# SPROUTLY CANADA INC.

**MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (“MD&A”)**

**FOR THE SIX MONTHS ENDED AUGUST 31, 2018**

The following is a discussion and analysis of the financial condition and results of operations of Sproutly Canada Inc. ("Sproutly" or the "Company") for the six months ended August 31, 2018. This MD&A should be read in conjunction with the Company's unaudited interim financial statements and accompanying notes for the six months ended August 31, 2018. All amounts in the MD&A are in Canadian dollars, except share and per share amounts or as indicated otherwise. The Company's accounting policies are in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The effective date of this MD&A is October 29, 2018.

For reporting purposes, the Company prepares consolidated financial statements in Canadian dollars. Unless otherwise indicated, all dollar (‘‘$’’) amounts in this MD&A are expressed in Canadian dollars.

All references to we, our, us and Sproutly refer to the Company.

All references to management refer to the directors, senior officers and other officers of Sproutly, unless otherwise stated.

## Cautionary Statement on Forward Looking Information

This MD&A and the Company’s other public disclosure contain “forward-looking information” within the meaning of applicable Canadian securities laws (“forward-looking information”) concerning the Company's business plans, including, but not limited to, anticipated results and developments in the Company's operations in future periods and other matters that may occur in the future. In certain cases, forward-looking information can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “target”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, “determine”, “continue”, “projects”, “potential”, “proposed” or “believes”, or variations or the negative of such words and phrases, or statements that certain actions, events or results “may”, “could”, “whether to”, “would”, “should”, “likely”, “might” or “will be taken”, “occur” or “be achieved” or the negative of these terms or comparable terminology. Forward-looking information contained in this MD&A includes, but is not limited to, statements regarding the competitive and business strategies of the Company, the Company’s ongoing investment strategy, market prices, values and other economic indicators, receipt and timing of governmental approvals, including Health Canada approvals, the performance of the Company’s business and operations, the intention to grow the business, operations and potential activities of the Company, the expected production capacity and revenue of the Company’s projects, the competitive conditions of the industry, the anticipated changes to Canadian federal laws regarding the use of recreational cannabis and the business impacts on the Company, whether the Company will continue to be in compliance with regulatory requirements, the Company’s intention to build a brand and develop cannabis products, the Company’s intention to build valuable intellectual property and the anticipated benefits therefrom including accelerated sales growth and profit margins, analyses and other information based on expectations of future performance and planned products, possible events, conditions or financial performance that is based on assumptions about future economic conditions and courses of action, timing, costs and potential success of future activities on the Company's facilities and projects, future outlook and goals, permitting time lines and requirements, regulatory and legal changes and requirements for additional capital, whether the Company will have sufficient working capital and its ability to raise additional financing required in order to develop its business and continue operations, and planned expenditures and budgets and the execution thereof.

Forward-looking information is not a guarantee of future performance and is based upon a number of estimates and assumptions of management in light of management's experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances, including, without limitation, assumptions about possible events, conditions or financial performance that is based on assumptions about future economic conditions and courses of action, revenue from the Company's proposed operations, general economic, financial market, regulatory and political conditions in which the Company operates ,general demand and consumer interest in the Company's products, competition anticipated and unanticipated costs, the future market price of medical and recreational cannabis, the ability of the Company to generate cash flow from operations and obtain necessary financing on acceptable terms, government regulation of the Company's activities and products, including in the areas of taxation and environmental protection, the timely receipt of any required regulatory approvals, the ability of the Company to obtain qualified staff, equipment and services in a timely and cost-efficient manner, and the ability of the Company to conduct operations in a safe, efficient and effective manner.

While the Company considers these assumptions to be reasonable, the assumptions are inherently subject to significant business, social, economic, political, regulatory, competitive and other risks and uncertainties, contingencies and other factors that could cause actual actions, events, conditions, results, performance or achievements to be materially different from those projected in the forward-looking information. Many assumptions are based on factors and events that are not within the control of the Company and there is no assurance they will prove to be correct.

Furthermore, by their very nature, forward-looking information involves a variety of known and unknown risks, uncertainties and other factors which may cause the actual plans, intentions, events, results, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include, without limitation, those related to the industry-wide risks, fluctuations in capital markets and share prices, risks related to the ability to obtain financing needed to fund the continued development of the Company's business, the Company's ability to manage anticipated and unanticipated costs, risks related to securing users and customers of the Company's product, risks related to securing and protecting the Company's intellectual property rights, risks related to the Company's failure to economically commercialize its product, risks related to delays or other problems in the third-party manufacturing process, risks related to the Company's failure to obtain necessary Health Canada approvals as scheduled or at all, risks related to the Company's inability to maintain or improve its competitive position, risks related to the Company's ability to establish its business internationally, risks related to the Company's ability to maintain or improve upon the medical effectiveness and usefulness of its product to intended users in the medical services industry, risks related to the Company's failure to retain key personnel and hire additional personnel needed to develop its business, risks related to the Company's failure to adequately evaluate its current business and its future prospects, risks related to the Company's business practice reputation being negatively affected by unfavourable publicity or consumer perception of the cannabis industry or the Company, the impact of any negative scientific studies on the effects of cannabis, market conditions, volatility and global economic conditions, risks associated with agreements with third parties relating to the Company's business, including agreements to manufacture and sell the Company's product and the ability to conclude such agreements on favorable terms, environmental risks, governmental regulations, restrictions imposed by the Canadian Securities Exchange and other regulatory authorities on the Company's business, the uncertainty of profitability based upon the Company's history of losses, risks related to foreign exchange rate fluctuations, as applicable, insurance and tax risks, general risks and uncertainties related to the Company's 's prospects and business strategy; and the risks described in the section of this MD&A entitled "Risk Factors".

