Sproutly Canada Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three and six months ended August 31, 2018 and 2017
(In Canadian Dollars)

Sproutly Canada Inc.
Condensed Interim Consolidated Statements of Financial Position
August 31, 2018 and February 28, 2018
(Unaudited – Expressed in Canadian Dollars)

	Notes	August 31, 2018	February 28, 2018
		$	$
Assets			
Current Assets			
Cash		282,212	741,385
Receivables	3	206,261	395,670
Prepaid expenses		272,486	-
		760,959	1,137,055
Non-Current Assets			
Property, plant and equipment	7	11,489,529	10,914,333
Intangible assets	8	63,155,635	6,200,305
Goodwill	5	1,322,544	1,208,036
Total assets		**76,728,667**	**19,459,729**
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	9	1,238,871	1,740,596
Loans and borrowings	10	3,321,156	6,861,382
Convertible loan payable	11	-	979,079
Contingent consideration payable	6	4,168,993	-
Due to related party	6	4,479,759	-
		13,208,779	9,581,057
Non-Current Liabilities			
Contingent consideration payable	6	449,490	-
Loans and borrowings	10	1,902,137	2,458,474
Deferred tax liability	5, 20	1,460,049	1,208,036
Total liabilities		**17,020,455**	**13,247,567**
Shareholders' Equity			
Share capital	12	44,878,818	7,832,586
Reserves		24,246,071	1,050,179
Accumulated deficits		(9,416,677)	(2,670,603)
Total equity		**59,708,212**	**6,212,162**
Total liabilities and equity		**76,728,667**	**19,459,729**

Nature of Operations (Note 1)
Commitments (Note 19)
Subsequent Events (Note 21)

The accompanying notes are an integral part of these
Condensed Interim Consolidated Financial Statements

Sproutly Canada Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
Three and six months ended August 31, 2018 and 2017
(Unaudited – Expressed in Canadian Dollars)

	Notes	Three months ended August 31, 2018	Three months ended August 31, 2017	Six months ended August 31, 2018	Six months ended August 31, 2017
		$	$	$	$
Expenses					
General and administration	15	1,317,600	242,844	2,535,901	364,610
Marketing		229,157	-	300,097	-
Depreciation	7	6,001	-	7,465	-
Share-based payments	13	408,549	89,672	574,906	154,391
Loss from operations		1,961,307	332,516	3,418,369	519,001
Other Expense (Income)					
Listing expense	4	3,818,459	-	3,818,459	-
Other expense		43,640	-	53,237	-
Finance and other costs	16	79,344	657	570,456	945
Foreign exchange		31	-	31	-
Gain on extinguishment of interest and loans	10(c)(d)(f)(g)	(766,928)	-	(1,251,983)	-
		3,174,546	657	3,190,199	945
Net Loss before tax		**5,135,853**	**333,173**	**6,608,569**	**519,946**
Income tax expense	20	137,505	-	137,505	-
Net Loss and Comprehensive Loss for the period		**5,273,358**	**333,173**	**6,746,074**	**519,946**
Basic and diluted loss per share		**(0.04)**	**(0.02)**	**(0.02)**	**(0.03)**
Weighted average number of shares outstanding Basic and diluted		**123,815,908**	**19,772,030**	**96,226,633**	**19,772,030**

The accompanying notes are an integral part of these
Condensed Interim Financial Statements

Sproutly Canada Inc.
Condensed Interim Consolidated Statements of Changes in Equity
Three and six months ended August 31, 2018 and 2017
(Unaudited – Expressed in Canadian Dollars)

		Share Capital			Reserves					
	Notes	**Common Shares**	**Amount**	**Obligation to Issue Shares**	**Share-Based Compensation**	**Warrants**	**Convertible Notes**	**Total Reserves**	**Accumulated Deficit**	**Total**
		#	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance, January 17, 2017		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Incorporation shares	12(c)(i)(ii)	20,293,741	50,000	-	-	-	-	-	-	50,000
Net loss and comprehensive loss for the period		-	-	-	-	-	-	-	(186,773)	(186,773)
Share-based compensation		-	-	-	64,719	-	-	64,719	-	64,719
Balance, August 31, 2017		**20,293,741**	**50,000**	**-**	**64,719**	**-**	**-**	**64,719**	**(186,773)**	**(72,054)**
Net loss and comprehensive loss for the period		-	-	-	-	-	-	-	(2,483,830)	(2,483,830)
Equity component of convertible notes (deferred tax recovery on conversion)		-	-	-	-	-	152,230	152,230	-	152,230
Issuance of units consisting of shares and warrants	12(c)(iii)	15,044,078	3,049,387	-	-	567,854	-	567,854	-	3,617,241
Issuance of shares on Toronto Herbal Remedies Inc. Acquisition	12(c)(iv)	23,427,883	4,733,199	-	-	-	-	-	-	4,733,199
Share-based compensation		-	-	-	265,376	-	-	265,376	-	265,376
Balance, February 28, 2018		**58,765,702**	**7,832,586**	**-**	**330,095**	**567,854**	**152,230**	**1,050,179**	**(2,670,603)**	**6,212,162**
Net loss and comprehensive loss for the period		-	-	-	-	-	-	-	(6,746,074)	(6,746,074)
Equity component of convertible notes		-	-	-	-	-	474,899	474,899	-	474,899
Warrants issued for convertible debentures		-	-	-	-	231,846	-	231,846	-	231,846
Issuance of shares for loan and interest repayments	12(c)(v)(vi)	18,308,015	3,698,817	-	-	-	-	-	-	3,698,817
Share-based payment	12(c)(ix)	2,023,288	408,770	-	-	-	-	-	-	408,770
Conversion of notes	11	24,292,531	3,984,768	-	-	84,260	(627,129)	(542,869)	-	3,441,899
Reverse acquisition of Sproutly Canada Inc.	4	19,670,731	3,974,134	-	20,745	292,125	-	312,870	-	4,287,004
Acquisition of Infusion Biosciences Canada Inc.	6, 12(c)(xi)	36,857,676	24,694,643	22,229,239	-	-	-	22,229,239	-	46,923,882
Exercise of warrants	12(c)(xii)(d)	1,161,940	285,100	-	-	(84,999)	-	(84,999)	-	200,101
Share-based compensation		-	-	-	574,906	-	-	574,906	-	574,906
Balance, August 31, 2018		**161,079,883**	**44,878,818**	**22,229,239**	**925,746**	**1,091,086**	**-**	**24,246,071**	**(9,416,677)**	**59,708,212**

The accompany notes are an integral part of these
Condensed Interim Consolidated Financial Statements

Sproutly Canada Inc.
Condensed Interim Consolidated Statement of Cash Flows
Three and six months ended August 31, 2018 and 2017
(Unaudited – Expressed in Canadian Dollars)

