
Sproutly Canada Inc.

Condensed Interim Consolidated Financial Statements (Unaudited)

For the three months ended May 31, 2019 and May 31, 2018
(In Canadian Dollars)

Condensed Interim Consolidated Statements of Financial Position	1
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss	2
Condensed Interim Consolidated Statements of Changes in Equity	3
Condensed Interim Consolidated Statements of Cash Flows.....	4
Notes to the Condensed Interim Consolidated Financial Statements	5-23

Sproutly Canada Inc.
Condensed Interim Consolidated Statements of Financial Position
As at May 31, 2019 and February 28, 2019
(Unaudited – Expressed in Canadian Dollars)

	Notes	May 31, 2019	February 28, 2019
		\$	\$
Assets			
Current Assets			
Cash		3,854,386	9,644,015
Accounts receivable	6	354,514	377,774
Biological assets	7	675,871	120,513
Inventories	8	956,411	206,232
Prepaid expenses		191,689	690,809
		6,032,871	11,039,343
Non-Current Assets			
Property, plant and equipment	9	11,648,442	11,526,890
Right-of-use assets	11	672,048	-
Intangible assets	10	52,519,739	52,561,189
Goodwill		1,322,544	1,322,544
Total assets		72,195,644	76,449,966
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	12, 17	1,706,703	1,588,695
Lease obligations	11	210,552	-
Loans and borrowings	13	3,320,448	3,320,448
Contingent consideration payable	4, 17	-	4,218,058
		5,237,703	9,127,201
Non-Current Liabilities			
Lease obligations	11	325,194	-
Loans and borrowings	13	2,042,958	1,989,439
Convertible loan payable	5, 14	5,873,785	7,168,254
Contingent consideration payable	4, 17	-	454,779
Deferred tax liability		1,364,933	1,364,933
Total liabilities		14,844,573	20,104,606
Shareholders' Equity			
Share capital		52,424,585	48,624,339
Reserves		23,270,899	23,019,791
Accumulated deficit		(18,344,413)	(15,298,770)
Total equity		57,351,071	56,345,360
Total liabilities and equity		72,195,644	76,449,966

Nature and continuance of operations (Note 1)

Commitments (Note 21)

Subsequent events (Note 22)

Approved on behalf of the board July 29, 2019

"Keith Dolo" , Director

"Gregg Orr" , Director

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

Sproutly Canada Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three months ended May 31, 2019 and May 31, 2018
(Unaudited – Expressed in Canadian Dollars)

	Notes	Three Months Ended May 31,	
		2019	2018
		\$	\$
Fair value adjustments			
Unrealized gain on changes in fair value of biological assets	7	1,018,644	-
Gross profit		1,018,644	-
Expenses			
General and administration	18	1,513,360	1,218,301
Marketing		753,636	70,940
Depreciation and amortization	9, 10	131,970	1,464
Share-based payments	16	491,150	166,357
Loss from operations		1,871,472	1,457,062
Other Expense (Income)			
Other expense (income)		(19,241)	9,596
Finance and other costs	19	889,959	491,112
Foreign exchange		1,290	-
Loss on settlement of contingent consideration	4, 17	296,965	-
Changes in fair value of contingent consideration	4, 17	5,198	-
Gain on extinguishment of loans		-	(485,055)
		1,174,171	15,653
Net loss and comprehensive loss for the period		3,045,643	1,472,715
Basic and diluted loss per share		(0.02)	(0.04)
Weighted average number of shares outstanding basic and diluted		182,519,072	33,925,645

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

Sproutly Canada Inc

Condensed Interim Consolidated Statements of Changes in Equity

For the three months ended May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

