Sproutly Canada Inc.

Consolidated Financial Statements

For the year ended February 28, 2019 and for the period from incorporation on January 17, 2017 to February 28, 2018
(In Canadian Dollars)

Independent Auditor's Report

To the Shareholders of Sproutly Canada Inc.:

Opinion

We have audited the consolidated financial statements of Sproutly Canada Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at February 28, 2019 and February 28, 2018, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year ended February 28, 2019 and for the period from January 17, 2017 (date of incorporation) to February 28, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at February 28, 2019 and February 28, 2018, and its consolidated financial performance and its consolidated cash flows for the year ended February 28, 2019 and for the period from January 17, 2017 (date of incorporation) to February 28, 2018, in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that The Company incurred a net loss and comprehensive loss of $12,628,167 during the year ended February 28, 2019 and, as of that date, had an accumulative deficit of $15,298,770, and negative cash flows from operating activities for the period from January 17, 2017 to February 28, 2019. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Restated Comparative Information

We draw attention to Notes 4 and 25 of the consolidated financial statements, which explains that certain comparative information presented for the year ended February 28, 2018 has been restated. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Early Adoption

We draw attention to the Notes 2 and 5 of the consolidated financial statements, which describes the early adoption of the Amendments to IFRS 3 *Business Combinations* for the year ended February 28, 2019. Our opinion is not modified in respect of this matter.

Other Information

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

Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a

material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Andrea M. Brown.

MNP LLP

Vancouver, British Columbia
June 26, 2019

Chartered Professional Accountants

Sproutly Canada Inc.
Consolidated Statements of Financial Position
As at February 28, 2019 and 2018
(Expressed in Canadian Dollars)

			Restated (Notes 4, 25)
	Notes	**February 28, 2019**	**February 28, 2018**
		$	**$**
Assets			
Current Assets			
Cash		9,644,015	741,385
Accounts receivable	7	377,774	395,670
Biological assets	8	120,513	-
Inventories	9	206,232	-
Prepaid expenses		690,809	-
		11,039,343	1,137,055
Non-Current Assets			
Property, plant and equipment	10	11,526,890	10,914,333
Intangible assets	11	52,561,189	6,631,931
Goodwill	4	1,322,544	1,322,544
Total assets		**76,449,966**	**20,005,863**
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	12, 17	1,588,695	1,894,883
Loans and borrowings	13	3,320,448	7,138,721
Convertible loan payable	14	-	979,079
Contingent consideration payable	5	4,218,058	-
		9,127,201	10,012,683
Non-Current Liabilities			
Loans and borrowings	13	1,989,439	2,458,474
Convertible loan payable	14	7,168,254	-
Contingent consideration payable	5	454,779	-
Deferred tax liability	4, 6, 23	1,364,933	1,322,544
Total liabilities		**20,104,606**	**13,793,701**
Shareholders' Equity			
Share capital	15	48,624,339	7,832,586
Reserves		23,019,791	1,050,179
Accumulated deficit		(15,298,770)	(2,670,603)
Total equity		**56,345,360**	**6,212,162**
Total liabilities and equity		**76,449,966**	**20,005,863**

Nature and continuance of operations (Note 1)
Commitments (Note 22)
Subsequent events (Note 24)

Approved on behalf of the board June 26, 2019

"Keith Dolo" , Director

"Gregg Orr" , Director

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

Sproutly Canada Inc.
Consolidated Statements of Loss and Comprehensive Loss
For the year ended February 28, 2019 and for the period from incorporation on January 17, 2017 to February 28, 2018
(Expressed in Canadian Dollars)

	Notes	For the year ended February 28, 2019	From incorporation on January 17, to February 28, 2018
		$	$
Production costs		15,827	-
Unrealized gain on changes in fair value of biological assets	8	(149,784)	-
Gross profit		(133,957)	-
Expenses			
General and administration	18	4,354,246	1,238,408
Marketing		1,777,077	2,260
Depreciation and amortization	10, 11	240,472	-
Share-based payments	16	1,788,770	330,095
Loss from operations		8,026,608	1,570,763
Other Expense (Income)			
Listing expense	3	4,656,288	-
Other expense		107,878	57,408
Finance and other costs	19	1,901,576	86,619
Foreign exchange		(1,222)	-
Loss on settlement of contingent consideration	5	24,064	-
Changes in fair value of contingent consideration	5	75,532	-
Gain on extinguishment of loans	13(c)(d)(f)(g)	(1,251,983)	-
Advance receivables write-off	17	-	984,461
		5,512,133	1,128,488
Net loss before tax		**13,538,741**	**2,699,251**
Income tax recovery	23	(910,574)	(28,648)
Net loss and comprehensive loss for the year		12,628,167	2,670,603
Basic and diluted loss per share		(0.10)	(0.12)
Weighted average number of shares outstanding basic and diluted		132,161,533	22,628,440

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

Sproutly Canada Inc
Consolidated Statements of Changes in Equity
For the year ended February 28, 2019 and for the period from incorporation on January 17, 2017 to February 28, 2018
(Expressed in Canadian Dollars)

		Share Capital		Reserves						
	Notes	Common Shares	Amount	Shares to be Issued	Share-Based Compensation	Warrants	Convertible Notes	Total Reserves	Accumulated Deficit	Total
		#	$	$	$	$	$	$	$	$
Balance, January 17, 2017		-	-	-	-	-	-	-	-	-
Incorporation shares	15(c)(i)(ii)	10,000,000	50,000	-	-	-	-	-	-	50,000
Net loss and comprehensive loss for the year		-	-	-	-	-	-	-	(2,670,603)	(2,670,603)
Equity component of convertible notes (deferred tax recovery on conversion)		-	-	-	-	-	152,230	152,230	-	152,230
Issuance of units consisting of shares and warrants	15(c)(iii)	7,413,160	3,049,387	-	-	567,854	-	567,854	-	3,617,241
Issuance of shares on Toronto Herbal Remedies Inc. Acquisition	15(c)(iv)	11,544,388	4,733,199	-	-	-	-	-	-	4,733,199
Share-based compensation		-	-	-	330,095	-	-	330,095	-	330,095
Balance, February 28, 2018		**28,957,548**	**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 year		-	-	-	-	-	-	-	(12,628,167)	(12,628,167)
Equity component of convertible notes	14(ii)	-	-	-	-	-	346,676	474,899	-	474,899
Warrants issued for convertible debentures	15(d)	-	-	-	-	231,846	-	231,846	-	231,846
Issuance of shares for loan and interest repayments	15(c)(v)(vi)	9,021,505	3,698,817	-	-	-	-	-	-	3,698,817
Share-based payment	3, 15(c)(ix)	997,001	408,770	-	-	-	-	-	-	408,770
Conversion of notes (net of deferred tax)	14, 15(c)(vii)(viii)	11,970,452	3,984,768	-	-	84,260	(627,129)	(542,869)	-	3,441,899
Eliminate shares of Sproutly Inc. on reverse acquisition	3, 15(c)(x)	(50,946,506)	-	-	-	-	-	-	-	-
Sproutly Canada Inc. shares issued to shareholders of Sproutly Inc. on reversed acquisition	3, 15(c)(x)	103,389,536	-	-	-	-	-	-	-	-
Sproutly Canada Inc. shares issued to shareholders of Stone Ridge Exploration Inc. on reversed acquisition	3, 15(c)(x)	19,670,731	3,943,140	-	20,745	292,125	-	312,870	-	4,256,010
Equity warrant unit financing	6	-	-	-	-	8,426,358	-	8,426,358	-	8,426,358
Exercise of equity warrant units	6, 15(c)(xiv)	15,400,000	8,426,358	-	-	(8,426,358)	-	(8,426,358)	-	-
Convertible debenture unit financing (net of deferred tax)	6	-	-	-	-	1,449,087	513,645	1,834,509	-	1,834,509
Warrants units issued to brokers for convertible debentures	6, 15(e)	-	-	-	-	267,122	-	267,122	-	267,122
Warrant units issued to brokers for equity warrant unit financing	6, 15(f)	-	-	-	-	396,503	-	396,503	-	396,503
Acquisition of Infusion Biosciences Canada Inc. and SSM Partners Inc.	5, 15(c)(xi)	36,857,676	19,112,328	17,300,007	-	-	-	17,300,007	-	36,412,335
Exercise of options	15(c)(xii)	50,000	15,186	-	(5,186)	-	-	(5,186)	-	10,000
Exercise of warrants	15(c)(xiii), (d)	4,968,832	1,202,386	-	-	(292,125)	-	(292,125)	-	910,261
Share-based compensation	16	-	-	-	1,992,036	-	-	1,992,036	-	1,992,036
Balance, February 28, 2019		**180,336,775**	**48,624,339**	**17,300,007**	**2,337,690**	**2,996,672**	**385,422**	**23,019,791**	**(15,298,770)**	**56,345,360**