This is not an exhaustive list of the risks and factors that may affect the Company's forward-looking information. Although the Company has attempted to identify important factors that could affect the Company and may cause actual actions, events, conditions, results, performance or achievements to differ materially from those described in the forward-looking information, there may be other factors that cause actions, events, conditions, results, performance or achievements not to be as anticipated, estimated or intended. In addition to those discussed in this MD&A, please refer to the risks described in the Company's public disclosure record.

The Company cautions that the foregoing lists of important assumptions and factors are not exhaustive. Other events or circumstances could cause actual results to differ materially from those estimated or projected and expressed in, or implied by, the forward-looking information contained in this MD&A. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake any obligation to publicly update or revise any forward-looking information other than as required under applicable securities laws.

## Description of Business

Sproutly was incorporated as "Stone Ridge Exploration Corp." on January 26, 2012, pursuant to the BCBCA. On July 6, 2018, the Company closed a plan of arrangement under the CBCA pursuant to which, among other things, Sproutly, Inc. completed a reverse takeover of Stone Ridge (now, "Sproutly Canada, Inc."). Pursuant to the Arrangement, Stone Ridge changed its name to "Sproutly Canada, Inc." and Sproutly, Inc. became a wholly-owned subsidiary of the Company.

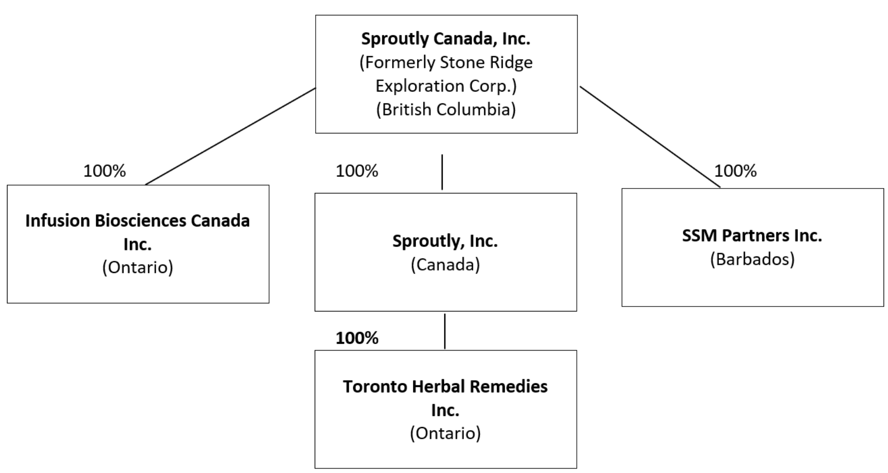
Sproutly Canada, Inc., through its wholly owned subsidiary Sproutly, Inc., is a licensed producer of medical cannabis pursuant to the Access to Cannabis for Medical Purposes Regulations (Canada) (the "ACMPR") and operates a 16,600 square foot production facility in Toronto, Ontario, Canada.

On July 6, 2018, the Company, under its former name, Stone Ridge Exploration Corp. ("Stone Ridge"), completed a reverse takeover transaction (the "Arrangement") pursuant to which it acquired all of the issued and outstanding shares of Sproutly Inc. In connection with the closing of the Arrangement, the Company changed its name from "Stone Ridge Exploration Corp." to "Sproutly Canada Inc.".

Immediately prior to the completion of the Arrangement, Stone Ridge completed a consolidation of the Stone Ridge Shares on the basis of one post-Consolidation share for every two pre-Consolidation shares. Pursuant to the Arrangement, among other things, shareholders of Sproutly Inc. received approximately two (2) post-Consolidation Stone Ridge Shares in exchange for each common share of Sproutly Inc. held by such shareholder immediately prior to the effective time of the Arrangement.

The Common Shares of the Company resumed trading following the Amalgamation on the CSE on July 9, 2018 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"

Due to the fact that the Arrangement was considered to be a reverse takeover transaction, the comparative financial information of the Company for the six-month period ended August 31, 2017 consists of financial information of Sproutly Inc. References to the Company in this MD&A prior to July 6, 2018 refer to Sproutly Inc. unless otherwise noted.



## Recent Developments

On June 8, 2018, THR received its license from Health Canada to produce marijuana for medical purposes under the ACMPR and is currently progressing through the cultivation phase and working towards its Sales License (see "**Risk Factors – Licensing Requirements under the ACMPR**").

On July 6, 2018, the Company closed the Arrangement pursuant to which Sproutly Sub completed a reverse takeover of Stone Ridge. Immediately prior to the completion of the Arrangement, Stone Ridge completed a consolidation of the Stone Ridge Shares on the basis of one post-Consolidation share for every two pre-Consolidation shares. Pursuant to the Arrangement, among other things, shareholders of Sproutly Sub received approximately two (2) post-Consolidation Stone Ridge Shares in exchange for each common share of Sproutly Sub held by such shareholder immediately prior to the effective time of the Arrangement. As a result of the Arrangement, former shareholders of Sproutly Sub held approximately 84% of the issued and outstanding Sproutly Shares immediately after completion of the Arrangement.

Only July 9, 2018, the Sproutly Shares began trading on the CSE under the symbol "SPR". Sproutly is also quoted on the Frankfurt, Berlin and Munich exchanges under the symbol "38G". In addition, Sproutly has submitted an application for an OTCQB listing and expects to receive approval in September 2018.

On July 31, 2018, the Company acquired all of the issued and outstanding shares of each of Infusion Biosciences Canada Inc. ("**Infusion Biosciences Canada**") and SSM Partners Inc. ("**SSM**") (collectively, the "**Acquisition**"). The Acquisition was completed pursuant to: (i) a share purchase agreement dated July 31, 2018 (the "**Infusion Share Purchase Agreement**") among Sproutly, Infusion Biosciences Canada and Infusion Biosciences Inc. ("**Infusion**"); and (ii) a share purchase agreement dated July 31, 2018 (the "**SSM Share Purchase Agreement**") among Sproutly, SSM and BNO Holdings Inc. ("**BNO**")

Pursuant to the Infusion Share Purchase Agreement, Sproutly acquired all of the issued and outstanding shares of Infusion Biosciences Canada in exchange for providing Infusion with the following consideration:

- 36,857,676 Sproutly Shares;
- $475,000 cash deposit
- $4,525,000 cash payment, due within 12 months from closing of the Acquisition and subject to adjustments as set forth in the Infusion Share Purchase Agreement; and
- an earn-out of up to an additional 14,743,070 Sproutly Shares upon Sproutly achieving certain milestones as set forth in the Infusion Share Purchase Agreement.