	Share Capital				Reserves			Total Reserves	Accumulated Deficit	Total
	Notes	Common Shares	Amount	Shares to be Issued	Share-Based Compensation	Warrants	Convertible Notes			
Balance, February 28, 2019		#	\$	\$	\$	\$	\$	\$	\$	\$
Net loss and comprehensive loss for the period		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
Conversion of notes (net of deferred tax)	15(c)(i)	-	-	-	-	-	-	-	(3,045,643)	(3,045,643)
Exercise of options	15(c)(ii), 16	3,333,332	1,863,152	-	-	-	(119,453)	(119,453)	-	1,743,699
Exercise of warrants	15(c)(iii), 15(d)	350,000	238,668	-	(102,168)	-	-	(102,168)	-	136,500
Exercise of Broker Equity Units	15(c)(iv), 15(f)	2,233,719	1,679,864	-	-	(94,946)	-	(94,946)	-	1,584,918
Share-based compensation	16	20,247	18,562	-	-	(5,401)	-	(5,401)	-	13,161
		-	-	-	573,076	-	-	573,076	-	573,076
Balance, May 31, 2019		186,274,073	52,424,585	17,300,007	2,808,598	2,896,325	265,969	23,270,899	(18,344,413)	57,351,071

	Share Capital				Reserves			Total Reserves	Accumulated Deficit	Total
	Notes	Common Shares	Amount	Shares to be Issued	Share-Based Compensation	Warrants	Convertible Notes			
Balance, February 28, 2018		#	\$	\$	\$	\$	\$	\$	\$	\$
Net loss and comprehensive loss for the period		28,957,548	7,832,586	-	330,095	567,854	152,230	1,050,179	(2,670,603)	6,212,162
Equity component of convertible notes (deferred tax recovery on conversion)		-	-	-	-	-	474,899	474,899	(1,472,715)	(1,472,715)
Warrants issued for convertible debentures		-	-	-	-	231,846	-	231,846	-	231,846
Issuance of shares for loan and interest repayments		9,021,505	3,698,817	-	-	-	-	-	-	3,698,817
Share-based compensation		-	-	-	166,357	-	-	166,357	-	166,357
Balance, May 31, 2018		37,979,053	11,531,403	-	496,452	799,700	627,129	1,923,281	(4,413,318)	9,311,366

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

Sproutly Canada Inc.
Condensed Interim Consolidated Statements of Cash Flows
For the three months ended May 31, 2019 and 2018
(Unaudited – Expressed in Canadian Dollars)

	Notes	Three Months Ended May 31,	
		2019	2018
		\$	\$
Cash Provided by (used in) Operating Activities			
Net loss and comprehensive loss		(3,045,643)	(1,472,715)
Adjusted for non-cash items:			
Unrealized gain on changes in fair value of biological assets	7	(1,018,644)	-
Depreciation of property, plant and equipment	9, 11	90,520	1,464
Amortization of intangible asset	10	41,450	-
Share-based compensation	16	573,076	166,357
Financing fees		-	231,846
Accretion expense		502,749	237,671
Interest recovery		-	(76,606)
Loss on settlement of contingent consideration	4, 17	296,965	-
Interest expense on lease obligations	11	1,638	-
Changes in fair value of contingent consideration	5	5,198	-
Gain on extinguishment of interest and loans		-	(485,055)
Change in non-cash operating working capital			
GST receivables		91,759	(47,849)
Other receivables		(68,499)	(45,984)
Biological assets		(30,787)	-
Inventories		(256,106)	-
Prepaid expenses		499,120	(283,208)
Accounts payable and accrued liabilities		118,008	224,861
		(2,199,196)	(1,549,218)
Proceeds from (repayment of) Financing Activities			
Lease obligations	11	(168,488)	-
Short term loans		-	(100,000)
Proceeds from convertible debentures		-	2,659,000
Shares issued for option exercise	15(c)(ii)	136,500	-
Shares issued from warrant exercises	15(c)(iii)	1,584,918	-
Shares issued from Broker Equity Units exercises	15(c)(iv)	13,161	-
		1,566,091	2,559,000
Cash Provided by (Used in) Investing Activities			
Contingent cash consideration		(4,975,000)	-
Purchase of property, plant and equipment		(181,524)	(118,869)
		(5,156,524)	(118,869)
Net change in cash		(5,789,629)	890,913
Cash, beginning of period		9,644,015	741,385
Cash, ending of period		3,854,386	1,632,298
Supplemental disclosure of cash flow information			
Cash paid during the period for interest		145,743	-

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

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

1. Nature and continuance of operations

Sproutly Canada Inc. (on a consolidated basis “the Company” or “Sproutly Canada”), 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”). 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 March 29, 2019, Health Canada granted THR a processing license to produce cannabis oil and related products and will allow the Company to conduct certain research and development activities.