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

Sproutly Canada Inc.
Consolidated Statements of Cash Flows
For the year ended February 28, 2019 and for the period from incorporation on January 17, 2017 to February 28, 2018
(Expressed in Canadian Dollars)

	Notes	For the year ended February 28, 2019	From incorporation on January 17, to February 28, 2018
		$	$
Cash Provided by (used in) Operating Activities			
Net loss and comprehensive loss		(12,628,167)	(2,670,603)
Adjusted for non-cash items:			
Unrealized gain on changes in fair value of biological assets	8	(149,784)	-
Depreciation of property, plant and equipment	10	157,573	-
Amortization of intangible asset	11	82,899	-
Listing expense	3	4,255,464	-
Share-based compensation	16	1,992,036	330,095
Financing fees	15(d)	231,846	71,199
Accretion expense		979,336	13,566
Interest recovery	13(f)(g)	(76,606)	-
Loss on settlement of contingent consideration	5	24,064	-
Changes in fair value of contingent consideration	5	75,532	-
Gain on extinguishment of interest and loans	13(c)(d)(f)(g)	(1,251,983)	-
Deferred tax expense (recovery)	23	(910,574)	(28,648)
Loss on advances receivable		-	984,461
Change in non-cash operating working capital			
GST receivables		41,544	(38,552)
Other receivables		(10,125)	-
Biological assets		(43,217)	-
Inventories		(133,744)	-
Prepaid expenses		(611,150)	-
Accounts payable and accrued liabilities		(166,460)	480,977
		(8,141,516)	(857,505)
Proceeds from (repayment of) Financing Activities			
Short term loans	13(a)(e)	(103,552)	250,000
Net proceeds from convertible debenture special warrant units	6	9,636,351	
Net proceeds from equity special warrant units	6	8,822,861	
Proceeds from convertible debentures	14	2,659,000	1,159,957
Proceeds from issuance of warrants		-	567,854
Shares issued for cash		-	3,014,622
Shares issued for option exercise	15(c)(xii)	10,000	-
Share issued from warrant exercises	15(c)(xiii)	910,261	-
		21,934,921	4,992,433
Cash Provided by (Used in) Investing Activities			
Cash acquired from reverse acquisition transaction	3	514,755	-
Contingent cash payment to related party	5	(4,525,000)	-
Acquisition of Infusion Biosciences Canada Inc. and SSM Partners Inc.	5	(500,060)	-
Funds advanced to Sproutly USA Inc.	17	-	(984,461)
Funds advanced to THR prior to acquisition	4	-	(2,421,130)
Purchase of property, plant and equipment	10	(380,470)	-
Cash from the acquisition of Toronto Herbal Remedies Inc.		-	12,048
		(4,890,775)	(3,393,543)
Net change in cash		8,902,630	741,385
Cash, beginning of year		741,385	-
Cash, ending of year		**9,644,015**	**741,385**

Supplemental disclosure of cash flow information			
Cash paid during the year for interest		449,603	-

The accompany notes are an integral part of these
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 under the British Columbia Business Corporations Act. On July 6, 2018, the Company acquired Sproutly Inc. ("Sproutly") through a reverse acquisition transaction described in Note 3. 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 4. 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 5. IBS Canada was incorporated on February 28, 2018 under the Alberta Business Corporations Act. SSM Partners was incorporated on March 1, 2018 under the Companies Act of Barbados with International Business Company status.

On October 26, 2018, the Company commenced the process of growing cannabis with amounts classified as biological assets as at February 28, 2019.

The Company has not generated any revenues from operations and has incurred losses since inception. The Company incurred a net loss and comprehensive loss of $12,628,167 during the year ended February 28, 2019 and, as of that date, had an accumulative deficit of $15,298,770 and negative cash flows from operating activities for the period from January 17, 2017 to February 28, 2019. 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.

The accompanying 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 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.

For the notes to the consolidated financial statements, the prior year comparative information from incorporation on January 17, 2017 to February 28, 2018 is presented as for the period ended February 28, 2018.

2. Significant accounting policies

(a) Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") in effect for the year ended February 28, 2019.

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on June 26, 2019.

2. Significant accounting policies (continued)

(b) Basis of consolidation

These 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.

Acquisition of subsidiaries are accounted for using the acquisition method. The Company measures goodwill as the fair value of the consideration transferred less the fair value amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Transaction costs other than those associated with the issue of debt or equity securities that the Company incurs in connection with a business combination are expensed as incurred.

(c) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, biological assets and acquisition related contingent consideration which are measured at fair value.

(d) Functional and presentation of foreign currency

The consolidated financial statements are presented in Canadian dollars. The functional currencies of the Company and its subsidiaries are as follows:

- SSM Partners is in US dollars; and
- Sproutly Canada and its remaining subsidiaries are in Canadian dollars

(e) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at exchange rate in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated statement of financial position date are translated to Canadian dollars at the foreign exchange rate applicable at that date. Realized and unrealized exchange gains and losses are recognized in the consolidated statement of comprehensive loss. Non-monetary assets and liabilities that are measured in terms of historical costs in a foreign currency are translated using the exchange rate at the date of the transaction.

The assets and liabilities of foreign operations are translated into Canadian dollars at period end exchange rates. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates. Exchange differences resulting from the translation of foreign operations are recognized in other comprehensive loss and accumulated in equity.

(f) Biological assets

The Company's biological assets consist of cannabis plants. The Company measures the biological assets in accordance with IAS 41 - Agriculture at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Fair value is determined based on future cash flows of the in-process biological assets less costs to complete. Costs to sell include post-harvest production, shipping, and fulfilment costs. The net unrealized gains or losses arising from changes in fair value less costs to sell during the year are included and disclosed separately in the results of operations of the related year.

While the Company's biological assets are within the scope of IAS 41, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 – Inventories. They include the direct costs of seedlings and growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as depreciation on production equipment and overhead costs of building and building improvement depreciation to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred and all are subsequently recorded as cost of sales in the consolidated statements of operations and comprehensive income in the period that the related product is sold.

2. Significant accounting policies (continued)

(g) Inventory

Inventories of harvested finished goods are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs such as supplies, utilities, labour, building and building improvement depreciation are capitalized to inventory to the extent that cost is less than net realizable value. Cost of inventory and subsequent sale of such inventory is determined using the average cost basis.

All direct and indirect costs capitalized are subsequently recorded within costs of sales on the statement of operations and comprehensive income at the time inventory is sold, except for realized fair value amounts included in inventory sold which are recorded separately. Inventory is measured at lower of cost or net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimate costs to completion and the estimated costs necessary to make the sale.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The assets are depreciated over their estimated useful lives using the following methods and rates:

	Method	Rate
Building and improvements	Straight-line	20 to 40 years
Computer software and equipment	Straight-line	3 years
Furniture and fixture	Straight-line	Term of office lease
Production and other equipment	Straight-line	5 to 10 years

The estimated residual value, useful life and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components.

Construction in progress is transferred to the appropriate asset class when the building is available for use. Depreciation commences at the point the assets are classified as available for use.

(i) Intangible assets

Intangible assets are recorded at cost less any accumulated amortization and accumulated impairment losses. Impairment for intangible assets with finite lives is tested if there is any indication of impairment. Intangible assets acquired through a business combination are measured at fair value at the acquisition date.