		Three months ended		Six months ended	
	Notes	2018	August 31, 2017	2018	August 31, 2017
		$	$	$	$
Cash Provided by (used in) Operating Activities					
Net loss and comprehensive loss		(5,273,358)	(333,173)	(6,746,074)	(519,946)
Adjusted for non-cash items:					
Depreciation of property, plant and equipment	7	6,001	-	7,465	-
Listing expense	4	3,818,459	-	3,818,459	-
Share-based payments	12(c)(ix)	408,770	-	408,770	-
Share-based compensation	13	408,549	89,672	574,906	154,391
Financing fees	12(d)	-	-	231,846	-
Accretion expense	16	67,869	-	305,538	-
Interest recovery	10(d)(g)	-	-	(76,606)	-
Gain on extinguishment of interests and loans	10(c)(d)(f)(g)	(766,928)	-	(1,251,983)	-
Deferred tax expense	20	137,505	-	137,505	-
Change in non-cash operating working capital					
GST receivables		295,430	-	225,402	-
Other receivables		-	-	(23,805)	-
Prepaid expenses		(409,684)	-	(692,887)	-
Accounts payable and accrued liabilities		(703,938)	35,420	(479,079)	52,261
		(2,011,325)	(208,081)	(3,560,543)	(313,294)
Cash Provided by (used in) Financing Activities					
Proceeds (repayment) of short term loans		(2,844)	1,218,000	(102,844)	2,009,000
Proceeds of convertible debt	11	-	-	2,184,101	-
Proceeds from equity portion of convertible debt	11	-	-	474,899	-
Shares issued for cash		-	-	-	50,000
Shares issued from warrant exercises	12(c)(xii)	200,101	-	200,101	-
		197,257	1,218,000	2,756,257	2,059,000
Cash Provided by (used in) Investing Activities					
Cash acquired from reverse acquisition transaction	4	561,126	-	561,126	-
Funds advance to Sproutly USA Inc.		-	(161,500)	-	(426,500)
Funds advance to a third party		-	(1,073,780)	-	(1,073,780)
Purchase of property, plant and equipment		(97,144)	-	(216,013)	-
		463,982	(1,235,280)	345,113	(1,500,280)
Net change in cash		(1,350,086)	(225,361)	(459,173)	245,426
Cash, beginning of period		1,632,298	470,787	741,385	-
Cash, ending of the period		**282,212**	**245,426**	**282,212**	**245,426**

The accompany notes are an integral part of these
Condensed Interim Consolidated Financial Statements

1. Nature and continuance of operations

Sproutly Canada Inc. (on a consolidated basis "the Company" or "Sproutly Canada"), formerly Stone Ridge Exploration Corp. ("Stone Ridge") was incorporated on January 26, 2012 and is a company continued under the Business Corporations Act (British Columbia). On July 6, 2018, the Company acquired Sproutly Inc. ("Sproutly") through a reverse acquisition transaction described in Note 4. The historical operations, assets, and liabilities of Sproutly are included as the comparative figures, which is deemed to be the continuing entity for financial reporting purposes. Sproutly was incorporated on January 17, 2017 under the British Columbia Business Corporation Act. The registered office is located at 10th floor – 595 Howe Street, Vancouver, British Columbia, V6C 2T5. On July 9, 2018, the Company began trading on the Canadian Securities Exchange ("the Exchange") under the symbol "SPR". The Company is also quoted on the Frankfurt, Berlin and Munich exchanges under the symbol "38G", and on the OTCQB Venture Marketplace under the symbol "SRUTF".

The Company intends to identify and evaluate potential business opportunities in the medicinal and recreational cannabis industry. On February 28, 2018, Sproutly acquired all of the issued and outstanding common shares of Toronto Herbal Remedies Inc. ("THR") described in Note 5. On June 8, 2018, Health Canada granted THR a cultivation license to produce and sell medical marijuana under the provisions of the Access to Cannabis for Medical Purposes Regulations ("ACMPR").

On July 31, 2018, the Company acquired all of the issued and outstanding common shares of Infusion Biosciences Canada Inc. ("IBS Canada") and SSM Partners Inc. ("SSM Partners") described in Note 6.

The Company has not generated any revenues from operations and has incurred losses since inception. The Company incurred an accumulative deficit of $9,322,878 and negative cash flows from operating activities for the period from January 17, 2017 to August 31, 2018. To date, the Company's activities have been funded through financing activities. These factors indicate the existence of a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. Subsequent to the period end, the Company has completed a $20,760,000 special warrant bought deal financing on October 25, 2018 (Note 21), which will provide sufficient cash flow over the next 12 months to fund operations.

The accompanying condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The condensed interim consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that could result should the Company be unable to continue as a going concern.

2. Summary of significant accounting policies

(a) Basis of presentation

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

The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements. The accounting policies and critical estimates applied by the Company in these condensed interim consolidated financial statements are the same as those applied in the Company's consolidated financial statements as at and for the period from January 17, 2017 to February 28, 2018.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on October 29, 2018.

2. Significant accounting policies (continued)

(b) Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Sproutly, THR, IBS Canada, and SSM Partners. All intercompany balances and transactions were eliminated on consolidation.

(c) Basis of measurement

The condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

(d) Functional currency

The functional currency of the Company is measured using the currency of the primary economic environment in which the Company operates. The functional and presentation currency used to prepare the Company's condensed interim consolidated financial statements is Canadian dollars.

(e) Significant accounting judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carry amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements are described below.

Critical judgments in applying accounting policies

(i) Going concern

Management has applied judgments in the assessment of the Company's ability to continue as a going concern when preparing its financial statements. Management prepares the financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

Critical estimates

(i) Business combination or asset acquisition

Classification of an acquisition as a business combination or asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition.

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities.

2. Significant accounting policies (continued)

(i) Business combination or asset acquisition (continued)

In an asset acquisition, all identifiable assets are recorded at their fair values. The most significant estimates relate to contingent consideration and intangible assets. Management exercises judgment in estimating the probability and timing of when earn-outs are expected to be achieved which is used as the basis for estimating fair value.

For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the acquisition date. This is not applicable for asset acquisitions.

(ii) Current and deferred taxes

The determination of income tax expense and the composition of deferred tax assets and liabilities involves judgment and estimates as to the future taxable earnings, expected timing of reversal of deferred tax assets and liabilities, and interpretations of tax laws. The Company is subject to assessments by tax authorities who may interpret the tax law differently. Changes in these interpretation, judgments and estimates may materially affect the final amount of current and deferred tax provisions, deferred income tax assets and liabilities, and results of operations.

(iii) Fair value of financial instruments

The individual fair values attributable to the different components of a financing transaction, notably borrowing liabilities are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine the values attributable to each component of a transaction at the time of their issuance. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

(iv) Share-based payments

All equity-settled, share-based awards issued by the Company are fair valued using the Black-Scholes option-pricing model or other fair value techniques. In assessing the fair value of equity based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

(f) Recent accounting pronouncements adopted

The following standards and amendments have been adopted by the Company for the first time for the financial year beginning on March 1, 2018:

(i) IFRS 15 Revenue from Contracts with Customers

Clarifies the principles for recognizing revenue from contracts with customers. IFRS 15 will also result in enhanced disclosure about revenue, provide guidance for transactions that were not previously addressed comprehensively (i.e. service revenue and contract modifications) and improve guidance for multiple-element arrangements. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Given the Company has no revenue to date, this standard does not have a material impact on the condensed interim consolidated financial statements.

