VODIS PHARMACEUTICALS INC.

CONDENSED CONSOLIDATED

INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED DECEMBER 31, 2018

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF THE INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed consolidated interim financial statements of Vodis Pharmaceuticals Inc. (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

VODIS PHARMACEUTICAL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (unaudited)
(Expressed in Canadian Dollars)

	December 31, 2018	March 31, 2018
	$	$
ASSETS		
Current assets		
Cash	12,678	439,369
Receivables (Note 4)	124,824	125,793
Receivable for share subscription	-	62,500
Receivables from related parties (Note 10)	10,000	10,000
Prepaid expenses and deposits	34,486	17,482
Total current assets	181,988	655,144
Non-current assets		
Capital assets (Note 5)	1,981,094	1,607,302
Investment property (Note 6)	1,751,459	1,731,803
	3,732,553	3,339,105
TOTAL ASSETS	3,914,541	3,994,249
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	675,536	776,608
Accounts payable to related parties (Note 10)	326,819	256,793
Share subscriptions in advance	-	399,235
Loans payable and accrued interest (Note 8)	15,000	210,500
Finance lease liability (Note 9)	76,174	57,540
	1,093,529	1,700,676
Non-current liabilities		
Finance lease liability (Note 9)	1,648,299	1,602,769
Total Liabilities	2,741,828	3,303,445
EQUITY		
Share capital (Note 11)	12,937,749	10,556,873
Share subscriptions and obligations (Note 11)	71,854	71,854
Equity reserves	4,330,800	3,222,559
Deficit	(16,167,690)	(13,160,482)
Total Equity	1,172,713	690,804
TOTAL LIABILITIES AND EQUITY	3,914,541	3,994,249

Nature and continuance of operations (Note 1)

Approved and authorized by the Board on February 28, 2019

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

VODIS PHARMACEUTICAL INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS (unaudited)
(Expressed in Canadian Dollars)

	THREE MONTHS ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,	
	2018	2017	2018	2017
	$	$	$	$
OPERATING EXPENSES				
Consulting (Note 10)	171,338	399,703	495,876	1,273,122
Depreciation (Note 5,6)	121,449	124,707	313,506	333,908
Filing and regulatory fees	4,712	4,469	14,004	17,836
Interest expense (Note 8)	23,308	24,966	81,133	109,063
Office and general	68,591	66,418	227,791	223,527
Professional fees	62,813	30,702	148,290	224,082
Rent	48,000	-	107,717	-
Salaries and benefits	19,893	-	43,899	-
Shareholder communication and investor relations	21,785	101,501	53,884	150,742
Share-based payments (Note 11)	311,933	211,824	463,412	822,574
Travel	26,345	16,866	65,254	66,265
Operating expenses	(880,167)	(981,156)	(2,014,766)	(3,221,119)
Other items				
Loss on settlement of debt (Note 11)	(1,148,325)	-	(1,148,325)	-
Loss for the period	(2,028,492)	(981,156)	(3,163,091)	(3,221,119)
Other comprehensive income (loss)				
Item that may be reclassified to profit or loss:				
Exchange difference on translation of subsidiary	46,191	(6,130)	49,258	(46,170)
Loss and comprehensive loss	(1,982,301)	(987,286)	(3,113,833)	(3,267,289)
Basic and diluted loss per common share	(0.04)	(0.03)	(0.07)	(0.11)
Weighted average number of common shares outstanding	55,046,008	31,837,833	44,340,869	29,655,677

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

VODIS PHARMACEUTICALS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (unaudited)
(Expressed in Canadian Dollars)
NINE MONTHS ENDED DECEMBER 31,

	2018	2017
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	(3,163,091)	(3,221,119)
Items not affecting cash:		
Write off of uncollectible goods and services tax	-	12,177
Loss on debt settlement	1,148,325	-
Share-based payments	463,412	822,574
Depreciation	313,506	333,908
Interest and loan fees	12,000	23,750
Consulting fees to be settled in shares	-	71,854
Foreign exchange	(613)	(2,716)
Changes in non-cash working capital items:		
Receivables	63,469	(19,787)
Prepaids	(17,004)	(20,959)
Accounts payable and accrued liabilities	(131,628)	349,181
Cash used in operating activities	(1,311,624)	(1,651,137)
CASH FLOWS FROM INVESTING ACTIVITIES		
Leasehold improvements and equipment	(366,341)	(365,860)
Cash used in investing activities	(366,341)	(365,860)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from private placement (net of share issuance costs)	1,185,469	1,432,700
Proceeds from exercise of warrants	-	46,177
Share subscriptions	-	30,000
Payables to related parties	96,526	470,732
Payment of finance lease liability	(30,721)	(52,342)
Cash provided by financing activities	1,251,274	1,927,267
Change in cash during the period	(426,691)	(89,730)
Cash, beginning of period	439,369	328,932
Cash, end of period	12,678	239,202