Intangible assets with finite useful lives are amortized over their estimated useful lives using the following methods and rates:

	Method	Rate
ACMPR License Application	Straight-line	Useful life of THR facility, 40 years

Amortization begins when assets become available for use. The estimated life, amortization method, and rate are reviewed at the end of each reporting period, with the effect of any changes in estimated being accounted for on a prospective basis.

Intangible assets with an indefinite life or not yet available for use are not subjected to amortization. The Company’s indefinite life intangible asset is comprised of the technology license acquired from the acquisition of IBS Canada and SSM Partners as disclosed in Note 5. The technology license is not expected to expire and is not dependent on THR’s inventory capacity. As such, there is no foreseeable limit to the period over which this asset is expected to generate future cash inflows to the Company. The technology license is tested for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred. The Company has selected February 28th as the annual test date.

2. Significant accounting policies (continued)

(j) Goodwill

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill is allocated to the cash generating unit ("CGU") to which it relates. The Company has one CGU for the years ended February 28, 2019 and 2018.

Goodwill is not amortized but tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units ("CGU"), or a group of CGUs, that are expected to benefit from the synergies the business combination. A CGU is defined as the smallest identifiable group of assets that generate cash inflows, which are largely independent of the cash inflows from other assets. A group of CGUs represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(k) Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and intangible assets are evaluated to determine whether there is any indication that these assets are impaired at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset may exceed its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets (the CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in the consolidated statement of loss and comprehensive loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

(l) Convertible debentures

Convertible notes are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible notes in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. Transaction costs are apportioned to the debt liability and equity components in proportion to the allocation of proceeds as a reduction to the carrying amount of the liability and equity component. The liability component of the convertible notes was valued using Company specific interest rates assuming no conversion features existed. The resulting debt component is accreted to its principal amount over the term to maturity as a non-cash interest charge and the equity component is presented in convertible notes reserve as a separate component of shareholders' equity. Upon conversion, amounts held in reserve are transferred to share capital.

(m) Share capital

The Company's common shares are classified as equity instruments. Incremental costs directly related to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. For equity offerings of units consisting of a common share and warrant such as Equity Special Warrant units (note 6), when both instruments are classified as equity, the Company bifurcates the proceeds between the common share and the warrant. This is done by deducting the fair value of common shares against proceeds with the remaining value assigned to warrants.

2. Significant accounting policies (continued)

(n) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(o) Other comprehensive loss

Other comprehensive loss is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net loss such as unrealized gains or losses resulting from translation gains or losses on translation of foreign operations to the presentation currency of the Company.

(p) Segment reporting

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company views its operations and manages its business in one operating segment and operates in only one geographical segment.

(q) Loss per share

Basic loss per share is calculated by dividing net loss by the weighted average number of outstanding common shares during the year. Diluted loss per share is calculated similarly but includes potential instruments such as exercise of warrants, exercise of stock options, conversion of debt to equity and contingently issuable shares that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive as the company is in a net loss position.

(r) Income taxes

Income tax on the statements of loss and comprehensive loss for the periods presented comprises current and deferred tax. Income tax is recognized in the statements of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not record that excess.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis.

2. Significant accounting policies (continued)

(s) Share-based compensation

The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate. Consideration paid by employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from other reserves to share capital.

(t) Financial instruments

All financial instruments are initially recorded at fair value at the time of acquisition. The Company aggregates its financial instruments in accordance with IFRS 9, Financial Instruments, into classes based on their nature and characteristics. Management determines the classification when the instruments are initially recognized, which is normally the date of the transaction. The Company's accounting policy for each class of financial instruments is as follows:

Classification	Financial Instruments	Accounting Policy
Amortized cost	Cash Receivables (excluding GST and HST receivables) Accounts payable and accrued liabilities Loans and borrowings Convertible loan payable	These financial instruments are initially recognized at fair value plus directly attributable transaction costs. Subsequently, these instruments are measured at amortized cost using the effective interest method. Financial assets are adjusted for any expected credit loss. The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.
Fair value through profit or loss	Contingent consideration payable	These financial instruments are initially recognized at fair value; all transaction costs are recognized immediately in profit or loss. Subsequently, these instruments are recognized at fair value at each reporting date. Any changes in fair value, and gains or losses upon disposition of the financial instruments are recognized in profit or loss.

(u) 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 carrying 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.

2. Significant accounting policies (continued)

(u) Significant accounting judgments, estimates and assumptions (continued)

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 consolidated 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.

Biological assets and inventory

In calculating the fair value of biological assets, management is required to make a number of estimates, including estimating the stage of growth of cannabis plants up to the point of harvest, harvesting costs, selling costs, expected selling prices, expected yields and attrition for cannabis plants. In calculating final inventory values, management compares the inventory costs to estimated net realizable value.

Estimated useful lives and depreciation and amortization of property, plant and equipment and intangible assets

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives and when the asset is available for use, which are determine through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and useful lives of assets.

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. The most significant estimates for business combination or asset acquisition involve 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.

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.

In an asset acquisition, all identifiable assets are recorded at their fair values. Management exercises judgement in applying the concentration test to determine whether substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The most significant estimates relate to contingent consideration and intangible assets. Management also exercises judgement 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.

2. Significant accounting policies (continued)

(u) Significant accounting judgments, estimates and assumptions (continued)

Income 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 tax assets and liabilities, and results of operations.

Fair value of financial instruments

The individual fair values attributable to the different components of a financing transaction, notably loans and borrowings and Convertible Debenture Special Warrant units (Note 6) 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.

Share-based payments and warrants

All equity-settled, share-based awards and share purchase warrants 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.

Goodwill and indefinite-life intangible assets impairment

The Company performs an annual test for impairment of goodwill and indefinite-life intangible assets in the fourth quarter, and whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit.

Determining whether an impairment has occurred requires valuation of the respective CGU, which is estimated using a discounted cash flow method. When available and as appropriate, comparative market multiples are used to corroborate discounted cash flow results. In applying this methodology, a number of factors are relied upon, including actual operating results, future business plans, economic projections and market data.

The Company tests intangible assets with indefinite lives annually for impairment using a fair value method such as discounted cash flows.

(v) 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 consolidated financial statements.

2. Significant accounting policies (continued)

(v) Recent accounting pronouncements adopted (continued)

(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 cost.

(ii) IFRS 9 Financial Instruments (continued)

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 material 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	Loan and receivables	Amortized cost
Receivables	Loan and receivables	Amortized cost
Account 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

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 or Receivables of the Company.

2. Significant accounting policies (continued)

(v) Recent accounting pronouncements adopted (continued)

(iii) IFRS 3 Business Combinations

IASB has issued the amendments to IFRS 3, which relate to the definition of a business.

The amendments are as follows:

- Clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- Narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- Add an optional concentration test that permits a simplified assessment of whether an acquired set of activities

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. Early adoption of this amendment is permitted. The Company adopted the amendment as of March 1, 2018.

(w) Recent accounting pronouncements not yet effective

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.

The effective date for the Company was March 1, 2019. The Company has elected to adopt IFRS 16 using the modified retrospective approach. Under this approach, the Company will not restate its comparative figures but will recognize the cumulative effect of adopting IFRS 16 as an adjustment to opening retained earnings at the beginning of the 2019 fiscal year.

On transition to IFRS 16, the Company will elect to apply the practical expedient to grandfather the assessment of which transactions are leases and apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 Leases will not be reassessed for whether a lease exists. The Company will elect to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets. The Company will also account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. Accordingly, the Company does not expect significant adjustments to opening retained earnings at the beginning of the 2019 fiscal year.

(Expressed in Canadian Dollars)

3. Reverse acquisition transaction

On July 6, 2018, the Company (formerly Stone Ridge) acquired 100% ownership of Sproutly by issuing 103,389,536 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 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 carrying values.

Since the shares and share-based consideration allocated to the former shareholders of the Company on closing is considered within the scope of IFRS 2, and the Company was not able to identify specifically some or all of the goods or services 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 a listing expense.