2. Significant accounting policies (continued)

(f) Recent accounting pronouncements adopted

(ii) IFRS 9 Financial Instruments

Replaces the guidance in IAS 39 - Financial Instruments; Recognition and Measurement, on the classification and measurement of financial assets. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition, financial assets measured at amortized cost or financial assets measured at fair value. Gains and losses on re-measurement of financial assets measured at fair value will be recognized in profit or loss, except that for an investment in an equity instrument which is not held-for-trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income. Financial liabilities upon initial recognition is measured at fair value. Gains and losses on re-measurement of financial liabilities at fair value will recognized through profit or loss. Other financial liabilities will be recognized at amortized costs.

The following table summarizes the classification impact upon adoption of IFRS 9. The adoption of new classification requirements under IFRS 9 did not result in significant changes in measurement or the carrying amount of the financial assets and liabilities.

Financial asset/liability	Classification under IAS 39	Classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Loans and Borrowings	Other financial liabilities	Amortized cost
Convertible loan payable	Other financial liabilities	Amortized cost
Contingent consideration payable	Financial liabilities	Fair value through profit or loss
Due to related party	Financial liabilities	Fair value through profit or loss

(Unaudited – Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

Impairment under IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs. The new impairment model is applied at each balance sheet date, to financial assets measured at amortized cost or to those measured at fair value through other comprehensive income. The Company adopted the practical expedient to determine ECL on account receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The ECL models applied to other financial assets also required judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. The provision matrix and ECL models applied did not have a material impact on Cash and Receivables of the Company.

(g) Recent accounting pronouncements not yet effective

There were no new standards effective March 1, 2018 that had an impact on the Company's condensed interim consolidated financial statements. The following IFRs standards have been recently issued by the IASB. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

(i) IFRS 16 Leases

Issued in January 2016, IFRS which establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 applies to annual reporting periods beginning on or after January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

3. Receivables

	August 31, 2018	**February 28, 2018**
	$	**$**
Subscription receivable	575	10,566
GST receivable	159,702	385,104
Other receivable	45,984	-
	206,261	**395,670**

(Unaudited – Expressed in Canadian Dollars)

4. Reverse acquisition transaction

On July 6, 2018, the Company (formerly Stone Ridge) acquired 100% ownership of Sproutly by issuing 103,389,522 shares to acquire all of the 50,946,506 issued and outstanding shares of Sproutly (the "Transaction"). For accounting purposes, the acquisition is considered to be outside the scope of IFRS 3 Business Combinations ("IFRS 3") since Stone Ridge, prior to the acquisition, did not constitute as a business. As a result, the acquisition is accounted for in accordance with IFRS 2 Share-based Payment ("IFRS 2") whereby Sproutly is deemed to have issued shares as well as share purchase options and warrants in exchange for the net assets of the Company together with its listing status at the fair value of the consideration deemed received by Sproutly. The accounting for this transaction resulted in the following:

(i) The consolidated financial statements of the combined entities are issued under the legal parent, Sproutly Canada Inc., but considered a continuation of the financial statements, assets and operations of the legal subsidiary, Sproutly.

(ii) Since Sproutly is deemed to be the continuity entity of accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carry values.

Since the shares and share-based consideration allocated to the former shareholders of the Company on closing is considered with the scope of IFRS 2, and the Company was not able to identify specifically some or all of the goods or service received in return for the allocation of the shares and options, the value in excess of the net identifiable assets or obligations of the Company acquired on closing was expensed in the consolidated statement of loss and comprehensive loss as listing expense.

The listing expense of $3,818,459 is comprised of the fair value of the common shares, options and warrants of the Company retained by the former shareholders of the Company of the Transaction less the fair value of the net assets of the Company that were acquired.

The listing fee expense is summarized as follows:

	$
Common shares issued (19,670,747 shares at $0.20)	3,974,134
Adjustment to fair value of options (200,000 stock options exercisable at $0.20)	20,745
Adjustment to fair value of warrants (3,712,500 warrants exercisable at $0.20)	216,920
Adjustment to fair value of warrants (675,000 warrants exercisable at $0.10)	75,205
	4,287,004
Net assets of the Company:	
Cash	561,126
GST receivable	12,186
Accounts payable	(104,767)
	468,545
Listing expense	3,818,459

The Company has estimated the fair value of the equity instruments deemed to be issued by Stone Ridge. The fair value of 19,670,747 common shares amounted to $3,974,134 based on the fair value of shares issued in a private placement for the year ended February 28, 2018.

(Unaudited – Expressed in Canadian Dollars)

4. Reverse acquisition transaction (continued)

The fair value of the 200,000 stock options, exercisable at $0.20 per share until May 5, 2020, amounted to $20,745. The fair value was estimated using the Black-Scholes option pricing model using the following assumptions:

Exercise price	$0.20	
Share price	$0.20	
Risk free interest rate	2.05%	
Expected life	1.83	years
Volatility	100%	
Dividend yield	nil	

The fair value of the 4,387,500 warrants, exercisable at $0.10 to $0.20 per share until January 12, 2019, amounted to $292,125. The fair value was estimated using the Black-Scholes option pricing model using the following assumptions:

Exercise price	$0.10-$0.20	
Share price	$0.20	
Risk free interest rate	2.05%	
Expected life	0.52	years
Volatility	100%	
Dividend yield	nil	

5. Acquisition of THR

On February 28, 2018, the Sproutly Inc. acquired all of the issued and outstanding common shares of THR in exchange for 11,544,388 common shares of Sproutly valued at $0.41 per share, for total consideration of $4,733,199. The transaction was accounted for as a business combination.

THR has been granted a license to produce and sell medical marijuana under the provisions of the Access to Cannabis for Medical Purposes Regulations ("ACMPR") and is finalizing the construction of a production facility in Scarborough, Ontario.

The purchase price was allocated as follows:

	$
Net liabilities acquired	(1,898,733)
Intangible assets – ACMPR license application	6,631,932
Goodwill	1,322,544
Deferred tax liability	(1,322,544)
	4,733,199

Goodwill reflects the deferred income tax liability recognized for all taxable temporary differences. None of the goodwill arising on this acquisition is deductible for tax purposes. The license application is classified as an intangible asset and amortized over the life of THR's facility when the Company receives an ACMPR license from Health Canada and the completion of the THR's facility.

