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CONDENSED INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS

**WEEDMD INC.**

For the three and nine months ended  
September 30, 2020 and September 30, 2019  
(Unaudited - Expressed in Canadian Dollars)

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# **WeedMD Inc.**

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine months ended September 30, 2020 and 2019

(Unaudited)

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## **MANAGEMENT'S RESPONSIBILITY STATEMENT**

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

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

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

### **NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(b), if a reporting issuer engaged an auditor to perform a review of the interim financial statements and the auditor was unable to complete the review, the interim financial statements must be accompanied by a notice indicating that the auditor was unable to complete a review of the interim financial statements and the reasons why the auditor was unable to complete the review. The Company engaged its auditor to complete an interim review but as a result of time constraints directly related to the Company previously relying on Ontario Instrument 51-505 -Temporary Exemption from Certain Corporate Finance Requirements with Deadlines during the Period from June 2 to August 31, 2020 of the Ontario Securities Commission (and similar exemptions provided by other Canadian securities regulators) in respect of its condensed interim consolidated financial statements for the three and six months ended June 30, 2020 and June 30, 2019, the auditor was not able to complete its review prior to the Company's filing deadline of November 30, 2020.

Angelo Tsebelis, Director  
November 30, 2020



**WeedMD Inc.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(in Canadian dollars)	Note	September 30, 2020	December 31, 2019
		<i>(Unaudited)</i>	<i>(Audited)</i>
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalent		\$ 31,125,239	\$ 8,183,744
Restricted cash		3,195,482	3,112,650
Trade and other receivables		8,017,175	3,346,425
Current portion of promissory note receivable		490,177	490,177
Inventory	3	42,517,542	31,286,901
Biological assets	3	8,730,596	7,665,876
Investments		232,500	438,000
Prepaid expenses and deposits		1,304,317	2,953,651
Commodity tax receivable		608,980	2,289,252
<b>Total current assets</b>		<b>96,222,008</b>	<b>59,766,676</b>
Promissory note receivable		473,740	473,740
Prepaid expense and deposits		-	347,259
Right-of-use assets	4	3,683,765	3,316,738
Property, plant and equipment	5	106,175,896	108,771,816
Intangible assets	6	19,676,622	20,998,911
Goodwill		16,123,601	16,123,601
<b>Total assets</b>		<b>\$ 242,355,632</b>	<b>\$ 209,798,741</b>
<b>Liabilities</b>			
<b>Current</b>			
Accounts payables and accrued liabilities		\$ 8,065,273	\$ 23,298,678
Current portion of lease liabilities	4	1,525,206	1,466,008
Current portion of loans and borrowings	7	3,971,043	1,870,414
Unearned revenue		-	2,512,967
<b>Total current liabilities</b>		<b>13,561,522</b>	<b>29,148,067</b>
Lease liabilities	4	1,676,924	2,186,487
Loans and borrowings	7	64,191,060	33,958,081
Accrued liabilities		-	125,801
Unsecured convertible debentures	8	9,201,008	8,321,120
<b>Total liabilities</b>		<b>\$ 88,630,514</b>	<b>\$ 73,739,556</b>
<b>Shareholders' equity</b>			
Common shares	9	\$ 163,229,737	\$ 137,646,156
Warrants reserve		10,597,563	10,597,563
Conversion feature	8	1,514,025	1,514,025
Contributed surplus	10	15,325,188	13,980,748
Deficit		(36,941,395)	(27,679,307)
<b>Total shareholders' equity</b>		<b>153,725,118</b>	<b>136,059,185</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 242,355,632</b>	<b>\$ 209,798,741</b>

Going concern (Note 2)

Commitments (Note 15)

See accompanying notes to condensed interim consolidated financial statements

"Angelo Tsebelis" (signed)

Director

"Lincoln Greenidge" (signed)

CFO

**WeedMD Inc.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**  
(in Canadian dollars) (unaudited)

	Note	Three months ended		Nine months ended	
		September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Revenue	13	\$ 7,739,923	7,178,110	\$ 28,522,012	19,439,517
Excise taxes		(1,426,806)	(523,799)	(4,164,674)	(1,469,671)
<b>Revenue, net</b>		<b>6,313,117</b>	<b>6,654,311</b>	<b>24,357,338</b>	<b>17,969,846</b>
Cost of goods sold		<b>6,243,962</b>	4,751,826	<b>23,815,992</b>	11,915,178
<b>Gross profit before changes in fair value</b>		<b>69,155</b>	1,902,485	<b>541,346</b>	6,054,668
Realized fair value amounts included in inventory sold	3	<b>832,153</b>	3,459,001	<b>9,154,170</b>	7,515,164
Unrealized loss (gain) on changes in fair value of biological assets	3	<b>(12,923,388)</b>	6,264,425	<b>(15,773,354)</b>	(16,142,440)
<b>Gross profit (loss)</b>		<b>12,160,390</b>	(7,820,941)	<b>7,160,530</b>	14,681,944
Amortization		<b>801,713</b>	297,490	<b>1,413,069</b>	785,346
Selling, general and administrative	16	<b>5,344,896</b>	3,927,863	<b>16,634,560</b>	11,940,823
Finance costs		<b>789,052</b>	217,371	<b>3,337,375</b>	351,627
Share-based compensation	10	<b>1,308,883</b>	1,035,059	<b>1,928,021</b>	4,392,948
<b>Income (loss) before other income (expenses)</b>		<b>3,915,846</b>	(13,298,724)	<b>(16,152,495)</b>	(2,788,800)
Unrealized (loss) on investment		<b>(1,812)</b>	(158,300)	<b>(32,602)</b>	(557,633)
Realized loss on investment		-	-	<b>(33,579)</b>	-
Interest income		<b>170</b>	54,636	<b>63,037</b>	164,798
Other income	19	<b>4,720,417</b>	-	<b>6,893,551</b>	-
<b>Income (loss) and comprehensive income (loss)</b>		<b>8,634,621</b>	(13,402,388)	<b>(9,262,088)</b>	(3,181,635)
Basic income (loss) per share	11	<b>0.04</b>	(0.12)	<b>(0.04)</b>	(0.03)
Diluted income (loss) per share	11	<b>\$ 0.04</b>	(0.12)	<b>\$ (0.04)</b>	(0.03)

See accompanying notes to the condensed interim consolidated financial statements

**WeedMD Inc.**

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in Canadian dollars)