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 4. 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 May 31, 2019.

The Company has not generated any revenues from operations and has incurred losses since inception. The Company incurred an accumulative deficit of \$18,344,413 and negative cash flows from operating activities for the period from January 17, 2017 to May 31, 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.

2. Basis of presentation

These unaudited condensed interim consolidated financial statements for the three months ended May 31, 2019 and May 31, 2018 have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting. The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Company’s audited annual consolidated financial statements for the year ended February 28, 2019, except for the adoption of new standards effective as of March 1, 2019. The Company has early adopted as of March 1, 2019 the amendments to International Financial Reporting Standards (“IFRS”) 3, Business Combinations and in particular, the optional fair value concentration test. The Company applied, as of March 1, 2019, International Financial Reporting Standard (“IFRS”) 16, Leases. As required by IAS 34, the nature and effect of these changes are disclosed in Note 3.

These unaudited condensed interim consolidated financial statements do not conform in all respects to the requirements of IFRS as issued by the International Accounting Standards Board for annual financial statements. Accordingly, these unaudited condensed interim consolidated financial statements should be read in conjunction with the Company’s February 28, 2019 audited annual consolidated financial statements and notes.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors (the “Board”) on July 29, 2019.

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

2. Basis of presentation (continued)

(a) Basis of consolidation

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

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.

(b) Basis of measurement

The condensed interim 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.

(c) Functional and presentation of foreign currency

The condensed interim 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

(d) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at exchange rates 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.

(e) Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Company's unaudited condensed interim consolidated financial statements under IFRS requires management to make judgements, estimates, and assumptions about the carrying amounts of certain assets and liabilities. Estimates and related assumptions are based on historical experience and other relevant factors. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis for reasonableness and relevancy. Where revisions are required, they are recognized in the period in which the estimate is revised as well as future periods that are affected.

Significant judgements, estimates and assumptions within these unaudited condensed interim consolidated financial statements, unless stated herein, remain the same as those applied to the annual consolidated financial statements for the year ended February 28, 2019.

The adoption of IFRS 16, Leases, required the Company to assess its significant judgements and certain key estimates when applying the standard in Note 11.

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

2. Basis of presentation (continued)

Critical judgments required in the application of IFRS 16 include the following:

- (a) Identifying whether a contract or part of contract includes a lease;
- (b) Identifying lease components and allocating the consideration to each lease component on the basis of the relative stand-alone price of each lease component;
- (c) Determining whether it is reasonably certain that an extension or termination option will be exercised, on a lease by lease basis; and
- (d) Establishing whether there are multiple leases in an arrangement.

Key sources of estimation uncertainty in the application of IFRS 16 include the following:

- (a) Estimating the lease term;
- (b) Determine the appropriate incremental borrowing rate specific to each leased asset; and
- (c) Assessing whether a right-of-use ("ROU") asset is impaired.

Unanticipated changes in these judgments or estimates could affect the identification and determination of the fair value of lease liabilities and ROU assets at initial recognition, as well as the subsequent measurement of lease liabilities and ROU assets. Changes in the economic environment or changes in the cannabis and retail industry may impact Management's assessment of lease term, and any changes in Management's estimate of lease terms may have a material impact on the Company's statement of financial position and statement of earnings. In addition, the Company's assessed incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment and cannabis industry and the Company's creditworthiness.

These items could potentially result in changes to amounts reported in the consolidated statements of loss and comprehensive loss, cash flows and the financial position of the Company. Refer to Note 11 for additional information.

3. Adoption of new accounting pronouncements

IFRS 16 Leases

IFRS 16 was issued in January 2016 and replaces the previous guidance on leases, predominantly IAS 17, Leases. The Company has applied IFRS 16 with an initial application date of March 1, 2019 using a modified retrospective approach with the cumulative effect of initially applying the standard recognized at the date of initial application, without restating prior periods, in accordance with the transitional provisions specified in IFRS 16.