The listing expense of $4,656,288 is comprised of the fair value of the common shares, options and warrants of the Company retained by the former shareholders of the Company and transaction costs, 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 (19,670,731 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	514,755
GST receivable	13,523
Accounts payable	(87,968)
	440,310
Transaction costs	809,594
Listing expense	4,656,288

As part of the Transaction, Sproutly incurred legal fees of $60,993 that was allocated to listing expenses and share capital on a pro-rata basis of $29,999 and $30,994 respectively. Sproutly also incurred fees of $779,595 for financial advisory services related to the Transaction in which $408,770 was settled through the issuance of 997,001 Sproutly common shares.

(Expressed in Canadian Dollars)

3. Reverse acquisition transaction (continued)

The Company has estimated the fair value of the equity instruments deemed to be issued by Stone Ridge. The fair value of 19,670,731 common shares amounted to $3,943,140 based on the fair value of shares issued in a private placement less legal fees incurred in the Transaction for the year ended February 28, 2018.

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	

4. Acquisition of THR

On February 28, 2018, Sproutly acquired all issued and outstanding common shares of THR in exchange for 11,544,388 pre-reverse acquisition common shares valued at $0.41 per share and the settlement of a pre-existing relationship between Sproutly and THR whereby Sproutly advanced $2,421,130 to THR prior to the closing date, for total consideration of $7,154,329(i). Sproutly share price was calculated based on the fair value derived from Sproutly Units (Note 15(c)(iii)) that were issued from December 19, 2017 to January 31, 2018. The transaction was accounted for as a business combination.

On June 8, 2018, THR was granted a license to produce and sell medical marijuana under the provisions of the Access to Cannabis for Medical Purposes Regulations ("ACMPR") and owns a production facility in Scarborough, Ontario.

The purchase price was allocated as follows:

	As previously reported	Adjustment(ii)	Final purchase price allocation
	$	$	$
Net assets acquired	(1,467,106)	1,989,504	522,398
Intangible assets – ACMPR license application	6,200,305	431,626	6,631,931
Goodwill	1,208,036	114,508	1,322,544
Deferred tax liability	(1,208,036)	(114,508)	(1,322,544)
	4,733,199	2,421,130	7,154,329

(i) During the year ended February 28, 2019, the Company identified an error in the calculation of the consideration paid. The consideration paid has been restated to appropriately reflect an additional $2,421,130 in the form of a settlement of the pre-existing relationship. In connection with this adjustment, loans and borrowings have been correspondingly restated, as the pre-existing relationship was previously included as part of net liabilities acquired, instead of being added to purchase consideration. The net impact of $2,421,130 resulted in an increase in net assets by that amount, which was offset by additional adjustments noted in (ii) below.

(ii) The Company identified additional errors in the purchase price allocation which resulted in an increase in intangible assets by $431,626, an increase in goodwill by $114,508, increase in accounts payable and accrued liabilities by $154,287 and an increase in the deferred tax liability by $114,508, upon measurement of the loans and borrowings at fair value as at the date of acquisition.

(Expressed in Canadian Dollars)

4. Acquisition of THR (continued)

Fair values of the net assets acquired include the following:

	As previously reported	Adjustment	Final purchase price allocation
	$	$	$
Cash	12,048	-	12,048
Receivables	357,118	-	357,118
Property, plant and equipment	10,914,333	-	10,914,333
	11,283,499	-	11,283,499
Accounts payable and accrued liabilities	(397,721)	(154,287)	(552,008)
Loans and borrowings	(12,352,884)	2,143,791	(10,209,093)
	(1,467,106)	1,989,504	522,398

Goodwill reflects the deferred 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. Management expects synergies between dry flower and trim produced from THR's facility with the Aqueous Phytorecovery Process ("APP") technology to generate future income and growth of the Company.

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 2018, 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 year ended February 28, 2018.

The following tables summarize the effects of the adjustments described above.

Line items on the restated consolidated statements of financial position:

	2018	Increase/ (Decrease)	2018 Restated
Intangible assets – ACMPR license application	6,200,305	431,626	6,631,931
Goodwill	1,208,036	114,508	1,322,544
Total assets	19,459,729	546,134	20,005,863
Accounts payable and accrued liabilities	(1,740,596)	(154,287)	(1,894,883)
Total current liabilities	(9,858,396)	(154,287)	(10,012,683)
Loans and borrowings	(11,740,986)	2,143,791	(9,597,195)
Deferred tax liability	(1,208,036)	(114,508)	(1,322,544)
Total non-current liabilities	(5,810,301)	2,029,283	(3,781,018)

5. 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 total consideration of $46,012,157.

Consideration consists of $5,025,060 in cash and the issuance of 36,857,676 Sproutly Canada common shares. Under the terms of the agreement, if the Company was unable to satisfy the cash payment consideration within 12 months following the acquisition date, the seller of IBS Canada had 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 was contingent on whether the Company was able to raise additional financing, it was re-measured at a fair value of $4,479,759 based on management's judgement at that time as to when the amount would be paid. The common shares issued were valued at $19,112,328. On October 25, 2018, the Company settled the $4,525,000 of outstanding cash consideration. During the year ended February 28, 2019, the Company recognized changes in fair value of contingent consideration of $21,178 and a loss on settlement of contingent consideration of $24,064.

(Expressed in Canadian Dollars)

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

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. Earn-out provisions include the completion of a specified amount of cannabinoids using the APP technology and the Company obtaining analytical results of such cannabinoids that meet regulatory requirements for commercial sale of products within a specified jurisdiction. For the cash contingent consideration, if the Company is unable to settle the cash payment within 12 months from 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 the deferred cash and equity contingent consideration amounts were re-measured on the date of acquisition at fair value of $4,618,483 and $17,300,007 respectively, based on management's judgment on the probability and timing of when the milestones will be completed. For equity contingent consideration, shares were discounted to present value using the put-option pricing models. These amounts will be evaluated every reporting period until completion.

During the year ended February 28, 2019, management concluded there were no significant changes to the probability and timing of milestones completion and the Company recognized changes in fair value of contingent consideration of $54,354 related to the deferred contingent cash consideration. $454,779 of the deferred contingent cash consideration was classified as non-current for values assigned to probabilities of achieving the milestones beyond one year.

For accounting purposes, the 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 water soluble and oil based products from cannabis and hemp plants, while SSM Partners will provide the analytics to support the technology. As at February 28, 2019, the technology is currently under development. The transaction was determined as an asset acquisition through early adoption of the optional fair value concentration test under IFRS 3 in which management determined that substantially all of the fair value of the gross assets acquired was attributed to the technology license and analytics.

The aggregated consideration of $46,012,157 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)	19,112,328
Deferred contingent cash consideration[2]	4,618,483
Contingent equity consideration	17,300,007
Value assigned to technology license in process	46,012,157

(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%.

As part of the transaction, the Company acquired net liabilities of $1,520.

The changes in the carrying value of contingent considerations are as follows:

	Outstanding cash consideration – due to related party	**Deferred contingent cash consideration**
	$	$
As at July 31, 2018	4,479,759	4,618,483
Changes in fair value of contingent consideration	21,178	54,354
Settlement of contingent consideration	(4,500,937)	-
As at February 28, 2019	-	4,672,837

(Expressed in Canadian Dollars)

6. Special warrants bought deal financing

On October 24, 2018, the Company completed a Special Warrants Bought Deal Financing (the "Offering") of Convertible Debenture Special Warrant units ("CD Special Warrant") and Equity Special Warrant units for gross proceeds of $20,760,000. A total of 10,750 CD Special Warrant units at a price of $1,000 per unit and 15,400,000 of Equity Special Warrant units at a price of $0.65 per unit were issued by the Company.

On December 22, 2018, the CD Special Warrant units and Equity Special Warrant units were automatically exercised into Convertible Debenture units ("CD Unit") and Equity Units respectively, at a 1:1 ratio. December 22, 2018 was the third business day after the Company obtained a receipt of its final short form prospectus, thus qualifying the distribution of the CD Units and Equity Units upon exercise of the CD Special Warrants units and Equity Special Warrant units.