	Note	Number of Shares	Share Capital	Warrants	Conversion Feature	Contributed Surplus	Deficit	Total
			\$	\$	\$	\$	\$	\$
<b>Balance, January 1, 2019 (Audited)</b>		111,270,564	79,692,641	8,073,109	-	6,613,513	(17,286,946)	77,092,317
Units issued upon property purchase		2,500,000	4,251,692	772,469	-	-	-	5,024,161
Shares issued on option exercise		434,551	406,232	-	-	(145,499)	-	260,733
Shares issued on warrants exercise		225,000	374,590	(104,590)	-	-	-	270,000
Share based compensation		-	-	-	-	4,392,948	-	4,392,948
Broker warrants issued for Unsecured Convertible Debentures		-	-	-	-	-	-	-
Warrants issued on Unsecured Convertible Debentures		-	-	587,293	-	-	-	587,293
Warrant issue costs		-	-	(218,821)	-	-	-	(218,821)
Conversion feature		-	-	-	1,948,727	-	-	1,948,727
Conversion feature issue costs		-	-	-	(274,923)	-	-	(274,923)
Net Income		-	-	-	-	-	(3,181,635)	(3,181,635)
<b>Balance, September 30, 2019 (Unaudited)</b>		<b>114,430,115</b>	<b>84,725,155</b>	<b>10,660,529</b>	<b>1,673,804</b>	<b>10,860,962</b>	<b>(20,468,581)</b>	<b>87,451,869</b>
<b>Balance, January 1, 2020 (Audited)</b>		<b>186,489,559</b>	<b>137,646,156</b>	<b>10,597,563</b>	<b>1,514,025</b>	<b>13,980,748</b>	<b>(27,679,307)</b>	<b>136,059,185</b>
Share based compensation	10	-	-	-	-	1,059,137	-	1,059,137
Common shares issued upon private placement	9	23,079,763	25,000,000	-	-	-	-	25,000,000
Transfer on issuance of shares	9 & 10	692,393	583,581	-	-	(583,581)	-	-
Deferred stock units issued	10	-	-	-	-	868,884	-	868,884
Net loss		-	-	-	-	-	(9,262,088)	(9,262,088)
<b>Balance, September 30, 2020 (Unaudited)</b>		<b>210,261,715</b>	<b>163,229,737</b>	<b>10,597,563</b>	<b>1,514,025</b>	<b>15,325,188</b>	<b>(36,941,395)</b>	<b>153,725,118</b>

See accompanying notes to condensed interim consolidated financial statements

**WeedMD Inc.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

<b>For the nine months ended September 30,</b>	<b>Note</b>	<b>2020</b>	<b>2019</b>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
Cashflows provided by (used in):			
<b>Operating</b>			
Net loss		\$ (9,262,088)	\$ (3,181,635)
Adjustments for:			
Amortization		1,413,069	785,346
Share based compensation		1,928,021	4,392,948
Finance costs		3,337,375	351,627
Fair value changes in biological assets included in inventory sold		9,154,170	7,515,164
Unrealized gain on changes in fair value of biological assets and inventory		(15,773,354)	(16,142,440)
Realized loss on investment		33,579	-
Unrealized loss on investments		32,602	557,633
		<b>(9,136,626)</b>	<b>(5,721,357)</b>
Change in non-cash working capital	12	<b>(19,232,209)</b>	4,987,714
		<b>\$ (28,368,835)</b>	<b>\$ (733,643)</b>
<b>Investing</b>			
Purchase of property, plant, and equipment		<b>(2,356,557)</b>	(50,483,193)
Purchase of intangible assets		<b>(291,261)</b>	-
Disposal of investments		<b>139,319</b>	-
		<b>\$ (2,508,499)</b>	<b>\$ (50,483,193)</b>
<b>Financing</b>			
Proceeds from exercise of warrants		-	270,000
Proceeds from exercise of stock options		-	260,733
Proceeds from convertible debentures, net of issue costs		-	9,932,517
Proceeds from warrant issue, net of issue costs		-	1,919,541
Proceeds from loan financing, net of transaction costs	7	<b>32,118,287</b>	-
Proceeds from issuance of share capital	9	<b>25,000,000</b>	35,431,472
Payment of lease liabilities	4	<b>(1,579,544)</b>	-
Interest paid		<b>(1,637,082)</b>	(1,105,193)
		<b>\$ 53,901,661</b>	<b>\$ 46,709,070</b>
Increase (decrease) in cash		<b>23,024,327</b>	(4,507,766)
<b>Cash, beginning of period</b>		<b>11,296,394</b>	21,323,641
<b>Cash, end of period</b>		<b>\$ 34,320,721</b>	<b>\$ 16,815,875</b>
Cash and cash equivalents		<b>31,125,239</b>	13,703,225
Restricted cash		<b>3,195,482</b>	3,112,650
		<b>\$ 34,320,721</b>	<b>\$ 16,815,875</b>

See accompanying notes to the condensed interim consolidated financial statements



# WeedMD Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

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### 1. Nature of Operations

WeedMD Inc. is the publicly-traded parent company of WeedMD Rx Inc., a federally-licensed producer and distributor of cannabis products for both the medical and adult-use markets. The Company owns and operates three facilities: CX Industries, operating out of the Company's 26,000 square feet ("sq. ft.") indoor facility in Aylmer, Ontario ("Aylmer Facility") which specializes in cannabis extraction and processing, Starseed Medicinal Inc. ("Starseed"), a wholly owned subsidiary of WeedMD Inc. operating out of the Company's 14,850 sq. ft. indoor facility in Bowmanville, Ontario which specializes in cannabis processing and packaging and a 158-acre property with up to 550,000 sq. ft. of state-of-the-art greenhouses and up to 100 acres of outdoor facility located in Strathroy, Ontario. As at September 30, 2020, the Company has 310,850 sq. ft. of indoor (warehouse and hybrid greenhouse) licensed production space and 27 acres of outdoor licensed production space across its sites. WeedMD has a multi-channelled distribution strategy that includes selling directly to medical patients, strategic relationships across the seniors' market and supply agreements with Shoppers Drug Mart as well as six provincial distribution agencies.

The condensed interim consolidated financial statements of WeedMD Inc. for the three and nine months ended September 30, 2020, are comprised of WeedMD Inc. and its wholly-owned subsidiaries: WeedMD Capital Corp., WeedMD Rx Inc. ("WeedMD Rx") along with its wholly-owned subsidiaries WeedMD Rx Ltd., WMD Ventures Inc., 2686912 Ontario Limited and 2686913 Ontario Inc., and Starseed Holdings Inc. along with its wholly-owned subsidiaries Starseed Medicinal Inc. and North Star Wellness Inc. (collectively, "WeedMD" or the "Company"). WeedMD Rx Ltd., WeedMD Capital Corp and WMD Ventures Inc. are currently dormant.