Pursuant to the SSM Share Purchase Agreement, Sproutly acquired all of the issued and outstanding shares of SSM for providing BNO with the following consideration:

- $25,060 cash deposit
- $4,975,000 cash payment due within 12 months from closing of the Acquisition or convertible into Sproutly Shares, subject to adjustments and SSM achieving certain milestones as set forth in the SSM Share Purchase Agreement; and
- an earn-out of up to 22,114,605 Sproutly Shares upon Sproutly achieving certain milestones as set forth in the SSM Share Purchase Agreement.

As a result of the Acquisition, Sproutly gains the exclusive rights for APP Technology in Canada, the European Union, Australia, Israel and Jamaica. APP Technology is a patent-pending process that uses proprietary combinations of common dietary ingredients to gently recover naturally water-soluble cannabinoids and the free cannabis oils in natural oils. APP Technology recovers between 85% - 90% of the total bioactive cannabinoids in the plant, distributed between Infuz20 and BioNatural Oil. In connection with the Acquisition, Dr. Arup Sen assumed the role of Chief Science Officer of the Company and joined the Board, and Paul Marcellino joined the Company as Business Development Officer.

On August 21, 2018, Sproutly entered into an exclusive technology license and use agreement (the “License Agreement”) with Minnesota State-based Micronutrient Technologies Inc. (“MTI”) to utilize its proprietary platform known as Minerals in Solution Technology (“MiST”) for use in creating cannabis and hemp-based beverages in select jurisdictions around the world. Under the License Agreement, Sproutly will be granted the exclusive right to utilize MiST and its water-soluble nutritional minerals to produce enhanced water, beverages and soluble nutritional mineral supplements that include a cannabis or hemp component for the recreational and medicinal markets. The license is applicable in Canada, Australia, Jamaica, Israel and all countries that are part of the European Union as of the date of the Licensing Agreement. MiST is a patent-pending technology that produces a 100% water soluble form of multiple minerals (including calcium, magnesium, zinc, potassium, sodium and trace minerals such as copper, iron, manganese, strontium) on the same molecular platform. MiST offers an unprecedented versatility in formulating unique combinations of micronutrients that address the growing consumer needs for health and wellness in modern lifestyle. MiST produces stand-alone or custom blends of minerals with other micronutrients in water solutions that will fortify a beverage in a single manufacturing step and has proven to be shelf stable in beverages for at least 2 years. The license provides Sproutly with the know-how developed over a decade in designing innovative beverages with multiple nutrients, including nutritional minerals, which are essential for health and wellness.

Pursuant to the License Agreement, MTI is entitled to a royalty between 1.5% to 3.0% of net sales received by Sproutly and/or its affiliates from products that utilize the licensed rights until the termination of the License Agreement.

## Outlook

Sproutly’s objective is to capitalize on the growing medicinal and impending legal recreational cannabis markets in Canada as well as other global jurisdictions that are legally regulated for Cannabis sales both medically and recreationally. Sproutly’s vision is to become a leader in the production of cannabis and cannabis-based products specifically in the beverage and consumables markets by utilizing the APP Technology. Sproutly will be working with partners to formulate, brand and distribute cannabis-infused beverages and other CPG products to the market as well as developing a proprietary line of consumable products.

Once Sproutly has obtained its license to sell from Health Canada, Sproutly intends to distribute its products through other licensed producers who have obtained a dealer’s license and to distribute its product through the distribution channels permitted in the recreational market beginning October 17, 2018.

## Results of Operations

### *Financial Results for the three months ended August 31, 2018*

During the three months ended August 31, 2018, the Company reported a net loss of $5,273,358 and a loss per share of $0.04, as compared to a net loss of $333,173 and a loss per share of $0.02 for the period ended August 31, 2017. The net loss for August 31, 2018 primarily consist of professional service fees to support the reverse takeover transaction, acquisitions and compliance, general and administrative expenses, marketing, share-based compensation and listing. These expenses were partially offset with gains on the extinguishment of loans.

### *Financial Results for the six months ended August 31, 2018*

During the six months ended August 31, 2018, the Company reported a net loss of $6,746,074 and a loss per share of $0.02, as compared to a net loss of $519,946 and a net loss per share of $0.03 for the period ended August 31, 2017.

The net loss for August 31, 2018 primarily consisted of general and administration costs of $2,535,901 consisting of wages, office expenses and professional services related to the reverse takeover, the acquisitions of Infusion Biosciences Canada and SSM, and regulatory compliance. In addition, the company has incurred a listing expense of $3,818,459 and recorded share-based compensation of $574,906. These expenses were partially offset by gains of $1,251,983 related to extinguishment of interest and loans.

During the six months ended August 31, 2018, the Company’s operating spending has been focused on the reverse takeover of Stone Ridge, the acquisitions of Infusion Biosciences Canada and SSM, and completing the THR production facility.

The following table sets forth the statement of comprehensive loss for the six months ended August 31, 2018 and 2017:

| | 2018<br>$ | 2017<br>$ |
|---|---:|---:|
| **Expenses** | | |
| Listing expense | 3,818,459 | - |
| Salaries and wages | 762,905 | 190,667 |
| Stock based compensation | 574,906 | 154,391 |
| Office expenses | 418,239 | 80,143 |
| Marketing | 300,097 | - |
| Professional fees | 1,354,757 | 93,800 |
| Interest and bank charges | 33,070 | 945 |
| Accretion expense | 305,540 | - |
| Financing fees | 231,846 | - |
| Depreciation | 7,465 | - |
| Foreign exchange | 31 | - |
| Gain on extinguishment of interest and loans | (1,251,983) | - |
| Deferred tax expense | 137,505 | - |
| Other | 53,237 | - |
| **Net loss and comprehensive loss** | **6,746,074** | **519,946** |

***Revenue***

The Company has no revenue to report as it is not yet earning revenues from its principal operations.