The new standard establishes principles for the recognition, measurement, presentation, and disclosure of leases. IFRS 16 requires a lessee to record a ROU asset and a lease liability on the statement of financial position for all leases, including additional qualitative and quantitative disclosures. The lease liability is initially measured at the present value of the lease payments payable over the lease term and discounted using the interest rates implicit in the lease or if the rates are not readily determined, the Company's incremental borrowing rate. The ROU asset is initially measured at the amount of the lease liability, adjusted for lease prepayment, lease incentives received, and the lessee's initial direct costs. The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments, or if the Company changes its assessment of whether it will exercise an extension or termination option. The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of useful life of the ROU asset or the end of the lease term. The estimated useful lives of the ROU assets are determined by the lease term. In addition, the ROU assets are periodically reduced by impairment losses, if any, and adjusted for certain measurements of the lease liability. As a result, the Company has changed its accounting policy for lease contracts as detailed below and in Note 11.

As a result, the Company has changed its accounting policy for lease contracts as detailed below. The Company has applied the following practical expedients:

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

3. Adoption of new accounting pronouncements (continued)

IFRS 16 Leases (continued)

- (i) The Company applied the simplified transition approach and did not restate comparative information. If required, the Company will recognize the cumulative effect of initially applying IFRS 16 as an adjustment to the accumulated deficit as at March 1, 2019.
- (ii) On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17, and IFRIC 4, Determining whether an arrangement contains a lease, were not reassessed for whether there is a lease. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after March 1, 2019.

The Company recognized ROU assets and lease liabilities for its operating leases except for certain leases in which the lease terms are 12 months or less. The depreciation expense on ROU assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis under IAS 17 over the term of a lease.

Upon transition, the Company recognized a lease liability for leases previously classified as an operating lease under IAS 17, and measured the liability at the present value of the remaining lease payments, discounted using an incremental borrowing rate. The Company selected on a lease-by-lease basis to measure the ROU asset as either (1) an amount equal to the lease liability adjusted for accrued lease payments or (2) its carrying amount as if IFRS 16 had been applied since the commencement date and discounted using the incremental borrowing rate at the initial application date of March 1, 2019. The Company did not identify initial direct costs to include in the ROU asset. In addition, the Company's lease payments are fixed and variable.

In accordance with the simplified transition approach and practical expedients applied as well as the Company elected not to recognize right-of-use assets and lease liabilities for short-term leases (lease term of 12 months or less) and leases for which the underlying asset is of low value, there were no adjustments to the accumulated deficit to the financial statements as of commencement date as the sole operating lease is for the Company's office space which expires on July 31, 2019.

During the period ended May 31, 2019, the Company recognized right-of-use assets and lease liabilities of \$702,595 and \$576,230 respectively, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at March 1, 2019. The weighted-average rate applied was 21%. The following table reconciles the Company's operating lease obligations as at February 28, 2019, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at March 1, 2019. Refer to Note 11 for discussion on the impact for the three months ended May 31, 2019.

4. 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.

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

4. 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.

On March 20, 2019, the Company completed the earn-out provision regarding the production of specified amount of cannabinoids using the APP technology and settled contingent consideration payable by paying the seller of SSM Partners \$4,975,000. During the three months ended May 31, 2019, the Company recognized changes in fair value of contingent consideration of \$5,198 and a loss on settlement of contingent consideration of \$296,965.

During the three months ended May 31, 2019, management concluded there were no significant changes to the probability and timing of the remaining milestone of obtaining analytical results of such cannabinoids that meet regulatory requirements for commercial sale of products within a specified jurisdiction.

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 May 31, 2019, the technology is currently under development. Once completed, the license is considered as an indefinite life intangible asset. 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:

	Deferred contingent cash consideration
	\$
As at February 28, 2019	4,672,837
Changes in fair value of contingent consideration	5,198
Settlement of contingent consideration	(4,678,035)
As at May 31, 2019	-

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

5. 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

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

5. 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 \$952,963.