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

WeedMD Rx was incorporated on March 26, 2013, under the Canada Business Corporations Act as 8472106 Canada Inc. On January 7, 2014, the Company filed its articles of amendment, changed its name to WeedMD Rx Inc. and commenced operations. On April 22, 2016, WeedMD obtained its first licence to produce cannabis under the federal Access to Cannabis for Medical Purposes Regulations ("ACMPR") for its Aylmer facility. On April 28, 2017, WeedMD satisfied Health Canada that its growing processes resulted in finished product that met the strict quality control standards and the Good Production Practices ("GPP") set out in the ACMPR. At this time the Company's licence was renewed and amended to add the activity of sale of dried cannabis and the sale of live cannabis plants.

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

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

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

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

### 2. Basis of preparation and Accounting Policies

# WeedMD Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

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### *Basis of Presentation*

a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”). The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and therefore should be read in conjunction with the audited annual consolidated financial statements of WeedMD Inc. for the years ended December 31, 2019 and 2018, which have been prepared in accordance with IFRS.

These condensed interim consolidated financial statements were approved by the Board of Directors for issue on November 30, 2020.

b) Basis of presentation

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

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

c) Basis of consolidation

The financial statements of subsidiaries are included in the condensed interim 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 condensed interim consolidated financial statements.

d) Accounting estimates and judgments

The preparation of these condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed interim 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 policies and methods applied in the condensed interim consolidated financial statements are consistent with those of the consolidated financial statements for the year ended December 31, 2019.

e) COVID-19 Pandemic

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

During the nine months ended September 2020, the pandemic did not have a material impact on the Company’s operations. As at September 30, 2020, we have also not observed any material impairments of our assets or a significant change in the fair value of assets due to the COVID-19 pandemic.

During the second and third quarters of 2020, the Company has experienced a decline in sales relative to the

# WeedMD Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

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first quarter of 2020 which, in part, can be attributed to the economic uncertainty caused by the COVID-19 pandemic. While there have been no material impacts to the company's operations, COVID-19 has resulted in changes to the way the company operates, for example, the number of employees allowed in a grow room. Consequently, the Company has taken steps to minimize any potential impact of the pandemic. These actions include postponement of discretionary capital expenditures, reduction of general and administrative expenses, temporary staff reductions, and enhanced process optimization to increase efficiencies and reduce costs.

During the nine months ended September 30, 2020, the Company participated in the Canada Emergency Wage Subsidy program relating to COVID-19 Pandemic Crisis. The subsidy was approved by the Government of Canada and payments were received after the quarter end. Please refer to Note 19 regarding the amounts recognized as a receivable related to the subsidy.

Due to the rapid developments and uncertainty surrounding COVID-19, the challenges continue within the cannabis and other industries, and therefore it is not possible to predict the impact that COVID-19 will have on certain businesses, financial position, and operating results in the future. In addition, it is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

f) Going concern

These condensed interim consolidated financial statements have been prepared on a going concern basis which presumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of its operations. As of September 30, 2020, the Company had working capital of \$82,660,486 (December 31, 2019 - \$30,618,609) and an accumulated deficit of \$36,941,395 (December 31, 2019 - \$27,679,307). For the nine months ended September 30, 2020, the Company used cash in operating activities of \$28,368,835 (nine months ended September 30, 2019 - \$733,643), resulting primarily from the net loss of \$9,262,088 (nine months ended September 30, 2019 - net loss of \$3,181,635) offset by items not affecting cash such as depreciation, amortization, stock based compensation and write downs. The Company has insufficient cash to fund its planned capital investments and operations for the next twelve months. The Company's ability to continue as a going concern is dependent upon its ability to obtain sufficient additional funding and to generate sufficient revenues and positive cash flows from its operating activities to meet its obligations and fund its planned investments and operations.

On September 23, 2020, the Company announced that it had entered into a credit facility with the LiUNA Pension Fund of Central and Eastern Canada ("LPF"). Under the terms of the Credit Facility, LPF will provide WeedMD \$30 million, maturing in August 2022 and bearing a 15% interest rate, with a payment-in-kind option at the Company's discretion. The financing was closed on September 30, 2020.

On June 30, 2020, the Company signed an amendment to its senior secured credit facility entered into on March 29, 2019 (the "Credit Facility") (the "Credit Agreement Amendment"). Under the terms of the Credit Agreement Amendment, the Conversion Date was amended from June 30, 2020 to June 30, 2021, resulting in a deferral of certain covenants by 12 months, and quarterly principal repayments have been rescheduled to December 31, 2020. The Credit Agreement Amendment also requires the Company maintain liquidity coverage of not less than \$2,000,000 commencing July 1, 2020. In addition, the Company has agreed to a 50 basis point increase in the applicable interest rate margin on the Credit Facility.

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

g) Adoption of New Accounting Pronouncements Effective Jan 1, 2020

# WeedMD Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

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IFRS 3 – Definition of a Business. On October 22, 2018, the IASB issued amendments to IFRS 3 Business Combinations, that seek to clarify whether a transaction results in an asset acquisition or a business combination. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. The definition of a business is narrower which could result in fewer business combinations being recognized. This amendment has been adopted and there is no significant impact on the Company.

### *Accounting Policies*

#### a) Government Grant

The Company recognises government grants when there is reasonable assurance that the Company will comply with the conditions attached to them and the grants will be received. Government grants are recognised in the statement of income as other income on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

#### b) Debt Modification

A substantial debt modification or a debt exchange with substantially different terms is accounted for as an extinguishment of the original liability.

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Please see Note 7: Loans and Borrowings, in the notes to the Financial Statements, for details regarding the modification of debt.

#### c) Transaction costs

Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities classified as Fair Value Through Profit and Loss (“FVTPL”), are added or deducted from the fair value on initial recognition. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities classified as FVTPL are recognized immediately in the statement of operations.

### **3. Inventory and Biological Assets**

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

# WeedMD Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

The Company's biological assets consist of cannabis plants.