(Unaudited – Expressed in Canadian Dollars)

5. Acquisition of THR (continued)

Fair values of the net liabilities acquired include the following:

	$
Cash	12,048
Receivables	357,118
Property and equipment	10,914,333
	11,283,499
Accounts payable and accrued liabilities	(552,009)
Loans and borrowings	(12,630,223)
	(1,898,733)

During the year ended February 28, 2018, acquisition costs of $23,145 were included in the consideration transferred as part of settling THR's accounts payable and accrued liabilities.

As the acquisition occurred at the end of the fiscal year, net losses from THR were excluded in the Company's consolidated statement of loss and comprehensive loss. If the acquisition had been completed on January 17, 2017, the Company estimates it would have recorded an increase of $1,504,688 in net loss for the period ended February 28, 2018.

As at May 31, 2018, the Company has adjusted the purchase price allocation by increasing intangible assets by $431,626, increasing goodwill by $114,508 and increasing deferred tax liability by $114,508, upon the revaluation of loan and interest recorded at the date of acquisition due to circumstances not known at the date of acquisition.

The purchase price allocation related to the acquisition is not finalized and the allocation of the purchase price to the various assets acquired is subject to change.

6. Acquisition of IBS Canada and SSM Partners

On July 31, 2018, the Company completed the acquisition of all of the issued and outstanding shares of IBS Canada and SSM Partners pursuant to Share Purchase Agreements for a total consideration of $56,523,704.

Consideration consists of $5,025,060 in cash and the issuance of 36,857,676 Sproutly Canada common shares. As of August 31, 2018, $4,525,000 of the cash consideration is outstanding. If the Company is unable to satisfy the cash payment consideration within 12 months after the acquisition date, the seller of IBS Canada has the discretion to settle the remaining balance with Sproutly Canada common shares determined by the lower of a 25% discount to the 10 day volume weighted average trading price or $0.25 per share. As the remaining balance is contingent on whether the Company is able to generate additional financing, it was re-measured at a fair value of $4,479,759 based on management's judgement as to when the amount will be paid. The common shares issued were valued at $24,694,643.

The sellers are also entitled to an additional consideration of $4,975,000 in cash and 36,857,675 Sproutly Canada common shares if IBS Canada and SSM Partners are able to complete the milestones as per the earn-out provisions of the agreement within three years from the acquisition date. For the cash contingent consideration, if the Company is unable to settle the consideration balance within 12 months upon completion of the earn-out provision, the seller of SSM Partners has the discretion to settle the remaining balance with Sproutly Canada common shares determined by the lower of a 25% discount to the 10 day volume weighted average trading price or $0.25 per share. Both cash and equity contingent considerations were re-measured at fair value of $4,618,483 and $22,229,239 respectively, based on management's judgment on the probability and timing when the milestones will be completed, and will be evaluated every reporting period until completion.

(Unaudited – Expressed in Canadian Dollars)

6. Acquisition of IBS Canada and SSM Partners (continued)

For accounting purposes, acquisitions of IBS Canada and SSM Partners are accounted for as one aggregate transaction. IBS Canada has the licensing rights for the exclusive use of certain technology within specified jurisdictions for the development, use, ability to make, sell, offer for sale, import and export of water soluble and oil based projects from cannabis and hemp plants, while SSM Partners will provide the analytics to support the technology. The transaction is considered to be outside of the scope of IFRS 3 as both entities did not constitute businesses. As a result, it is accounted for as an asset acquisition in accordance to IAS 38 Intangible Assets ("IAS 38").

The aggregated consideration of $56,523,704 was allocated to intangible assets:

	$
Consideration	
Cash	500,060
Outstanding cash consideration - Due to related party(1)	4,479,759
Assumption of accounts payable	1,520
Common shares issued (36,857,676 shares)	24,694,643
Contingent cash consideration(2)	4,618,483
Contingent equity consideration	22,229,239
Total consideration	56,523,704

(1) Outstanding cash consideration of $4,525,000 was re-measured at fair value using effective interest rate of 2.03%.

(2) Contingent cash consideration of $4,975,000 was re-measured at fair value using effective interest rate of 2.03%.

7. Property, plant and equipment

	Land	Construction in Progress	Leasehold Improvements	Furniture & Fixtures	Computer Software and Equipment	Total
Costs	$	$	$	$	$	$
Balance, January 17, 2017	-	-	-	-	-	-
Additions (Note 5)	1,098,550	9,815,783	-	-	-	10,914,333
Balance, February 28, 2018	1,098,550	9,815,783	-	-	-	10,914,333
Additions	-	558,865	19,945	2,021	1,830	582,661
Balance, August 31, 2018	**1,098,550**	**10,374,648**	**19,945**	**2,021**	**1,830**	**11,496,994**

	Land	Construction in Progress	Leasehold Improvements	Furniture & Fixtures	Computer Software and Equipment	Total
Accumulated Depreciation	$	$	$	$	$	$
Balance, January 17, 2017	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Balance, February 28, 2018	-	-	-	-	-	-
Depreciation	-	-	6,648	674	143	7,465
Balance, August 31, 2018	**-**	**-**	**6,648**	**674**	**143**	**7,465**
Net Book Value						
February 28, 2018	**1,098,550**	**9,815,783**	**-**	**-**	**-**	**10,914,333**
August 31, 2018	**1,098,550**	**10,374,648**	**13,297**	**1,347**	**1,687**	**11,489,529**

The Company is constructing a 16,600 square foot production facility at THR located at Scarborough, Ontario. As at August 31, 2018, costs related to the construction of this facility were capitalized as construction in progress and not depreciated. Depreciation will commence when construction has been completed and the facility is available for its intended use.

(Unaudited – Expressed in Canadian Dollars)

8. Intangible assets

A continuity of the intangible assets for the six months ended August 31, 2018 is as follows:

	Balance at February 28, 2018	Acquisition Additions	Amortization	Balance at August 31, 2018
	$	$	$	$
Costs				
ACMPR license application (Note 5)	6,200,305	431,626	-	6,631,931
Technology license (Note 6)	-	56,523,704	-	56,523,704
	6,200,305	**56,955,330**	**-**	**63,155,635**

A continuity of the intangible assets for the year ended February 28, 2018 is as follows:

	Balance at January 31, 2017	Acquisition Additions	Amortization	Balance at February 28, 2018
	$	$	$	$
Costs				
ACMPR license application (Note 5)	-	6,200,305	-	6,200,305
	-	**6,200,305**	**-**	**6,200,305**

9. Accounts payable and accrued liabilities

	August 31, 2018	February 28, 2018
	$	$
Interest payable	481,334	864,981
Trade payables	686,735	768,256
Other payables	70,802	107,359
	1,238,871	**1,740,596**

10. Loans and borrowings

As at August 31, 2018, the Company held the following loans and borrowings:

		August 31, 2018	February 28, 2018
		$	$
Current			
On-demand loan	(a)	-	100,000
Borrowings	(b)	150,000	150,000
Mortgage payable with 0982244 B.C. Ltd.	(c)	-	1,446,754
Interest bearing loan with 2546308 Ontario Inc.	(d)	3,125,000	3,125,000
Related party loan with 1023409 B.C. Ltd.	(e)	46,156	49,000
Interest bearing loan with 1053797 B.C. Ltd.	(f)	-	1,990,628
		3,321,156	6,861,382
Long-term			
Mortgage payable with 0982244 B.C. Ltd.	(c)	1,013,633	-
Interest bearing loan with 0982244 B.C. Ltd.	(c)	888,504	876,587
Interest bearing loan with Bray Limited Partnership	(g)	-	1,581,887
		1,902,137	2,458,474
		5,223,293	**9,319,856**

10. Loans and borrowings (continued)

(a) On-demand loan

On October 16, 2017, the Company entered into an on-demand loan for the principal amount of $100,000. The loan is unsecured, bears no interest and due on demand. The balance was repaid on March 15, 2018.

