrants exercised	11(a)	(11,674,735)	
Broker compensation warrants issued		308,000	$ 0.80
Broker compensation warrants exercised		(308,000)	
April 13, 2017 warrants exercised		(858,129)	
Warrant exercise, shares to be issued		(124,975)	
Balance as at December 31, 2017		5,605,647	
Debenture warrants expired	11(e)	(8,521)	
Warrants issued (January 11, 2018) on prospectus offering	11(f)	8,023,256	$2.90
Broker compensation warrants exercised	11(g)	(230,500)	
Broker compensation warrants issued	12(m)	88,000	$0.80
Warrants exercised	11(h)	(2,222,127)	
Balance as at December 31, 2018		11,255,755	

11. Warrants (Cont'd)

a) In connection with the Convertible Debenture Financing closed on November 8, 2016, the Company issued 10,130,800 warrants, exercisable into 10,130,800 Shares of the Company at an exercise price of $1.00 per share for a period of two years from the completion of a Liquidity Event by the Company. 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 Shares to be issued.

b) On April 13, 2017, in conjunction with the Transaction (Note 4) the Company issued 2,224,986 warrants to various parties that participated in the Debentures financing (Note 9), 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 9(a)). 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 21, 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 (Note 6). 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.

11. Warrants (Cont'd)

f) On January 11, 2018, in connection with the Prospectus Offering (Note 10(d)) 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.

g) 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 12(m)). The company recognized the fair value of the warrants of $67,293 in the value of the Shares issued.

h) 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.

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 12).

12. Contributed Surplus

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.

As at December 31, 2018, the Company's outstanding stock options consists the following:

	Note	Number of options	Contributed surplus	Exercise price
Balance as at January 1, 2017			$ 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	12(a)	3,000,000	789,413	0.60
Stock options granted	12(b)	312,500	60,393	0.60
Stock options granted	12(c)	400,000	125,671	0.72
Stock options granted	12(d)	112,500	45,633	0.91
Stock options exercised	12(l)	(323,400)	(100,742)	
Broker compensation options exercised	12(e)	(308,000)	(269,500)	
Balance as at December 31, 2017		**3,818,432**	**$ 1,092,579**	
Broker compensation options granted	12(f)	470,890	807,000	2.15
Stock options granted	12(g)	3,013,000	3,589,723	2.36
Stock options granted	12(h)	500,000	368,960	1.80
Stock options granted	12(i)	130,000	84,716	1.74
Stock options granted	12(j)	2,105,000	975,737	2.07
Stock options granted	12(k)	420,000	133,961	1.95
Share based compensation		-	217,661	
Stock options exercised	12(l)	(1,808,229)	(579,824)	
Broker compensation options exercised	12(m)	(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**	

12. Contributed Surplus (Cont'd)

At December 31, 2018, 8,023,503 (December 31, 2017: 3,818,432) 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	44,000	44,000	0.28	
$0.60	1,815,613	1,604,111	2.28	
$0.80	62,500	46,875	0.28	
$2.15	470,890	470,890	1.03	
$2.36	2,575,500	1,339,250	4.03	
$1.80	500,000	125,000	4.38	
$1.74	130,000	32,500	4.46	
$2.07	2,005,000	340,208	4.68	
$1.95	420,000	-	4.78	
	8,023,503	4,002,834	3.64	$1.79

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 Company has recorded the fair value of the options granted as $1,004,478. Total share-based compensation for the year ended December 31, 2018 is $207,384 (2017: $789,413).

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. Total share-based compensation for the year ended December 31, 2018 is $10,277 (2017: $60,393).

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 have been measured by reference to the fair value of equity issued. The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 78.86%; (iii) risk-free interest rate of 1.73%; (iv) share price of $0.72; forfeiture rate of nil; and (v) expected life of 60 months. Expected volatility is based on the historical volatility of other companies that the Company considers comparable. Pursuant to the stock options agreement, 50% of the 400,000 options will be vested when the stock price reaches a weighted average price of $1.20; the remaining 50% of the 400,000 options will be vested when 50% of the total outstanding warrants of the company, or 7,443,243 warrants get exercised. The vesting condition was realized during the year and the Company has recorded the fair value of $125,671 of the options granted as share-based compensation expense in the year ended December 31, 2017.

12. Contributed Surplus (Cont'd)

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, 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.

f) On January 11, 2018, in connection with the Prospectus Offering (Note 10(d)) 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.

g) 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, 2018 is $3,589,723.

h) 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 and 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, 2018 is $975,737.

12. Contributed Surplus (Cont'd)

i) 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, 2018 is $133,961.

j) During the year ended December 31, 2018, 1,808,229 stock options were exercised (year ended December 31, 2017: 323,400) for net proceeds of $1,187,323 (year ended December 31, 2017: $213,996). Shares issued upon exercise of options had a weighted average fair value of $1.85 (2017: $2.32) at the time of exercise.

k) 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.