	September 30, 2020	December 31, 2019
Dried Cannabis	\$ 25,723,205	\$ 18,032,160
Harvested work in progress	6,951,802	910,087
Extracts		
Resin	3,843,647	8,321,073
Crude Oil	775,899	569,672
Finished Oil	4,082,678	2,524,711
Non-cannabis inventory	1,140,311	929,198
	<b>\$ 42,517,542</b>	<b>\$ 31,286,901</b>

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

### Biological Assets and Inventory

Carrying amount, December 31, 2018	\$ 2,150,076
Change in the fair value less cost to sell due to biological transformation	20,566,094
Biological assets sold	(17,324)
Production costs capitalized	10,373,548
Transferred to inventory upon harvest	(25,406,518)
<b>Carrying amount, December 31, 2019</b>	<b>\$ 7,665,876</b>
Change in the fair value less cost to sell due to biological transformation	15,773,354
Biological assets sold	-
Production costs capitalized	8,810,213
Transferred to inventory upon harvest	(23,518,847)
<b>Carrying amount, September 30, 2020</b>	<b>\$ 8,730,596</b>

All of the plants are to be harvested as agricultural produce, and are classified as either indoor or outdoor grow. Indoor grow plants are up to fourteen weeks from harvest (December 31, 2019: up to fifteen weeks) and the life cycle is estimated to be ninety three to one hundred forty three days (December 31, 2019: ninety-seven to one hundred seventy-one days). Outdoor grow plants are up to four weeks from harvest (December 31, 2019: Nil) and the life cycle is estimated to be one hundred forty seven to one hundred seventy five days (December 31, 2019: Nil days). The Company did not hold plants to be sold as live plants at September 30, 2020 and December 31, 2019.

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

In accordance with IFRS, the Company is required to record its biological assets at fair value less cost to sell. At each reporting period, each harvest is adjusted to full fair value less costs to complete and sell based on the actual yield in grams for completed harvests and estimated yield for harvests in progress. Costs incurred during the biological transformation process are capitalized to biological assets when the costs are incurred, fair value adjustments are recorded to reflect the difference between the capitalized costs and fair value less costs to complete and sell. Cannabis which has been harvested is transferred to inventory at the full biological asset carrying value, comprised of capitalized costs and fair value adjustments, for each harvest.

In determination of the Fair Value of Biological Assets, the Company considers the following:

- The product of the expected yield in grams per plant and the expected selling price per gram;
- The expected selling price less selling costs and remaining costs to be incurred in order to complete the harvest and bring the harvested product to finished inventory; and

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## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

- The applied discount rate based on the number of days that the Company expects it will take to sell the yield from the biological assets.

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

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

The Company estimates harvest yields for the plants at various stages of growth. As of September 30, 2020, it is expected that the Company's biological assets that are to be harvested from its greenhouse facility will yield approximately 6,157,924 grams (December 31, 2019: 4,481,165 grams) with a value of \$ 5,669,200 (December 31, 2019: \$7,665,876), based on the current stage of growth. The weighted average selling price used in the valuation is \$3.71 per gram (December 31, 2019: \$5.02 per gram) and is based on a normalized historical average selling price, adjusted based on expected future sales mix, of all dried cannabis sales and can vary based on the different strains produced and grades of cannabis. The Company estimates percentage of costs incurred based on the stage of growth, as costs are not incurred evenly throughout the grow cycle. Plants on hand at September 30, 2020, have incurred an average of 51 % of costs to harvest (December 31, 2019: 37%).

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 input, and also provides the estimated impact of a reasonable increase/decrease that each input would have on the fair value of the Company's greenhouse biological assets.

	September 30, 2020 Valuation inputs	December 31, 2019 Valuation inputs	Percentage change used in sensitivity analysis	Change resulting from reasonable variance as at September 30, 2020	Change resulting from reasonable variance as at December 31, 2019
<b>Selling price</b>	\$0.18 to \$6.47	\$1.00 - \$7.24	10%	987,023	1,816,451
<b>Yield by plant</b>	104 grams	86 grams	15%	855,387	1,152,764
<b>Increase in average life cycle</b>	118 days	110 days	10%	609,070	172,532
<b>Decrease in average life cycle</b>	118 days	110 days	10%	673,291	149,563
<b>Percentage of costs to harvest incurred to date</b>	51%	37%	10%	108,301	187,059
<b>Average days to sell</b>	384 days	370 days	15%	172,387	188,755

As of September 30, 2020, it is expected that the Company's biological assets that are to be harvested from its outdoor production will yield approximately 11,027,893 grams (December 31, 2019: nil) with a value of \$ 3,061,397 (December 31, 2019: nil). Selling prices used in the valuation are based on a normalized historical average selling

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## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

price for cannabis produced in the greenhouse, adjusted based on expected future sales mix of \$0.53 of all dried cannabis sales and can vary based on the different strains produced. Plants on hand at September 30, 2020, have incurred an average of 87 % of costs to harvest.

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

	September 30, 2020	Percentage change used in sensitivity analysis	Change resulting for reasonable variance as at September 30, 2020
	Actual		
<b>Selling price</b>	\$0.53	10%	453,066
<b>Yield by plant</b>	707 grams	15%	459,210
<b>Increase in average life cycle</b>	175 days	10%	316,972
<b>Decrease in average life cycle</b>	175 days	10%	307,639
<b>Percentage of costs to harvest incurred to date</b>	87%	10%	13,667
<b>Average days to sell</b>	239 days	15%	59,487

#### 4. Right-of-Use Assets and Lease Obligations

The following is a breakdown of the carrying amount of the Right-of-Use assets as at September 30, 2020:

	Office Space Queen St.	Office Space 484 Richmond	Building Sprung Greenhouse	Vehicle Truck	Starseed Office Space/ Bowmanville	Total
<b>Cost</b>						
As at, January 1, 2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	504,605	-	1,762,359	7,968	1,870,154	4,145,086
As at, December 31, 2019	504,605	-	1,762,359	7,968	1,870,154	4,145,086
Additions	-	944,521	-	-	-	944,521
<b>As at September 30, 2020</b>	504,605	944,521	1,762,359	7,968	1,870,154	5,089,607
<b>Depreciation</b>						
As at, January 1, 2019	-	-	-	-	-	-
Depreciation	95,949	-	29,373	5,625	697,401	828,348
As at, December 31, 2019	95,949	-	29,373	5,625	697,401	828,348
Depreciation	75,691	62,968	66,088	2,343	370,404	577,494
<b>As at September 30, 2020</b>	171,640	62,968	95,461	7,968	1,067,805	1,405,842
<b>Net book value</b>						
As at December 31, 2019	408,656	-	1,732,986	2,343	1,172,753	3,316,738
<b>As at September 30, 2020</b>	\$ 332,965	\$ 881,553	\$ 1,666,898	\$ -	\$ 802,349	\$ 3,683,765

The following is a breakdown of the carrying amount of the Lease obligations as at September 30, 2020:

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## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