Supplemental disclosures with respect to cash flows (Note 15)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

VODIS PHARMECEUTICALS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (unaudited)
(Expressed in Canadian Dollars)
NINE MONTHS ENDED DECEMBER 31,

	Share Capital			Reserves				
	Number of shares outstanding	Amount	Share subscriptions and obligations	Share-based payments and warrants	Foreign currency	Total reserves	Deficit	Total equity
		$	$	$	$	$	$	$
Balance at March 31, 2017	**28,558,637**	**7,975,215**	**-**	**2,396,407**	**(34,569)**	**2,361,838**	**(9,448,350)**	**888,703**
Private placements	9,964,571	2,438,771	-	71,429	-	71,429	-	2,510,200
Share issuance costs	-	(3,500)	-	-	-	-	-	(3,500)
Warrants exercised for cash	142,843	46,177	-	-	-	-	-	46,177
Reallocation of cost of warrants exercised	-	3,257	-	(3,257)	-	(3,257)	-	-
Share subscriptions	-	-	101,854	-	-	-	-	101,854
Share-based payments	-	-	-	822,574	-	822,574	-	822,574
Expiry of warrants	-	-	-	(22,149)	-	(22,149)	22,149	-
Expiry of stock options	-	-	-	(9,727)	-	(9,727)	9,727	-
Loss for the period	-	-	-	-	-	-	(3,221,119)	(3,221,119)
Exchange difference on translation	-	-	-	-	(46,170)	(46,170)	-	(46,170)
Balance at December 31, 2017	**38,666,051**	**10,459,920**	**101,854**	**3,255,277**	**(80,739)**	**3,174,538**	**(12,637,593)**	**1,098,719**
Balance at March 31, 2018	**38,959,051**	**10,556,873**	**71,854**	**3,290,674**	**(68,115)**	**3,222,559**	**(13,160,482)**	**690,804**
Private placement (Note 11)	20,000,000	2,398,086	-	751,454	-	-	-	3,149,540
Finders Fees (Note 11)	-	(14,000)	-	-	-	-	-	(14,000)
Share issuance costs (Note 11)	-	(3,210)	-	-	-	-	-	(3,210)
Share-based payments (Note 11)	-	-	-	463,412	-	463,412	-	463,412
Expiry of stock options (Note 11)	-	-	-	(6,784)	-	(6,784)	6,784	-
Cancellation of stock options (Note 11)	-	-	-	(149,099)	-	(149,099)	149,099	-
Loss for the period	-	-	-	-	-	-	(3,163,091)	(3,163,091)
Exchange difference on translation	-	-	-	-	49,258	49,258	-	49,258
Balance at December 31, 2018	**58,959,051**	**12,937,749**	**71,854**	**4,349,657**	**(18,857)**	**3,579,346**	**(16,167,690)**	**1,172,713**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Vodis Pharmaceuticals Inc. (the "Company") was incorporated under the laws of British Columbia on October 31, 2011. During the year ended March 31, 2015, the Company completed a reverse takeover of 0962559 BC Ltd., by issuing 9,000,000 common shares for 100% of the common shares of 0962559 BC Ltd. As a result, 0962559 BC Ltd. is considered the accounting parent and in July 2014 changed its fiscal year-end from June 30 to March 31. In connection with the reverse takeover, the Company changed its name to Vodis Pharmaceuticals Inc. The Company is in the medical and recreational marijuana business. The Company's shares trade on the Canadian Securities Exchange ("CSE").

The Company's corporate office address is 8788 River Road Delta, BC V4G 1B5. The registered and records office address is 1080 – 789 West Pender Street, Vancouver, BC V6C 1H2. The Company together with its subsidiaries (collectively referred to as the "Company") is in the application stage of producing medical marijuana and providing turnkey facilities to produce marijuana.