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

6. Accounts receivable

	May 31, 2019	February 28, 2018
Subscription receivable	\$ -	\$ 575
GST and HST receivable	293,342	343,558
Other receivable	61,172	33,641
	354,514	377,774

7. 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, 2019	120,513
Production costs capitalized	243,797
Changes in fair value less cost to sell due to biological transformation	1,018,644
Transferred to inventory upon harvest	(707,083)
Balance at May 31, 2019	675,871

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

7. Biological assets (continued)

As of May 31, 2019, the weighted average fair value less cost to complete and cost to sell was \$3.74 per gram for dry cannabis and \$0.92 for trim.

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/trim 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 May 31, 2019:

Inputs and assumptions – Dried cannabis	Value
Selling price per gram	\$4.00-5.00 per gram
Attrition rate	5%
Average yield per plant	115 grams per plant
Cost per gram to complete production	\$0.26
Cumulative stage of completion in the production process	43 days

Inputs and assumptions – Trim	Value
Selling price per gram	\$1.50 per gram
Attrition rate	5%
Average yield per plant	20 grams per plant
Cost per gram to complete production	\$0.58
Cumulative stage of completion in the production process	43 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 May 31, 2019, are as follows:

Inputs and assumptions – Dry cannabis	Input value	Sensitivity	Effect on fair value
Selling price per gram	\$4.00-\$5.00 per gram	Increase or decrease of \$1.00 per gram	\$181,097
Attrition rate	5%	Increase or decrease by 5%	\$37,118
Average yield per plant	115 grams per plant	Increase or decrease by 10%	\$72,439
Cost per gram to complete production	\$0.26	Increase or decrease by \$0.05	\$16,680
Cumulative stage of completion in the production process	43 days	Increase or decrease by 7 days	\$119,973

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

7. Biological assets (continued)

Inputs and assumptions – Trim	Input value	Sensitivity	Effect on fair value
Selling price per gram	\$1.50 per gram	Increase or decrease of \$1.00 per gram	\$30,196
Attrition rate	5%	Increase or decrease by 5%	\$2,323
Average yield per plant	20 grams per plant	Increase or decrease by 10%	\$4,529
Cost per gram to complete production	\$0.92	Increase or decrease by \$0.05	\$2,825
Cumulative stage of completion in the production process	43 days	Increase or decrease by 7 days	\$7,632

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 May 31, 2019, it was expected that the Company's biological assets would yield approximately 333,604 grams of dry cannabis and 56,500 grams of trim when harvested.

8. Inventories

The following is a breakdown of inventory as at May 31, 2019:

	May 31, 2019 \$	February 28, 2019 \$
Dry Cannabis	930,476	173,650
Supplies and consumables	25,935	32,582
	956,411	206,232

As at May 31, 2019, the Company capitalized \$8,290 of production costs related to post-harvest activities and held 225,762 grams of dry cannabis and 41,564 grams of trim.

9. Property, plant and equipment

	Land	Building & Improvements	Construction in Progress	Computer Software & Equipment	Furniture & Fixtures	Production & Other Equipment	Total
Costs	\$	\$	\$	\$	\$	\$	\$
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
Additions	-	78,971	-	-	-	130,776	209,747
Balance, May 31, 2019	1,098,550	10,152,155	-	86,043	2,021	572,599	11,911,288

	Land	Building & Improvements	Construction in Progress	Computer Software & Equipment	Furniture & Fixtures	Production & Other Equipment	Total
Accumulated 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
Depreciation	-	67,538	-	7,170	404	13,083	88,195
Balance, May 31, 2019	-	206,155	-	21,023	1,751	33,917	262,846

Net Book Value							
February 28, 2019	1,098,550	9,934,527	-	72,190	674	420,949	11,526,890
May 31, 2019	1,098,550	9,945,960	-	65,020	270	538,642	11,648,442

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

9. Property, plant and equipment (continued)

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.

Depreciation related to building and improvements, and production equipment was capitalized as part of production costs within biological assets. During the three months ended May 31, 2019, \$28,223 (May 31, 2018 – nil) of depreciation was capitalized.