	Office Space 232 Central Ave.	Office Space Queen St.	Office Space 484 Richmond	Building Sprung Greenhouse	Vehicle Truck	Starseed Office Space/ Bowmanville	Total
<b>Opening lease liability, January 1, 2019</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	322,139	468,341	-	1,653,177	7,969	-	2,451,626
Acquisition	-	-	-	-	-	1,408,206	1,408,206
Interest	15,973	22,015	-	56,413	151	-	94,552
Payments	(40,250)	(70,654)	-	-	(5,970)	-	(116,874)
Modification	(297,862)	-	-	-	-	-	(297,862)
Termination liability	112,847	-	-	-	-	-	112,847
<b>Ending lease liability, December 31, 2019</b>	\$ 112,847	\$ 419,702	\$ -	\$ 1,709,590	\$ 2,150	\$ 1,408,206	\$ 3,652,495
Additions	-	-	944,521	-	-	-	944,521
Interest	-	16,899	35,804	76,546	11	55,398	184,658
Payments	(7,500)	(86,751)	(76,180)	(977,368)	(2,146)	(429,599)	(1,579,544)
<b>Ending lease liability, September 30, 2020</b>	\$ 105,347	\$ 349,850	\$ 904,145	\$ 808,768	\$ 15	\$ 1,034,005	\$ 3,202,130
Short Term Portion	\$ 15,000	\$ 97,973	\$ 65,306	\$ 808,768	\$ 15	\$ 538,144	\$ 1,525,206
Long Term Portion	\$ 90,347	\$ 251,877	\$ 838,839	\$ -	\$ -	\$ 495,861	\$ 1,676,924

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

Within 1 year	\$ 1,715,268
Within 2 years	766,050
Within 3 years	282,862
Within 4 years	177,291
Beyond 4 years	712,649
	<b>\$ 3,654,119</b>

## 5. Property, Plant and Equipment



# WeedMD Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

Cost	Balance at December 31, 2019	Additions	Transfers	Acquisition	Disposal	Balance at September 30, 2020
Security equipment	\$ 3,297,634	\$ 29,259	\$ -	\$ -	\$ -	\$ 3,326,893
Equipment	16,213,312	349,103	-	-	-	16,562,415
Furniture & fixtures	395,766	90,785	-	-	-	486,551
Fence & signage	663,648	-	-	-	-	663,648
Land	3,808,002	-	-	-	-	3,808,002
Building	86,063,658	1,883,903	-	-	-	87,947,561
Leasehold improvements and greenhouse	1,837,322	3,507	-	-	-	1,840,829
	\$ 112,279,342	\$ 2,356,557	\$ -	\$ -	\$ -	\$ 114,635,899

### Accumulated Amortization

	Balance at December 31, 2019	Additions	Transfers	Acquisition	Disposal	Balance at September 30, 2020
Security equipment	\$ (780,862)	\$ (226,760)	\$ -	\$ -	\$ -	\$ (1,007,622)
Equipment	(1,575,100)	(2,024,250)	-	-	-	(3,599,350)
Furniture & fixtures	(98,456)	(44,280)	-	-	-	(142,736)
Fence & Signage	(48,625)	(34,339)	-	-	-	(82,964)
Building	(1,003,033)	(2,097,737)	-	-	-	(3,100,770)
Leasehold improvements and greenhouse	(1,450)	(525,111)	-	-	-	(526,561)
	\$ (3,507,526)	\$ (4,952,477)	\$ -	\$ -	\$ -	\$ (8,460,003)
<b>Net book value</b>	<b>\$ 108,771,816</b>	<b>\$ (2,595,920)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 106,175,896</b>

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

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

## 6. Intangible Assets

# WeedMD Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and nine months ended September 30, 2020 and 2019

<b>Cost</b>	<b>Balance at December 31, 2019</b>		<b>Additions</b>	<b>Acquisition</b>	<b>Balance at September 30, 2020</b>	
Software	\$	1,555,018	\$ 291,261	\$ -	\$	1,846,279
Brands and trademarks		2,188,498	-	-		2,188,498
Customer relationships		1,623,278	-	-		1,623,278
Licences		15,735,600	-	-		15,735,600
	\$	21,102,394	\$ 291,261	\$ -	\$	21,393,655

<b>Accumulated Amortization</b>	<b>Balance at December 31, 2019</b>		<b>Additions</b>	<b>Acquisition</b>	<b>Balance at September 30, 2020</b>	
Software	\$	(51,404)	\$ (14,895)	\$ -	\$	(66,299)
Brands and trademarks		-	(162,735)	-		(162,735)
Customer relationships		-	(173,923)	-		(173,923)
Licences		(52,079)	(1,261,997)	-		(1,314,076)
	\$	(103,483)	\$ (1,613,550)	\$ -	\$	(1,717,033)
<b>Net book value</b>	\$	20,998,911	\$ (1,322,289)	\$ -	\$	19,676,622

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

<b>Accumulated Amortization</b>	<b>Balance at December 31, 2018</b>		<b>Additions</b>	<b>Acquisition</b>	<b>Balance at December 31, 2019</b>	
Software	\$	-	\$ (51,404)	\$ -	\$	(51,404)
Brands and trademarks		-	-	-		-
Customer relationships		-	-	-		-
Licences		-	(52,079)	-		(52,079)
	\$	-	\$ (103,483)	\$ -	\$	(103,483)
<b>Net book value</b>	\$	372,377	\$ 1,097,853	\$ 19,528,681	\$	20,998,911

## 7. Loans and Borrowings

# WeedMD Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

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

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

The Credit Facilities mature March 29, 2022 (“Maturity Date”) and bear interest on a tiered rate based on total funded debt to EBITDA. The Interest rate will range from approximately 1% to 2% above Canadian prime rate. Total borrowing costs for the Credit Facilities were \$0.4 million. Under the terms of the Credit Facilities, the Company is also subject to certain customary financial and non-financial covenants and restrictions.

In addition, the Credit Facilities are secured by a first priority lien on substantially all of the Company’s personal and real property and assets. In addition, Facility 2 and 3 require \$3.0 million of the proceeds to be held as a debt service reserve and will be released in eighteen months upon satisfactory review or when the Company’s twelve-month trailing EBIDTA less cash taxes and unfunded capital expenditures exceed \$10 million.

Facility 1 requires interest only payments with the balance due on the Maturity Date. The outstanding balance at any point shall not exceed the Borrowing Base. As at August 10, 2020, a total of \$2,973,135 had been drawn from the Revolver, which was outstanding as at September 30, 2020.