At the date of the condensed consolidated interim financial statements, the Company has not yet realized profitable operations and it has relied on non-operational sources of financing to fund operations. The ability of the Company to achieve its objectives and meet its ongoing obligations will depend on management's ability to successfully execute its business plan and obtain additional financing when required. There is no assurance that these initiatives will be successful. These condensed consolidated interim financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, or other business and financial transactions which would assure continuation of the Company's operations. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing. These circumstances comprise a material uncertainty which may cast significant doubt as to the ability of the Company to continue as a going concern. There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations as they come due. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded in these condensed consolidated interim financial statements. The condensed consolidated interim financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

Basis of Presentation

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounts Standards ("IAS") 34, "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements as at and for the year ended March 31, 2018. The condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the Company's March 31, 2018 audited consolidated financial statements.

The condensed consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments classified at fair value through profit or loss which are stated at their fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting.

Significant Accounting Estimates and Judgments

The preparation of the condensed consolidated interim financial statements in compliance with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout the condensed consolidated interim financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods, if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the condensed consolidated interim financial statements are discussed below.

Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

1. *Inputs used in valuing investment property:* The fair value of the investment property is determined by management, using the fair value of the finance lease property, or if lower, the present value of the minimum lease payments at the inception of the lease. Changes in the input assumptions can materially affect the carrying value of the investment property.

2. *Inputs used in the accounting for share-based payments expense in the condensed consolidated interim statements of comprehensive loss:* Management uses the Black-Scholes Pricing Model for valuation of share-based payments, which requires the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's results and equity reserves.

3. *Inputs used in the accounting for warrants in share capital and equity reserves*: Management uses the Black-Scholes Pricing Model for valuation of warrants, which requires the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's results and equity reserves.

Critical accounting judgments

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

1. *Going concern:* The condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The assessment of the Company's ability to source future operations and continue as a going concern involves judgement. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. If the going concern assumption is not appropriate for the condensed consolidated interim financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses and the statement of financial position classifications used (Note 1).

2. *Lease Contracts*: The Company has entered into commercial property leases on its investment property. The Company makes judgments in determining whether certain leases, particularly those leases with long contractual terms, are operating or finance leases. The Company assesses each lease separately.

3. *Determination of provisions for income taxes and the recognition of deferred income taxes*: In assessing the probability of realizing deferred tax assets, management makes estimates related to the expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that the tax position taken will be sustained upon examination by applicable tax authorities. In

making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

4. *Recoverability of the carrying value of capital assets:* The recovery of the carrying value of capital assets may be adversely affected should the Company not be able to obtain a license to produce marijuana for medical purposes in Canada. To date, the Company's application is progressing through the various stages of the application process and there is no indication that a license would be obtained.

5. *Recognition of rental revenue:* To date, the Company has recognized revenue from rental operations at its Bellingham investment property on a cash basis due to the uncertainty of collection of rent from the Company's tenant at this facility.

3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Financial Instruments
The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of April 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilize a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application.

The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following is the Company's new accounting policy for financial instruments under IFRS 9:

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of reserves at April 1, 2018.

Measurement

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of comprehensive loss in the period in which they arise.

Impairment of financial assets at amortized cost
The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If, at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve-month expected credit losses. The Company shall recognize in the condensed consolidated interim statements of

(Expressed in Canadian Dollars)

comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of comprehensive loss.

Accounting Standards Issued But Not Yet Applied

Leases
On January 13, 2016, the IASB published a new standard, IFRS 16, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The main provision of IFRS 16 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. Under IFRS 16, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; and (ii) recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant, as the right-of-use asset is depreciated and the lease liability is accreted using the effective interest method. The new standard also requires qualitative disclosures along with specific quantitative disclosures. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company continues to assess the impact of adopting this standard on its condensed consolidated interim financial statements.

Other accounting pronouncements with future effective dates are either not applicable or are not expected to have a material impact on the Company's condensed consolidated interim financial statements.

4. RECEIVABLES

		December 31, 2018		**March 31, 2018**
Goods and services tax receivable	$	120,547	$	99,884
Other receivables		4,276		25,909
	$	124,823	$	125,793

5. CAPITAL ASSETS

Leasehold improvements include all amounts incurred on improvements at the Company's Delta, British Columbia and Bellingham, Washington State, locations to prepare the facilities for operations. The leasehold additions relate to production lighting, growing benches, irrigation and nutrient systems, security installations and construction of growing rooms.