***Operating expenses***

Total operating expenses for the six months ended August 31, 2018 was $3,418,369. These expenses include professional services related to the reverse takeover transaction and compliance, marketing, general and administrative expenses, and share-based compensation.

Salaries and wages consist of salaries for seven management staff, two management contractors, and seven employees. Stock based compensation relates to the stock option expense for options granted to employees, consultants and Board members during the period. Office expenses relate to the lease of office space as well as general administrative expenses. Professional fees consist of legal and accounting fees related to the public listing transaction, acquisitions and compliance. Marketing expenses consist of investor relations and brand awareness. Other expenses include travel and other miscellaneous costs.

There was no income tax expense during the period.

***Net loss***

The net loss for the six months ended August 31, 2018 was $6,608,569.

**Summary of Quarterly Results**

| | **Aug 31, 2018 $** | **May 31 2018 $** | **Feb 28 2018 $** | **Nov 30 2017 $** | **Aug 31 2017 $** | **May 31 2017 $** | **Feb 28 2017 $** |
|---|---|---|---|---|---|---|---|
| Revenue | -- | -- | -- | -- | -- | -- | -- |
| Net loss (i) | 5,273,358 | 1,472,716 | 1,677,043 | 473,614 | 333,173 | 186,773 | -- |
| Net loss per share (ii)(iii) | 0.04 | 0.04 | 0.05 | 0.02 | 0.02 | 0.01 | 0.00 |

(i) Net loss for the quarter ended August 31, 2018 reflects amortization of $6,001, share-based compensation of $408,549, listing expense of $3,818,459, accretion of $67,869 and gain on extinguishment of debt of $766,928. Net loss for the quarter ended May 31, 2018 reflects amortization of $1,464, share-based compensation of $166,357, financing fees of $231,846, accretion of $237,671 and gain on extinguishment of debt and interest of $485,055. Net loss for the quarter ended February 28, 2018 reflects bad debt of $984,461, share-based compensation of $87,007, accretion of $13,566, financing fees of $4,449 and deferred tax recovery of $28,648. Net loss for the quarter ended November 30, 2017 reflects share-based compensation of $88,697 and financing fees of $66,750. August 31, 2017 reflects share-based compensation of $89,672. Net loss for the quarter ended May 31, 2017 reflects share-based compensation of $64,719.

(ii) Net loss per share fluctuates from period to period and is impacted by the amount of loss incurred and the number of weighted average number of common shares outstanding.

(iii) On July 6, 2018, the Company completed a reverse takeover transaction with Sproutly Inc. For the period in which a reverse acquisition occurs, the weighted-average number of common shares outstanding is calculated as the weighted average of:

- for the period from the beginning of the reporting period to the RTO date: the weighted average number of common shares of Sproutly Inc. (accounting acquirer) outstanding during that period multiplied by the exchange ratio established in the acquisition agreement (1:2), and

- for the period from the RTO date to the end of the reporting period: the actual number of common shares of Sproutly Canada Inc. (legal acquirer) outstanding during that period.

## Financial Condition, Liquidity and Capital Resources

| | August 31, 2018 | February 28, 2018 |
|---|---|---|
| Cash | $ 282,212 | $ 741,385 |
| Other current assets | 478,747 | 395,670 |
| Non-current assets | 75,967,708 | 18,322,674 |
| Current liabilities | 13,208,779 | 9,581,057 |
| Non-current liabilities | 3,811,676 | 3,666,510 |
| Current working capital | (12,447,820) | (8,444,002) |

At as August 31, 2018, the Company had cash available of $282,212. The Company consumed $3,560,543 in operating activities during the six months ended August 31, 2018. The Company has incurred losses to date. The Company expects to generate revenue commencing in fiscal 2020 and will incur losses until revenues reach a level where operations become profitable. The Company's ability to reach profitability is dependent on successful implementation of its business strategy. While Management is confident in the success and profitability of the business, there can be no assurance that Sproutly will gain adequate market acceptance for its products or be able to generate sufficient gross margins to reach profitability.

Cash from Financing Activities

During the six month period ended August 31, 2018, Sproutly received $2,659,000 from convertible debentures and $200,101 from warrant exercises. The Company also paid $102,844 in demand loans.

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 received as of May 31, 2018. These convertible debentures bear non-compounding interest rate of 10% per annum and 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%.

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 was equivalent to 22,060,219 common shares.

Cash from Investing Activities

During the six month period ended August 31, 2018, Sproutly received $561,126 from the reverse takeover of Stone Ridge, and used $216,013 for plant and equipment.

Capital Resources

To date and for the foreseeable future, the Company expects to finance its operations through the issuance of common shares until the point at which its operations are profitable and self- funding. The Company periodically evaluates the opportunity to raise additional funds through either the public or private placement of equity capital to strengthen its financial position and to provide sufficient cash reserves for growth and development of the business. The Company has completed a $20,760,000 special warrant bought deal financing on October 25, 2018 (see "**Subsequent Events**") to finance the development of the business as well as facilitating ongoing operations.

## Outstanding Share Data

The following table summarizes the maximum number of common shares potentially outstanding as at August 31, 2018 and as of the date of this MD&A if all outstanding options and warrants were converted to common shares:

| | As of August 31, 2018 | As of the date of this MD&A |
|---|---|---|
| Common shares | 161,079,883 | 179,282,466 |
| Contingent equity considerations | 36,857,657 | 36,857,657 |
| Options | 13,202,807 | 13,152,811 |
| Warrants | 13,549,875 | 21,875,624 |
| Convertible notes | -- | 21,103,333 |
| Fully diluted | 224,690,222 | 272,271,891 |

## Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

## Related Party Transactions and Balances

(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 | | Six months ended | |
|---|---|---|---|---|---|
| | | **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.