Each CD Unit comprised of a principal amount of a $1,000 unsecured convertible debenture of the Company and 667 common share purchase warrants with an exercise price of $0.90 per share, expiring on October 24, 2020. The convertible debenture bears interest at a rate of 8.0% per annum from the date of the Offering, payable semi-annually and matures on October 24, 2020. The holder has the option to convert the debentures into common shares at a conversion price of $0.75 at any time prior to maturity. The convertible debentures can be redeemed, in whole or in part, by the Company at any time following the date that is 12 months from the date of issuance at a price equal to the outstanding principal amount plus all accrued and unpaid interest up to the redemption date.

Each Equity Unit is comprised of one common share and one-half of one common share purchase warrant with an exercise price of $0.90 per share, expiring on October 24, 2020.

On closing, the Company paid the agents: (i) $591,250 in commission for CD Special Warrant units; (ii) $700,700 in commission for Equity Special Warrant units; $270,000 in agent expenses and legal fees; (iii) $622,800 in success fees; (iv) 788,333 Broker CD Special Warrants ("Broker CD Warrants") valued at $267,122; and (v) 1,078,000 Broker Equity Special Warrants ("Broker Equity Warrants") valued at $396,503. In addition, the Company incurred $93,242 of legal fees as part of the prospectus financing. Total proceeds, net of transaction costs for CD Special Warrant units and Equity Special Warrant units are $9,636,351 and $8,822,861 respectively.

Each Broker Equity Special Warrant entitles the holder to receive, without the payment of additional consideration and without any further action on the part of the holder, subject to the terms of the certificate representing the Broker Equity Special Warrants, one Broker Equity Warrant. Each Broker Equity Warrant is exercisable at the Equity Special Warrant Price to acquire one Broker Warrant Unit until October 24, 2020. Each Broker Warrant Unit shall be comprised of one Broker Share and one-half of one common share purchase warrant with an exercise price of $0.90 per share, expiring on October 24, 2020.

Each Broker CD Special Warrant entitles the holder to receive, without the payment of additional consideration and without any further action on the part of the holder, subject to the terms of the certificate representing the Broker CD Warrants, one Broker CD Warrant. Each Broker CD Warrant is exercisable at a price of $0.75 per Broker CD Warrant to acquire one Convertible Compensation Unit until October 24, 2020. Each Convertible Compensation Unit shall be comprised of one Broker Share and one-half of one common share purchase warrant with an exercise price of $0.90 per share, expiring on October 24, 2020.

Broker CD Warrants and Broker Equity Special Warrants were measured based on the fair value of the equity instruments granted, as the fair value of services cannot be reliably measured. In addition, values are assigned to both common share and warrant features.

The estimated fair value related to common share features for both Broker CD Warrants and Broker Equity Warrants were $187,462 and $287,573 respectively determined based on the following assumptions:

Share price	$0.66
Exercise price	$0.65 and $0.75
Annualized volatility	71.19%
Risk-free interest rate	2.30%
Dividend yield	0.00%
Expected life	2 Years

(Expressed in Canadian Dollars)

6. Special warrants bought deal financing (continued)

The estimated fair value related to one-half of one common share warrant feature for both Broker CD Warrants and Broker Equity Special Warrants were $79,660 and $108,930 respectively determined based on the following assumptions:

Share price	$0.66
Exercise price	$0.90
Annualized volatility	71.19%
Risk-free interest rate	2.30%
Dividend yield	0.00%
Expected life	2 Years

The Company has accounted for the CD Special Warrants containing a conversion feature when exercised that exchanges as a fixed amount of cash for a fixed number of shares by bifurcating and splitting the accounting between the liability and equity components of the financial instrument. The Company has recognized the liability component of the CD Special Warrant at fair value, calculated by discounting the cash flows associated with the liability component at its market rate for nonconvertible debt, and determined the fair value of the warrants using the Black-Scholes option pricing model. The residual amount of the proceeds was allocated to the equity conversion feature. The Company has allocated transaction costs associated with the CD Special Warrants in proportion to the value assigned to the liability and equity components. The Company has recorded the transaction costs associated with the liability component of the CD Special Warrants as a debt discount which is included in the amortization of the financial instrument using an effective interest rate of 24.34%. As part of the transaction, the Company has recorded a deferred tax liability of $824,740.

For the Equity Special Warrants, the Company assigned all proceeds to equity units reserve as the trading share price on the day of the Offering exceeded the unit price. The Company has recorded the transaction costs associated with the Equity Special Warrants as a deduction in equity.

The valuation of the Offering as at October 24, 2018 is as follows:

	$
Total Proceeds	20,760,000
Fair value of liability component of CD Special Warrants	(6,581,757)
Equity component of CD Special Warrants (net of deferred tax)	(513,645)
Warrant component of CD Special Warrants	(1,449,087)
Fair Value of equity units reserve of Equity Special Warrants	(8,426,358)
Deferred tax liability for CD Special Warrants	(824,740)
Transaction costs	2,964,413
Transaction costs assigned to liability	1,113,649
Transaction costs assigned to equity	1,850,764
	2,964,413

7. Accounts receivable

	February 28, 2019	February 28, 2018
	$	$
Subscription receivable	575	10,566
GST and HST receivable	343,558	385,104
Other receivable	33,641	-
	377,774	395,670

8. Biological assets

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

	$
Balance at February 28, 2018	-
Production costs capitalized	133,105
Changes in fair value less cost to sell due to biological transformation	149,784
Transferred to inventory upon harvest	(162,376)
Balance at February 28, 2019	120,513

(Expressed in Canadian Dollars)

8. Biological assets (continued)

As of February 28, 2019, the weighted average fair value less cost to complete and cost to sell was $4.84 per gram.

The following inputs and assumptions are all categorized within Level 3 on the fair value hierarchy and were used in determining the fair value of biological assets:

Inputs and assumptions	Calculation method	Inter-relationship between unobservable inputs and fair value – the estimated fair value would increase (decrease) if:
Selling price per gram	Based on expected future selling price for all strains of cannabis sold by the Company.	The selling price per gram were higher (lower).
Attrition rate	Based on the average number of plants culled at each stage of production.	The attrition rate was lower (higher).
Average yield per plant	Based on the average number of grams of dried cannabis inventory expected to be harvested from each cannabis plant.	The average yield per plant was higher (lower).
Cost per gram to complete production	Based on actual production costs incurred divided by the grams expected to be produced.	The costs per gram to complete production were lower (higher).
Cumulative stage of completion in the production process	Based on the number of days in production over a total approximate grow cycle.	The number of days in production was higher (lower).

The following input and assumptions values were used in determining the biological asset value as at February 28, 2019:

Inputs and assumptions	Value
Selling price per gram	$5.00 per gram
Attrition rate	10%
Average yield per plant	119 grams per plant
Cost per gram to complete production	$0.16
Cumulative stage of completion in the production process	15 – 34 days

Significant unobservable assumptions used in the valuation of biological assets, including the sensitivities on changes in these assumptions and their effect on the fair value of biological assets as at February 28, 2019, are as follows:

Inputs and assumptions	Input value	Sensitivity	Effect on fair value
Selling price per gram	$5.00 per gram	Increase or decrease of $1.00 per gram	$26,954
Attrition rate	10%	Increase or decrease by 5%	$6,738
Average yield per plant	119 grams per plant	Increase or decrease by 10%	$13,477
Cost per gram to complete production	$0.16	Increase or decrease by $0.05	$4,328
Cumulative stage of completion in the production process	15 – 34 days	Increase or decrease by 7 days	$38,833

The Company's estimates are, by nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

As of February 28, 2019, it was expected that the Company's biological assets would yield approximately 93,592 grams of dry cannabis and trim when harvested.

(Expressed in Canadian Dollars)

9. Inventories

The following is a breakdown of inventory as at February 28, 2019:

	February 28, 2019 $	February 28, 2018 $
Dry Cannabis	173,650	-
Supplies and consumables	32,582	-
	206,232	-

As at February 28, 2019, the Company capitalized $11,274 of production costs related to post-harvest activities and held 55,691 grams of dry cannabis and trim.