(Expressed in Canadian Dollars)

		Leasehold Improvements		Furniture and Equipment		Total
Cost						
Balance March 31, 2018	$	2,127,270	$	121,362	$	2,248,632
Additions		509,538		29,232		538,770
Foreign exchange adjustment		93,531		6,570		100,101
Balance December 31, 2018	$	2,730,339	$	157,164	$	2,887,503
Amortization						
Balance March 31, 2018	$	617,929	$	23,401	$	641,330
Additions		217,816		18,329		236,145
Foreign exchange adjustment		26,822		2,112		28,934
Balance December 31, 2018	$	862,567	$	43,842	$	906,409
Net book value						
Balance March 31, 2018	$	1,509,341	$	97,961	$	1,607,302
Balance December 31, 2018	$	1,867,772	$	113,322	$	1,981,094

6. INVESTMENT PROPERTY

Investment property consists of a property leased in Bellingham, Washington State, USA ("Property"). The lease with a third party expires the earlier of the exercise of the option agreement or April 3, 2020 (Note 9).

Investment property		
Balance, March 31, 2018	$	1,731,803
Depreciation		(77,361)
Foreign exchange adjustment		97,018
Balance, December 31, 2018	$	1,751,460

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		December 31, 2018		March 31, 2018
Trade payables	$	668,697	$	653,324
Accrued liabilities		6,839		123,284
	$	675,536	$	776,608

During the period ended December 31, 2018, $165,299 of trade payables were settled through the issue of 1,640,850 common shares and 1,640,850 warrants with a fair value of $637,907. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.15 for a period of five years from the date of issue. The Company recorded a loss on settlement of debt of $472,608 in connection with the settlement. (Note 11).

8. NOTES PAYABLE

During the year ended March 31, 2017, the Company entered into a loan agreement with an arms-length party (the "Lender") for $150,000. The loan bore interest at a rate of 12% per annum, payable quarterly. The loan was repayable on June 14, 2017. The loan is secured by a security interest in all of the present and after acquired personal property, assets and undertakings of Vodis Innovative Pharmaceuticals Inc. During the period ended December 31, 2018, the Company accrued interest of $9,000 (2017 - $13,500) on the loan. On October 19, 2018, the principal portion of the loan of $150,000 was settled through the issuance of 1,500,000 common shares and 1,500,000 warrants with a fair value of $583,150. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.15 for a period of five years from the date of issue. The Company recorded a loss on settlement of debt of $433,150 in connection with the settlement. The balance outstanding at December 31, 2018 consists of accrued interest of $13,500. (Note 11).

(Expressed in Canadian Dollars)

During the year ended March 31, 2017, the Company entered into a loan agreement with the CEO of the Company, for $50,000. The loan bore interest at a rate of 12% per annum, payable quarterly. The loan was repayable in July 2017. The loan is secured by a security interest in all of the present and after acquired personal property, assets and undertakings of Vodis Innovative Pharmaceuticals Inc. During the period ended December 31, 2018, the Company accrued interest of $3,000 (2017 - $4,500) on the loan. On October 19, 2018, principal and interest of $57,500 were settled through the issuance of 575,000 common shares and 575,000 warrants with a fair value of $223,541. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.15 for a period of five years from the date of issue. The Company recorded a loss on settlement of debt of $166,041 in connection with the settlement. The balance outstanding at December 31, 2018 consists of accrued interest of $1,500. (Note 11).

9. FINANCE LEASE LIABILITY

During the year ended March 31, 2016, Vodis USA, entered into a lease agreement. The lease agreement will expire the earlier of the exercise of the option agreement or April 3, 2020. The lease is considered a finance lease. Using an interest rate of 6%, the present value of the minimum lease payments and the payment required to exercise the option at inception was $1,757,376 (US$1,398,740) (Note 5).

During the year ended March 31, 2016, Vodis USA entered into an option agreement with D&B Land Holdings LLC (“D&B”), whereby Vodis USA has an option to purchase the Property. The option agreement has a term of 5 years. In order to keep the option agreement in good standing, Vodis USA must pay the monthly lease payment of US$9,404 pursuant to a lease agreement between Vodis USA and D&B.