(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.

| | **August 31, 2018** | **February 28, 2018** |
|---|---|---|
| | $ | $ |
| On-demand loan – Director | - | 100,000 |
| Loan payable – 1023409 B.C. Ltd. | 46,156 | 49,000 |
| Due to related parties – Bray Limited Partnership | - | 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 Infusion Biosciences Canada. The balance was settled upon the closing special warrant bought deal financing.

## 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 judgment, estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements are described in Note 2(e) to the Company's interim financial statements.

## Recent Accounting Pronouncements Adopted

For details please refer to Note 2(f) of the August 31, 2018 financial statements.

## Financial Instruments and Other Instruments

For details please refer to Note 10, Note 11 and Note 17 of the August 31, 2018 financial statements.

## 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** |

## Disclosure Controls and Procedures

The Company has disclosure controls and procedures in place to provide reasonable assurance that any information required to be disclosed by the Company under securities legislation is recorded, processed, summarized and reported within the applicable time periods and that required information is gathered and communicated to the Company's management so that decisions can be made about the timely disclosure of that information.

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. Any system of internal controls over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management, including Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, the Company's management cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company has been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## Risks and Uncertainties

There are a number of risk factors that could cause future results to differ materially from those described herein. The following are certain risk factors relating to the business carried on by the Company, which prospective investors should carefully consider before deciding whether to purchase Sproutly Shares. The risks and uncertainties described herein are not the only ones that the Company faces. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect the Company's business. If any of the following risks actually occur, the Company's business may be harmed and its financial condition and results of operation may suffer significantly. References to the Company include its owned and partially-owned subsidiaries and affiliates in which the Company has an interest, as applicable.

**Factors related to the THR Facility which may Prevent Realization of Business Objectives**

The THR Facility was completed as of completed as of September 12, 2018. The only additional need for capital expenditures relates to the addition of APP Technology equipment. The commencement of production could have a material effect on the Company's business, financial condition and prospects.

It is the first time that the THR Facility will be used for the production of cannabis and there are potential unseen issues that may arise. The Company has taken consideration measure and incurred substantial costs to ensure that the equipment, building and processes are of the highest quality.

Some additional risks related to the THR Facility are as follows:

(a) breakdown, aging or failure of equipment or processes;
(b) contractor or operator errors;
(c) labour disputes, disruptions or declines in productivity;
(d) inability to attract sufficient number of qualified workers;
(e) disruption in the supply of energy and utilities; or
(f) major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

**Timeframes and Cost to Obtain a Licence Under the ACMPR**

The timeframes and costs required for the Company, or any applicant for a licence under the ACMPR, to build the infrastructure required, to apply for and to receive a licence can be significant. Estimates of the timeframe and costs cannot be reliably determined at this time. The Company is at stage 3 of the licensing process. The Company has ordered its starting materials from another licensed producer and within 10 days of receipt of such starting materials an introductory inspection will be scheduled with Health Canada. The current backlog of applications from other licensees with Health Canada and the anticipated timeframe for processing and approval of any application cannot be reliably determined at this time.

Ultimately, in the process of meeting all licensing requirements, a facility meeting the rigorous requirements of Health Canada must be available for inspection by Health Canada before any licence can be granted.

The Company is in the process of starting its cultivation from materials received from another licensed producer in Canada. Cannabis clones were ordered in September 2018 and the Company expects to complete its first harvest in Q4, 2018.

**The Company's Actual Financial Position and Results of Operations May Differ Materially from the Expectations of the Company's Management.**

The Company's actual financial position and results of operations may differ materially from management's expectations. The Company's revenue, net income and cash flow may differ materially from the Company's projected revenue, net income and cash flow. The process for estimating the Company's revenue, net income and cash flow requires the use of judgment in determining the appropriate assumptions and estimates. These estimates and assumptions may be revised as additional information becomes available and as additional analyses are performed. In addition, the assumptions used in planning may not prove to be accurate, and other factors may affect the Company's financial condition or results of operations.

**The Company Expects to Incur Significant Ongoing Costs and Obligations Related to its Investment in Infrastructure, Growth, Regulatory Compliance and Operations.**

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure and growth and for regulatory compliance, which could have a material adverse impact on the Company's results of operations, financial condition and cash flows. In addition, future changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. Our efforts to grow our business may be costlier than we expect, and we may not be able to increase our revenue enough to offset our higher operating expenses. We may incur significant losses in the future for a number of reasons, including the other risks described in this AIF, and unforeseen expenses, difficulties, complications and delays and other unknown events. If we are unable to achieve and sustain profitability, the market price of the Sproutly Shares may significantly decrease.

**Regulatory Risks**

The proposed activities of the Company will be subject to regulation by governmental authorities, particularly Health Canada's Office of Controlled Substances and the Canada Revenue Agency. The Company's business objectives are contingent upon, in part, compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain, regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

Furthermore, although the operations of the Company are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Company's ability to produce or sell medical marihuana. Amendments to current laws and regulations governing the importation, distribution, transportation and/or production of medical marihuana, or more stringent implementation thereof, could have a substantial adverse impact on the Company.

**Governmental Regulations and Risks**

The operations for the licence of the production of medical marihuana is subject to environmental regulation in the jurisdiction in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non- compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Government approvals and permits are currently, and may in the future be, required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from its proposed production of medical marihuana or from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing the production of medical marihuana, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in expenses, capital expenditures or production costs or reduction in levels of production or require abandonment or delays in development.