(b) Borrowings

On November 2, 2017, the Company entered into an unsecured term loan for the principal amount of $150,000. The loan began to bear interest at a rate of 10% per annum effective on December 15, 2017 and will continue until full and final payment is received. The loan was received at the same time that an additional $150,000 was received for share subscriptions receivable at $0.35 per share. The difference between the share subscription receivable amount of $0.35 and the average share subscription receivable amount of $0.50 was treated as financing charges and initially offset against the loan. A finance fee of $69,832 was then recorded as an expense to record the loan at its principal amount of $150,000 as at February 28, 2018. The balance is outstanding and on due on demand as of August 31, 2018.

(c) Mortgage payable and interest bearing loan with 0982244 B.C. Ltd.

On June 24, 2015, THR entered into a secured, non-convertible loan of $3,250,000 with 0982244 B.C. Ltd. The loan has a fixed interest rate of 8.5% per annum compounded semi-annually with share purchase and loan conversion options. Loan was originally repayable on June 24, 2018. On February 28, 2018, the lender exercised its rights to purchase 2,399,918 of THR's common shares and $1,500,000 of the outstanding loan balance was converted to a shareholder loan with interest of 8.5% per annum compounded semi-annually due on February 28, 2023.

The original portion of the loan was re-measured at fair value using effective interest rate method at an effective interest rate of 19.6% on February 28, 2018 when THR was acquired by the Company.

On August 7, 2018, THR and the lender amended the $1,750,000 original loan agreement by extending the maturity date from June 24, 2018 to June 24, 2021 and changed the interest rate to 10.0% per annum. Changes in terms were deemed to be significant modifications of the financial liability and considered an extinguishment of the original liability. The new liability was measured at fair value using an effective interest rate of 19.43% on June 24, 2018 and a $740,308 gain on extinguishment of loan was recorded in the period ended August 31, 2018.

During the three and six months ended August 31, 2018, the Company incurred borrowing costs of $67,492 and $109,139 and recorded accretion expense of $3,942 and $29,849.

The $1,500,000 shareholder loan was determined to be below fair market value, an estimate was completed to determine third party interest rate of 21.10%. The loan was initially present valued and subsequently recorded at amortized cost using the effective interest rate. As of February 28, 2018, the carrying amount of the loan is $876,587.

On August 7, 2018, THR and the lender amended the loan agreement by reducing the maturity date from February 28, 2023 to June 24, 2021 and changed the interest rate to 10.0% per annum. Changes in terms were deemed to not represent a substantial modification of the original financial liability. A gain on modification of $26,620 was recognized based on the revaluation of the loan.

During the three and six months ended August 31, 2018, the Company incurred borrowing costs of $36,329 and $68,466 and recorded accretion expense of $26,576 and $38,536.

(d) Interest bearing loan with 2546308 Ontario Inc.

On November 22, 2016, THR entered into a secured, fixed interest rate of 8% per annum loan for the principal amount of $3,500,000 with 2546308 Ontario Inc., against which THR drew $3,125,000. The loan is secured by a mortgage with priority of repayment with a convertible feature to convert $131,362 of the loan equivalent to 23.4% of issued and outstanding common shares in THR. The conversion option expired on April 30, 2017 and the interest rate increased to 12% per annum and due on demand.

(Unaudited – Expressed in Canadian Dollars)

10. Loans and borrowings (continued)

(d) Interest bearing loan with 2546308 Ontario Inc. (continued)

On April 30, 2018, 2546308 Ontario Inc. assigned $200,000 of interest payable to Sproutly Inc. for 400,000 Sproutly common shares with a deemed value of $0.50 per share. The fair value of the common shares on the date of the assignment was $0.41 per share and the Company recognized a gain on extinguishment of interests of $36,000.

During the three and six months ended August 31, 2018, the Company incurred borrowing costs of $94,521 and $189,042 that was capitalized as part of construction in progress (three and six months ended August 31, 2017 - nil and nil respectively).

(e) Related party loan with 1023409 B.C. Ltd.

On July 18, 2017, the Company received an unsecured, interest-free, non-convertible loan of $49,000 from 1023409 B.C. Ltd. $2,844 was repaid on July 16, 2018 and the remaining balance is due on demand.

(f) Interest bearing loan with 1053797 B.C. Ltd.

On November 21, 2016, THR entered into an interest-free loan for the principal amount of $2,075,000 with 1053797 B.C. Ltd. This loan was repayable on October 31, 2017. On February 28, 2018, 1053797 B.C. Ltd. converted a portion of the loan into common shares of THR. The remaining balance is $1,990,628 and due on demand with a fixed interest rate of 4% per annum.

On April 10, 2018, 1053797 B.C. Ltd. forgave $36,687 of interest payable from THR and assigned the outstanding loan balance of $1,990,628 and $128,123 of interest payable to Sproutly Inc. for 3,201,513 Sproutly common shares with a deemed value of $0.622 per share. The fair value of the common shares on the date of the assignment was $0.41 per share and the Company recognized a gain on extinguishment of interests and loan of $806,131.

(g) Interest bearing loan with Bray Limited Partnership

On July 30, 2014, THR received a fixed rate loan at 4% interest from a shareholder (Bray Limited Partnership). This principal of the loan is $2,248,525 and loan is repayable in full at the end of the 5-year term on July 30, 2019. The loan is secured by a commercial security agreement against all property of the Company.

The loan was re-measured at fair value using the effective interest rate method at an effective interest rate of 20.2%. The carrying amount of the loan was $1,581,887 as of February 28, 2018.

On April 10, 2018, Bray Limited Partnership forgave $39,919 of interest payable from THR and assigned the outstanding loan balance of $1,619,979 and $245,142 of interest payable to Sproutly Inc. for 5,419,992 Sproutly common shares with a deemed value of $0.49 per share. The fair value of the common shares on the date of the assignment was $0.41 per share and the Company recognized a loss on extinguishment of interests and loan of $357,076. Accretion expense for the year prior to extinguishment was $38,062.