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

Facility 3 requires interest only payments until the Conversion Date, at which point the principal will become payable and will amortize over five years with the remaining due upon the Maturity Date. As at September 30, 2020, the Company has drawn \$3,000,000 from Facility 3.

On September 23, 2020, the Company had entered into a credit facility with the LiUNA Pension Fund of Central and Eastern Canada (“LPF”). Under the terms, LPF provided the Company \$30 million, maturing in August 2022 and bearing a 15% interest rate per annum and shall accrue daily and be payable monthly in arrears, with a payment-in-kind option at the Company’s discretion, to capitalize interest in lieu of cash payment of interest. If an event of default has occurred and is continuing, the loan shall bear interest, both before and after judgment, at a rate per annum of 20%. The financing was closed on September 30, 2020. The transaction cost of \$0.9 million was adjusted against the loan and will be accreted over the terms of the loan. The loan is secured against the borrower guarantee, liens on personal property, pledge of shares, lien over real property, leased property, insurance and shareholder loan.

	Facility 1	Facility 2	Facility 3	Term loan	Transaction costs	Total
Proceeds	\$ -	\$ 33,150,000	\$ 3,000,000	\$ -	\$ (418,611)	\$ 35,731,389
Interest	-	1,502,285	126,466	-	-	1,628,751
Accretion	-	-	-	-	97,106	97,106
Interest payments	-	(1,334,764)	(111,306)	-	-	(1,446,070)
Interest payable	-	(167,521)	(15,160)	-	-	(182,681)
Balance, December 31, 2019	\$ -	\$ 33,150,000	\$ 3,000,000	\$ -	\$ (321,505)	\$ 35,828,495
Proceeds	2,973,135	-	-	30,000,000	(854,848)	32,118,287
Interest	19,833	1,520,756	132,388	-	-	1,672,977
Modification	-	113,349	-	-	-	113,349
Accretion	-	-	-	-	101,972	101,972
Interest payments	(19,833)	(1,520,756)	(132,388)	-	-	(1,672,977)
Interest payable	-	-	-	-	-	-
<b>Balance, September 30, 2020</b>	<b>\$ 2,973,135</b>	<b>\$ 33,263,349</b>	<b>\$ 3,000,000</b>	<b>\$ 30,000,000</b>	<b>\$ (1,074,381)</b>	<b>\$ 68,162,103</b>

Current portion of loans and borrowings	3,971,043
Long term portion of loans and borrowings	64,191,060

Under the Credit Facilities until the Conversion Date the Company must maintain a total funded debt to tangible net

# WeedMD Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

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

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

For the nine months ended September 30, 2020, the Company was compliant with the applicable covenants. On June 30, 2020, the company signed an amendment to its senior secured credit facility entered into on March 29, 2019 (the "Credit Facility") (the "Credit Agreement Amendment"). Under the terms of the Credit Agreement Amendment, the Conversion Date was amended from June 30, 2020 to June 30, 2021, resulting in a deferral of certain covenants by 12 months, and quarterly principal repayments have been rescheduled to December 31, 2020. The Credit Agreement Amendment also requires the Company maintain liquidity coverage of not less than \$2,000,000 commencing July 1, 2020. In addition, the Company has agreed to a 50 basis point increase in the applicable interest rate margin on the Credit Facility.

Due to the modification of interest and principal repayment, the net present value of changes to the future contractual cash flows adjusts the carrying amount of the original debt with the difference immediately recognized in profit or loss. The adjusted carrying amount is then amortized over the remaining term of the (modified) liability using the original effective interest rate.

### 8. Unsecured Convertible Debentures

	Debtures	Warrants	Conversion Feature	Total
Balance, December 31, 2018	\$ -	\$ -	\$ -	-
Issuance - September 25, 2019	8,258,713	1,447,359	1,558,694	11,264,766
Accretion of debentures	283,853	-	-	283,853
Conversion of debentures	(221,446)	-	(44,669)	(266,115)
Balance, December 31, 2019	\$ 8,321,120	\$ 1,447,359	\$ 1,514,025	\$ 11,282,504
Accretion of debentures	879,888	-	-	879,888
<b>Balance, September 30, 2020</b>	<b>\$ 9,201,008</b>	<b>\$ 1,447,359</b>	<b>\$ 1,514,025</b>	<b>\$ 12,162,392</b>

#### 2019 convertible debenture

On September 25, 2019, the Company closed a bought-deal short-form prospectus offering of 13,115 convertible unsecured debentures units (the "2019 Unsecured Convertible Debentures") at a price per 2019 Unsecured Convertible Debenture of \$1,000 for gross proceeds of \$13,115,000 (the "Offering") with a syndicate of underwriters. The 2019 Unsecured Convertible Debentures bear interest at a rate of 8.5% per annum from the date of issue, payable semi-annually in arrears on June 30 and December 31 of each year. The 2019 Unsecured Convertible Debentures have a maturity date of September 25, 2022 (the "Maturity Date"). The 2019 Unsecured Convertible Debentures are convertible at the option of the holder into Shares of the Company at any time prior to the earlier of (i) close of business on the Maturity Date, and (ii) the business day immediately preceding the date specified by the Company for redemption of the 2019 Unsecured Convertible Debentures upon a change in control at a conversion price of \$1.60 per Share (the "Conversion Price").

The Company may force the conversion of the principal amount of the then outstanding Convertible Debentures at the Conversion Price on not more than 60 days' and not less than 30 days' notice should the daily volume weighted average trading price of the Common Shares on the TSXV be greater than \$3.20 for the consecutive 20 trading days preceding the notice.

Upon a Change of Control of the Company, holders of the 2019 Unsecured Convertible Debentures will have the right to require the Company to repurchase their Convertible Debentures, in whole or in part, on the date that is 30 days following the giving of notice of the Change of Control, at a price equal to 104% of the principal amount of the Convertible Debentures then outstanding plus accrued and unpaid interest thereon (the "Offer Price").

If 90% or more of the principal amount of the Convertible Debentures outstanding on the date of the notice of the

# WeedMD Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

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Change of Control have been tendered for redemption, the Company will have the right to redeem all of the remaining Convertible Debentures at the Offer Price.

In connection with the Company's 2019 Unsecured Convertible Debenture, the Company issued 8,196,875 warrants to the holders of the 2019 Unsecured Convertible Debentures. Each warrant is exercisable into one Share at the Conversion Price (\$1.80) for a period of 36 months following the closing of the Offering. The fair value of the warrants was estimated as \$3,977,461 with reference to the Monte Carlo option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 76.74%; (iii) risk-free rate of 1.53%; (iv) unit price of \$1.33; (v) forfeiture rate of nil; (vi) expected life of three years.