10. Property, plant and equipment

	Land	Building & Improvements	Construction in Progress	Computer Software & Equipment	Furniture & Fixtures	Production & Other Equipment	Total
Costs	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance, January 17, 2017	-	-	-	-	-	-	-
Additions (Note 4)	1,098,550	-	9,815,783	-	-	-	10,914,333
Balance, February 28, 2018	1,098,550	-	9,815,783	-	-	-	10,914,333
Additions	-	110,022	581,879	8,740	2,021	84,546	787,208
Reclass on completed phases of construction	-	9,963,122	(10,397,662)	77,303	-	357,237	-
Balance, February 28, 2019	1,098,550	10,073,144	-	86,043	2,021	441,783	11,701,541

	Land	Building & Improvements	Construction in Progress	Computer Software & Equipment	Furniture & Fixtures	Production & Other Equipment	Total
Accumulated Depreciation	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance, January 17, 2017	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-
Balance, February 28, 2018							
Depreciation	-	138,617	-	13,853	1,347	20,834	174,651
Balance, February 28, 2019	-	138,617	-	13,853	1,347	20,834	174,651
Net Book Value							
February 28, 2018	1,098,550	-	9,815,783	-	-	-	10,914,333
February 28, 2019	1,098,550	9,934,527	-	72,190	674	420,949	11,526,890

The Company completed construction of a 16,600 square foot production facility at THR located at Scarborough, Ontario on September 12, 2018. Costs related to the construction of this facility were initially capitalized as construction in progress and subsequently allocated to building and equipment. Depreciation commenced when construction had been completed and the facility was placed in service.

During the year ended February 28, 2019, the Company capitalized $389,660 (February 28, 2018 – nil) of borrowing costs to construction in progress prior to the completion of the facility.

Depreciation related to building and improvements, and production equipment was capitalized as part of production costs within biological assets. During the year ended February 28, 2019, $17,078 of depreciation was capitalized.

(Expressed in Canadian Dollars)

11. Intangible assets

A continuity of the intangible assets for the year ended February 28, 2019 is as follows:

	Restated Balance at February 28, 2018 (Note 25)	Acquisition Additions	Amortization	Balance at February 28, 2019
	$	$	$	$
Costs				
ACMPR license application (Note 4)	6,631,931	-	82,899	6,549,032
Technology license in process (Note 5)	-	46,012,157	-	46,012,157
	6,631,931	**46,012,157**	**82,899**	**52,561,189**

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

	Balance at January 17, 2017	Restated Acquisition Additions (Note 25)	Amortization	Balance at February 28, 2018
	$	$	$	$
Costs				
ACMPR license application (Note 4)	-	6,631,931	-	6,631,931
	-	**6,631,931**	**-**	**6,631,931**

12. Accounts payable and accrued liabilities

	February 28, 2019	Restated (Note 25) February 28, 2018
	$	$
Interest payable	809,438	1,019,268
Trade payables	658,680	768,256
Other payables	120,577	107,359
	1,588,695	**1,894,883**

13. Loans and borrowings

As at February 28, 2019, the Company held the following loans and borrowings:

		February 28, 2019	Restated (Note 25) February 28, 2018
		$	$
Current			
On-demand loan	(a)	-	100,000
Borrowings	(b)	150,000	150,000
Mortgage payable with 0982244 B.C. Ltd.	(c)	-	1,724,093
Interest bearing loan with 2546308 Ontario Inc.	(d)	3,125,000	3,125,000
Related party loan with 1023409 B.C. Ltd.	(e)	45,448	49,000
Interest bearing loan with 1053797 B.C. Ltd.	(f)	-	1,990,628
		3,320,448	7,138,721
Long-term			
Mortgage payable with 0982244 B.C. Ltd.	(c)	1,031,067	-
Interest bearing loan with 0982244 B.C. Ltd.	(c)	958,372	856,587
Interest bearing loan with Bray Limited Partnership	(g)	-	1,581,887
		1,989,439	2,458,474
		5,309,887	**9,597,195**

The changes in the carrying value of loans and borrowings are as follows:

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	Total
	$	$	$	$	$	$	$	$
January 17, 2017	-	-	-	-	-	-	-	
Additions	100,000	150,000	-	-	-	-	-	250,000
Assumed on acquisitions (Note 4)	-	-	2,600,680	3,125,000	49,000	1,990,628	1,581,887	9,347,195
February 28, 2018	100,000	150,000	2,600,680	3,125,000	49,000	1,990,628	1,581,887	9,597,195
Accretions	-	-	155,687	-	-	-	38,092	193,779
Modification of loan	-	-	(766,928)	-	-	-	-	(766,928)
Repayment	(100,000)	-	-	-	(3,552)	(1,990,628)	(1,619,979)	(3,714,159)
February 28, 2019	-	150,000	1,989,439	3,125,000	45,448	-	-	5,309,887

13. 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. During the year ended February 28, 2019, the Company incurred interest expense of $15,781.

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

On June 24, 2015, THR entered into a secured loan of $3,250,000 with 0982244 B.C. Ltd. (a shareholder of THR). The loan is secured by the property at 64-70 Raleigh Avenue, Scarborough, Ontario, Canada, M1K 1A3. The loan has a fixed interest rate of 8.5% per annum compounded semi-annually with share purchase and loan conversion options. The loan was originally repayable on June 24, 2018. On February 28, 2018, $1,500,000 of the outstanding loan balance was converted to a separate interest bearing loan of 8.5% per annum compounded semi-annually due on February 28, 2023. On the same date, the lender exercised its rights to purchase 2,399,918 of THR's common shares under a separate agreement.

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 portion of the 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.

During the year ended February 28, 2019, the Company incurred borrowing costs of $114,910 that were capitalized to construction in progress and recorded accretion expense of $47,282. Upon completion of the THR facility, the Company incurred $81,027 of interest expense for the year ended February 28, 2019.

The $1,500,000 portion of the original loan was determined to be below fair market value, an estimate was completed to determine a 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 was $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 amendment of the loan.

During the year ended February 28, 2019, the Company incurred borrowing costs of $73,397 that was capitalized to construction in progress and recorded accretion expense of $108,403. Upon completion of the THR production facility, the Company incurred $69,452 of interest expense for the year ended February 28, 2019.

(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., an unrelated third party in 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 is due on demand.

13. Loans and borrowings (continued)

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

On April 30, 2018, 2546308 Ontario Inc. settled $200,000 of interest payable with 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 year ended February 28, 2019, the Company incurred borrowing costs of $201,371 that was capitalized as part of construction in progress. Upon completion of the THR production facility, the Company incurred $173,630 of interest expense for the year ended February 28, 2019.

(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., a related company owned by a director of the Company. $3,552 was repaid as at February 28, 2019 and the remaining balance 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 and the remaining balance of $1,990,628 was 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 settled the outstanding loan balance of $1,990,628 and $128,123 of interest payable with 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. Prior to the extinguishment, the Company incurred $8,944 of interest expense.

(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 settled the outstanding loan balance of $1,619,979 and $245,143 of interest payable with 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 $38,092. Prior to the extinguishment, the Company incurred $10,103 of interest expense.

(Expressed in Canadian Dollars)

14. Convertible loans payable

	(i) $	(ii) $	(iii) $	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	9,636,351	12,295,351
Equity portion	-	(474,899)	(3,054,594)	(3,529,493)
Accretion	11,695	187,396	586,497	785,588
Conversion	(330,000)	(3,032,271)	-	(3,362,271)
Balance, February 28, 2019	**-**	**-**	**7,168,254**	**7,168,254**

(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 was 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 February 28, 2019. On June 13, 2018 the lender exercised its rights to convert 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 issued convertible debentures to 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 year 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 3).
- 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 $79,659, 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. Prior to the conversion, the Company incurred $79,758 of interest expense.