11. Convertible loans payable

	(i) $	(ii) $	Total $
Balance, January 17, 2017	-	-	-
Issued	330,000	815,000	1,145,000
Equity portion	(23,024)	(157,855)	(180,879)
Accretion	11,329	3,629	14,958
Balance, February 28, 2018	318,305	660,774	979,079
Issued	-	2,659,000	2,659,000
Equity portion	-	(474,899)	(474,899)
Accretion	11,695	187,396	199,091
Conversion	(330,000)	(3,032,271)	(3,362,271)
Balance, August 31, 2018	**-**	**-**	**-**

11. Convertible loans payable (continued)

(i) On November 30, 2017, the Company entered into an unsecured, non-interest bearing loan for $330,000. The loan was repayable in full on May 30, 2018. This loan contained a conversion feature. The conversion feature could be exercised by the holder on or before May 30, 2018.

The loan's embedded conversion feature was determined to meet the definition of a compound financial instrument required to assign a fair value to the debt with any residual amount recorded as equity. The conversion feature value has been determined to be $23,024. The borrowing amount represents the debt element of the loan, without the conversion option, recorded at its amortized cost at February 28, 2018 using an effective interest rate of 15%.

As at May 31, 2018, the loan and conversion feature were extended until November 30, 2018. On June 13, 2018 the lender exercised its rights to covert all principal amount outstanding into 1,100,000 units. Each unit consists of one common share and one half (1/2) of a share purchase warrant resulting in an issuance of 1,100,000 pre-reverse acquisition common shares and 550,000 pre-reverse acquisition warrants. As a result, $84,260 was recognized as warrant reserves with the residual balance recorded as share capital. On the date of the reverse acquisition, the conversion of shares and warrants was equivalent to 2,232,312 shares and 1,116,156 warrants of the Company.

(ii) The Company entered into convertible debentures with various third parties with $815,000 received as of February 28, 2018 and a further $2,659,000 as of May 31, 2018. Convertible debentures bear non-compounding interest rate of 10% per annum and are repayable in full on April 10, 2019. The conversion feature value has been determined to be $157,855 for the $815,000 tranche for the period ended February 28, 2018 and $474,899 for the $2,659,000 tranche for the period ended May 31, 2018. The borrowing amount represents the debt element of the loan, without the conversion option, recorded at its amortized costs at using effective interest rate of 21%.

The conversion feature could be exercised in the following manner:

- Automatic conversion upon reverse acquisition of Stone Ridge (Note 4).
- The holder shall have the right at any time to convert prior to the maturity date on April 10, 2019.

  If the acquisition by Stone Ridge is not completed by July 31, 2018, upon conversion of the debenture, holders will receive an additional 15% of common shares that the holder would otherwise be entitled to upon conversion of the debenture.

On June 18, 2018, holders exercised the rights of conversion and converted all of the principal amount outstanding, including accumulating interest of $79,658, into 10,870,452 pre-reverse acquisition common shares. On the date of the reverse acquisition, the conversion of shares is equivalent to 22,060,219 common shares.

12. Share Capital

(a) Authorized

Unlimited number of common shares without par value

(b) Escrow Shares

Pursuant to an escrow agreement dated July 6, 2018, 35,718,398 common shares of the Company were deposited into escrow with respect to the reverse acquisition. Under the escrow agreement, 10% of the escrowed common shares will be released on November 6, 2018 and 15% will be subsequently released every 6 months thereafter over a period of 36 months. As of August 31, 2018, no shares had been released from escrow.

12. Share Capital (continued)

(c) Issued and outstanding

Pre-reverse acquisition

(i) On January 17, 2017 on incorporation, Sproutly issued 9,300,000 shares for aggregate proceeds of $46,500.

(ii) On April 10, 2017, Sproutly issued 700,000 shares at for aggregate proceeds of $3,500.

(iii) From December 19, 2017 to January 31, 2018, Sproutly issued 7,413,160 Sproutly Units at an average price of $0.478 per Unit, to settle previously share subscriptions received and for new proceeds totaling $3,544,000. Each Sproutly Unit consists of one (1) Sproutly Share and one half (1/2) of a share purchase warrant (the "Sproutly Warrants"). Each whole Sproutly Warrant entitles the holder to acquire one additional Sproutly Share at a price of $1.50 per Sproutly Share for a period of 24 months following the date of issuance of the Sproutly Warrants. A reserve of $567,854 was recognized as equity.

(iv) On February 28, 2018, Sproutly issued 11,544,388 common shares at a price of $0.41 per share to the shareholders of THR in exchange for all of the issued and outstanding shares of THR (Note 5).

(v) On April 10, 2018, Sproutly issued 8,621,505 common shares valued at $0.41 per share to 1053797 B.C. Ltd. and Bray Limited Partnership for the assignment of THR loans and interest receivable to Sproutly.

(vi) On April 30, 2018, Sproutly issued 400,000 common shares valued at $0.41 per share to 2546308 Ontario Inc. for the assignment of $200,000 interest receivable from THR to Sproutly (Note 10(d)).

(vii) On June 13, 2018, 1,100,000 common shares were issued on the conversion of $330,000 convertible notes (Note 11). $19,337 was reclassified from reserves to share capital on the conversion of these notes.

(viii) June 18, 2018, 10,870,452 common shares were issued on the conversion of $3,032,271 convertible notes and interest of $79,658 (Note 11). $607,792 was reclassified from reserves to share capital on the conversion of these notes.

(ix) On June 18, 2018, 997,001 common shares were issued at a fair value of $408,770 as payment for financial advisory services.

On and after reverse acquisition

(x) On July 6, 2018, as a result of the reverse acquisition transaction as described in Note 4, the Company acquired all of the issued and outstanding 50,946,506 common shares of Sproutly Inc. in exchange for 103,389,536 common shares of the Company.

(xi) On July 31, 2018, 36,857,676 common shares were issued at a fair value of $24,694,643 pursuant to the acquisition of IBS Canada and SSM Partners (Note 6).

(xii) During the six months ended August 31, 2018, 1,161,940 warrants (August 31, 2017 – nil) were excised for gross proceeds of $200,101 (August 31, 2017 – nil). Non-cash compensation of $84,999 were reclassified from reserves to share capital on the exercise of these warrants.

As at August 31, 2018, there were 161,079,883 (February 28, 2018 – 58,765,702) issued and fully paid common shares.

(Unaudited – Expressed in Canadian Dollars)

12. Share Capital (continued)

(d) Share purchase warrants

Each whole warrant entitles the holder to purchase one common share of the Company. A summary of the status of warrants outstanding follows:

	Warrants	Weighted Average Exercise Price
	#	$
Balance, January 17, 2017	-	-
Granted	7,522,038	$0.74
Balance, February 28, 2018	7,522,038	$0.74
Granted: RTO warrants (Note 4)	4,387,500	$0.18
Granted	2,802,277	$0.19
Exercised	(1,161,940)	$0.17
Balance, August 31, 2018	**13,549,875**	**$0.50**

For the period ended August 31, 2018, the Company has granted 1,686,120 finder's warrants to third parties and recognized $231,846 in warrant reserves and financing fees.