13. Income Taxes

Income Tax Expense

The following table reconciles income taxes calculated at combined Canadian federal/provincial tax rates with the income tax expense in the consolidated financial statements:

Deferred Income Taxes

	2018	2017
Deferred tax assets (liabilities)		
Non-capital loss carry forwards	**$ 2,769,923**	$ 3,557,905
Unrealized biological asset costs	**(458,367)**	(627,063)
Share issue costs	**746,889**	381,867
Others	**(63,741)**	43,181
Total deferred income tax assets	**$ 2,994,704**	$ 3,355,890
Deferred income tax assets not recognized	**(2,994,704)**	(3,355,890)
Net deferred income tax assets	**$ -**	$ -

13. Income Taxes (Cont'd)

Loss Carry Forwards

As at December 31, 2018, the Company has non-capital tax loss carry forwards of $10,452,540 expiring as follows:

2034	1,752,357
2035	3,506,816
2036	2,742,579
2037	5,623,262
2038	(3,172,474)
	$ 10,452,540

14. General and Administrative Expenses

For the year ended December 31,		2018		2017
Salaries and benefits	$	2,589,647	$	1,436,436
Share based compensation		5,370,758		1,021,110
Shares issued for services		-		973,750
Consulting fees		1,400,618		443,412
Rent and occupancy costs		205,618		206,079
Office and administration		2,579,542		897,349
Professional fees		1,034,743		287,958
Travel and accommodation		512,836		237,414
Selling, Marketing and Promotion		1,229,511		412,638
Research and development		138,949		67,461
	$	15,062,222	$	5,983,607

15. Finance Costs

For the year ended December 31,		2018		2017
Accretion expense (Note 9)	$	256,054	$	1,191,668
Non-cash interest expense		-		266,520
Interest paid in cash		186,078		196,650
Foreign exchange loss		17,376		450
	$	459,508	$	1,655,288

16. Earnings per Share

For the year ended December 31,	2018	2017
Basic loss per share:		
Loss attributable to holders of shares	**$ (895,128)**	$ (8,805,222)
Weighted average number of shares outstanding	**104,631,878**	57,114,020
	(0.01)	(0.15)

For the year ended December 31,	2018	2017
Diluted Loss per share:		
Loss attributable to holders of shares	**$ (895,128)**	$ (8,805,222)
Weighted average number of shares - diluted	**106,479,881**	57,114,020
	(0.01)	(0.15)

17. Change in Non-cash Operating Working Capital

	2018	2017
Trade and other receivables	**$ (2,069,995)**	$ (24,031)
Prepaid expenses and deposits	**(1,790,625)**	(176,507)
Inventory	**(2,941,185)**	(311,593)
Commodity tax receivable	**(4,868,285)**	(582,574)
Unearned revenue	**(240,614)**	245,585
Accounts payable and accrued liabilities	**8,095,986**	2,296,190
	$ (3,814,718)	$ 1,447,070

18. Sales

For the year ended December 31,	2018	2017
Direct to patient		
Dried cannabis	**$ 1,134,674**	$ 237,813
Cannabis plants and seeds	**90,921**	25,457
Cannabis extracts	**389,655**	-
Other	**43,054**	13,930
	$ 1,658,304	$ 277,200
Wholesale		
Dried cannabis	**$ 4,221,344**	$ 957,316
Cannabis plants and seeds	**2,166,513**	216,546
Cannabis extracts	**18,429**	-
Other	**138,683**	-
	$ 6,544,969	$ 1,173,862
	$ 8,203,273	$ 1,451,062

19. 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.

20. Related Party Transactions

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

- Salaries and service fees; and
- 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:

		2018		2017
Accounts payable and accrued liabilities	**$**	**119,801**	$	77,399
	$	**119,801**	$	77,399

For the years ended December 31, 2018 and 2017, total remuneration/service fees paid, and interest paid to the key management is as follows:

		2018		2017
Interest paid to related parties	**$**	**-**	$	(222)
Share based compensation		**2,105,662**		1,602,363
Salaries		**690,570**		418,615
Bonus		**150,415**		255,000
Rental		**-**		22,777
Fees		**264,038**		163,994
	$	**3,210,685**	$	2,462,527

During the year ended December 31, 2018 no compensation shares were issued (December 31, 2017: 1,125,000, with a fair value of $978,750) and 2,400,000 stock options (December 31, 2017: 1,862,500) were issued with fair value of $3,707,537 (December 31, 2017: $978,750) with a recorded share-based compensation of $2,105,662 (2017: $623,613) to certain key management personnel.