Expected volatility is based on the historical volatility of other companies that the Company considers comparable. The Monte Carlo option pricing model was deemed applicable to these warrants and the conversion feature as they have accelerated vesting terms based on the volume weighted average trading price of the outstanding common shares on the TSX Venture Exchange. The Black Scholes option pricing model does not address the accelerated vesting terms, and potential change in the time to the warrant's and conversion feature's expiry.

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

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

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

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

### **9. Share Capital**

#### **Authorized**

Unlimited common shares

# WeedMD Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

	Note	Number of shares	Amount
<b>Balance as at December 31, 2018</b>		<b>111,270,564</b>	<b>\$ 79,692,641</b>
Conversion of debentures		218,750	266,115
Shares issued for stock options exercised		434,551	406,232
Shares issued for property purchase		2,500,000	4,251,692
Shares issued for warrants exercised		232,500	387,078
Shares issued on acquisition		71,833,194	52,642,398
Balance as at December 31, 2019		186,489,559	137,646,156
Common shares issued upon private placement		23,079,763	25,000,000
Transfer on issuance of shares		692,393	583,581
Balance as at September 30, 2020		210,261,715	\$ 163,229,737

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

### 10. Contributed Surplus

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

During the nine months ended September 30, 2020, the Company received services from a vendor in connection with the Acquisition in exchange for 692,393 common shares of the Company. The shares to be issued were valued at \$583,581, based on the value of services received.

On July 17, 2020, the Company granted 2,469,500 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 \$0.40, until July 16, 2025. 832,167 of the options vest over four months, 832,167 of the options vest over eight month, 832,166 of the options vest over 12 months, The fair value of the Options has been estimated using the Black-Scholes warrant pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) expected volatility of 106.6%; (iii) risk-free interest rate of 0.35%; (iv) share price of \$0.41; (v) forfeiture rate of nil; and (vi) expected life of 60 months. The total fair value of the options is \$781,000. Total share-based compensation for the period ended September 30, 2020 is \$238,639.

On July 20, 2020, the Company authorized the grant of an aggregate of 2,688,314 deferred share units ("DSUs") to certain directors and officers of the Company. Of the DSUs granted, 1,441,647 will vest immediately, 623,334 will vest on December 8, 2020, and 623,333 will vest on June 8, 2021. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be \$1,048,442. Total share-based compensation for the period ended September 30, 2020 is \$740,568.

On August 5, 2020, the Company authorized the grant of an aggregate of 356,434 deferred share units ("DSUs") to certain directors of the Company as compensation for their services. The DSUs will vest immediately and are granted in lieu of cash compensation for services rendered during the first and second quarter of 2020. The grant date fair value of the DSUs equals the fair market value of the corresponding shares at the grant date. Management estimates the total fair value of the DSUs to be \$128,316. Total share-based compensation for the period ended September 30, 2020 is \$128,316.

As at September 30, 2020, the Company's outstanding stock options consists of the following:

# WeedMD Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

	Number of options	Contributed surplus	Exercise price
<b>Balance as at December 31, 2018</b>	<b>8,023,503</b>	<b>\$ 6,613,513</b>	
Stock options granted	2,868,000	1,998,632	\$1.53
Stock options granted	300,000	232,196	\$2.00
Stock options granted	505,000	198,155	\$1.52
Stock options granted on acquisition	5,674,875	1,983,147	\$0.98
Stock options granted on acquisition	898,011	126,764	\$3.26
Stock options exercised	(434,551)	(145,479)	
Share based compensation	-	2,333,776	
Stock options cancelled	(802,312)	-	
Stock options forfeited	(625,000)	-	
Stock options expired	(62,500)	-	
Restricted stock units issued	-	40,733	
Deferred stock units issued	-	15,730	
Shares to be issued for services	-	583,581	
<b>Balance as at December 31, 2019</b>	<b>16,345,026</b>	<b>\$ 13,980,748</b>	
Stock options cancelled	(1,045,837)	-	
Stock options forfeited	(2,265,205)	-	
Stock options expired	(598,598)	-	
Transfer on issuance of shares	-	(583,581)	
Share based compensation	-	820,498	
Stock options granted	2,469,500	238,639	
Deferred stock units issued	-	868,884	
<b>Balance as at September 30, 2020</b>	<b>14,904,886</b>	<b>\$ 15,325,188</b>	

At September 30, 2020, 14,904,886 (December 31, 2019: 16,345,026) Shares have been reserved for stock options as follows:

Exercise price	Number of options outstanding	Number of options exercisable	Remaining life (years)	Weighted average remaining life (years)	Weighted average exercise price
\$0.60	912,000	912,000	0.53	0.03	
\$2.36	1,223,000	1,223,000	2.28	0.19	
\$1.80	500,000	437,500	2.63	0.09	
\$1.74	100,000	87,500	2.71	0.02	
\$2.07	800,000	762,500	2.93	0.16	
\$1.95	220,000	162,500	3.03	0.04	
\$1.53	1,527,500	828,834	3.27	0.34	
\$2.00	300,000	250,000	1.54	0.03	
\$1.52	280,000	46,667	3.78	0.07	
\$0.98	5,674,875	5,674,877	2.09	0.80	
\$3.26	898,011	672,937	3.08	0.19	
\$0.40	2,469,500	624,125	4.79	0.79	
	<b>14,904,886</b>	<b>11,682,439</b>		<b>2.75</b>	<b>\$1.30</b>

### 11. Loss per Share



# WeedMD Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

	For the three months ended, September 30,		For the nine months ended, September 30,	
	2020	2019	2020	2019
<b>Basic and diluted loss per share:</b>				
Income (loss) attributable to holders of shares	\$ 8,634,621	\$ (13,402,388)	\$ (9,262,088)	\$ (3,181,635)
Weighted average number of shares outstanding	210,261,715	114,411,686	207,225,126	113,356,494
	0.04	(0.12)	(0.04)	(0.03)
<b>Diluted loss per share:</b>				
Loss attributable to holders of shares	\$ 8,634,621	(13,402,388)	(9,262,088)	\$ (3,181,635)
Weighted average number of shares outstanding	210,261,715	115,651,791	207,225,126	114,596,600
	0.04	(0.12)	(0.04)	(0.03)

For periods where WeedMD records a loss, the company calculates diluted loss per share using the basic weighted average number of shares. If the diluted weighted average number of shares were used, the result would be a reduction in the loss, which would be anti-dilutive. Consequently, for the nine months ended September 30, 2020, the company calculated loss per share using 207,225,126 (nine months ended September 30, 2019 – 113,356,494) common shares.