**Legislative or Regulatory Reform**

The Company's operations will be subject to a variety of laws, regulations, guidelines and policies relating to the manufacture, import, export, management, packaging/labeling, advertising, sale, transportation, storage and disposal of medical marihuana along with laws and regulations relating to drugs, controlled substances, health and safety, conduct of operations and protection of the environment. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to its operations. The Company endeavours to comply with all relevant laws, regulations and guidelines. To the best of the Company's knowledge, the Company is in compliance or in the process of being assessed for compliance with all such laws, regulations and guidelines as described elsewhere in this AIF.

On December 20, 2017, the Prime Minister communicated that the Canadian Federal Government intends to legalize cannabis in October 2018, despite previous reports of a July 1, 2018 deadline. On June 7, 2018, Bill C45 passed the third reading in the Senate with a number of amendments to the language of the *Cannabis Act*. On June 20, 2018, Prime Minister Trudeau announced that cannabis would be legal by October 17, 2018. On June 21, 2018, the Government of Canada announced that Bill C-45 received Royal Assent. Bill-C-45 will come into force on October 17, 2018. On July 11, 2018, the regulations made pursuant to the *Cannabis Act* were published. The regulations under the *Cannabis Act* contemplate the various licences including cultivation, processing, analytical testing, sale (including medical sales), analytical testing and scientific research. The regulations introduced the nursery and made outdoor cultivation permissible. Finally, the requirements for packaging and labelling of products for both medical and non-medical consumption were explicitly set forth. The impact of changes in the regulatory enforcement by Health Canada under the *Cannabis Act* and its regulations, particularly in respect of product packaging, labelling, marketing, advertising and promotions and product approvals and its impact on the Company's business are unknown at this time.

In addition, when the *Cannabis Act* comes into effect, there is no guarantee that provincial legislation regulating the distribution and sale of cannabis for adult use purposes will be enacted according to the terms announced by such provinces, or at all, or that any such legislation, if enacted, will create the opportunities for growth anticipated by the Company. For example, the Provinces of Québec and

New Brunswick have announced sales and distribution models that would create government-controlled monopolies over the legal retail and distribution of cannabis for adult use purposes in such provinces, which could limit the Company's opportunities in those provinces.

**The Cannabis Industry and Market are Relatively New in Canada and this Industry and Market May Not Continue to Exist or Grow as Anticipated or the Company May Be Ultimately Unable to Succeed in this New Industry and Market.**

The Company and its subsidiaries are operating their businesses in a relatively new industry and market. In addition to being subject to general business risks, the Company must continue to build brand awareness in this industry and market through significant investments in its strategy, its production capacity, quality assurance and compliance with regulations. In addition, there is no assurance that the industry and market will continue to exist and grow as currently estimated or anticipated or function and evolve in the manner consistent with management's expectations and assumptions. Any event or circumstance that adversely affects the cannabis industry and market could have a material adverse effect on the Company's business, financial conditions and results of operations.

**The Company's Industry is Experiencing Rapid Growth and Consolidation that May Cause the Company to Lose Key Relationships and Intensify Competition.**

The cannabis industry is undergoing rapid growth and substantial change, which has resulted in an increase in competitors, consolidation and formation of strategic relationships. Acquisitions or other consolidating transactions could harm the Company in a number of ways, including the loss of strategic partners if they are acquired by or enter into relationships with a competitor, losing customers, revenue and market share or forcing the Company to expend greater resources to meet new or additional competitive threats, all of which could harm the Company's operating results. As competitors enter the market and become increasingly sophisticated, competition in the Company's industry may intensify and place downward pressure on retail prices for its products and services, which could negatively impact its profitability.

**Limited Operating History**

THR was incorporated and began carrying on business in 2013. It became a wholly owned subsidiary of Sproutly Sub on February 28, 2018 and is yet to generate any revenue. The Company is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

**History of Losses**

The Company has incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, it will not be profitable.

**Risks Inherent in an Agricultural Business**

The Company's business may, in the future, involve the growing of medical marihuana, an agricultural product. Such business will be subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although all such growing is expected to be completed indoors under climate controlled conditions, there can be no assurance that natural elements will not have a material adverse effect on any such future production.

**Reliance on Management**

Another risk associated with the production and sale of medical marihuana is the loss of important staff members. The Company is currently in good standing with all high level employees and believes that with well managed practices it will remain in good standing. The success of the Company will be dependent upon the ability, expertise, judgment, discretion and good faith of its senior management and key personnel. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

**If the Company is Unable to Attract and Retain Key Personnel, it May Not Be Able to Compete Effectively in the Cannabis Market.**

The Company’s success has depended and continues to depend upon its ability to attract and retain key management, including the Company’s CEO, technical experts, management team and sales personnel. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company’s inability to retain employees and attract and retain sufficient additional employees or engineering and technical support resources could have a material adverse effect on the Company’s business, results of operations, sales, cash flow or financial condition. Shortages in qualified personnel or the loss of key personnel could adversely affect the financial condition of the Company, results of operations of the business and could limit the Company’s ability to develop and market its cannabis-related products. The loss of any of the Company’s senior management or key employees could materially adversely affect the Company’s ability to execute its business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all. The Company does not maintain key person life insurance policies on any of its employees.

**Insurance and Uninsured Risks**

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labour disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although the Company maintains and intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

**The Company Currently has Insurance Coverage; However, Because the Company Operates Within the Cannabis Industry, There are Additional Difficulties and Complexities Associated with Such Insurance Coverage.**

The Company believes that it currently has insurance coverage with respect to workers’ compensation, general liability, directors’ and officers’ insurance, fire and other similar policies customarily obtained for businesses to the extent commercially appropriate; however, because the Company is engaged in and operates within the cannabis industry, there are exclusions and additional difficulties and complexities associated with such insurance coverage that could cause the Company to suffer uninsured losses, which could adversely affect the Company's business, results of operations and profitability. There is no assurance that the Company will be able to fully utilize such insurance coverage, if necessary.