21. Commitments

On November 21, 2017, the Company entered into a lease for the Hybrid Greenhouse, for a term of 2 years for a base rent of $1.00 for the first acre with an option to lease an additional 13 acres for $180,000 per annum per acre. The company also has the option to extend the lease for an additional 10 terms of one year each. As at December 31, 2018, the Company was leasing 14 acres.

On November 21, 2017, the Company also entered into a purchase option agreement for the Hybrid Greenhouse, which gives the Company the option to purchase the entire 98-acre property, including the property leased for the Hybrid Greenhouse. The purchase price was composed of (1) 3,000,000 Shares and 3,000,000 warrants of the Company issued on November 21, 2017 (Note 6); (2) $7,000,000 in milestone payments to accrue over 36 months from the agreement date upon reaching mutually agreed-upon operating and performance milestones; and (3) $15,600,000 balance to be paid on closing. The milestone payments will be paid with a combination of cash and a vendor-take-back mortgage, and the vendor has the option to accept up to $5,000,000 of the milestone payment in Shares. The option is exercisable for five years from the agreement date, with an option to extend for an additional five years for a $1,000,000 extension fee.

Upon signing the purchase option agreement, the Company issued 3,000,000 Shares and 3,000,000 warrants as a deposit (Note 6).

Subsequent to the end of the year the Company exercised its option to purchase the Greenhouse Expansion and closed on the purchase on March 29, 2019 (Note 25(b)).

The lease commitment schedule is outlined in the below table:

Within 1 year		2,318,577
Within 2 years		199,078
Within 3 years		190,668
Within 4 years		193,668
Beyond 4 years		236,946
	$	3,138,937

22. 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.

22. Financial Instruments (Cont'd)

(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 bond. 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 December 31, 2018 had changed by 25%, with all other variables held constant, the unrealized gain (loss) would have decreased or increased to be $268,167.

(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 $2,100,957 (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.

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, 2018, there are no receivables that are impaired. Management expects credit risk to be minimal.

Aging of trade receivables that are past due, but not impaired are as follows:

		2018		2017
0 to 30 days past due	**$**	**407**	$	-
31 to 60 days		**209**		-
Over 60 days		**35,196**		-
Total past due	**$**	**35,812**	$	-

(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 to the Company to a supplier or partner, is different at the time of settlement than it was at 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. In the opinion of management, the foreign exchange risk exposure to the Company is low and is not material. As at December 31, 2018 and 2017, the Company held cash and cash held in trust in US dollars of $9,005 (CAD $12,285) and $9,005 (CAD $11,930), respectively.

22. Financial Instruments (Cont'd)

(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 $10,976,340 (December 31, 2017: $3,120,968) with cash and cash equivalents on hand of $21,223,641 (December 31, 2017: $24,695,152). In the opinion of management, the liquidity risk exposure to the Company is low.

(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. In the opinion of management, the cash flow risk exposure to the Company is low.

23. 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 Shares. In order to achieve its objectives, the Company expects to spend its working capital, when applicable, and raise additional funds as required.

For the year ended December 31, 2018, the Company does not have any externally imposed capital requirements.

24. Non-cash transactions

For the year ended December 31,	Note	**2018**	2017
Non-cash deposit on property	6	**$ -**	$ 5,892,350
Non-cash conversion of Debentures	9	**14,620,666**	7,781,217
		$ 14,620,666	$ 13,673,567

25. Subsequent Events

a) Financing

On March 29, 2019, the Company entered into combined credit agreements totalling $39.15 million (collectively, “Credit Facilities”) with Bank of Montreal. The Credit Facilities mature in 2022 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.

b) Purchase of property

In connection with the Credit Facilities, on March 29, 2019, the Company exercised its option to purchase the Strathroy Facility. The purchase price remaining under the option agreement was $22.6 million, of which $17.6 million was paid in cash and $5.0 million was satisfied by the issuance 2.5 million units in the capital of the Company. Each unit was comprised of one WeedMD common share at a price of $2.00 and one-quarter of a warrant (625,000 warrants in total), with each whole warrant exercisable into a WeedMD common share at an exercise price of $2.50 per share for five years.

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

c) Strathroy License

On April 15, 2019, the Company announced that it had secured a standard processing license from Health Canada for its Strathroy facility. This allows the Company to implement processing and packaging activities with cannabis at the site.

d) Investment in Pioneer Cannabis Corp.

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

e) Stock options granted

On January 9, 2019, the Company granted 2,868,000 stock options to its directors, officers, employees, and consultants. Each option is exercisable into one common share at an exercise price of $1.53, until January 8, 2024.

f) Stock options exercised

Subsequent to the year ended December 31, 2018, the Company issued 386,458 Shares from the exercise of options at a weighted average exercise price of $0.60 per share for net proceeds of $231,875.