10. Intangible assets

	Balance at February 28, 2019	Additions	Amortization	Balance at May 31, 2019
Costs	\$	\$	\$	\$
ACMPR license application	6,549,032	-	41,450	6,507,582
Technology license in process (Note 4)	46,012,157	-	-	46,012,157
	52,561,189	-	41,450	52,519,739

	Balance at February 28, 2018	Additions	Amortization	Balance at May 31, 2018
Costs	\$	\$	\$	\$
ACMPR license application	6,631,931	-	-	6,631,931
	6,631,931	-	-	6,631,931

11. Leases

Information about leases for which the Company is a lessee is presented below.

(a) Right-of-use assets

The Company's leasing activities include the lease of office premises.

Costs	\$
Balance, February 28, 2019	-
Additions	702,596
Balance, May 31, 2019	702,596
Accumulated Depreciation	\$
Balance, February 28, 2019	-
Depreciation	30,548
Balance, May 31, 2019	30,548
Net Book Value	
February 28, 2019	-
May 31, 2019	672,048

(a) Maturity analysis of lease obligations

The following represents a maturity analysis of the Company's undiscounted contractual lease obligations and potential exposures as at May 31, 2019.

Contractual obligations	Less than one year	One to five years	Total
Lease obligations recognized	-	535,746	535,746
Short-term leases not recognized ⁽¹⁾	33,602	-	33,602
	33,602	535,746	569,348

⁽¹⁾ The Company has applied the recognition exemption to short-term leases, which are therefore not recognized in the unaudited condensed interim consolidated statements of financial position.

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

11. Leases (continued)

(b) Supplemental disclosure

For the three months ended May 31, 2019, the Company recognized \$1,638 of interest expense on lease obligations and \$48,003 of lease payments associated with short-term leases in the unaudited condensed interim consolidated statement of loss and comprehensive loss. For the three months ended May 31, 2019, the total cash outflow relating to leases amount to \$216,491.

12. Accounts payable and accrued liabilities

	May 31, 2019	February 28, 2019
	\$	\$
Interest payable	1,045,448	809,438
Trade payables	451,042	658,680
Other payables	210,213	120,577
	<u>1,706,703</u>	<u>1,588,695</u>

13. Loans and borrowings

As at May 31, 2019, the Company held the following loans and borrowings:

	May 31, 2019	February 28, 2019
	\$	\$
Current		
Borrowings	(a) 150,000	150,000
Interest bearing loan with 2546308 Ontario Inc.	(b) 3,125,000	3,125,000
Related party loan with 1023409 B.C. Ltd.	(c) 45,448	45,448
	<u>3,320,448</u>	<u>3,320,448</u>
Long-term		
Mortgage payable with 0982244 B.C. Ltd.	(d) 1,043,825	1,031,067
Interest bearing loan with 0982244 B.C. Ltd.	(d) 999,133	958,372
	<u>2,042,958</u>	<u>1,989,439</u>
	<u>5,363,406</u>	<u>5,309,887</u>

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

	(a)	(b)	(c)	(d)	Total
	\$	\$	\$	\$	\$
February 28, 2018	150,000	3,125,000	49,000	2,660,680	5,924,680
Accretions	-	-	-	155,687	155,687
Modification of loan	-	-	-	(766,928)	(766,928)
Repayment	-	-	(3,552)	-	(3,552)
February 28, 2019	150,000	3,125,000	45,448	1,989,439	5,309,887
Accretions	-	-	-	53,519	53,519
May 31, 2019	<u>150,000</u>	<u>3,125,000</u>	<u>45,448</u>	<u>2,042,958</u>	<u>5,363,406</u>

(a) 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 three months ended May 31, 2019, the Company incurred interest expense of \$3,822 (May 31, 2018 - \$4,438).

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

13. Loans and borrowings (continued)

- (b) 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 simple 12% per annum and is due on demand.

During the three months ended May 31, 2019, the Company incurred interest expense of \$94,521 (May 31, 2018 – nil). For the three months ended May 31, 2018, \$94,521 of interest was capitalized as part of borrowing costs in construction in progress of THR's production facility.

- (c) 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 and the remaining balance due on demand.