14. Convertible loans payable (continued)

(iii) On October 24, 2018, the Company completed a Special Warrants Bought Deal Financing for gross proceeds of $20,760,000 (Note 6). $10,750,000 of gross proceeds were derived from issuance of 10,750 CD Special Warrant units at a price of $1,000 per unit or $9,636,351 after deduction of transaction costs.

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. As a result, $6,581,757 was recognized as the liability portion for the convertible loan. 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 24.34%. For the year ended February 28, 2019, the Company incurred $303,377 of interest expense.

15. Share Capital

(a) Authorized

Unlimited number of common shares without par value

(b) Escrow Shares

Pursuant to an escrow agreement dated July 6, 2018, 36,255,898 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 February 28, 2019, 27,304,425 shares were held in escrow.

(c) Issued and outstanding

Pre-reverse acquisition

(i) On January 17, 2017 on incorporation, Sproutly issued 9,300,000 shares (18,873,179 post-reverse acquisition shares) for aggregate proceeds of $46,500.

(ii) On April 10, 2017, Sproutly issued 700,000 shares (1,420,562 post-reverse acquisition shares) 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 issued share subscriptions received and for new proceeds totaling $3,544,000. Each Sproutly Unit consists of one (1) Sproutly Share (15,044,078 post-reverse acquisition shares) 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 (23,427,883 post-reverse acquisition 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 4).

(v) On April 10, 2018, Sproutly issued 8,621,505 common shares (17,496,265 post-reverse acquisition 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 (811,750 post-reverse acquisition shares) valued at $0.41 per share to 2546308 Ontario Inc. for the assignment of $200,000 interest receivable from THR to Sproutly (Note 13(d)).

(Expressed in Canadian Dollars)

15. Share Capital (continued)

(c) Issued and outstanding (continued)

(vii) On June 13, 2018, 1,100,000 common shares (2,232,312 post-reverse acquisition shares) were issued on the conversion of $330,000 convertible notes (Note 14). $19,337 was reclassified from reserves to share capital on the conversion of these notes.

(viii) June 18, 2018, 10,870,452 common shares (22,060,219 post-reverse acquisition shares) were issued on the conversion of $3,032,271 convertible notes and interest of $79,658 (Note 14). $607,792 was reclassified from reserves to share capital on the conversion of these notes.

(ix) On June 18, 2018, 997,001 common shares (2,023,288 post-reverse acquisition shares) were issued at a fair value of $408,770 as part of listing expense for financial advisory services (Note 3).

On and after reverse acquisition

(x) On July 6, 2018, as a result of the reverse acquisition transaction as described in Note 3, 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. Prior to the issuance of shares for the transaction, the Company has 19,670,731 of issued and fully paid common shares.

(xi) On July 31, 2018, 36,857,676 common shares were issued at a fair value of $19,122,328 pursuant to the acquisition of IBS Canada and SSM Partners (Note 5).

(xii) During the year ended February 28, 2019, 50,000 options (February 28, 2018 – nil) were exercised for gross proceeds of $10,000 (February 28, 2018 – nil). Non-cash compensation of $5,186 were reclassified from reserves to share capital on exercise of these options.

(xiii) During the year ended February 28, 2019, 4,968,832 warrants (February 28, 2018 – nil) were excised for gross proceeds of $910,261 (February 28, 2018 – nil). Non-cash compensation of $292,125 was reclassified from reserves to share capital on the exercise of these warrants.

(xiv) On December 27, 2018, 15,400,000 of Equity Special Warrant Units were exercised into Equity Units resulting in 15,400,000 of common shares issued (Note 6).

As at February 28, 2019, there were 180,336,775 (February 28, 2018 – 28,957,548) issued and fully paid common shares.

(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	-	-
Issued	7,522,038	$0.74
Balance, February 28, 2018	7,522,038	$0.74
Issued: RTO warrants (Note 3)	4,387,500	$0.18
Issued	17,672,526	$0.79
Exercised	(4,968,832)	$0.18
Balance, February 28, 2019	**24,613,232**	**$0.79**

For the year ended February 28, 2019, the Company issued 1,686,120 finder's warrants to third parties and recognized $231,846 in warrant reserves and financing fees.

(Expressed in Canadian Dollars)

15. Share Capital (continued)

The following table summarizes the warrants that remain outstanding as at February 28, 2019:

Exercise Price ($)	Warrants Outstanding (#)	Expiry Date
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	394,278	March 26, 2020
0.17	463,680	March 28, 2020
0.17	246,829	April 10, 2020
0.90	14,870,250	October 24, 2020
	24,613,232	

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

	2018	2017
Share price at date of issuance (per share)	$0.20-$0.66	$0.41
Volatility	100% to 137.4%	137.4%
Expected life	0.52 to 2 years	2 years
Risk-free rate	1.68% to 2.30%	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.

(e) CD Special Warrant Units

As part of the Special Warrants Bought Deal Financing (Note 6), each CD Special Warrant Units when exercised entitles the holder one CD Unit comprised of $1,000 unsecured convertible debenture of the Company and 667 common share purchase warrants with an exercise price of $0.90 per share, expiring on October 24, 2020. The Company has recognized $1,449,087 in warrant reserves related to the share purchase warrants. On December 27, 2018, 10,750 of CD Special Warrants were exercised and 7,170,250 of share purchase warrants were issued.

For the issuance of CD Special Warrant Units, the Company has granted brokers 788,333 Broker CD Special Warrants. Each Broker Convertible Debenture Warrants entitles the holder to purchase a Broker Debenture Unit at an exercise price of $0.75 per unit, expiring on October 24, 2020. Each Broker Debenture Unit when exercised, converts to one common share and one-half of one common share purchase warrant with an exercise price of $0.90 per share, expiring on October 24, 2020. The Company has recognized $79,660 in warrant reserves related to the share purchase warrants. As at February 28, 2019, no Broker CD Special Warrants were exercised.

(f) Equity Special Warrant Units

As part of the Special Warrants Bought Deal Financing (Note 6), each Equity Special Warrant Units when exercised entitles the holder of one-half common share purchase warrants with an exercise price of $0.90 per share, expiring on October 24, 2020. The Company has recognized value of nil in warrant reserves related to the share purchase warrants. On December 27, 2018, 15,400,000 of Equity Special Warrant Units were exercised and 7,700,000 of share purchase warrants were issued.

(Expressed in Canadian Dollars)

15. Share Capital (continued)

(f) Equity Special Warrant Units (continued)

For the issuance of Equity Special Warrant Units, the Company has granted brokers 1,078,000 Broker Equity Special Warrants. Each Broker Equity Warrants entitles the holder to purchase a Broker Equity Unit at an exercise price of $0.65 per unit, expiring on October 24, 2020. Each Broker Debenture Unit when exercised, converts to one common share and one-half of one common share purchase warrant with an exercise price of $0.90 per share, expiring on October 24, 2020. The Company has recognized $108,930 in warrant reserves related to the share purchase warrants. As at February 28, 2019, no Broker Equity Special Warrants were exercised.

16. 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	200,000	$0.20
Granted	12,721,249	$0.41
Exercised	(50,000)	$0.20
Balance, February 28, 2019	**15,915,307**	**$0.34**

The weighted average share price at the dates the options were exercised during the year ended February 28, 2019 was $0.65 per share.

The following table summarizes the stock options that remain outstanding as at February 28, 2019:

Exercise Price ($)	**Options Outstanding (#)**	**Expiry Date**	**Options Exercisable (#)**
0.02	150,000	May 5, 2020	150,000
0.01	1,014,687	March 25, 2027	1,014,687
0.01	1,927,906	March 25, 2027	338,228
0.01	101,465	April 18, 2027	33,822
0.25	4,058,749	March 25, 2027	676,456
0.25	2,500,000	July 6, 2028	416,667
0.60	375,000	July 6, 2028	62,501
0.67	2,800,000	August 1, 2028	466,666
0.62	787,500	November 6, 2028	-
0.44	1,475,000	December 11, 2023	-
0.50	375,000	December 11, 2023	-
0.39	350,000	January 3, 2024	175,000
	15,915,307		**3,334,027**

(Expressed in Canadian Dollars)

16. Share-based compensation (continued)

The weighted average share price at the dates the options were exercised during the year ended February 28, 2019 was $0.65 per share.