**Difficult to Forecast**

The Company must rely largely on its own market research to forecast sales, as detailed forecasts are not generally obtainable from other sources at this early stage of the medical marihuana industry in Canada. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

**The Size of the Company's Target Market is Difficult to Quantify, and Investors Will be Reliant On Their Own Estimates On the Accuracy of Market Data.**

Because the cannabis industry is in a nascent stage with uncertain boundaries, there is a lack of information about comparable companies available for potential investors to review in deciding about whether to invest in the Company and few, if any, established companies whose business model the Company can follow or upon whose success the Company can build. Accordingly, investors will have to rely on their own estimates in deciding about whether to invest in the Company. There can be no assurance that the Company's estimates are accurate or that the market size is sufficiently large for its business to grow as projected, which may negatively impact its financial results.

**Management of Growth**

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

**Internal Controls**

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company will undertake a number of procedures and will implement a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on the Company under Canadian securities law, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's consolidated financial statements and materially adversely affect the trading price of Sproutly Shares.

**Risks Related to the Medical Marihuana Industry**

Dried marijuana is not an approved drug or medicine in Canada. The Government of Canada does not endorse the use of marijuana, but the courts have required reasonable access to a legal source of marijuana when authorized by a healthcare practitioner.

The Company is in the process of submitting to Health Canada, an addition of activity to process and sell cannabis oils at its THR Facility. This additional license will allow the Company to operate the APP equipment at its wholly owned subsidiary for the production of Infuz2O and Bio-natural Oils. The Company and Infusion Biosciences are in the process of finalizing the analytics around the Infuz2O products through a research agreement with Trace Analytics in Spokane, Washington.

**The Company's Success to Date Has Relied Upon Licenses Which Must Be Renewed and Involve Ongoing Compliance and Reporting Requirements**

The Company’s success to date has relied upon the following factors:

- the Company, through its indirect wholly owned subsidiary THR, was granted its licence to cultivate cannabis as of June 8, 2018;
- the Company personnel have passed through the security clearance stage of the licensing process;
- the Company has completed the build out of its THR Facility; and received all of its permits;
- the Company through THR has ordered its starting material to commence cultivation; and
- the Company will be undergoing its first audit within 10 days of receiving its starting material.

Even though the Company has obtained a licence, such licence will subject the Company to ongoing compliance and reporting requirements. Failure to comply with the requirements of the licence or any failure to maintain the licence could have a material adverse impact on the business, financial condition and operating results of the Company. Upon expiration of the licence, the Company would be required to submit an application for renewal to Health Canada containing information prescribed under the ACMPR, and renewal cannot be assured.

**Licensing Requirements Under the ACMPR**

The market for cannabis (including medical marihuana) in Canada is regulated by the Controlled Drugs and Substances Act (“**CDSA**”), the ACMPR, the Narcotic Control Regulations and other applicable law. Health Canada is the primary regulator of the industry as a whole. The ACMPR aims to treat cannabis like any other narcotic used for medical purposes by creating conditions for a new commercial industry that is responsible for its production and distribution.

Applicants and licensed producers are required to demonstrate compliance with regulatory requirements, such as quality control standards, record-keeping of all activities, including inventories of marihuana, and physical security measures to protect against potential diversion. Licensed producers are also required to employ qualified quality assurance personnel who ultimately approve the quality of the product prior to making it available for sale. This approval process includes testing (and validation of testing) for microbial and chemical contaminants to ensure that they are within established tolerance limits for herbal medicines for human consumption as required under the Food and Drugs Act and determining the percentage by weight of.

The CRA is responsible for licensing cultivators, producers and packagers of cannabis products and collecting federal duties and taxes. Provincial and territorial governments are responsible for the distribution and retail sale of cannabis. CRA Licensees are required to register for the cannabis stamping regime (if packaging cannabis products for final sale), calculate the duty imposed on cannabis, report, file and remit the monthly duty payable, report on unpackaged and packaged cannabis product inventories. The licenses are valid for a maximum of two years and the licensee must reapply for a license renewal at least 30 days before the expiry of the licence.

Cultivators, producers and packagers of cannabis products are required to obtain a cannabis licence from the CRA before production. In order to qualify for a CRA cannabis licence, applicants are also required to obtain a license from Health Canada. Failure to comply with CRA licensing requirements can result in revocation both the CRA license and the license from Health Canada.

**The Expansion of the Medical Cannabis Industry May Require New Clinical Research into Effective Medical Therapies, When Such Research Has Been Restricted in the U.S. and Is New to Canada.**

Research in Canada and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids, such as CBD and tetrahydrocannabinol ("**THC**"), remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids, such as CBD and THC. Although the Company believes that the articles, reports and studies support its beliefs regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, investors should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those stated in this AIF or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to medical cannabis, which could have a material adverse effect on the demand for the Company's products with the potential to lead to a material adverse effect on the Company's business, financial condition and results of operations.

**Under Canadian Regulations, a Licensed Producer of Cannabis May Have Restrictions on the Type and Form of Marketing It Can Undertake, Which Could Materially Impact the Company's Sales Performance.**

The development of the Company's future business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by Health Canada. The regulatory environment in Canada limits the Company's ability to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and operating results could be adversely affected.

**The Company could be Liable for Fraudulent or Illegal Activity By Its Employees, Contractors and Consultants Resulting in Significant Financial Losses or Claims Against the Company.**

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on the Company's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

**The Company May Be Subject to Breaches of Security At Its Facilities.**

Given the nature of the Company's product and its lack of legal availability outside of channels approved by the Government of Canada, as well as the concentration of inventory in its facilities, despite meeting or exceeding Health Canada's security requirements, there remains a risk of shrinkage as well as theft. A security breach at one of the Company's facilities could expose the Company to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company's products.

**The Company's Officers and Directors May Be Engaged In a Range of Business Activities Resulting In Conflicts of Interest.**

The Company may be subject to various potential conflicts of interest because some of its officers and directors may be engaged in a range of business activities. In addition, the Company's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Company's business and affairs and that could adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers and directors.