- (d) 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 former 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 three months ended May 31, 2019, the Company incurred interest expense of \$44,110 (May 31, 2018 – nil) and recorded accretion expense of \$12,758 (May 31, 2018 - \$25,907). For the three months ended May 31, 2018, \$41,648 of interest was capitalized as part of borrowing costs to construction in progress of the THR production facility.

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.

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 three months ended May 31, 2019, the Company incurred interest expense of \$37,808 (May 31, 2018 – nil) and recorded accretion expense of \$40,761 (May 31, 2018 - \$11,959). For the three months ended May 31, 2018, \$32,137 of interest was capitalized as part of borrowing costs to construction in progress of the THR production facility.

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

14. Convertible loans payable

	\$
Balance, February 28, 2019	7,168,254
Accretion	449,230
Conversion	(1,743,699)
Balance, May 31, 2019	5,873,785

On October 24, 2018, the Company completed a Special Warrants Bought Deal Financing for gross proceeds of \$20,760,000 (Note 5). \$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 34.19%. During the period ended May 31, 2019, \$2,500,000 of convertible debentures were converted to 3,333,332 common share of the Company with a combined fair value of \$1,743,699. For the three months ended May 31, 2019, the Company incurred interest expense of \$201,494 (May 31, 2018 – nil).

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 May 31, 2019, 26,929,425 shares were held in escrow.

(c) Issued and outstanding

- (i) During the period ended May 31, 2019, \$2,500,000 of convertible debentures were converted to 3,333,332 common shares of the Company (Note 13).
- (ii) During the period ended May 31, 2019, 350,000 options (May 31, 2019 – nil) were exercised for gross proceeds of \$136,500 (May 31, 2019 – nil). Non-cash compensation of \$119,453 (May 31, 2018 – nil) were reclassified from reserves to share capital on exercise of these options.
- (iii) During the period ended May 31, 2019, 2,233,719 warrants (May 31, 2019 – nil) were exercised for gross proceeds of \$1,584,918 (May 31, 2019 – nil). Non-cash compensation of \$94,946 was reclassified from reserves to share capital on the exercise of these warrants.
- (iv) During the period ended May 31, 2019, 20,247 of Broker Equity Warrants issued as part of the special warrants bought deal financing (Note 5) was exercised for gross proceeds of \$13,161 (May 31, 2018 – nil). Non-cash compensation of \$5,401 was reclassified from reserves to share capital on the exercise of these warrants.

As at May 31, 2019, there were 186,274,073 (May 31, 2018 – 37,979,053) issued and fully paid common shares.

Sproutly Canada Inc.**Notes to the Condensed Interim Consolidated Financial Statements**

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

15. Share Capital (continued)

(d) Share purchase warrants

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

	Warrants #	Weighted Average Exercise Price \$
Balance, February 28, 2019	24,613,232	\$0.79
Issued	10,124	\$0.90
Exercised	(2,233,719)	\$0.71
Balance, May 31, 2019	22,389,637	\$0.80

	Warrants #	Weighted Average Exercise Price \$
Balance, January 17, 2017 – incorporation date	-	-
Issued	7,522,038	\$0.74
Balance, February 28, 2019	7,522,038	\$0.74
Issued	1,686,120	\$0.17
Balance, May 31, 2018	9,208,158	\$0.64

The following table summarizes the warrants that remain outstanding as at May 31, 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	3,237,871	January 31, 2020
0.17	401,815	March 28, 2020
0.17	190,001	April 10, 2020
0.90	13,484,322	October 24, 2020
	22,389,637	

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:

	2019	2018
Share price at date of issuance (per share)	\$0.66	\$0.20-\$0.66
Volatility	71.19%	100% to 137.4%
Expected life	2 years	0.52 to 2 years
Risk-free rate	2.30%	1.68% to 2.30%

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.

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

15. Share Capital (continued)

(e) CD Special Warrant Units

As part of the Special Warrants Bought Deal Financing (Note 5), 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 May 31, 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.

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 Equity 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. For the three months ended May 31, 2019, 20,247 of Broker Equity Units were exercised and the Company issued 20,247 common shares and 10,124 common share purchase warrants.