During the year ended March 31, 2016, Vodis USA, entered into a purchase and sale agreement with D&B, whereby the obligations under the purchase and sale agreement are conditional upon Vodis USA exercising the option agreement. The total purchase price will be US$1,550,000 (“Purchase Price”). All payments made under the option agreement will be credited towards the Purchase Price (“Applied Credits”). The purchase price will increase by US$20,000 at the end of each year following the date of the purchase and sale agreement if Vodis USA does not exercise their option to purchase the Property by the end of any one of each twelve-month period up to a maximum of US$100,000 (“Purchase Price Increase”). If, at any time Vodis USA elects to exercise their option to purchase the Property, the amount owing under the D&B loan on the Property is greater than the Purchase Price after the Applied Credits, D&B and Vodis USA agree to reduce either (i) the amount owed under the promissory note with the holder or (ii) the Purchase Price Increase by the difference between the amount owed under the D&B loan and the Purchase Price.

During the year ended March 31, 2016, the Company entered into a promissory note agreement where Vodis USA must pay US$250,000 as part of the payments to purchase the Property. This promissory note bears no interest, is unsecured and is payable on demand.

The lease transactions for the period ended December 31, 2018 are as follows:

Balance, March 31, 2018	$	1,660,309
Interest		69,173
Payment		(99,894)
Foreign exchange		94,885
Balance, December 31, 2018	$	1,724,473

		December 31, 2018		March 31, 2018
Short Term	$	76,174	$	57,540
Long Term		1,648,299		1,602,769
	$	1,724,473	$	1,660,309

(Expressed in Canadian Dollars)

As at December 31, 2018, the contractual cash for the lease, including the anticipated exercise of the option to purchase at the end of the lease term, are as follows:

Monthly lease payments within one year	$	166,776
Monthly lease payments after one year but not more than five years		38,487
Payment required to exercise option to purchase		1,631,716
Total payments	$	1,836,979

10. RELATED PARTY TRANSACTIONS

Key management personnel are the persons responsible for the planning, directing and controlling the activities of the Company and includes both executive and non-executive directors, and entities controlled by such persons. The Company considers all directors and officers of the Company to be key management personnel.

(a) Transactions with related parties

Up to March 31, 2018, the Company and its CEO were joint tenants of the Company's Delta facility. During the period ended December 30, 2017, a company controlled by the CEO utilized a portion of this facility in exchange for paying all costs associated with the lease of the facility.

Related party transactions for the period ended December 31, 2018 and 2017 are as follows:

		December 31, 2018		December 31, 2017
A law firm in which a director of the Company's subsidiary is a partner, for legal expenses	$	60,187	$	43,188
A company controlled by the CEO of the Company for leasehold improvements		35,000		-
A director of the Company's subsidiary, for accounting fees		5,224		-
A director of the Company, for construction of leasehold improvements		219,457		150,623
The CEO of the Company, for interest on a loan payable		3,000		4,500
	$	322,868	$	198,311

During the period ended December 31, 2018, the Company settled a loan and accrued interest of $57,500 owing to the CEO and a payable of $26,501 to the CFO for fees through the issue of 840,011 common shares and 840,011 warrants with a total fair value of $326,568. The value of the warrants was determined using the Black-Scholes Pricing Model. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $0.15 for a period of five years from the date of issue. The Company recorded a loss on settlement of debt of $242,567 in connection with the settlement. (Note 11).

(b) Key management compensation

Key management includes directors (executive and non-executive) and senior officers of the Company. The compensation paid or payable to key management for employee services is shown below:

(Expressed in Canadian Dollars)

Period ended		**December 31, 2018**		**December 31, 2017**
The CEO of the Company, for consulting expenses	$	135,000	$	138,300
A company controlled by the CFO of the Company, for consulting expenses		135,000		361,155
A director of the Company, for consulting expenses		136,201		138,386
A former director of the Company for consulting expenses		-		45,000
A company controlled by the CEO of the Company regarding capital asset use, for depreciation expense		-		108,206
Share-based payments		323,811		459,420
	$	730,012	$	1,250,467

(c) Receivables from related parties

		December 31, 2018		**March 31, 2018**
Due from a company controlled by the CEO of the Company	$	10,000	$	10,000

(d) Accounts payable to related parties

		December 31, 2018		**March 31, 2018**
Due to an entity where a director of the Company's subsidiary is a partner	$	101,193	$	55,028
Due to the CEO of the Company		74,830		56,054
Due to a former director of the Company		-		50,000
Due to the CFO or companies controlled by the CFO		3,499		53,263
Due to a director of the Company		147,297		42,448
	$	326,819	$	256,793

Amounts due from and to related parties are unsecured, non-interest bearing and due on demand.