### 12. Change in Non-Cash Operating Working Capital

	2020	2019
Trade and other receivables	\$ (4,670,750)	\$ (5,888,707)
Prepaid expenses and deposits	1,996,593	130,888
Inventory and biological assets	54,275	(5,089,433)
Commodity tax receivable	1,680,272	4,540,977
Accounts payable and accrued liabilities	(15,779,632)	4,793,989
Deposit payable	-	6,500,000
Unearned revenue	(2,512,967)	-
<b>Net Changes in Non-Cash Working Capital</b>	<b>\$ (19,232,209)</b>	<b>\$ 4,987,714</b>

### 13. Revenue



# WeedMD Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
<b>Direct to patient</b>				
Dried cannabis	1,628,245	339,777	7,897,613	963,048
Cannabis plants and seeds	-	13,988	-	25,415
Cannabis extracts	951,810	118,546	3,139,317	378,130
Others	12,773	11,322	37,943	12,240
	<b>2,592,828</b>	<b>483,633</b>	<b>11,074,873</b>	<b>1,378,833</b>
<b>Wholesale</b>				
Dried cannabis	5,066,809	6,622,187	17,106,563	17,273,359
Cannabis plants and seeds	-	70,000	-	70,000
Cannabis extracts	80,286	-	340,576	709,145
Others	-	2,290	-	8,180
	<b>5,147,095</b>	<b>6,694,477</b>	<b>17,447,139</b>	<b>18,060,684</b>
<b>Total Revenue</b>	<b>7,739,923</b>	<b>7,178,110</b>	<b>28,522,012</b>	<b>19,439,517</b>

For the period ended September 30, 2020, 52% of the revenue is attributable to 2 customers (September 30, 2019: 2 customers), each represented more than 10% of the Company's revenue.

### 14. Related Party Transactions

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

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

The balances outstanding are as follows:

	September 30, 2020	December 31, 2019
Accounts payable and accrued liabilities	\$ 157,094	\$ 172,163

For the nine months ended September 30, 2020 and 2019, total remuneration and service fees paid to key management is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Share based Compensation	\$ 729,767	\$ 360,674	\$ 729,767	\$ 979,570
Salaries	336,308	128,787	824,966	382,906
Bonuses	-	128,667	110,000	357,959
	<b>\$ 1,066,075</b>	<b>\$ 618,128</b>	<b>\$ 1,664,733</b>	<b>\$ 1,720,435</b>

During the nine months ended September 30, 2020, 3,044,748 stock options (nine months ended September 30, 2019: 597,500) were issued with fair value of \$1,176,758 (nine months ended September 30, 2019: \$616,590).

### 15. Commitments

# WeedMD Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

The commitment schedule for all future committed payments excluding lease payments disclosed in Note 4 is outlined in the table below:

Within 1 year	\$	12,689
Within 2 years		11,975
Within 3 years		9,833
Within 4 years		9,038
Greater than 4 years		2,479
	\$	46,014

### 16. Selling, General and Administrative

	For the three months ended September 30,		For the nine months ended September 30	
	2020	2019	2020	2019
Salaries and benefits	\$ 3,270,461	1,378,481	\$ 10,389,327	3,879,524
Rent & occupancy	119,631	148,348	277,601	636,932
Office & Administrative	934,992	970,573	3,795,669	3,246,224
Professional fees	504,461	188,994	1,078,464	485,781
Travel & accommodations	19,607	161,343	175,627	531,305
Selling, marketing and promotion	495,744	1,080,124	917,872	3,161,057
Total	\$ 5,344,896	3,927,863	\$ 16,634,560	11,940,823

### 17. Financial Instruments

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

#### (a) Fair value

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

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

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

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

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

# WeedMD Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

	Level 1	Level 2	Level 3	Total
Unsecured convertible debentures	\$ -	\$ -	\$ 9,201,008	\$ 9,201,008
Share purchase warrants	10,597,563	-	-	10,597,563
Investments in equity instruments	-	232,500	-	232,500
Loans and borrowings	68,162,103	-	-	68,162,103
	<b>\$ 78,759,666</b>	<b>\$ 232,500</b>	<b>\$ 9,201,008</b>	<b>\$ 88,193,174</b>

### (b) Market risk

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

### (c) Credit risk

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

The Company is exposed to credit risk on its trade and other receivables which has a balance of \$8,017,175 (December 31, 2019: \$3,346,425) and on the promissory note receivable which is owing from Pioneer Cannabis, an investee of the Company, and has a balance of \$963,917 (December 31, 2019: 963,917), of which \$ 490,177 is current (December 31, 2019: \$490,177).

As at September 30, 2020, 60% (December 31, 2019: 45%) of the Company's trade and other receivables balance, excluding the amounts owing from Pioneer Cannabis, is owing from two customers (December 31, 2019: 2 customers). Both representing more than 10% of trade and other receivables, excluding amounts owing from Pioneer Cannabis.

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

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

The definition of items that are past due is determined by reference to payment terms agreed to with individual customers, which are normally within 0 to 90 days. Credit risk is low as receivables from LPs are typically received in a short period of time with a strong history of collection, and remaining receivables are due from Government bodies. As at September 30, 2020 the Company has \$Nil of impaired receivables (December 31, 2019: \$1,951,888). Management expects credit risk to be minimal.

### (d) Foreign exchange risk

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

# WeedMD Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2020 and 2019

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### (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 \$13,561,522 (December 31, 2019: \$29,148,067) with cash and cash equivalents on hand of \$31,125,239 (December 31, 2019: \$8,183,744). In the opinion of management, the liquidity risk exposure to the Company is moderate. The Company will manage the risk exposure through increased future sales, accessing the Revolving Credit Facility, and if necessary, raise additional capital through debt and/or equity.

### (f) Cash flow risk

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

## 18. Capital Management

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

- (i) To safeguard the Company's assets and ensure the Company's ability to continue as a going concern; and
- (ii) To raise sufficient capital to achieve the ongoing business objectives including funding of future growth opportunities and meeting its general and administrative expenditures.

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

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

## 19. Other income

Other income includes \$3,906,868 wage subsidy received during the nine months period ended September 30, 2020, from Government of Canada pursuant to Canada Emergency Wage Subsidy program relating to Covid-19 Pandemic Crisis. The amount is included as a receivable from the Government and cash and cash equivalent.

Other income also includes \$2,985,901 related to a receivable which was previously written off.

The remainder of the amount included in other income relates to miscellaneous receipts.