During the year ended February 28, 2019, the Company recorded aggregated share-based payments of $1,788,770 (February 28, 2018 - $330,095) for all stock options granted and vested during the period. The Company incurred $203,266 of expenses for options granted and vested to consultants for services.

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
Share price at grant date (per share)	$0.20-$0.82	$0.41
Volatility	74.28% to 100%	148%
Expected life	1.83 to 10 years	9 to 10 years
Dividend yield	0%	0%
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.

17. 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 year ended February 28, 2019 are as follows:

	February 28, 2019	February 28, 2018
	$	$
Management compensation(i)	994,210	343,139
Share-based payments(ii)	1,408,805	323,123
	2,403,015	**666,262**

(i) As of February 28, 2019, the Company owed $53,487 to key management personnel and directors.

(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 16).

(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	February 28, 2019	February 28, 2018
		$	$
On-demand loan – Director	13	-	100,000
Loan payable – 1023409 B.C. Ltd.	13	45,448	49,000
Due to related parties – Bray Limited Partnership	13	-	1,581,887
		45,448	**1,730,887**

(Expressed in Canadian Dollars)

17. Related party (continued)

(c) Due to related party

The Company settled a contingent consideration cash payment to a related party on October 25, 2018 of $4,525,000 as part of the acquisition of Infusion Biosciences Canada. For the year ended February 28, 2019, the Company recognized an accretion expense of $21,178 and a loss on settlement of contingent consideration of $24,064 (Note 5).

(d) Advance to Sproutly USA

For the year ended February 28, 2019, nil advances were made by the Company to Sproutly USA compared to $984,461 made for year ended February 28, 2018 that was determined by management that the balance was uncollectible.

18. General and Administration

	February 28, 2019	**February 28, 2018**
	$	$
Professional fees	1,434,666	537,863
Office and administration	1,133,278	195,742
Wages	1,786,302	504,803
	4,354,246	**1,238,408**

19. Finance and other costs

	February 28, 2019	**February 28, 2018**
	$	$
Accretion expense	979,336	13,566
Bank charges	26,072	1,854
Financing fees	231,846	71,199
Interest expense	664,322	-
	1,901,576	**86,619**

20. 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

(Expressed in Canadian Dollars)

21. Financial instruments and risk management (continued)

(a) Fair values of financial instruments (continued)

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 February 28, 2019:

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 $3,054,594.	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 a related party was driven by the Company's expectations of IBS Canada and SSM Partners achieving the contractual 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.

(a) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Receivables mainly comprise of GST and HST. The Company has assessed ECL in accordance to IFRS 9 and management determined ECL to be nominal due to the type of receivables.

(b) 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 February 28, 2019, the Company had current assets of $11,039,343 to settle current liabilities of $9,127,201.

(c) 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.

(Expressed in Canadian Dollars)

21. 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.

22. 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 until the end of the 2018 calendar year and $16,801 until the lease expires on July 31, 2019. The Company has future lease payments of $84,005.

23. 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:

	February 28, 2019 $	**February 28, 2018 $**
Loss before taxes	(13,538,741)	(2,699,251)
Canadian provincial statutory tax rate	27.00%	12.00%
Expected income tax recovery	(3,655,460)	(323,910)
Non-deductible items	1,567,494	40,260
Equity portion of convertible loans	-	21,705
Change in tax rates	6,977	(366,092)
Other	(398)	-
Foreign tax rate difference	4,734	-
Change in estimates	336,844	-
Share issuance costs	-	(8,009)
Change in deferred tax asset not recognized	829,235	607,398
Total income tax recovery	(910,574)	(28,648)

The statutory tax rate increased from 12% to 27% due to the Company becoming listed on the Canadian Securities Exchange and being treated as a public company for income tax purposes.

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. The deferred tax liability as at February 28, 2019 and 2018 is comprised of the following:

	February 28, 2019 $	**February 28, 2019 $**
Non-capital loss carryforwards	1,649,574	1,089,722
Biological assets	(44,218)	-
Property, plant and equipment	42,145	-
Intangible assets	(1,735,494)	(1,757,589)
Convertible debt	(1,525,223)	(654,677)
Financing costs	248,283	-
	(1,364,933)	(1,322,544)
Deferred tax assets not recognized	-	-
Net deferred tax liability	**(1,364,993)**	**(1,322,544)**

(Expressed in Canadian Dollars)

23. Income tax (continued)

The Company has not recognized a deferred tax asset in respect of the following deductible temporary differences:

	February 28, 2019 $	February 28, 2018 $
Canada		
Property, plant and equipment	51,470	35,857
Loan receivables	984,461	-
Financing costs	387,612	61,209
Non-capital losses	4,080,408	2,152,580
	5,503,951	**2,249,626**

	February 28, 2019 $	February 28, 2018 $
Barbados		
Non-capital losses	238,298	-
	238,298	**-**

The Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards of approximately $4,080,409 which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

	Sproutly Inc. $	Total $
Expiry		
2039	3,296,804	3,296,804
2038	783,605	783,605
	4,080,409	**4,080,409**

The Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards of approximately $238,298 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 the following years:

	SSM Partners Inc. $
Expiry	
2025	238,298
	238,298

24. Subsequent events

On March 20, 2019, SSM has completed the milestone for the cash earn-out provision. $4,975,000 was paid by the Company to settle its cash contingent consideration (Note 5).

On March 29, 2019, the Company's wholly-owned subsidiary, Toronto Herbal Remedies Inc. ("THR"), a licensed producer under the Cannabis Act, received a processing license from Health Canada (the "Processing License"). The Processing License allows THR to produce cannabis oil and related products, and will also allow the Company to conduct certain research and development activities, including the formulation of proprietary beverage products.

On April 30, 2019, the Company entered into a definitive agreement to form a joint venture (the "Joint Venture" or the "JV") with OCC Holdings Ltd., an affiliate of Moosehead Breweries Ltd. ("Moosehead"). The purpose of the JV is to develop, produce, and market non-alcoholic cannabis-infused beverages in Canada.

(Expressed in Canadian Dollars)

24. Subsequent events (continued)

The JV will be structured as a standalone company with its own board of directors and management team. Sproutly and Moosehead will each hold a 50% interest in the JV and have the right to nominate 3 directors. Moosehead shall appoint the Chief Executive Officer and Sproutly shall appoint the Chairperson of the board of directors of the JV. Sproutly will provide Infuz20 exclusively to the Joint Venture in Canada for the purpose of producing cannabis beverages (excluding hemp) for a period of 5 years (the "Exclusivity Period"), such Exclusivity Period being subject to a potential extension based on the Joint Venture reaching certain revenue targets. The formation of the Joint Venture is subject to the satisfaction of certain conditions, including the execution and delivery of various transaction agreements, governance documents and supply agreements.

On June 11, 2019, the Company entered into a debt settlement agreement with 2546308 Ontario Inc., whereby the Company issued 4,716,606 common shares to settle the outstanding loan balance of $3,537,455, consisting of principal of $3,125,000 and accrued interest of $412,455.

25. Comparative figures

Certain comparative figures have been restated as a result of errors noted in the purchase price allocation for the acquisition of THR. The adjustment has no impact on accumulated deficit, earnings, earnings per share or cash flows for either the current or prior period.

Additionally, the previous year comparative balance sheet as at February 28, 2018 was restated as follows:

	As previously reported	Adjustment	As restated
Assets	**$**	**$**	**$**
Intangible assets	6,200,305	431,626	6,631,931
Goodwill	1,208,036	114,508	1,322,544
	7,408,341	546,134	7,954,475
Liabilities			
Accounts payable and accrued liabilities	(1,740,596)	(154,287)	(1,894,883)
Loans and borrowings	(11,740,986)	2,143,791	(9,597,195)
Deferred tax liability	(1,208,036)	(114,508)	(1,322,544)
	(14,689,618)	1,874,996	(12,814,622)

The details of the adjustments are disclosed in Note 4.