11. SHARE CAPITAL

(a) Common shares

The authorized share capital of the Company consists of an unlimited number of common shares without par value and unlimited number of preferred shares without par value.

On December 21, 2016, the Company consolidated its share capital on a four old for one new basis (the "Consolidation"). All comparative references herein to the number of shares, options, warrants, weighted average number of common shares and loss per share have been restated for the Consolidation, including all such numbers presented for the prior year periods.

On October 19, 2018, the Company completed a private placement financing issuing 20,000,000 units at a price of $0.10 per unit for gross proceeds of $2,000,000. A total of 16,019,139 units were issued for cash of $1,601,914 and $399,300 in debt was settled through the issue of 3,980,861 units with a fair value of $1,547,626. (See Note 7, 8, and 10). Each unit was comprised of one common share and one common share purchase warrant whereby each warrant entitles the holder to purchase an additional common share of the Company for a period of five years from the date of issue at an exercise price of $0.15 per share. The Company incurred $14,000 in finders' fees and $3,150 in share issuance costs in connection with the private placement. The Company recorded a loss on settlement of debt of $1,148,325 in connection with the private placement.

(Expressed in Canadian Dollars)

(b) Stock option plan

The Company has an incentive stock option plan under which it is authorized to grant options to executive officers, directors, employees and consultants. The exercise price of each option shall not be lower than the greater of the closing market prices of the underlying securities on (a) the trading day prior to the date of grant of the stock options; and (b) the date of grant of the stock options. The options can be granted for a maximum of 10 years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors, except for options granted to persons providing investor relations activities that will vest in stages over twelve months with no more than one quarter vesting in any three-month period. All options are to be settled by physical delivery of shares.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price $
Balance at March 31, 2018	2,946,563	0.40
Granted	3,217,500	0.14
Cancelled	(500,000)	0.31
Expired	(39,063)	0.40
Balance at December 31, 2018	5,625,000	0.26
Exercisable at December 31, 2018	5,608,750	0.26

The weighted average life of the options outstanding was 4.01 years at Dec ember 31, 2018.

As at December 31, 2018, the following stock options were outstanding:

Exercise Price	Number of Shares Issuable on Exercise	Expiry Date
$0.48	212,500	November 26, 2020
$0.76	125,000	January 6, 2021
$0.18	375,000	September 14, 2021
$0.42	150,000	April 4, 2022
$0.40	1,387,500	April 20, 2022
$0.40	150,000	May 30, 2022
$0.26	60,000	November 10, 2022
$0.42	100,000	December 13, 2022
$0.38	65,000	March 6, 2023
$0.39	82,500	March 12, 2023
$0.27	225,000	April 19, 2023
$0.27	115,000	April 24, 2023
$0.12	2,577,500	November 21, 2023
	5,625,000	

(Expressed in Canadian Dollars)

(c) Share-based payments

The total share-based payments expense calculated under the fair value method for vested options was $463,412 (2017 - $822,574). Fair value at grant date of the stock options was measured based on the Black-Scholes option-pricing model. Expected volatility is estimated by considering historic average share price volatility. The weighted average assumptions used for the Black-Scholes option-pricing model of stock options granted during the period are as follows:

	December 31, 2018	December 31, 2017
Risk-free interest rate	2.23%	1.22%
Expected life of options	5 years	5 years
Annualized volatility	163.18%	165.36%
Dividend rate	Nil	Nil

(d) Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at March 31, 2018	17,493,785	$ 0.34
Issued	20,000,000	0.15
Balance at December 31, 2018	37,493,785	$ 0.24

During the period ended December 31, 2018, the Company extended the expiry date of 4,577,000 common share purchase warrants that were issued November 9, 2016, and 3,461,500 common share purchase warrants that were issued December 7, 2016. The original expiry dates were November 9, 2018 and December 7, 2018 and the new expiry dates are November 9, 2021 and December 7, 2021, respectively.