The following table summarizes the warrants that remain outstanding as at August 31, 2018:

Exercise Price ($)	Warrants Outstanding (#)	Expiry Date
0.20	2,838,125	January 12, 2019
0.10	387,435	January 12, 2019
0.22	1,116,156	November 30, 2019
0.74	439,867	December 19, 2019
0.74	676,451	December 20, 2019
0.74	1,116,156	December 21, 2019
0.74	106,542	December 22, 2019
0.74	1,620,456	January 30, 2020
0.74	3,562,567	January 31, 2020
0.17	394,279	March 26, 2020
0.17	843,059	March 28, 2020
0.17	448,782	April 10, 2020
	13,549,875	

The fair value of warrants issued during the period was determine using the following weighted average assumptions at the time of grant using the Black-Scholes option pricing model:

	2018	2017
Volatility	100% to 137.4%	137.4%
Expected life	0.52 to 2 years	2 years
Risk-free rate	1.68% to 2.05%	1.68%

Volatility was estimated by using the historical volatility of other companies that the Company considers comparable that have trading history and volatility history. The expected life in years represents the period of time that warrants issued are expected to be outstanding. The risk-free rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

(Unaudited – Expressed in Canadian Dollars)

13. Share-based compensation

The Company grants incentive stock options as permitted pursuant to the Company's Stock Option Plan (the "Plan") approved by the shareholders which complies with the rules and policies of the Canadian Securities Exchange. Under the Plan, the aggregate number of common shares which may be subject to option at any time may not exceed 10% of the issued common shares of the Company as of that date including options granted prior to the adoption of the Plan. Options granted may not exceed a term of 10 years, and the term will be reduced to one year following the date of death of the Optionee. If the Optionee ceases to be qualified to receive options from the Company those options shall immediately expire. All options vest when granted unless otherwise specified by the Board of Directors. Options granted to persons providing investor relations activities to the Company must vest in stages over at least one-year period and no more than one-quarter of such options may be vested in any three month period.

	Stock Options #	Weighted Average Exercise Price $
Balance, January 17, 2017	-	-
Granted	3,044,058	$0.01
Balance, February 28, 2018	3,044,058	$0.01
Granted: RTO options (Note 4)	200,000	$0.20
Granted	9,958,749	$0.39
Balance, August 31, 2018	**13,202,807**	**$0.30**

The following table summarizes the stock options that remain outstanding as at August 31, 2018:

Exercise Price ($)	Options Outstanding (#)	Expiry Date	Options Exercisable (#)
0.02	200,000	May 5, 2020	200,000
0.01	1,014,687	March 25, 2027	1,014,687
0.01	1,927,906	March 25, 2027	169,114
0.01	101,465	April 18, 2027	16,911
0.25	4,058,749	March 25, 2027	-
0.25	2,500,000	July 6, 2028	-
0.60	600,000	July 6, 2028	-
0.67	2,800,000	August 1, 2028	-
	13,202,807		**1,400,712**

During the three and six months ended August 31, 2018, the Company recorded aggregated share-based payments of $452,255 and $618,612 respectively (three and six months ended August 31, 2017 - $89,672 and $154,391 respectively) for all stock options granted and vested during the period.

The fair value of stock options granted during the period was determine using the following weighted average assumptions at the time of grant using the Black-Scholes option pricing model:

	2018	2017
Volatility	100%	148%
Expected life	1.83 to 10 years	9 to 10 years
Risk-free rate	2.05% to 2.36%	1.22% to 1.40%

Volatility was estimated by using the historical volatility of other companies that the Company considers comparable that have trading history and volatility history. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

(Unaudited – Expressed in Canadian Dollars)

14. Related party transactions

(a) Compensation of key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers.

The remuneration of key management personnel during the quarter ended was as follows:

		Three months ended August 31,		Six months ended August 31,	
		2018	**2017**	**2018**	**2017**
		$	$	$	$
Management compensation	(i)	196,072	174,449	385,899	244,532
Share-based compensation	(ii)	317,843	87,434	477,018	151,107
		513,915	**261,883**	**862,917**	**395,639**

(i) As of August 31, 2018, the Company owes $83,115 to key management personnel.

(ii) Share-based payments are the fair value of options granted and vested to key management personnel and directors of the Company under the Company's stock option plan (Note 13).

(b) Loans from related parties

The Company has received loans from Bray Limited Partnership (Shareholder), 1023409 B.C. Ltd. (Shareholder) and on demand loan related to a Director of the Company.

	Note	**August 31, 2018**	**February 28, 2018**
		$	$
On-demand loan – Director	10	-	100,000
Loan payable – 1023409 B.C. Ltd.	10	46,156	49,000
Due to related parties – Bray Limited Partnership	10	-	1,581,887
		46,156	**1,730,887**

(c) Due to related party

The Company has an outstanding cash consideration payment of $4,479,759 as part of the acquisition of IBS Canada. The balance will be settled upon the closing special warrant bought deal financing (Note 21).

(Unaudited – Expressed in Canadian Dollars)

15. General and Administration

	Three months ended	August 31,	Six months ended	August 31,
	2018	2017	2018	2017
			$	$
Professional fees	716,677	54,300	1,354,757	93,800
Office and administration	185,596	78,430	418,239	80,143
Wages	415,327	110,114	762,905	190,667
	1,317,600	**242,844**	**2,535,901**	**364,610**

16. Finance and other costs

	Three months ended	August 31,	Six months ended	August 31,
	2018	2017	2018	2017
			$	$
Accretion expense	67,869	-	305,540	-
Bank charges	70	657	3,755	945
Financing fees	-	-	231,846	-
Interest expense	11,405	-	29,315	-
	79,344	**657**	**570,456**	**945**

17. Financial instruments and risk management

(a) Fair values of financial instruments

Fair value measurements and disclosures use the following hierarchy definitions in determining its classifications:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs

Cash, receivables, accounts payable and accrued liabilities, on-demand loans and current borrowings approximate their fair value due to their short-term nature. The initial fair value of the convertible loans payable, loan payable, contingent consideration payable and due to related party has been measured using Level 3 valuation methods and the following summarizes the key assumptions used to estimate fair value as at August 31, 2018:

17. Financial instruments and risk management (continued)

Valuation approach	Key inputs	Inter-relationship between inputs and fair value measurement
The liability of the convertible debenture was valued using Company specific interest rates assuming no conversion features existed. The debt component is accreted over the term to maturity as a non-cash interest charge and the initial equity component is $655,778.	Discount rate – 21% per annum.	As the discount rate decreases, the fair value increases.
The fair value of the contingent consideration payable and due to related party was driven by the Company's expectations of IBS Canada and SSM Partners achieving the milestones	Probabilities of achieving the milestones; Discount rate – 2.03%.	As the probabilities of achieving the milestones increases, the fair value increases. As the discount rate decreases, the fair value increases.