In addition, the Company may also become involved in other transactions which conflict with the interests of its directors and the officers who may from time to time deal with persons, firms, institutions or companies with which the Company may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the Company. In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, if such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

**Unfavourable Publicity or Consumer Perception**

Management of the Company believes the medical marihuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical marihuana produced. Consumer perception of the Company's proposed products may be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical marihuana products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical marihuana market or any particular product, or consistent with earlier publicity.

Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and the Company's cash flows. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical marijuana in general, or the Company's products specifically, or associating the consumption of medical marijuana with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

**Product Liability**

If licensed as a distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the sale of the Company's products would involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, provide inadequate instructions for use or provide inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and financial condition of the Company. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products.

**The Company May Not Be Able to Develop its Products, Which Could Prevent It From Ever Becoming Profitable.**

If the Company cannot successfully develop, manufacture and distribute its products, or if the Company experiences difficulties in the development process, such as capacity constraints, quality control problems or other disruptions, the Company may not be able to develop market-ready commercial products at acceptable costs, which would adversely affect the Company's ability to effectively enter the market. A failure by the Company to achieve a low-cost structure through economies of scale or improvements in cultivation and manufacturing processes would have a material adverse effect on the Company's commercialization plans and the Company's business, prospects, results of operations and financial condition.

**If the Company Is Unable to Develop and Market New Products, It May Not Be Able to Keep Pace With Market Developments.**

The cannabis industry is in its early stages and it is likely that the Company and its competitors will seek to introduce new products in the future. In attempting to keep pace with any new market developments, the Company will need to expend significant amounts of capital in order to successfully develop and generate revenues from new products. The Company may also be required to obtain additional regulatory approvals from Health Canada and other applicable authorities which may take significant time. The Company may not be successful in developing effective and safe new products, bringing such products to market in time to be effectively commercialized or obtaining any required regulatory approvals, which together with capital expenditures made in the court of such product development and regulatory approval processes, may have a material adverse effect on the Company's business, financial condition and results of operations.

**There is No Assurance that the Company Will Turn a Profit or Generate Immediate Revenues.**

There is no assurance as to whether the Company will be profitable, earn revenues or pay dividends. The Company has incurred and anticipates that it will continue to incur substantial expenses relating to the development and initial operations of its business. The payment and amount of any future dividends will depend upon, among other things, the Company's results of operations, cash flow, financial condition and operating and capital requirements. There is no assurance that future dividends will be paid, and, if dividends are paid, there is no assurance with respect to the amount of any such dividends.

**Product Recalls**

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

**Competition**

The Company will face competition from other companies, some of which have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. In addition, the government has only issued to date a small number of licenses under the ACMPR to produce and sell medical marihuana. There are, however, several hundred applicants for licenses. The number of licenses granted could have an impact on the operations of the Company. Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. If the number of users of medical marihuana in Canada increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support.

The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

**The Company's Operations Are Subject to Environmental Regulation in the Various Jurisdictions in Which It Operates.**

Government environmental approvals and permits are currently and may in the future be required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from its proposed business activities or from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable environmental laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. The Company may be required to compensate those suffering loss or damage due to its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

**Anti-Bribery and Anti-Corruption Laws**

The Company is subject to anti-bribery and anti-corruption laws, including the *Corruption of Foreign Public Officials Act* (Canada). Failure to comply with these laws could subject the Company to, among other things, reputational damage, civil or criminal penalties, other remedial measures and legal expenses, which could adversely affect the Company's business, results of operations and financial condition. It may not be possible for the Company to ensure compliance with anti-bribery and anti-corruption laws in every jurisdiction in which its employees, agents, sub-contractors or joint venture partners are located or may be located in the future.

**Market Risks for Securities**

The market price of the Sproutly Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company, general economic conditions, legislative changes and other events and factors outside of the Company's control.

**Dividends**

As set out below under the heading "*Dividends and Distributions*", the Company has not paid any dividends on the issued and outstanding Sproutly Shares to date and may not pay dividends in the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of the Board and will depend on, among other things, financial results, cash requirements, contractual restrictions and other factors that the Board may deem relevant. As a result, investors may not receive any return on an investment in the Sproutly Shares unless they sell their Sproutly Shares for a price greater than that which such investors paid for them.

**Financing Risk**

The Company will be dependent upon the capital markets to raise additional financing in the future. As such, the Company is subject to liquidity risks in meeting its development and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. An economic downturn of global capital markets has been shown to make the raising of capital by equity or debt financing more difficult. These and other factors may impact the Company's ability to raise equity or obtain loans and other credit facilities in the future and on terms favorable to the Company and its management. The Company may not be able to raise capital on favorable terms or at all, which could have an adverse impact on the Company's operations and the trading price of the Sproutly Shares. Additionally, future financing may substantially dilute the interests of the Company's shareholders.

## 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 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.

**CORPORATE DIRECTORY**

**Trading Symbol – SPR**
**Exchange - CSE**

**Sproutly Canada Inc.**
Suite 1050 - 1095 West Pender Street
Vancouver, BC
V6E 2M6
Tel: 778-945-6868
Fax: 604-648-8350
www.sproutly.ca
info@sproutly.ca

**Officers and Directors**
Keith Dolo – CEO and Director
Craig Loverock – CFO and Corporate Secretary
Aman Bains – Director
Gregg Orr – Director
Justin Kates – Director
Dr. Arup Sen - Director

**Audit Committee**
Gregg Orr (Chairman)
Keith Dolo
Justin Kates

**Legal Counsel**
Dumoulin Black LLP
10th floor – 595 Howe Street
Vancouver, BC V6C 2T5
Tel: 604-687-1224
Fax: 604-687-8772

**Auditor**
MNP LLP
1021 West Hastings Street, Suite 2200
Vancouver, BC, Canada V6E 0C3
Tel: 604-685-8408

**Transfer Agent**
TMX Trust Company
650 West Georgia Street, Suite 2700
Vancouver, BC V6B 4N9
Tel: 604-696-4578