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, February 28, 2019	15,915,307	\$0.34
Granted	95,000	\$0.68
Exercised	(350,000)	\$0.39
Balance, May 31, 2019	15,660,307	\$0.34

The weighted average share price at the dates the options were exercised during the period ended May 31, 2019 was \$0.86 per share.

Sproutly Canada Inc.**Notes to the Condensed Interim Consolidated Financial Statements**

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

16. Share-based compensation (continued)

	Stock Options #	Weighted Average Exercise Price \$
Balance, January 17, 2017	-	-
Granted	3,044,058	\$0.01
Balance, February 28, 2019	3,044,058	\$0.01
Granted	4,058,749	\$0.25
Balance, May 31, 2019	7,102,807	\$0.14

The following table summarizes the stock options that remain outstanding as at May 31, 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	1,352,915
0.25	2,500,000	July 6, 2028	416,667
0.60	375,000	July 6, 2028	100,001
0.67	2,800,000	August 1, 2028	466,666
0.62	787,500	November 6, 2028	131,248
0.44	1,475,000	December 11, 2023	-
0.60	375,000	December 11, 2023	-
0.41	30,000	March 6, 2024	30,000
0.80	65,000	April 8, 2024	-
	15,660,307		4,034,234

For the three months ended May 31, 2019, the Company incurred \$81,926 of expenses for options granted and vested to consultants for services.

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

	2019	2018
Share price at grant date (per share)	\$0.41-\$0.80	\$0.20-\$0.82
Volatility	97.10% to 100%	74.28% to 100%
Expected life	3 to 3.5 years	1.83 to 10 years
Dividend yield	0%	0%
Risk-free rate	1.43% to 1.49%	2.05% to 2.36%

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.

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

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 three months ended May 31, 2019 are as follows:

	May 31, 2019	May 31, 2018
	\$	\$
Management compensation ⁽ⁱ⁾	372,353	102,698
Share-based payments ⁽ⁱⁱ⁾	330,930	159,175
	<u>703,283</u>	<u>261,873</u>

(i) As of May 31, 2019, the Company owed \$44,529 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) Contingent consideration payable

The Company settled a contingent consideration payable to a related party on March 20, 2019 of \$4,975,000 as part of the acquisition of SSM Partners. For the three months ended May 31, 2019, the Company recognized a change in fair value of contingent consideration of \$5,198 and a loss on settlement of contingent consideration of \$296,965.

(c) Contingent consideration payable

The Company settled a contingent consideration payable to a related party on March 20, 2019 of \$4,975,000 as part of the acquisition of SSM Partners. For the three months ended May 31, 2019, the Company recognized a change in fair value of contingent consideration of \$5,198 and a loss on settlement of contingent consideration of \$296,965.

18. General and Administration

	May 31, 2019	May 31, 2018
	\$	\$
Professional fees	380,831	638,080
Office and administration	437,256	232,643
Wages	695,273	347,578
	<u>1,513,360</u>	<u>1,218,301</u>

19. Finance and other costs

	May 31, 2019	May 31, 2018
	\$	\$
Accretion expense	502,749	237,671
Bank charges	3,818	3,685
Financing fees	-	231,846
Interest expense	383,392	17,910
	<u>889,959</u>	<u>491,112</u>

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

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)

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 May 31, 2019:

<u>Valuation approach</u>	<u>Key inputs</u>	<u>Inter-relationship between inputs and fair value measurement</u>
The liability of lease obligations was valued using Company specific interest rates over expected payment periods. The fair value of the lease was 576,230.	Discount rate – 21% per annum.	As the discount rate decreases, the fair value increases.

(b) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Receivables 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.

(c) Liquidity risk

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

Since incorporation, the Company's primary source of funding has been through debt and equity. The Company's access to financing is always uncertain. As at May 31, 2019, the Company had current assets of \$6,032,871 to settle current liabilities of \$5,237,703.

(d) Interest rate risk

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

Sproutly Canada Inc.**Notes to the Condensed Interim Consolidated Financial Statements**

May 31, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

21. 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 \$33,602.

22. Subsequent events

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.