(b) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Receivables comprises loans advanced to third parties that are due on demand, unsecured and bear no interest. As the Company does not obtain collateral or security to support these advances, there is a risk that the Company will not collect on these advances. Should the Company not collect on these advances, it would have a significant effect on the Company.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its holdings of cash and financing opportunities.

Since incorporation, the Company's primary source of funding has been through debt and equity. The Company's access to financing is always uncertain. As at August 31, 2018, the Company had current assets of $760,959 to settle current liabilities of $13,208,779.

(d) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Currently the Company does not charge or is charged floating interest rates on its loans receivable, payables or other loan.

18. Capital Management

In the management of capital, the Company includes components of shareholders' equity. The Company aims to manage its capital resources to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and to maximize its financial flexibility by maintaining strong liquidity and by utilizing alternative sources of capital including equity, debt and bank loans or lines of credit to fund continued growth. The Company sets the amount of capital in proportion to risk and based on the availability of funding sources. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Additional debt and/or equity financing may be pursued in future as deemed appropriate to balance debt and equity. To maintain or adjust the capital structure, the Company may issue new shares, take on additional debt or sell assets to reduce debt. The Company is not subject to externally imposed capital requirements.

(Unaudited – Expressed in Canadian Dollars)

19. Commitments

On August 1, 2017 the Company entered into a two year office lease agreement at 1050 – 1095 West Pender St, Vancouver, British Columbia for monthly payments of $16,317 expiring on July 31, 2019.

Future lease payments of the remaining lease are $179,487.

	$
2019	97,902
2020	81,585
	179,487

20. Income tax

The Company's tax charge, which relates fully to deferred taxes, differs from the amount obtained by applying the Canadian statutory tax rate due to the following:

	August 31, 2018 $	**August 31, 2017 $**
Loss before taxes	(6,608,569)	(519,946)
Canadian combined federal and provincial statutory tax rate	27.01%	26.00%
Expected income tax recovery	(1,785,044)	(135,186)
Non-deductible items	1,194,590	-
Share issuance costs	-	(7,766)
Change in deferred tax asset not recognized and other	727,959	142,952
Total income tax expense	137,505	-

The unrecognized deductible temporary differences are comprised of the following:

	August 31, 2018 $	**February 28, 2018 $**
Non-capital losses carryforwards - Canada	7,724,733	6,261,565
Non-capital losses carryforwards - Barbados	30,161	-
Total unrecognized deductible temporary difference	**7,754,894**	**6,261,565**

The Company has non-capital loss carryforwards of approximately $7,724,733 which may be carried forward to apply against future income for Canadian income tax purposes, subject to final determination by taxation authorities, starting to expire in 2035.

The Company has non-capital loss carryforwards of approximately $30,161 which may be carried forward to apply against future year income tax for Barbados income tax purposes, subject to the final determination by taxation authorities expiring in 2025.

(Unaudited – Expressed in Canadian Dollars)

20. Income tax (continued)

The Company has incurred a deferred tax liability of $1,460,049 due to the following:

	August 31, 2018	**February 28, 2018**
	$	**$**
Non-capital loss carryforwards	2,067,830	1,670,914
Intangible assets	(1,757,462)	(1,643,081)
Loans payable	(581,287)	(609,504)
Convertible loan payable	-	(45,174)
Property, plant and equipment	11,573	9,681
Financing costs	127,212	16,526
	(132,134)	(600,638)
Deferred tax assets not recognized	(1,327,915)	(607,398)
Net deferred tax liability	**(1,460,049)**	**(1,208,036)**

21. Subsequent events

On October 25, 2018, the Company closed its previously announced bought deal offering, including the partial exercise of the underwriters' over-allotment option in the form of convertible debenture special warrants of the Company (the "CD Special Warrants"). A total of 10,750 CD Special Warrants at a price per CD Special Warrant of $1,000 and 15,400,000 equity special warrants of the Company (the "Equity Special Warrants") at a price per Equity Special Warrant of $0.65 were issued for aggregate gross proceeds of approximately $20.7 million (the "Offering"). The Offering was led by Canaccord Genuity Corp., on behalf of a syndicate of underwriters that included Haywood Securities Inc. and Eight Capital (collectively, the "Underwriters").

As previously announced, each CD Special Warrant and Equity Special Warrant will be automatically exercised, without payment of additional consideration, on the earlier of: (i) the Qualification Deadline (as defined below); and (ii) the third business day after the Prospectus Qualification (as defined below).

The holders of CD Special Warrants will receive, upon such deemed exercise and for no additional consideration, one convertible debenture unit of the Company (the "CD Units") for each CD Special Warrant held. Each CD Unit will be comprised of one senior unsecured convertible debenture of the Company (each, a "Convertible Debenture") and 667 common share purchase warrants (each, a "Warrant"). Each Warrant will entitle the holder to purchase one common share of the Company (each, a "Common Share") at an exercise price of $0.90 per Common Share for a period of 24 months from the date of closing of the Offering.

The holders of Equity Special Warrants will receive, upon such deemed exercise and for no additional consideration, one unit of the Company (the "Equity Units") for each Equity Special Warrant held. Each Equity Unit will be comprised of one Common Share and one-half of one Warrant.

The Convertible Debentures shall bear interest at a rate of 8.0% per annum from the date of issue, payable semi-annually in arrears on June 30 and December 31 of each year. The Convertible Debentures will have a maturity date of 24 months from the closing date of the Offering (the "Maturity Date").

The Convertible Debentures will be convertible at the option of the holder into Common Shares at any time prior to the close of business on the Maturity Date at a conversion price of $0.75 per Common Share (the "Conversion Price").

The Convertible Debentures will be subject to redemption, in whole or in part, by the Company at any time following the date that is 12 months from the date of issuance upon giving holders not less than 30 and not more than 60 days' prior written notice, at a price equal to the then outstanding principal amount of the Convertible Debentures plus all accrued and unpaid interest up to and including the redemption date. Upon a change of control of the Company, holders of the 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 change of control, at a price equal to 105% of the principal amount of the Convertible Debentures then outstanding plus accrued and unpaid interest thereon (the "Offer Price"). If 90% or more of the principal amount of the Convertible Debentures outstanding on the date of the notice of the change of control have been tendered

21. Subsequent events (continued)

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

The Company has agreed to use its best efforts to obtain a receipt for a final short form prospectus qualifying the distribution of the CD Units and Equity Units upon exercise of the CD Special Warrants and Equity Special Warrants respectively (together, the "Prospectus Qualification") on or before the date that is 60 days following closing of the Offering (the "Qualification Deadline"). If the Prospectus Qualification does not occur before the Qualification Deadline, each holder shall be entitled to receive, without payment of additional consideration, 1.05 CD Units per CD Special Warrant or 1.05 Equity Units per Equity Special Warrant. Until the Prospectus Qualification occurs, securities issued in connection with the Offering will be subject to a 4-month hold period from the date of issue.

Upon closing of the financing, the Company paid the outstanding cash consideration of $4,525,000 related to the acquisition of IBS Canada.