Warrants outstanding at December 31, 2018 are as follows:

Exercise Price	Number of Shares	Expiry Date
$0.45	714,285	October 18, 2019
$0.35	493,500	October 27, 2019
$0.72	187,500	July 30, 2020
$0.32	4,577,000	November 9, 2021
$0.32	3,461,500	December 7, 2021
$0.33	8,060,000	December 12, 2022
$0.24	20,000,000	October 19, 2023
	37,493,785	

(e) Reserves

Share-Based Payments and Warrants Reserve

The share-based payments and warrants reserve records items recognized as share-based payments expense or as warrants until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital. If the options or warrants expire unexercised or are cancelled, the amount recorded is transferred to deficit. During the period ended December 31, 2018, 39,063 options with a fair value of $6,784 expired and 500,000 stock options with a fair value of $149,099 were cancelled and the fair values were transferred from reserve to deficit.

Foreign Exchange Reserve

The foreign exchange reserve recognizes the foreign exchange differences resulting from translation of entities to the presentation currency that have a different functional currency than the presentation currency.

(f) Share Subscriptions and Obligations

During the year ended March 31, 2018, the Company incurred an obligation to issue 217,738 common shares with a fair value of $71,854 pursuant to a consulting agreement.

During the year ended March 31, 2018, the Company received proceeds of $399,235 in advance of the issuance of common shares.

12. MANAGEMENT OF CAPITAL

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain optimal capital structure to reduce to the cost of capital. The Company's capital is composed of equity in the statement of financial position.

The Company is not subject to externally imposed capital requirements. In managing capital structure, the Company manages its capital through regular reports to the Board of Directors, as well as management review of monthly or quarterly financial information. The Company issues new equity financing as needed and available. Additional information relating to capital management is given in the nature and continuance of operations in Note 1.

There was no change to the Company's approach to management of capital during the period ended December 31, 2018.

13. FINANCIAL INSTRUMENTS

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity, credit, currency, interest rate, and price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company has historically relied upon equity financings to satisfy its capital requirements and will continue to depend upon equity capital and possibly loans to finance its activities. The Company manages liquidity risk through its capital management as outlined in Note 12 above. Management has assessed liquidity risk as high.

Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument or customer contract fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. The Company is directly exposed to credit risk from its receivables. The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized as at December 31, 2018.

The majority of the Company's cash is held with major Canadian based financial institutions. Management has assessed credit risk as low.

The tenant of the Company's investment property (Note 6) has to date been unable to pay the required rent payments to the Company. The Company has only recognized revenue for rent payments received due to uncertainty of collection.

Currency Risk

Currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency.

(Expressed in Canadian Dollars)

The Company and its subsidiaries did not enter into significant transactions that were not denominated in their functional currencies and is therefore not exposed to currency risks.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time. Management has assessed currency risk as low.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Current cash is generally not exposed to interest rate risk because of its short-term maturity. The Company's other financial instruments have interest at fixed rates. Management has assessed interest rate risk as low.

Price Risk

Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices. The Company is not exposed to price risk.

Fair Value

The Company classifies its fair value measurements in accordance with the three-level fair value hierarchy as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The fair value of cash is based on level 1 of the fair value hierarchy.

14. SEGMENTED INFORMATION

The Company operates in one business segment, the marijuana industry. Geographic information is as follows:

December 31, 2018	**Canada** $	**United States** $	**Total** $
Capital assets	669,706	1,311,388	1,981,094
Investment property	-	1,751,460	1,751,460
Other assets	156,025	25,962	181,987
Total assets	825,731	3,088,810	3,914,541

March 31, 2018	**Canada** $	**United States** $	**Total** $
Capital assets	424,920	1,182,382	1,607,302
Investment property	-	1,731,803	1,731,803
Other assets	563,037	92,107	655,144
Total assets	987,957	3,006,292	3,994,249

15. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

During the period ended December 31, 2018, the Company incurred $172,429 of capital asset additions which are included in accounts payable. During the period ended December 31, 2018, the Company paid $Nil (2017 - $62,715) in cash for interest.

16. EVENTS AFTER REPORTING DATE

a) 600,000 stock options were exercised at $0.12 for proceeds of $72,000.

b) The Company granted 225,000 options to directors. The options are exercisable at $0.14 per common share for a period of five years from the date of issuance.